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# Gold & Precious Metals and the Asian Private Client – A Hubbis Digital Dialogue Event

**As we turn the corner into 2023, replete with its numerous uncertainties and concerns, should private investors be stocking up on gold and possibly other precious metals? And if so, how? Physical gold? Actively managed funds, or ETFs? What are the risks and potential rewards? The Hubbis Digital Dialogue of December 8 saw a small panel of erudite private bankers and gold specialists mine down into some rich seams of insights and observations.**

## SPEAKERS

**DAVIS HALL**
Indosuez Wealth Management

**JOSHUA ROTBART**
J. Rotbart & Co.

**MANPREET GILL**
Standard Chartered Bank

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PRECIOUS METALS

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## Setting the Scene

It was in late 2020 when Hubbis last conducted a major survey of over 100 experts in Asia's wealth management markets, asking them how they were helping position client portfolios for the potential arrival of inflation. At the time, there were gradually growing concerns that, despite the bullishness of investors after the big sell-off caused by the early days of the pandemic, the era of a rising tide of money lifting most mainstream asset valuations worldwide was inevitably going to give way to a new era requiring greater selectivity, deeper analysis, and far more caution.

That tide did, however, keep rising for asset prices throughout 2021, more aggressively and with greater liquidity than most had anticipated. But then the inevitable happened – inflation and higher interest rates arrived and, as we can now see, with far greater force and impact than many had expected; far greater volatility struck, asset prices slumped, and geopolitical worries turbocharged anxiety, dragging asset prices and markets down further and harder than many might have expected. The leading central banks of the world have since made beating back inflation their primary target, at the risk of triggering or exacerbating oncoming recessions.

Meanwhile, the US dollar has maintained its strength, rising against virtually all currencies since 2021, except the ever-mighty Swiss franc. Bitcoin, which many had promoted as being effectively digital gold and therefore a hedge against inflation, has slumped nearly 75% from its October 2021 all-time high (although it is still more than 200% higher than its price in March 2020 during the early weeks and fears of the pandemic).

So, what does all this mean for gold, which hit an all-time high of about USD2069 in August 2020 but which on December 8 was trading at USD1787, in other words down nearly 14% from that historical high.

Some argue that more than inflation or risk aversion, real (or net-of-inflation) bond yields remain the most important driver of gold prices. This, they argue, means real yields could be a headwind for gold in early 2023 as inflation slows a little before interest rates, so will an eventual turn lower in both inflation and interest rates ten support gold later into 2023?

On December 8, Hubbis assembled a group of precious metals and wealth management experts to answer this and many other key questions, looking at the gold and precious metals markets from the perspectives of the wealth management community (the private banks, EAMS, MFOs, SFOs) and the private investors. They sought to determine their attitudes and approaches and indeed how investment is taking place, such as into physical gold or gold-related stocks or actively managed funds, or ETFs. Regarding physical gold or other precious metals, they also debated how the wealth managers can work with specialist firms to acquire, trade, and also store and insure these precious assets.

