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Gold: A Misunderstood Asset Class



DeFred G Folts III
 Chief Investment Strategist
 3EDGE Asset Management

“A margin of safety is the secret of sound investment, distilled into three words”

–Benjamin Graham

At 3EDGE Asset Management, we have always considered gold to be a legitimate, investable asset class that may have long-term benefits in a diversified portfolio. As multi-asset investors, our core strategies invest beyond just stocks and bonds to include real assets, such as gold. Because gold is considered a haven asset, it can serve as a useful shock absorber as part of a diversified portfolio, particularly during periods of market dislocation. In addition, there are times, such as throughout 2024, when gold can also be additive to investment returns.

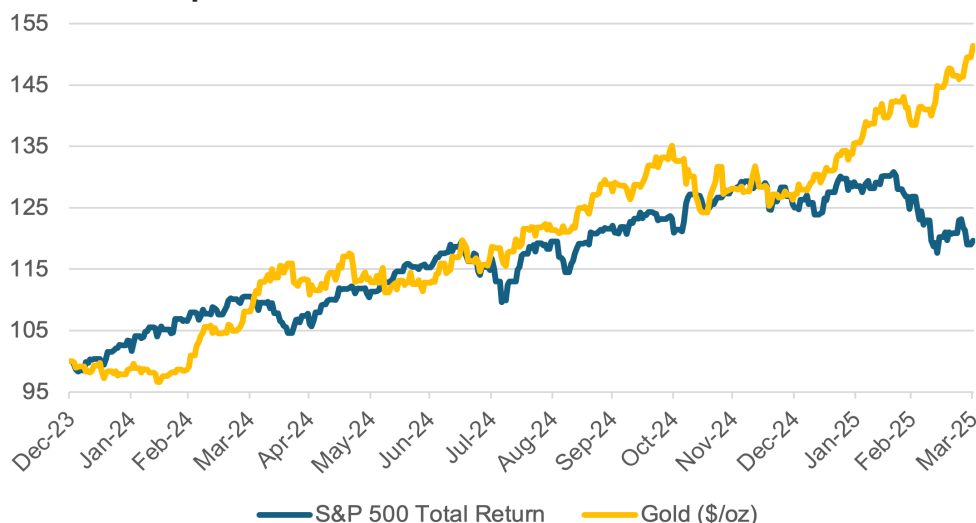
- ◆ Not only have U.S. equities been reaching record highs this year, but gold has also quietly rallied to new all-time record highs in 2025.
- ◆ Gold also happens to be outperforming the S&P 500 index* thus far in 2025.
- ◆ As with U.S. equities, gold is benefitting from positive investor psychology and price momentum.

Figure 1:

YTD Performance of the S&P 500 and Gold 12/31/23 – 3/31/25

Source: Bloomberg

Gold has outperformed the S&P 500 Total Return thus far in 2025*



*Performance shown is reinvested to \$100 and includes dividend reinvestment. Data as of 3/31/2025.

The rise in the price of gold has recently attracted investors' attention; however, most investors are not aware of the fact that, in addition to outperforming the S&P 500 thus far in 2025, gold has also outperformed the S&P 500 Total Return index over the past 3 years and over the past 25 years. (See table below)

