

Gold To Shine As Investors Ignore Growing Recession Risks - In Gold We Trust 2017

(Kitco News) - Investors continue to take a cavalier attitude to economic risks, piling into equities, but one major gold fund sees the market at an important precipice that could benefit the yellow metal.

In its annual In Gold We Trust report, managers at Incrementum AG warned that investors are ignoring growing risks of a recession or the potential for the U.S. economy to fall into a stagflation scenario, where growth slows but inflation rises.

“Low interest rates combined with the pressure to invest and [Fear of Missing Out], have nurtured a treacherous sense of carelessness within many market participants. Scenarios such as significantly higher inflation or a recession are currently treated like black swans, although history shows that these events do occur at regular intervals,” the authors, Ronald-Peter Stoeferle and Mark Valek, said in the report.



“We consider a bullish stock market currently as the most significant opportunity cost for gold. Therefore, a clear break-out of the gold price should only be occurring amid a stagnating or weaker equity market,” they added. “After almost five years of underperformance relative to the broad equity market, the tables might slowly be turning now in favor of gold.”

The report noted that the fourth-quarter of 2016 was a major disappointment for gold as the market gave up a lot of its gains that year; however, 2017 has seen renewed interest, leading to a strong recovery. As of June 1, when the report was released, gold was up more than 10% since the start of the year; the gains have been made in the face of a U.S. dollar that hit a 14-year high and record-high equity prices.

“We regard this as a remarkable development and as a prime example of a bull market, whose starting gun has not been heard yet by the majority of investors,” the firm said.

While the firm admits that its current call for gold to rise to \$2,300 an ounce by 2018 could be a little too optimistic, the fund managers remains bullish on the metal.

In this year’s report, Incrementum sees four major scenarios that will drive the gold market in the long term.

In the first scenario where U.S. economic growth pushes above 3% and inflation remains below 3%, gold could trade in a range between \$700 and \$1,000 an ounce.

In the second scenario where the U.S. economy continues to muddle through with growth and inflation hovering between 1% and 3%, the firm could see gold trading in its broader range between \$1,000 and \$1,400 an ounce.

In its third scenario where the U.S. economy grows more than 3% but inflation also rises above 3%, gold prices would trade between \$1,400 and \$2,300 an ounce.

In its final scenario, if U.S. economy falls into a recession or sees low growth and high inflation, gold prices could rise between \$1,800 and \$5,000 an ounce.

“We assign the highest probability to the latter two scenarios. Similar to the 1930s and the 1970s, these scenarios would be difficult to navigate, but at the same time provide quite interesting investment opportunities,” they said.

“Whether one fully agrees with our critical assessment of the system is one thing; the question of whether one should hold an appropriate share of one's liquid wealth in the form of a ‘golden insurance reserve’ is a different kettle of fish entirely.”

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