*Expert Opinion*

**DAVIS HALL, Head of Capital Markets, Asia, Indosuez Wealth Management:**

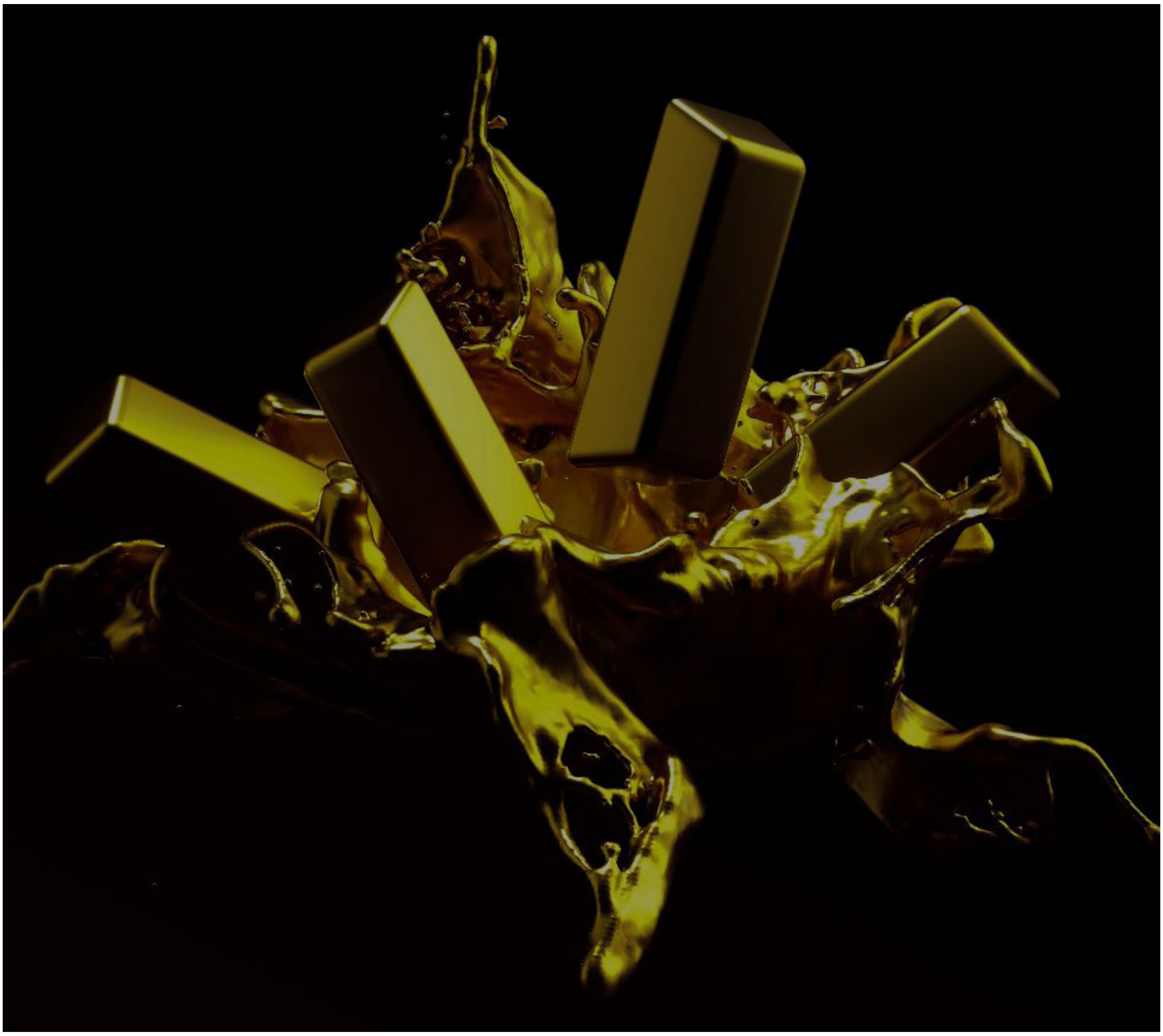
"As the waltz of the safe havens is once again upon us, the yellow metal represents the one and only true and tested form of money – everything else is simply a debased I-O-U."

**JOSHUA ROTBART, Managing Partner, J. Rotbart & Co:**

"Gold provides investors with a safe haven during periods of economic and political instability. During the height of the Covid pandemic in 2020, gold managed to outperform both stocks and bonds while setting a record high. According to the World Gold Council, its performance during periods of crisis has risen to become the 'top reason for central banks to hold gold'."

## THESE ARE SOME OF THE QUESTIONS THE PANEL ADDRESSED:

- Is your bank or wealth firm advising private clients to increase or decrease their portfolio allocation to gold? Why or why not?
- Is your bank or wealth firm advising private clients to increase or decrease their portfolio allocation to other precious metals? Which ones and why?
- What is your bank or firm's expectations for gold prices in the year ahead, and why?
- How should investors gain access to gold? Physical gold? Stocks? Active funds? ETFs? And why?
- Does your bank or firm advise on investing and holding physical gold, and do you work with specialist firms that can hold gold and transport and report on gold securely?
- What sort of allocation should wealthy private investors have to gold and/or other precious metals in their total portfolios, and why?