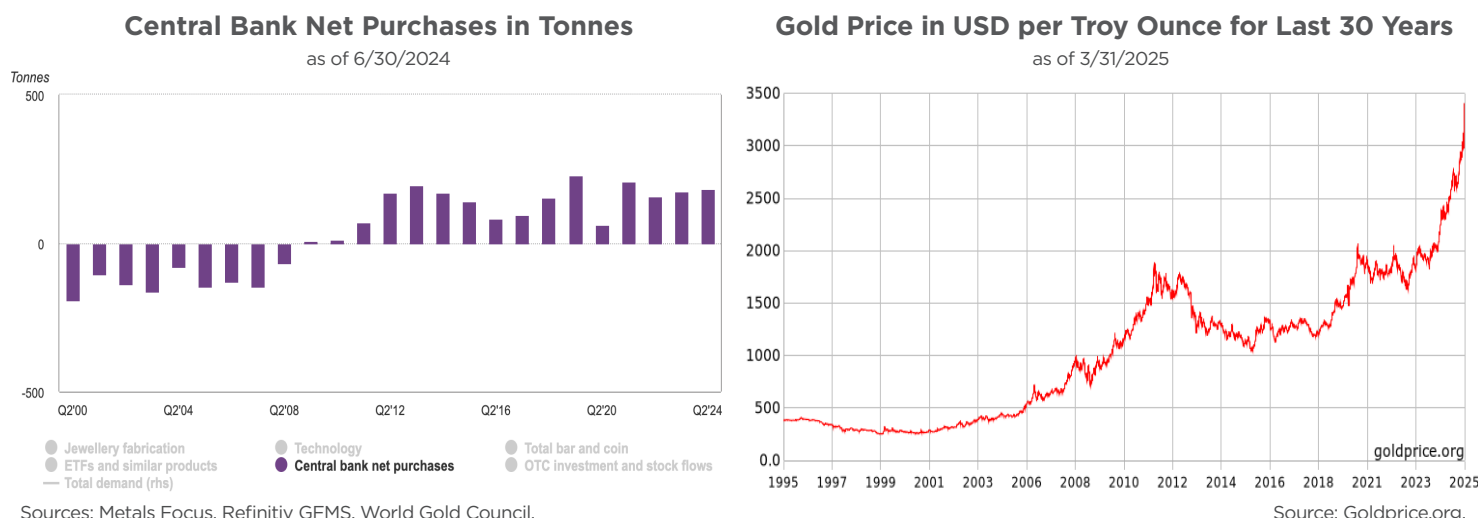
Figure 2:

S&P 500 Total Return vs Gold Average Annual Return 3 years & 25 years as of 3/31/25

Source: Bloomberg

	3 Year Return	25 Year Return
Gold	17.3%	10.1%
S&P 500 Total Return	9.1%	7.4%

Figure 3: Gold has Continued to Benefit from Central Bank Purchases



Gold could continue to play a beneficial role in multi-asset portfolios

- ◆ Russia's invasion of Ukraine and the current tensions in the Middle East have heightened geopolitical tensions. Gold has a long track record of serving as a hedge against the volatility of geopolitical conflicts.
- ◆ Gold can also serve as a hedge against the value of fiat currency (paper money). Governments around the world, and certainly here in the U.S., have taken on record levels of debt and ultimately may be pressured into policies of financial repression to keep down the cost of servicing such massive debt. The net effect of these policies would be to weaken a nation's currency (the value of their fiat currency/paper money). Gold can benefit from financial repression.
- ◆ In Figure 3 above, we can see how gold has benefited from foreign central banks' buying. Central banks have been buying gold to diversify away from the U.S. dollar as the world's reserve currency, particularly in countries not aligned with the U.S. The Chinese central bank, the PBOC, has been swapping out of U.S. Treasuries and into gold. China sees this not only as a move away from the U.S. dollar as the world's reserve currency but also as a safeguard against potential dollar-based sanctions the U.S. government could impose, if tensions between the two nations should rise. In addition, Chinese citizens have been purchasing gold as a haven asset to diversify away from the ongoing turmoil in the Chinese property market.
- ◆ Gold could also further benefit if real interest rates were to decline from here. This could happen if inflation expectations move higher or if interest rates fall faster than the rate of inflation.

We believe that gold can not only play a beneficial role as a long-term hold in a diversified portfolio, but it can also be additive to returns, potentially even in excess of equities under the right economic conditions. Gold is undoubtedly having a moment, and so long as that moment continues, we are pleased to hold it in our core multi-asset portfolios.

For more information about 3EDGE Asset Management or our offerings, please visit our website at 3edgearn.com

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