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BLOG POST

Gold and Inflation

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We have written extensively over the past few months about the prospect of higher inflation. Numerous readings – primarily the Consumer and Producer Price Indexes – have experienced recent upticks as the economy reopens from COVID-19. Likewise, the 10-year breakeven inflation rate has risen from roughly 2% at the beginning of the year to approximately 2.4% currently. So, the market is pricing in higher inflation, although the rate of increase has subsided a bit recently. With inflation a headline topic, we might expect gold to be trading higher for the year as demand for the precious metal would increase. However, so far for the year, the price of gold has actually subsided, despite the uptick in inflation expectations.

- The chart to the left plots the price of the SPDR Gold Trust ETF, which, somewhat surprisingly, is down roughly -7% year-to-date. Taking lessons from fifty years ago, there is an assumption that gold will shine when inflation expectations are on the rise. Gold, after all, is a store of value when prices rise.

- Perhaps gold is struggling because the market sees inflation as transitory. Likewise, investors might be favoring other assets like Bitcoin or commodities in high demand (metals, oil) to hedge inflation. Either way, the demand for gold has yet to materialize and the precious metal has largely missed out on this year's run up in commodity prices.

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