Gold - The Portfolio Stabilizer Reaffirmed Once Again

By Scott Schamber

For centuries, gold has served as a reliable store of value and it has functioned as a universally recognized medium of exchange, especially when all other alternatives falter. More relevantly to modern investors, however, it has consistently proven itself to be the most dependable hedge against inflation and currency devaluation, against market crashes and economic crises, and against geopolitical turmoil and uncertainty. We've seen this repeatedly confirmed since time immemorial, but over the last few years it has become blatantly obvious and objectively undeniable.

There has been no shortage of skepticism and criticism over the role and the relevance that precious metals should have in the modern financial system. There have been numerous politicians, institutional leaders, economists, analysts and finance experts that dismissed the yellow metal as a "barbarous relic", as an antiquated and obsolete investment vehicle and as a virtually worthless asset.

This line of thought, as ahistorical and as flawed as it might be, gained significant traction in the aftermath of the 2008 Great Recession, which saw reckless QE policies and extremely, artificially low interest rates that soon led to massive asset price increases. "Gold offers no yield", the critics insisted, pointing to the much more attractive gains to be made in the stock markets. Some even went as far as to declare that "inflation is dead", thereby refuting the idea that gold is an essential part of a portfolio in order to preserve and protect purchasing power.

As is historically the case, it didn't take long for these arguments to be flagrantly and indubitably disproven. The covid pandemic triggered a global market crisis the likes of which the world had never seen, at least in living memory and up to that point. Universal panic and uncertainty, combined with unprecedented measures like nationwide lockdowns and forced business shutdowns, left investors scrambling to sell off their positions. Most of them were desperately rudderless and wholly unprepared to navigate these unique and extraordinarily challenging economic dynamics. As a result, stock markets crashed. And initially, so did gold, as investors rushed to liquidate their holdings to cover margin calls, or simply to frantically shift to cash.

However, this correlation was markedly short-lived. The panic-driven market stampede soon subsided, as governments and their central banks adopted extremely aggressive stimulus measures, reassuring investors and citizens alike that they were determined to do "whatever it takes" to support the economy. Stimulus checks were wired to all citizens, "pandemic relief" and "paycheck protection" loans were handed out - almost blindly - to all who applied for them, and all kinds of other subsidies were provided to different businesses and even entire sectors. Following these unprecedented policies, gold soon decoupled from equities. Once the initial shock and awe of the pandemic wore off and once investors were reassured that credible systemic support efforts were underway, the gold price surged and reached all-time highs in mid-2020.

“The rest is history”, as the saying goes and gold’s explosive rally continues to this day. After a short lull, the geopolitical risks and the heightened fears over the global economic outlook that persist to this day triggered another massive surge in the gold price. The two ongoing wars in Ukraine and in the Middle East, the fears of additional military conflicts, the world trade disruptions caused by the tariffs announced by US President Trump, the widespread concerns over a severe economic recession…the list goes on. All have seriously rattled investors and convinced them of the need to switch to more defensive strategies and to seek reliable safe havens. Gold has by now become a mainstream and indispensable asset, an integral part of most portfolios.

These days, the yellow metal is making headlines on a daily basis, as it surges from one record high to the next and it is clear that this phenomenal rally caught many analysts and even many long-term gold investors by surprise. For us at BFI Bullion, gold’s wild ride has certainly been rewarding to watch, even though we were convinced it was inevitable given the fundamental forces at work in the economy and the financial markets.

In fact, we believe this surge is merely the beginning of a much more ferocious and enduring bull market. While we wouldn’t be surprised to see a temporary consolidation in the short term, we are firmly confident that the precious metal’s mid- and long-term outlook is emphatically optimistic.

Gold has become essential and irreplaceable as the only time-tested tool to surmount the multifaceted risks that lie ahead. These risks emanate from deep-seated, structural, systemic problems and vulnerabilities that cannot be resolved or even convincingly addressed in the foreseeable future.

About the Author

Scott Schamber is the Managing Director of BFI Bullion Inc., a Swiss precious metals dealer and storage provider (bfibullion.ch). Scott advises international clients around the world. And, as a "good ole' boy" from Wisconsin, he loves to work and help American clients too.

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