What is Gold Communicating To Us?

Gold is significantly outperforming the S&P 500 YTD and Over the Past 3 Years

Presented by:

Mayur Thaker, CFA
Equity Strategist
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Gold Has Surprised Investors Over Multiple Timeframes

Timeframe	Gold Return	SPX Return	Difference
YTD (8/31/2024)	20.9%	19.3%	+1.6%
1 Year	33.1%	33.5%	-0.4%
3 Years	13.2%	11.5%	+1.7%
10 Years	7.4%	13.2%	-5.8%
25 Years	9.3%	8.0%	+1.3%
50 Years	8.0%	11.3%	-3.3%

Source: Zacks Investment Research

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
S&P 500 (Gr)	24137.32%	-32.24%	2617.70%	24137.32%	24137.32%	11.29%	01-31-1974	08-31-2024
GOLD - USD/OZ [EST] (Gr)	6623.92%	0.00%	960.00%	6623.92%	6623.92%	8.04%	12-31-1970	08-31-2024

Source: Zacks Investment Research

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
S&P 500 (Gr)	601.60%	-33.90%	35.40%	601.60%	601.60%	8.01%	09-30-1999	08-31-2024
GOLD - USD/OZ [EST] (Gr)	849.38%	-1.61%	356.70%	849.38%	849.38%	9.31%	09-30-1999	08-31-2024

Source: Zacks Investment Research

Gold is soaring over the past year and YTD.
What could this possibly be telling us?

Gold behaves very differently from the consumer price index, contrary to popular opinion of gold being an inflation hedge

Gold's Relationship with CPI has been.....mixed, at best

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
GOLD - USD/OZ [EST] (1-Yr % Change)	179.42%	-37.71%	5.60%	23.12%	6792.90%	7.94%	12-31-1970	07-31-2024
CPI-U - ALL ITEMS (HEADLINE) - NSA (1-Yr % Change)	14.76%	-2.10%	3.20%	2.90%	734.32%	3.91%	12-31-1970	07-31-2024

Source: Zacks Investment Research

Title	High	Low	Median	Current	Cumulative Return	Annualized Return	Start Date	End Date
GOLD - USD/OZ [EST]	2,513.40	37.38	396.21	2,513.40	6623.92%	8.04%	12-31-1970	08-31-2024
CPI-U - ALL ITEMS (HEADLINE) - NSA (1-Yr % Change)	14.76%	-2.10%	3.20%	2.53%	735.01%	3.90%	12-31-1970	08-31-2024

