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## All That Glitters is Not Gold

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The price of gold has rallied this year from US\$1,517 an ounce at the start of the year to US\$1,975 as of July 31. What was the driver behind this recent surge? The COVID-19 pandemic and lockdowns have caused the steepest drop in gross domestic product (GDP) in modern history. In response, central banks around the world rushed to expand their balance sheets and backstop financial markets, while central governments unleashed record amounts of fiscal stimulus. This action has led to a sharp increase in public debt levels and a drop in real interest rates, making gold, historically considered an effective inflation hedge, an attractive investment. As a result, investors increased their allocations to gold and gold company stocks, supporting prices. When the pandemic hit, we were early adopters of gold and gold stocks, introducing both to our portfolios in the first half of the year. The knee-jerk reaction is to assume that most of the rally is behind us, with gold up over 25% this year. But an inspection of the secular trends in GDP growth, interest rates and central bank balance sheets lead us to a different conclusion.

Let's start with the secular decline in GDP growth. Since the 1980s, the average GDP growth rate for G7 nations has slowed in each subsequent decade. More recently, COVID-19 has reduced economic activity so much that it will likely take years to return to pre-pandemic levels. Given the economic downturn and the continuing high global demand by investors for yield-bearing investments, we would expect interest rates to remain low for some time.

What about central bank balance sheets, which have been rising almost in lockstep with gold? Central banks around the world remain committed to low interest rates and asset purchases. These are needed to support faltering economies as well as the massive fiscal stimulus and public debt levels. In summary, the secular forces behind the increase in gold prices, namely a decline in long-run GDP growth and real interest rates, along with larger central bank balance sheets, are likely to support gold prices for the foreseeable future.

In the shorter term, gold prices are also driven by volatility. The CBOE Volatility Index (VIX), a popular measure of volatility, remains at an elevated level and is supportive of the price of gold. Fears of a second COVID-19 wave, the upcoming U.S. elections and geopolitical tensions with China remain top of mind for investors. We continue to monitor our gold and gold stock positions within our portfolios, adjusting our exposures based on short-term dynamics, but expect it to remain a staple within our diversified asset allocation framework for months and perhaps years to come.

We hope you enjoy the rest of your summer.

*Combined top 15 equity holdings as of July 31, 2020 of the Evolution 40i60e Standard portfolio with Alpha-style exposure:*

1. Microsoft Corp.	6. Dollarama Inc.	11. AltaGas Ltd.
2. Apple Inc.	7. Prologis Inc.	12. Brookfield Asset Management Inc.
3. Amazon.com, Inc.	8. Franco-Nevada Corp.	13. Alimentation Couche-Tard Inc.
4. Visa Inc.	9. Fortis Inc.	14. Empire Company Ltd.
5. Royal Bank of Canada	10. Alphabet Inc.	15. Tencent Holdings Ltd.

*Source: Bloomberg Finance L.P. and CI Multi-Asset Management as at July 31, 2020.*

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