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Ninety One

Investing for a world of change

Crisis, central banks and a comeback: why gold equities shine today

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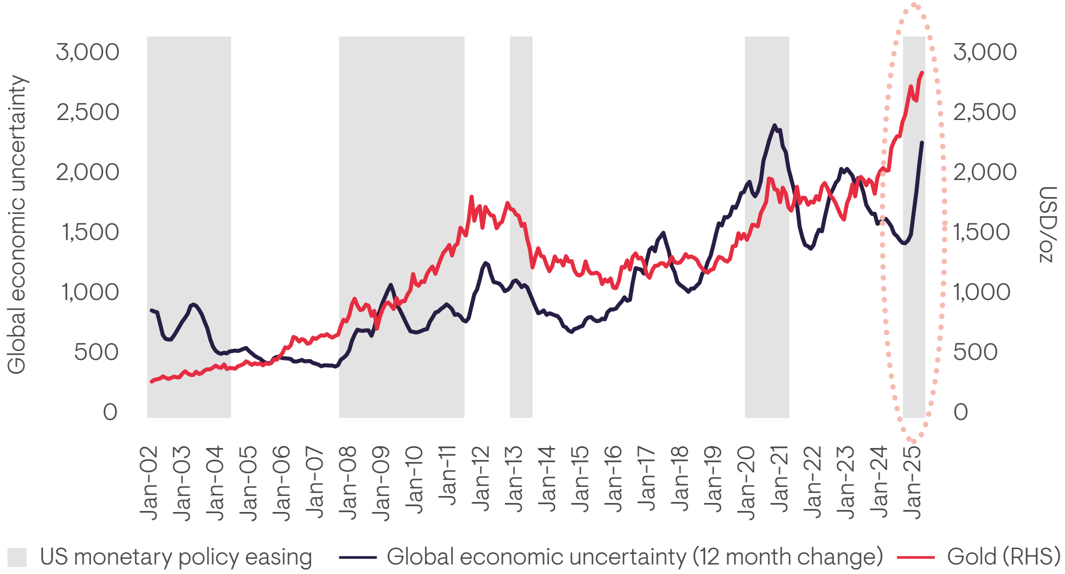
Investors looking for opportunity in today's uncertain markets should take a fresh look at gold equities. While the long-term case for gold is well established, immediate market dynamics are creating an interesting window for investors.

1 Crisis: traditional investments at risk

Global markets face heightened uncertainty. Geopolitical tensions, including trade disputes, are creating significant market anxiety, while concerns over global economic growth, particularly in major economies, are fuelling fears of a slowdown.

Traditional equity markets, particularly in the US, could be at risk of correction following years of strong performance. Investors are increasingly seeking safe-haven assets, and gold has historically been a useful portfolio addition during periods of economic and geopolitical instability.

Figure 1: Gold vs. economic uncertainty and monetary policy

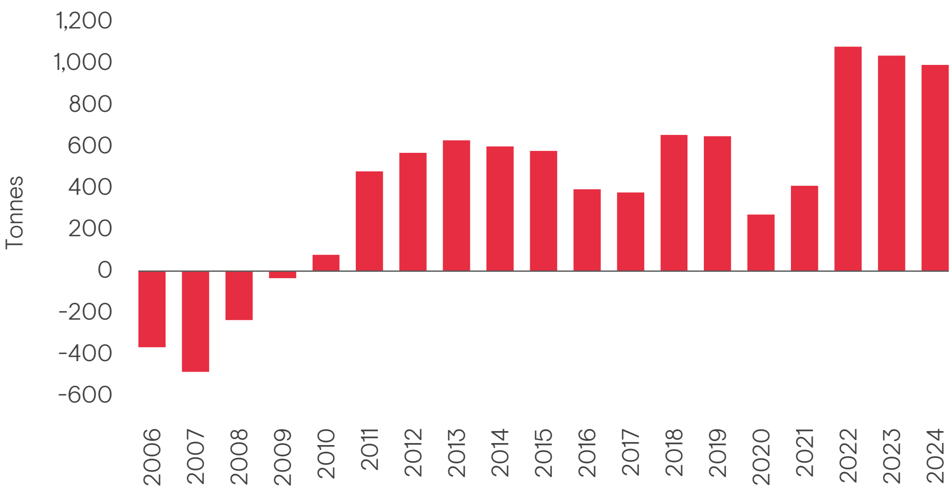


Source: Bloomberg, Baker, Bloom and Davis, 31 January 2025. Time period selected for contextual and illustrative reasons. Global economic uncertainty indices are calculated by Baker, Bloom and Davis based on news sources that contain terms related to uncertainty.