Source: Zacks Investment Research

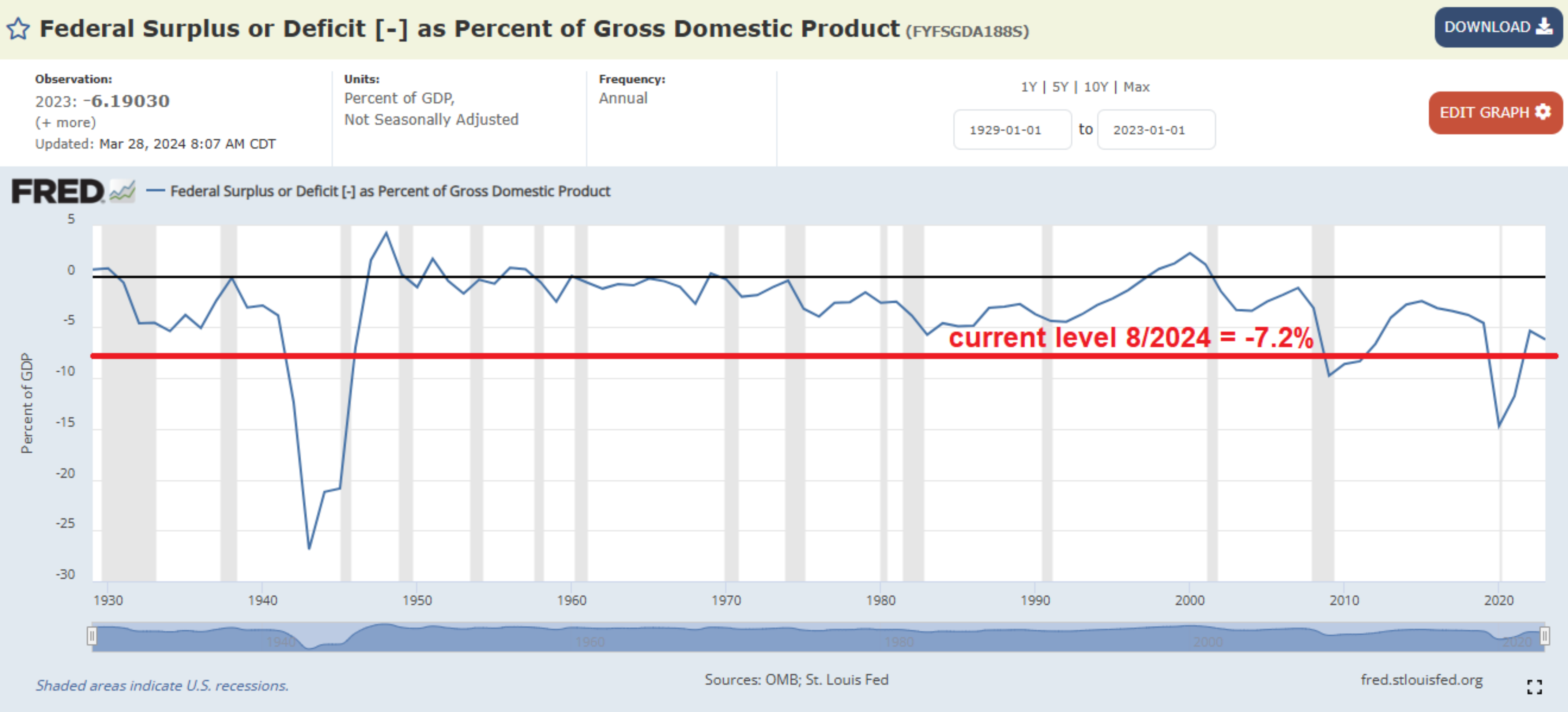
In my view, gold is not a direct proxy to consumer price inflation, per se.

Gold is a reflection of forward-looking expectations of **<u>excess liquidity</u>**.

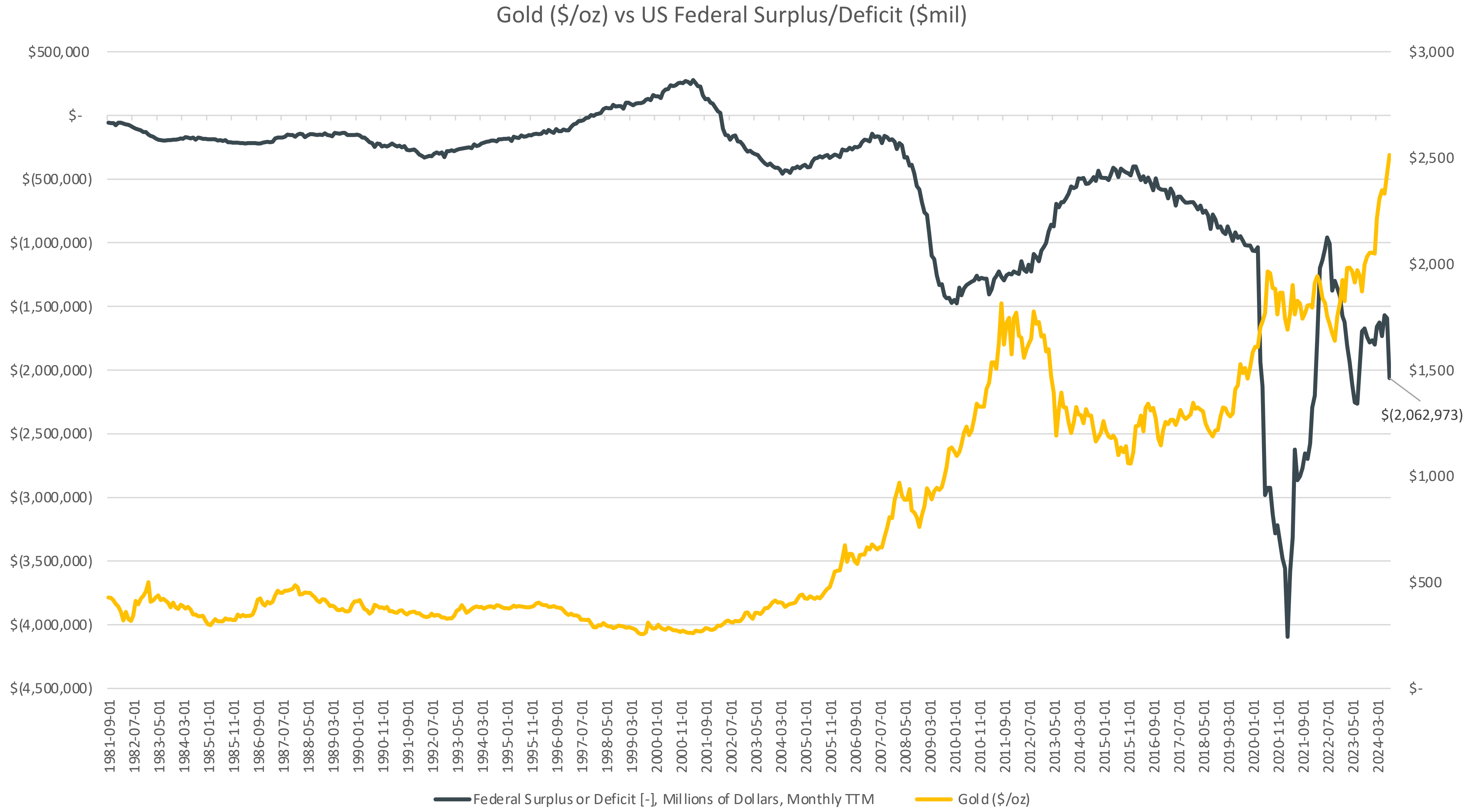
Excess Liquidity = Supply of money – Demand for money