## Has the US dollar reached a turning point? Some argue 'yes' and warn that the fall will change the status quo dramatically

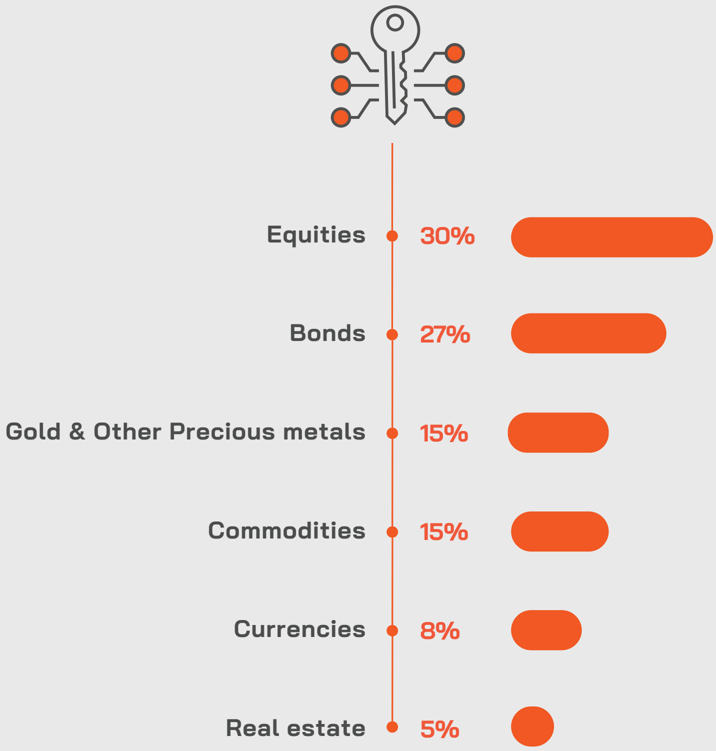
A guest opened by remarking that the US dollar suffered the worst November on record, implying that the dollar is extremely vulnerable to fears of recession. Meanwhile, gold, he reported, was up slightly on the year 2022. "Gold has served as a shock absorber, despite the safe haven momentum rally in the Dollar [for much of 2022], and we think the Dollar will be much more vulnerable as markets anticipate the first rate cut by the end of 2023."

## Don't forget that in a relative basis, gold performed well in 2022, in other words it did its job

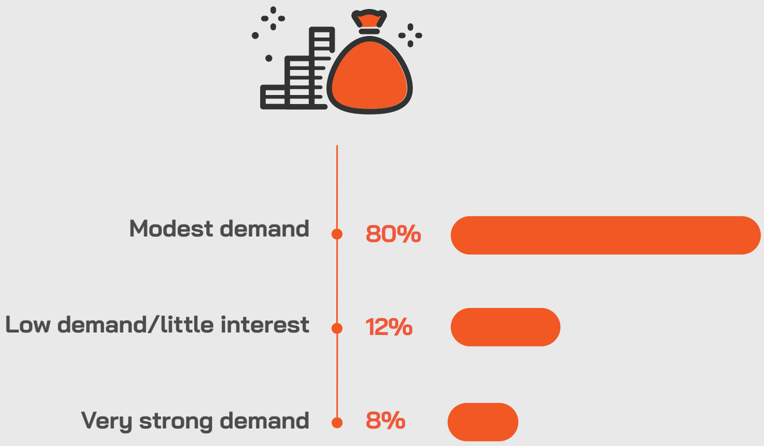
Another expert highlighted that gold's very slight rise in 2022 was in stark juxtaposition to the slump in asset prices around the globe and especially in stark contrast to the dismal performance of the US equity markets. He noted that gold had appreciated almost 20% in Japanese Yen, and 8% in the UK Pound, and over 6% in Euros.

