CIO View

CIO Special

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Marketing material

The shine is back on gold

To participate in the expected performance of the yellow precious metal, investments in physical gold and gold mining shares appear equally suitable

Vincenzo Vedda
Chief Investment Officer

IN A NUTSHELL

- Gold's impressive performance has sparked a surge in demand for 2024, with not only central banks showing keen interest.
- In addition to gold, gold mining stocks have also proved to be a potentially attractive investment, with a performance that has at times even outperformed gold.
- Our outlook for gold and gold miners remains constructive.

Gold and gold miners were strong in 2024

Gold performed impressively over the course of 2024, with the metal also rising sharply in the first few weeks of the new year, hitting an all-time high. With a gain of just over 27%, the yellow metal posted its strongest annual gain since 2010, when it rose 29.6%.[1] Strong physical demand, but also gold's role as a safe haven in uncertain times, pushed the price to record levels. Our outlook for the coming months and for 2025 remains also constructive. In this environment, investors may wonder whether exposure to gold mining equities is not equally attractive, especially as these securities outperformed gold for long periods in 2024. However, the annual gain in gold mining stocks was only 13.3% in 2024 as a whole. Both gold and gold miners are attractive, in our view. But, notwithstanding their many similarities, there are also differences that should be considered before making an investment decision.

1 / Physical gold

1.1 Typically an asset with some special advantages

Traditionally gold has been seen as a safe haven[2] against inflation and economic downturns. When investors lose confidence in the capital markets or big geopolitical problems loom, demand for gold as a safe haven has often increased sharply. As a currency, meanwhile, the yellow metal has at least 3,000 years of history in which it has outshone almost every other known means of payment[3]. Now gold is little used as a currency but serves as a store of value. And again, it is the very long-term view that reveals gold's advantages. looking back over over the last 50 years, gold has outperformed all comparable investment options[4]. Furthermore, the amount of physical gold in the world is limited, and gold production peaked years ago. We believe that its scarcity should help gold retain its value over the long term.

[1] All financial data – unless otherwise stated – by Bloomberg Finance L.P. as of 1/30/25
[2] Financial safe havens are investments or assets that are expected to retain or increase in value during times of market turbulence.
[3] The history of gold: from ancient civilizations to the present day as of 8/30/23
[4] Bloomberg Finance L.P.

Gold is also one of the few assets that is not simultaneously a liability of another market participant. In the event of a sale, it is highly liquid – even though physical gold must be traded physically. Whatever the price, typically anyone can quickly find a buyer. As a result, gold can easily be exchanged for other goods in emergencies. Governments have also used this function of gold: In the early 1990s, for example, India transferred its national gold reserves to the International Monetary Fund by airlift to cover its balance of payments deficit.[5]

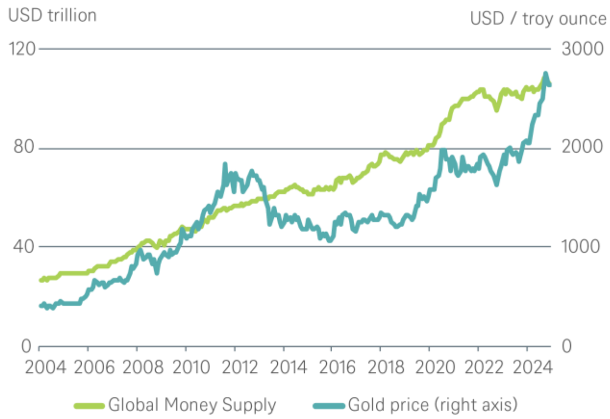
In a portfolio context, gold has a low to negative correlation with other major asset classes during many market phases, which means it typically provides effective diversification and can reduce overall risk. However, it should be noted that, as with all correlations, there are exceptions and even periods in which gold moves in parallel with many assets. In general, however, gold can help to reduce portfolio volatility because the factors that affect the returns of most asset classes, both at the macro and micro level, tend not to have a significant impact on the price of gold. As a portfolio component, gold therefore may offer the benefit of both, risk reduction and wealth accumulation.