One way to possibly forecast the <u>**direction of future excess liquidity**</u> is to look at the trend of the federal government budget deficit/surplus.

Fiscal Deficit as a % of GDP Most Severe in Any Non-Emergency Year



Gold's Inverse Relationship with the Fiscal Deficit



Source: OMB, Board of Gov Federal Reserve, Zacks Investment Research

Gold has had a 0.70 leading correlation to the US budget deficit/surplus

As deficits rise, liquidity must eventually rise to accommodate it.

With gold rising materially over the past year, I believe its forecasting increasing fiscal deficits, which has already crossed $2 trillion, or 7.2% of GDP

Rising gold = excess liquidity
Falling gold = not enough liquidity
Flat gold = well balanced liquidity

When gold is flat over extended periods of time, it means the money supply is well balanced with credit demand

True bull markets are when stocks rise while gold is mostly flat.

Surplus or Deficit = Tax Revenue – Government Spending

Gold rally suggests deficits will continue to swell. This can happen with:

1. Increasing government spending on interest, stimulus, other programs
2. Falling tax revenue relative to spending due to recession
3. All of the above

In my view, gold is signaling a recession on the horizon, but there is also a door being left open for another outcome, which is increasing deficit spending, which requires higher liquidity.

Either Trump or Harris may bring with them higher deficits.

Despite the Fed’s 50 bps cut yesterday and strong market rally today, I continue to advocate caution and strongly urge a repositioning of assets into durable quality businesses that comprise the Zacks Earnings Certain Proxy.

Zacks Earnings Certain Proxy: Recession-Resistent, Durable Moat-Protected, Low Volatility, Steady Compounders