"Since 2020, gold has actually been doing what it is supposed to be doing," he told delegates. "It has inverse correlation to the US Dollar. I believe it offers a strong store value in this high inflation environment. Forty years ago, one ounce of gold was USD40, and today it is nearer USD1800. And gold is back to centre stage. And the central banks are buying - Q3 2022 saw the largest net purchases of gold by central banks since the financial crisis of 2008."

### WHAT ARE THE KEY ASSET CLASSES YOU ARE ADVISING YOUR CLIENTS IN ASIA TO INVEST IN CURRENTLY?




### HOW WOULD YOU CHARACTERISE DEMAND FOR GOLD AMONGST YOUR PRIVATE CLIENTS IN ASIA?



## Whatever else is happening, rates are the single most important factor for gold, others argue

"Real interest rates, in our view, are the single most important factor for gold," another expert stated. While this has been a headwind for gold, it might become a tailwind next year."

## There is a growing view that the US debt scenario is truly frightening – potentially cataclysmic - and that augurs well for gold

A fellow panellist added that the Swiss franc had outperformed every currency for decades, rising from USD1/CHF4.25 in 1975 to above parity with the dollar, which is truly remarkable. "But this year, gold made a new all-time high against the Swiss Franc," he noted, "adding to the view we espouse that we need to stop valuing portfolios in Dollars." The US dollar is at risk, he added, observing that the US government is effectively reaching a point of no return, an inflection point where they don't have enough GDP and tax revenue to cover the mere financing of the existing USD31.5 trillion of debt and daily running costs to service that of USD1.4 billion a day, or a million dollars a minute.

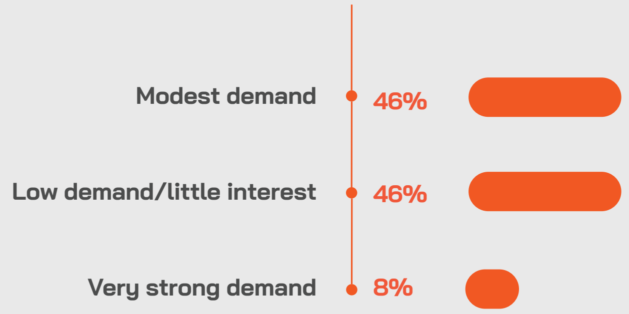
"Moreover," he warned, "some 25% of the US debt matures in the next three years and will have to be reissued at the Treasury window with auctions, which at the current interest rates would be at least double the cost. In short, just because the Dollar has had a momentum run, this is still the decade of de-dollarisation, we believe. Sell the dollar on rallies."

## Gold should be part of a broader diversification away from direct exposure to the US dollar

This expert strong recommended holding at least 5% of portfolios in gold, but also diversifying currencies. He recommended the New Zealand dollar as a great alternative, due to the central bank's rapid rate rises [to 4.25% by late 2022], although noting that it had been bought a bit aggressively and needed to drop a few points before investors should buy back again. He said he currently likes the AAA currencies such as those of Singapore, Norway, Australia, and Canada (collectively the SNACs), all due to the robust fiscal and financial management.

"The Dollar in incredibly vulnerable," he concluded. "OTC global derivatives exposures are somewhere close to one quadrillion of dollars equivalent,

### HOW WOULD YOU CHARACTERISE DEMAND FOR OTHER PRECIOUS METALS (ASIDE FROM GOLD) AMONGST YOUR CLIENTS IN ASIA?




*Expert Opinion*

**DAVIS HALL, Head of Capital Markets, Asia, Indosuez Wealth Management:**

"In light of the runaway and unpayable global debt levels, exponential derivatives outstanding, and the unanchored inflation, it is now absolutely imperative for our clientele to acknowledge that nothing clears the mind more than the absence of true safe haven portfolio alternatives. "

and there are numerous worrying geopolitical issues. In our view, gold could easily move higher, and silver is also looking really good."

