General Market Review

Spot gold price demonstrated weakness in Q3 2023. After breaking the USD1,900 key level, the bullion closed at USD1,848.63 on September 29th.

Considered another safe haven asset, US treasuries also encountered headwinds. The 10-year treasury yield has risen from 3.84% on June 30th to 4.57% on September 29th, pushing it to the highest level since 2007.

While the demand for gold has softened, the USD gained 3.17% from other currencies as measured by the DXY U.S. Dollar Index.

Gold Stocks were under pressure in Q3 2023; Solactive North American Listed Gold Producers Index gave up more than 10% during the quarter, despite maintaining a relatively flat position in the first half of 2023. Gold miners’ performance struggled with the strengthening USD and continued U.S. treasuries sell-off. The broader markets in both the U.S. and Canada also posted negative returns, with the S&P 500, and S&P TSX60 losing 2.55% and 3.65% respectively.

Shortly after the end of Q3 2023, the military conflict that started between Israel and Hamas increased tensions around the world alongside the ongoing Russia-Ukraine war. Gold bullion is expected to become more popular with investors seeking a hedge for global geopolitical risk.

Portfolio Review

Although historically viewed as an inflation hedge, spot gold performance has been inconsistent in the current environment partially due to the strong U.S. dollar and rising U.S. treasury yields. However, the covered call strategy of HGY provides investors with an additional layer of income and serves as an attractive choice to hedge geopolitical risk.

Outlook and Positioning

With the U.S. Federal Reserve coming to a hawkish pause in its interest rate hike cycle, markets have priced in rate cuts starting from the first half of 2024. When U.S. treasury yields begin to cool down, investors might find a favourable position in gold to bet against a potentially weakening U.S. dollar. As intensive geopolitical risk still persists in both the Middle East and Eastern Europe, gold will continue to provide diversification benefits in the near future.