[Kepler Partners' Josef Licsauer: Ways to play the gold rally]

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Investment Week

Gold is once again in the spotlight, surpassing $3,100 per ounce this week.

Its latest rally has reignited investor interest – not just as a safe haven but because it seems increasingly untethered from traditional drivers.

Typically, falling inflation, rising bond yields and a strong US dollar would temper its ascent. Yet gold has continued to climb.

For some, this signals a golden opportunity, much like King Midas' fabled touch. For others, gold's rise risks becoming Icarus, flying too close to the sun before an inevitable fall.

Gold's drivers

Gold's role as a crisis hedge is nothing new. In 2024, it proved its mettle once again, posting strong gains and repeatedly setting new all-time highs. But there are other factors at play.

Sustained central bank demand has supported this ascension. Historically, central banks have turned to gold in uncertain times to diversify reserves.

Over the decade to 2021, they averaged around 481 tonnes of annual purchases.

That figure surged from 400 tonnes to over 1,000 in 2022, with similar levels maintained since – marking three consecutive years of over 1,000 tonnes purchased, providing a significant boost to gold prices.

While diversification, crisis protection and store-of-value arguments explain central bank buying, politics is also playing a major role.

The US election and Donald Trump's victory injected further uncertainty, particularly regarding his tariff policies, which could stoke inflation and restrict the Federal Reserve's ability to cut rates.

The recent tit-for-tat nature of trade tension responses has also fuelled recession fears.

China, too, is a key player. The People's Bank of China (PBOC) resumed gold purchases in 2024 after a seven-month hiatus, seeking to diversify away from US Treasuries and reduce its reliance on US economic hegemony.

With China's currency at risk of further devaluation due to tariffs, gold's importance as a store of value among Chinese consumers has also increased.

Beyond official purchases, 'unofficial' gold buying has also driven prices higher.

With restrictive capital controls and the probability of currency devaluation increasing gold's appeal, Goldman Sachs estimates emerging market central banks bought around 730 tonnes of gold in London by July 2024 – equivalent to 15% of global annual production, with China a suspected key buyer.

Gold horizon

Gold's ascent has continued into 2025, hitting an all-time high of $3,128 on Monday (31 March).

Some might argue prices could stall as the pace of gains slows. However, the outlook remains compelling, as the same forces underpinning gold's rise – economic uncertainty, geopolitical tensions and central bank demand - persist.

Growing ETF demand could also add momentum to gold prices. Since gold's resurgence in Q2 2022, gold ETFs have seen persistent outflows, particularly from North American and European investors.

If Western flows into gold ETFs turn positive, whether due to diversification away from US-heavy portfolios or rising risk aversion, gold could see another leg up.

Last year marked the first year since 2020 where ETF holdings were stable, reversing years of heavy selling and, in 2025, inflows turned positive, with meaningful increases from North America and Europe suggesting renewed interest from Western investors.

This shift has been a key factor behind gold's breach of $3,100 an ounce.

Beyond bullion, gold miners could be poised for a rebound. Despite gold's strength, gold mining equities have lagged in recent years, creating a valuation gap.

However, easing cost pressures are boosting profitability, while potential rate cuts could reduce borrowing costs and improve margins.

Historically, miners tend to outperform gold in a sustained rally and, with gold prices now holding firm, miner cash flows are strengthening.

Miners have also become more shareholder-friendly, cutting debt, increasing dividends and engaging in record share buybacks.

Rising M&A activity, particularly among mid-sized players, further bolsters the sector's outlook. With institutional investors seeking diversification and miners still undervalued relative to gold, a re-rating could be on the cards.

Accessing gold

Investors can buy gold in the form of bars and coins, though this requires considerations around security, storage and insurance costs. ETFs and investment trusts are also suitable options.

BlackRock World Mining (BRWM) provides long-term capital growth and income through a diversified portfolio of mining and metal assets, allocating nearly 28% to gold.

With its near double-digit discount, BRWM could be a compelling option for investors seeking broader mining sector exposure alongside gold.

For more direct exposure, Golden Prospect Precious Metals (GPM) primarily invests in gold miners, which typically offer leveraged exposure to gold prices.

Although inflation-driven cost pressures have weighed on the sector, miners have rebounded, driving strong returns for GPM over the past six months. With GPM trading at a 26.4% discount, further upside could come if sentiment towards gold equities strengthens.

Gold can also be accessed through multi-asset trusts. It has been a long-standing holding for Personal Assets, offering diversification in times of uncertainty, inflation protection and a hedge against currency weakness.

Meanwhile, Ruffer Investment Company sees gold miners as part of its portfolio of assets that are overlooked, undervalued and primed for a potential re-rating.

Predicting short-term gold price movements is challenging, given the unpredictable factors influencing its value. However, gold's role as a unique diversifier remains clear and several drivers continue to boost its price.

The current outlook for gold is positive but even strong rallies need to pause and, if key drivers reverse, gold's ascent could slow or retreat. Investors should remain mindful of this potential risk.

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