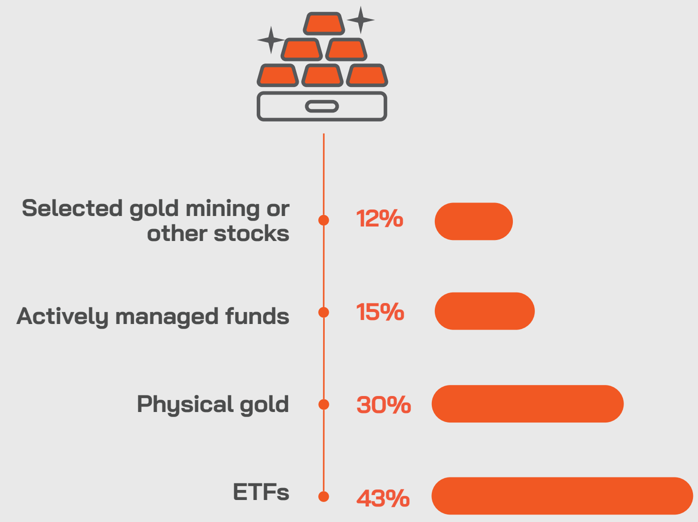
Another speaker agreed, noting that fiat currencies are essentially promissory notes by increasingly challenged governments.

Expert Opinion – Davis Hall, Head of Capital Markets, Asia, Indosuez Wealth Management: "There will be an immense price to pay for this relentless QE balance sheet expansion and ongoing debasement of fiat currency issuance . Liability-free Gold will thus play its shock absorber role as it always has going forward. Private clients ought to smarten up and re-evaluate their wealth savings in terms of gold not valued solely versus the flailing US dollar."

A guest pointed to somewhat more commonplace reasons for gold to play a key role ahead. "The Dollar is expensive, and the markets are now looking for reasons to push the Dollar lower so the path of least resistance from here seems to be a weaker Dollar," he commented, while noting that he was more circumspect about de-Dollarisation. He said the Yen had weakened significantly as the Bank of Japan has stood aside on rate rises, but that might change in 2023, and could bring some strong momentum for the Japanese currency.

He said that their bank expects the Fed will stop raising rates in 2023, offering more of a tailwind. "A small allocation to gold always makes sense to us, and next year is where we might see some performance start to come through," he stated.

## HOW ARE YOUR CLIENTS TAKING THEIR EXPOSURE TO GOLD?




*Expert Opinion*

**DAVIS HALL, Head of Capital Markets, Asia, Indosuez Wealth Management:**

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## Supply of gold is also becoming more expensive and there is simply not enough around

Aside from rapidly rising central bank purchases and increasingly strong demand for gold as an accessory in Asia and most parts of the world, an expert noted that the cost of gold extraction is higher than it has ever been, old mines are getting depleted and new mines are not coming on stream. "Demand is greater than supply and will be for many years to come," he reported. "Another global financial crisis could see gold prices soar."

## There are many reasons for private investors to hold gold, but how should you buy or hold the gold?

The experts debated the many reasons why private clients invest in gold, from fears over the global financial system, to fears over geopolitics and political stability. As one expert explained, it is also ideal for transitioning wealth to the younger generations.

"Gold has appreciated almost 500 times since the 1970s and passing gold to the next generations is easy, and avoids many tax issues as well," he reported. "From an investment point of view, if for example you are looking at a 15 to 20 years horizon, gold will do as well as other assets with less risk, and it is a diversification from mainstream assets and a hedge for all types of issues ahead, including inflation, of course."

The experts also debated different methods of taking exposure to gold. Physical gold is optimal for those wishing to take long-term holdings, and the private banks or others will also easily finance the physical gold in their or other specialist vaults, often to the tune of 90% of the market value. Electronic trading such as via ETFs can also be valuable for short-term trades, but investors should be aware that ETFs are certainly not 100% backed by real gold.