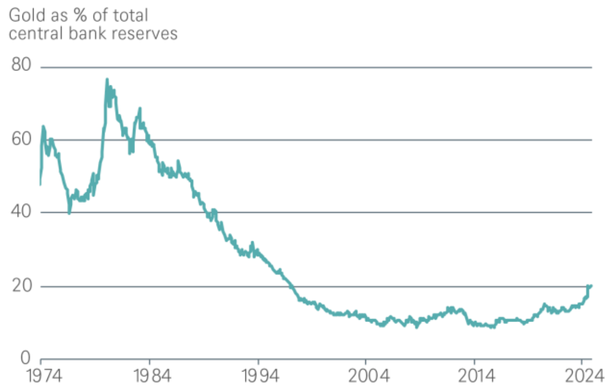
1.2 In 2024 strong demand drove up the price of gold

At the start of 2024 gold was trading at around $2,060 per troy ounce, but by the end of the year it had risen to around $2,625. It even reached a record high of around USD 2,800 in the first weeks of 2025. Last year's rally was largely driven by expectations that inflation would fall, and the U.S. Federal Reserve would cut interest rates sharply. As gold does not pay interest, falling interest rates are supportive of the gold price while rising rates increase the opportunity cost of holding gold.

But other factors have also driven gold's positive performance: concerns about the U.S. budget deficit getting out of hand under the new U.S. administration, the diversification of central bank reserves into gold and consequent strong buying (especially by the Chinese central bank and other emerging market central banks), hedging against stubborn inflation and a troubling geopolitical landscape, with many new trouble spots. The influence of these factors was such that at times during the year not even a rising dollar and rising U.S. yields could stop the gold price appreciating.

Money supply is driving the gold price, as is central bank demand





Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/30/25

[5] "Gold's value in government vaults glitters amid economic gloom", India Today as of 2/25/12

Central banks demand

Central bank activity has been a key factor behind rising prices. Central banks around the world have increased their purchases of gold (in the form of bars) as part of their reserve management.[6] For some central banks de-dollarization and protection against sanctions may have played an important role. It is also worth noting that the efforts of many monetary authorities to increase their gold reserves appear to be unrelated to the strength of the U.S. economy, the performance of U.S. equity markets or fluctuations in the U.S. dollar and interest rates.

Global money supply growth

In the long run the growth in the money supply also has an influence on the gold price. As can be seen in the chart, there is a clear correlation between U.S. money supply growth and the gold price – and gold price gains tend to accelerate in response to periods of unusually rapid money supply growth. It is clear that it is not possible to predict the short-term direction of the gold price using the money supply, but it may give an indication of the likely trend for the future.

ETF flows

Investor interest in gold ETFs has also played an important role in supporting prices. Global demand for gold ETFs increased in 2024 and recorded its first net annual inflow in four years. Assets under management in physically-backed gold ETFs climbed by 26 per cent to $271 billion. According to the World Gold Council, Asia again recorded the highest inflows.[7] Demand from Western investors stabilized, with North American ETFs recording their first positive annual inflows since 2020 while European outflows fell significantly compared to 2023. The reasons for investing in gold ETFs are the same as those underlying the purchase of physical gold: heightened uncertainty about U.S. political developments, the many geopolitical hotspots, falling interest rates (especially in the U.S.) and, of course, the rising price of the precious metal, with gold reaching a new all-time high no less than forty times in 2024.

1.3 The outlook for gold looks positive

Looking ahead, several factors make us optimistic about gold's future performance. In particular, we believe that central banks will continue to buy gold. Even if they do so at a somewhat lower rate, this demand will provide support and should attract price-conscious investors looking to profit from the momentum provided by the central banks. In addition, we expect President Trump’s economic and trade policies to provoke market jitters, which should also help to generate continued interest in gold. The Federal Reserve is also likely to continue to cut interest rates, albeit at a slower pace. Other factors that are supportive of gold include continued monetary expansion, concerns about rising budget deficits in the context of very loose fiscal policies around the world, and the trend towards de-dollarization, which, while still weak, is a factor, particularly in emerging markets.

