Ninety One

Investing for a world of change

Trade tariffs and geopolitics could sustain gold's shine in 2025

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What were the key factors driving commodity markets in 2024?

This year was relatively quieter for resource markets compared to the volatility of previous years. Concerns over Chinese growth weighed on bulk commodities like iron ore and coal. Meanwhile, OPEC's production cuts, which were repeatedly extended, kept oil prices relatively stable, hovering around the US$70 mark.

Base metals, however, saw slight gains, driven by strong demand from the renewable energy sector - particularly solar and wind - coupled with tighter raw material markets across several commodities. In contrast, grains were well supplied, with two consecutive years of record production keeping agricultural markets subdued.

The real standout has been gold, which surged 30%, fuelled by geopolitical tensions and robust central bank buying.

How will the new Trump administration shape commodity markets in 2025?

Currently, the market is dominated by discussions around tariffs and the uncertainty about which tariffs will be implemented and where. Once those details emerge, we expect China to respond competitively by driving economic growth, as the authorities will aim to counterbalance the US. As a result, we could see both economies striving to grow strongly.

Europe, on the other hand, is facing challenges. The more optimistic scenario would be if Europe recognises the need to respond and implements its own stimulus measures, but there's still significant uncertainty around that.

Looking beyond Trump and his policies, how might geopolitical tensions impact the investment outlook for next year?

Geopolitics is always challenging to predict, as situations can change rapidly in many parts of the world. That said, geopolitical uncertainty tends to support gold, and we expect gold prices to remain strong next year.

What other factors, beyond geopolitical tensions, could support gold in 2025?

Our fundamental view supports gold staying above US$2,500 an ounce, with a base case range of US$2,500 to US$2,800. However, we see the risks as heavily skewed to the upside, making a breakout higher more likely than a decline. A bearish scenario for gold would involve strong US economic growth, improved US-China relations, a stronger dollar, and low inflation. However, that scenario doesn't seem particularly likely at this point.

What are the prospects for oil in 2025?

We see oil remaining range-bound for now, with a potential risk of weakness in the first half of the year. However, as the year progresses, we expect fundamentals to tighten, possibly more than most anticipate. Coordinated OPEC actions have effectively removed the downside tail risk, providing strong support to the market. That said, the key wildcard is how tariffs might impact oil demand, which remains difficult to predict at this stage.

Given the backdrop of Trump's policies, tariffs, geopolitical tensions, and OPEC decisions, where are you, as a bottom-up investor, uncovering new or underappreciated investment opportunities?

The current uncertainty has led to a degree of apathy in markets. While spot prices for some commodities remain high, equities and the sell-side are often pricing in much lower forward prices. We believe this is likely incorrect. In metals and mining, valuations don't fully reflect the upside risk to longer-term pricing, which could lead to increased M&A activity as companies find it cheaper to buy rather than build. We saw a similar dynamic play out between 2001 and 2007, and it could potentially return.

In other areas, we see opportunities in the midstream market in the US, driven by rising gas volumes, deregulation, and improvements in shale production. These trends are likely to benefit midstream equipment companies, particularly in the US.

In agriculture, while grain markets are well supplied, we see potential in seeds, nitrogen, and protein markets like pork and salmon, which appear more promising as the year progresses.

Why should long-term investors consider holding natural resource equities now, looking beyond 2025?

We expect inflation to average higher over the next decade compared to the previous 15 years, and resource equities can serve as an effective hedge against higher inflation within a portfolio. This alone is a good reason to hold them. Additionally, current valuations are not stretched; in fact, in many cases, they appear quite low. At the same time, resource companies are defensively positioned, with strong balance sheets.

We're also seeing the start of a turning point in the capex cycle after years of underinvestment. For example, power grid investment in the US to support AI is picking up, and in Asia (excluding China), we see promising growth prospects that should increasingly offset any slowdown in China's growth and infrastructure spending. It's also worth noting that inventory levels for many commodities remain very low, meaning any unexpected uptick in demand could have a rapid and significant impact on prices.

In summary

While returns in 2024 were more subdued compared to the strong performances of 2021 and 2022, overall returns were positive, with gold being a standout performer. Looking ahead, the sector continues to present a compelling investment case, particularly in mining. Persistent inflation and favourable supply-demand dynamics are key tailwinds heading into 2025, with current valuations still not fully reflecting the upside potential.

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