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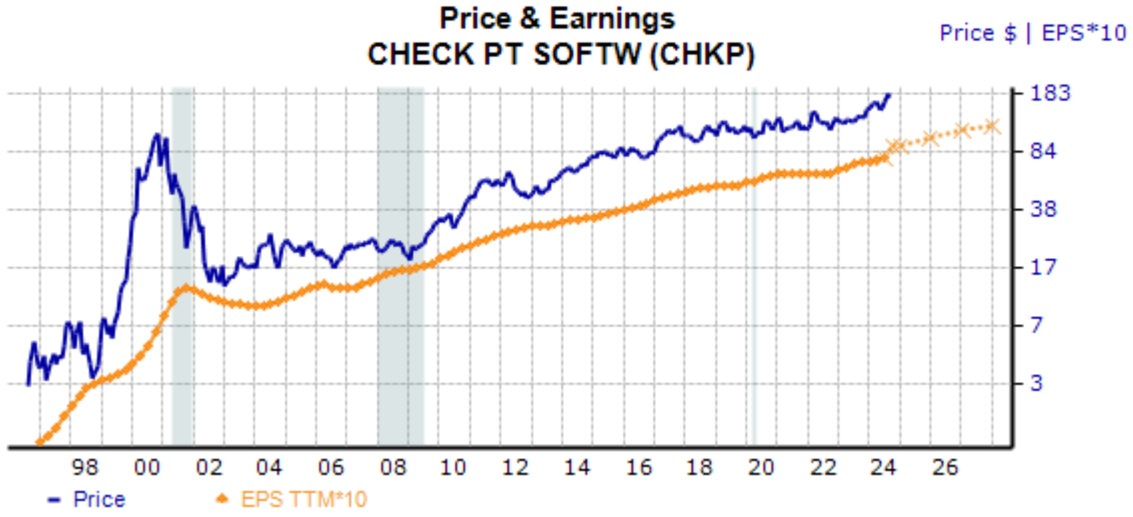
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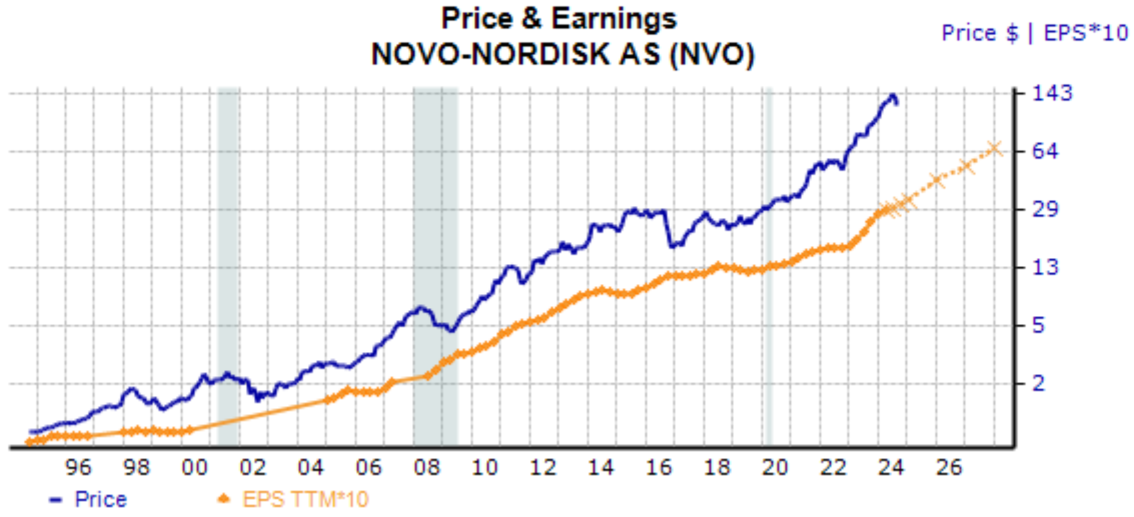
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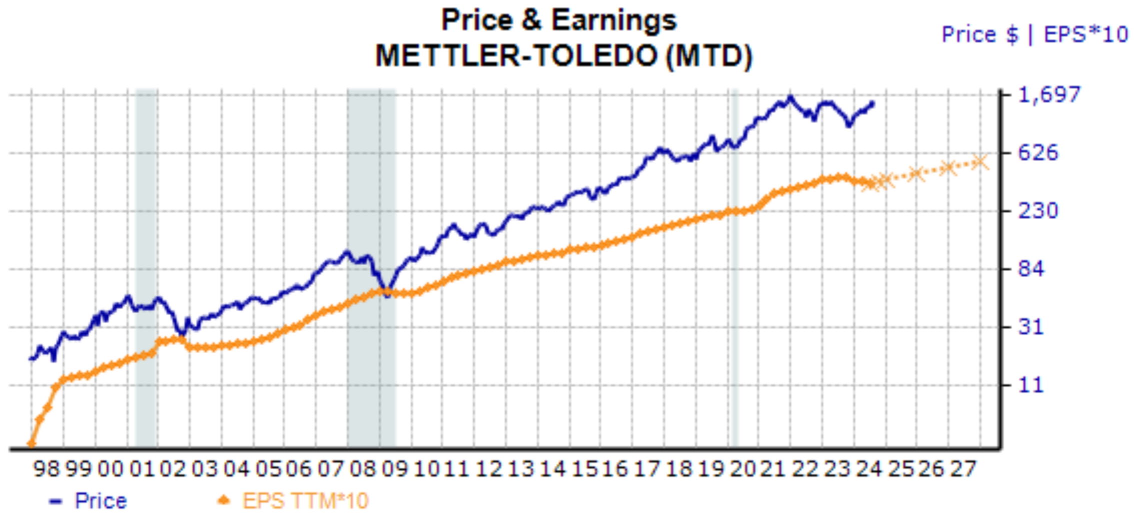
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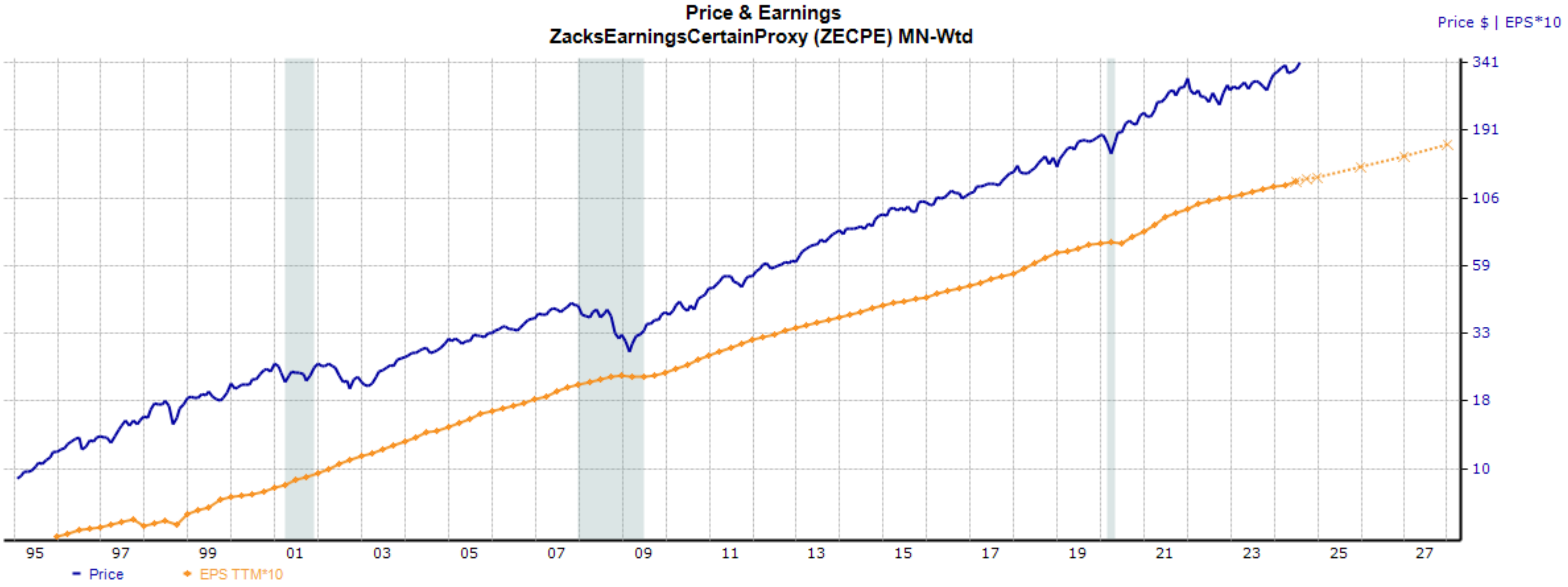
Built for Long-Term Durability



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Mayur M Thaker, CFA
Equity Strategist
Zacks Professional Services
Support: 866.794.6065 | info@Zackspro.com

Twitter: @freshjiva
linkedin.com/in/mayur-m-thaker-cfa-86234235/

866-794-6065
strategycall@zackspro.com
www.zackspro.com

Zacks Professional Services
@ZATools