2 / Gold mining stocks

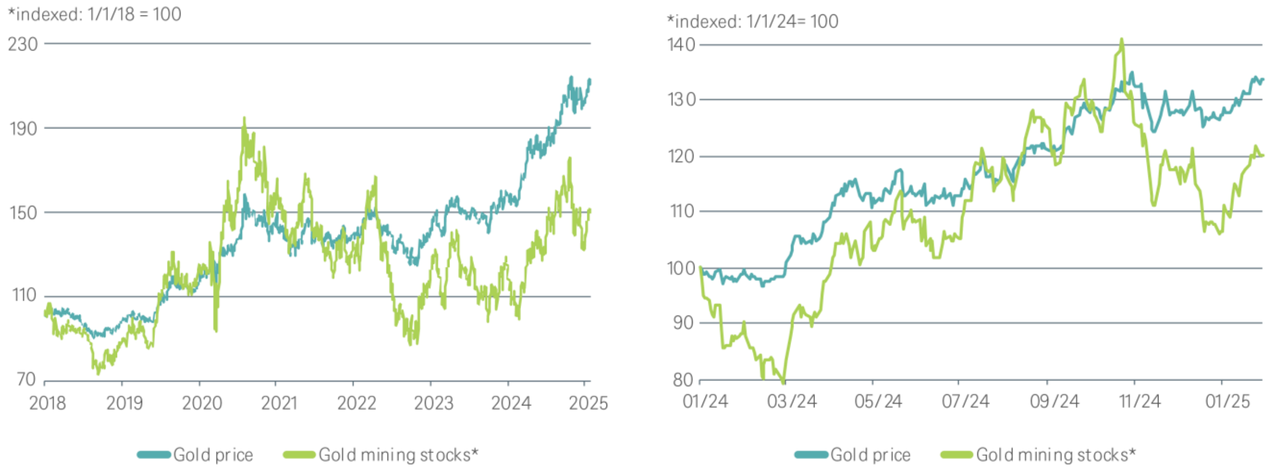
2.1 An alternative to physical gold, but with some differences

At first glance, gold miners' shares appear to be an attractive alternative to investing in physical gold for those who want to participate indirectly in the performance of the yellow precious metal, while also securing the performance potential of a share. In 2020, in particular, gold mining shares performed strongly after a rather mixed to weak performance in previous years. Investment in gold miners is often seen as a leveraged investment in gold, but this higher sensitivity to the gold price is also reflected in generally much higher volatility.

[6] World Gold Council as of 1/30/25
[7] World Gold Council as of 1/30/25

Unlike physical commodities, mining companies can generate profits and cash flows that benefit investors. An equity investment also allows investors to participate in both the current and future production of the respective mines. Dividends generate additional income, which relies in part on the price of the underlying precious metal. Because of their higher profit margins, we see mining stocks offering a cheaply valued growth opportunity. However, the discovery of new gold deposits has declined significantly in recent decades. As a result, the barriers to exploitation are very high and mining companies have to make substantial investments.