2 Central banks: record buying continues

Global central banks continue to accumulate gold at unprecedented levels, signalling a vote of confidence in the metal's enduring value. This sustained demand supports gold prices, reinforcing the asset's strategic importance in today's financial landscape. As some central banks diversify away from the US dollar, gold is a primary beneficiary.

Figure 2: Annual central bank buying (selling)



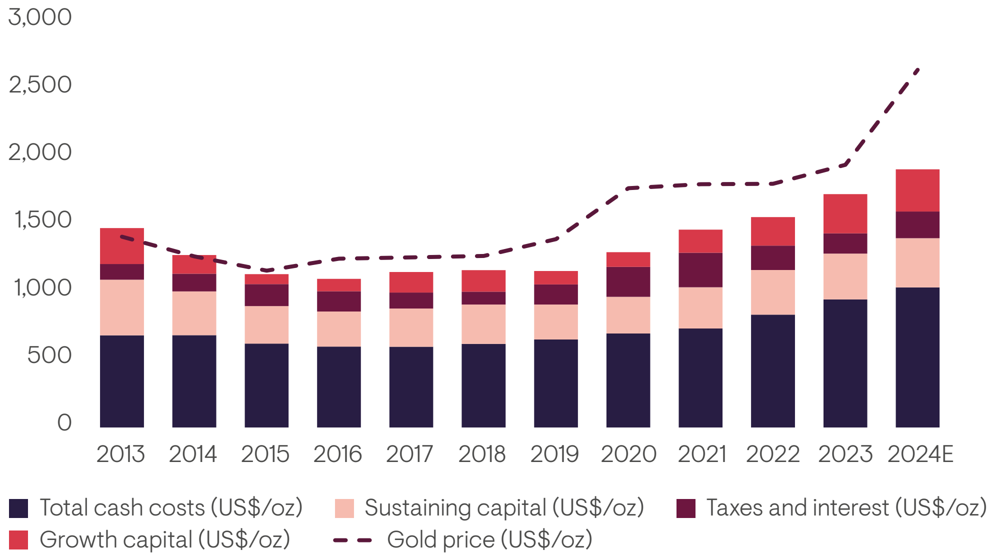
Source: World Gold Council, 31 December 2024.

3 The comeback: gold equities look set to outperform

Despite gold's strong performance, gold equities have lagged, largely due to the overhang of high costs and pandemic-related disruptions. However, these headwinds are easing, creating a valuation gap vs. both physical gold and the broad equity market. Due to both the improving cost environment and a rising gold price, gold mining margins are increasing. Specifically, lower diesel costs due to lower oil prices and refining margins, along with decreased labour and maintenance costs, are contributing to margin expansion. Merger and acquisition activity is also starting to increase in the gold mining sector, potentially adding value to the sector. As a result, we think gold miners are potentially poised for a re-rating and a 'catch-up' rally.

Figure 3: Margins for gold companies have jumped up in 2024

After two years of margin pressure, record gold prices have led to margins expanding rapidly



Source: BMO Capital Markets, Factset, Company reports. NB: Average costs based on top 20-30 gold producers under BMO coverage. The number of companies included each year could vary depending on individual company stage or M&A.

Conclusion: a timely opportunity

We think gold equities offer a combination of upside potential and defensive qualities in today's market. The convergence of geopolitical uncertainty, strong central-bank demand, attractive valuations and favourable macroeconomic conditions makes gold equities an interesting investment proposition in the current environment.

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