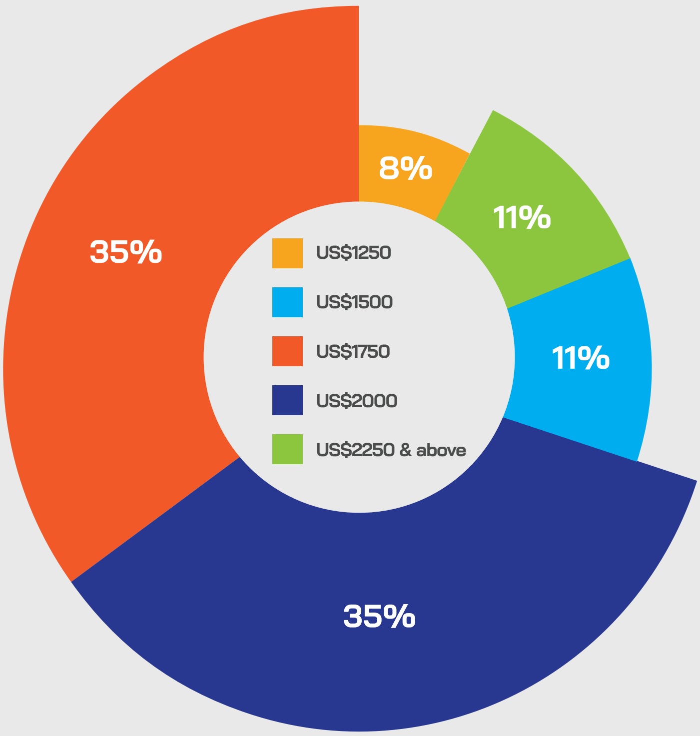
An expert advised using private specialist firms not the banks for storing and moving their gold, for reasons of privacy, as well as the difficulties private clients often encounter in requesting withdrawals of different sizes. He also strongly recommended storing the gold outside the financial system, although a banker countered, noting that gold stored in their own bank vaults is indeed outside the financial system as it has not exposure to the bank or its creditworthiness at all.

*Expert Opinion*

**JOSHUA ROTBART, Managing Partner, J. Rotbart & Co**

"The fact that gold has a spot price worldwide means it can be treated similarly to a currency but has less risk than an individual currency which is subject to the whims of the economy of the currency in question. Private investors have recognised the importance of portfolio diversification through gold and have recognised the liquidity issues associated with investments such as commodities, hedge funds, shares, and so forth."

## WHAT DO YOU OR YOUR BANK/FIRM ANTICIPATE FOR THE PRICE OF GOLD BY THE END OF 2023?



"But" countered a panellist, "we know there have been instances in the past where governments have intervened in the activities of the banks. That is extremely rare, but it is a real potential black swan scenario. Hence it is preferable, we believe, for clients to park their gold in specialist vaults and providers outside the financial system."

*Expert Opinion*

**JOSHUA ROTBART, Managing Partner, J. Rotbart & Co**

"Buying and investing in gold can be a tax-efficient and practical way of transferring wealth to loved ones, particularly after death. Gold collections are considered private, meaning that unlike equities, cars, or properties there is no legal requirement to register or transfer ownership when gifted. Leaving wealth in the bank erodes value, thanks to rising inflation. With gold, this wealth is transferred to a tangible asset that can be allowed to grow tax-free."

## Storage diversification and the value of staying outside the financial ecosystem

One expert advised storage in private facilities in bona fide jurisdictions and replete with full insurance covering storage and movement/logistics. He explained his firm offers 12 storage locations, the busiest being Singapore, Hong Kong, Zurich, Salt Lake City, with Frankfurt and Toronto becoming busier hubs as well. He said the choice of jurisdiction is usually determined by the preferences of the clients themselves. trongly recommend professional storage in major locations," he stated. "If people store in vaults in exotic locations, we might then have to organise logistics such as private jets and so forth to move that gold if the client want, which is very expensive," he cautioned. "Stick to the major economic and financial centres, in my view." ■