In 2024 gold mining stocks outperformed the gold price at times

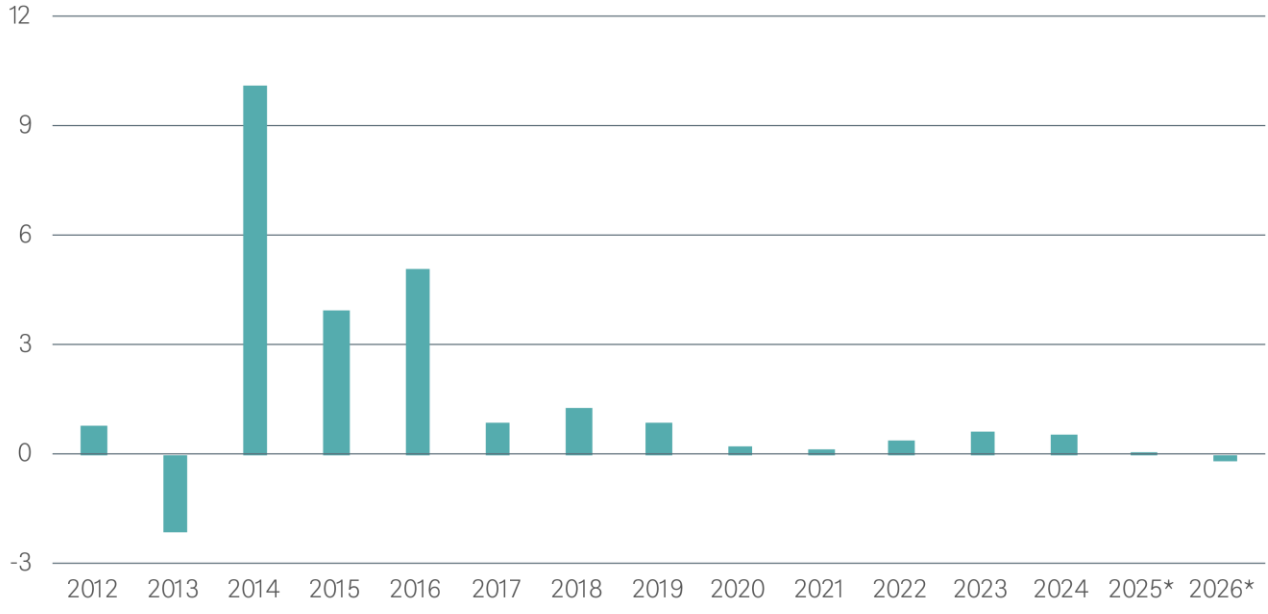


Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/30/25; *FTSE Gold Mines Index

There have been long periods of uncertainty in recent years about the high debt levels of mining companies. However, the debt ratios and balance sheets of many listed gold mining companies have improved, and profit margins have been exceptionally high thanks to the rise in the gold price. However, it remains to be seen whether all companies have taken the opportunity to invest in the development of new gold deposits. If this is not the case, future production growth could well be in jeopardy. Mergers and acquisitions in the mining sector may be a factor here. Larger and more powerful mining companies with sufficient cash and limited opportunities for organic growth may seek to acquire smaller, exploration-focused competitors or to consolidate existing operations. This could well trigger a wave of consolidation.

In a gold market that we believe is set to consolidate as well as grow, the focus when selecting companies should be on whether the mine operators are not only established but have already invested in securing future production. There could also be a track record of cost control and consistent performance: factors that are generally considered in all equity investments.

Gold miners have reduced their debt levels (Net Debt to EBITDA^)



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/30/25 / *expected ^Gold mining stocks represented by the FTSE Gold Mines Index

Mining Royalty Companies

There are also mining companies that specialize solely in licensing mining projects. Such companies generate ongoing income without having to invest in building mines or operating complex machinery. These specialist companies focus on generating royalties that secure them a share of the production, or the right to buy a fixed share of the production at a discounted price, from a variety of mining projects. As a result, they generate stable income without being exposed to the operational difficulties that traditional mining companies often face.

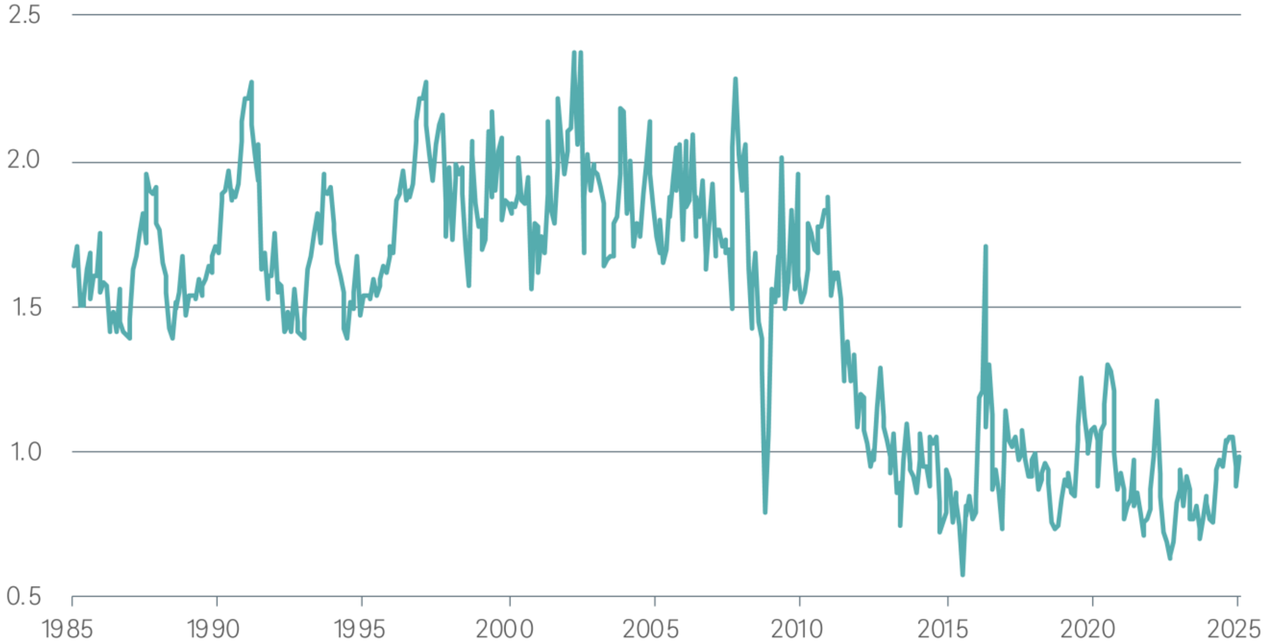
Traditional mining companies have huge capital costs in many areas of their operations. In contrast, mining or streaming companies tend to be passive royalty payers. They negotiate contracts that entitle them to a share of the revenues or the extracted commodity once the mine is in operation. This distinction is extremely important from an investor's risk perspective.

In the event of adverse market developments, such as falling commodity prices or the unexpected closure of a mine, royalty companies also suffer, but they are not tied to the direct fixed costs associated with maintaining a costly operation. Their costs tend to be much lower. These companies fill a specific financing need in the mining industry and provide viable options for mine operators who are reluctant to raise equity or take on significant debt. Mining royalty companies are now considered a central and important sub-sector within the metals and mining sector.

2.2 Positive factors for gold miners

In our view the outlook for gold miners looks positive, and not just because the gold price seems likely to be well supported. The industry seems to have come out of a period of rapidly rising costs. As a result, we expect these companies' margins to remain solid. Cash flow returns should also continue to benefit given that gold prices are so high. Moreover, the current valuations of the major miners suggest that there is further upside potential. In general, gold mining stocks continue to offer growth potential that is independent of the gold price. Unlike miners, physical gold does not pay dividends or interest and cannot grow through business expansion or efficiency gains.

Valuations of gold mining stocks at attractive levels (North American Gold Producer Price-to-Net-Asset-Value)



Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 1/30/25

Nevertheless, investors should not be tempted to view gold mining equities as a simple "leveraged gold investment." This is because company-specific risks and the general hazards and uncertainties associated with mining operations remain and can lead to increased volatility in the securities. If gold prices were to fall sharply, miners' leveraging effects could prove to be an exacerbating negative.

3 / Summary: gold and mining stocks are welcome

The current drivers of the gold price should remain in place for now, giving gold the potential to perform well in 2025. In particular, easing inflation and falling interest rates should provide support. Looking at the longer-term technical charts of the gold price over several decades, it is clear that the upside potential might not yet be exhausted and that further gains can be expected, at least from this side – although, as already mentioned, interim counter movements and setbacks cannot be ruled out.

We are also constructive on gold miners. However, history has shown that such stocks are not always the better choice due to their inherent risks. It is only in the (rather theoretical) case of a gold ban that the advantages are obvious. Historically, equities have not been affected by such a ban and could continue to allow investors to gain exposure to gold.

Ultimately, a good mix of gold and mining stocks might allow investors to enjoy the benefits of both assets, without being fully exposed to either and their associated risks.

Glossary

Correlation is a measure of how closely two variables move together over time.

EBITDA (earnings, before interest expenses, taxes, depreciation and amortization) is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted.

An exchange-traded fund (ETF) is a security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

The FTSE Gold Mines Index Series is designed to reflect the performance of the worldwide market in the shares of companies, the revenues of which are primarily derived from the mining of gold.

Federal Reserve Bank is a regional bank of the Federal Reserve System, the central banking system of the United States. There are twelve in total.

Price to Net Asset Value ratio (also known as price/book). The P/NAV ratio shows the company's share price to the net asset (or book) value per share.

A troy ounce is a system of weights used for precious metals and gems, based on a pound of 12 ounces as opposed to the traditional 16.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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