FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

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As we look ahead to 2026, the headwinds facing the global economy are prompting conversations about hedging against downside risk. Some investors view gold as a risk-management asset. While returns for gold have been too volatile for it to serve as an effective safe haven or inflation hedge, while some may see it as an asset to weather an economic downturn.

*It's shiny -should we base our entire society around it?*

But the evidence doesn't show gold can fulfill this purpose.

Plotting quarterly gold spot price returns against changes in the US gross domestic product reveals little relation between the two. Whether gold was up or down doesn't appear connected to what was happening in the economy. Gold did gain in value during 17 of the 28 quarters with negative GDP growth, but so did US government bonds. So, an investor with high-quality fixed income in their portfolio likely already has a measure of protection against economic contractions.

The conclusion is that markets tend to reflect expectations for the macroeconomy in advance. Markets are forward looking and incorporate all known information into the pricing of assets before the eventual outcome materializes. This explains why adding a bar of gold to one's portfolio provides additional protection against adverse economic developments.

Our portfolios hold some gold positions, though not for reasons of hedging, but rather to ensure broad exposure to asset classes that behave asymmetrically with other portfolio positions. The goalie in our asset allocations is government and investment grade corporate bonds which have been shown to hold their value much of the time (though not always) in challenging economic times.

Thanks for reading!

Martin

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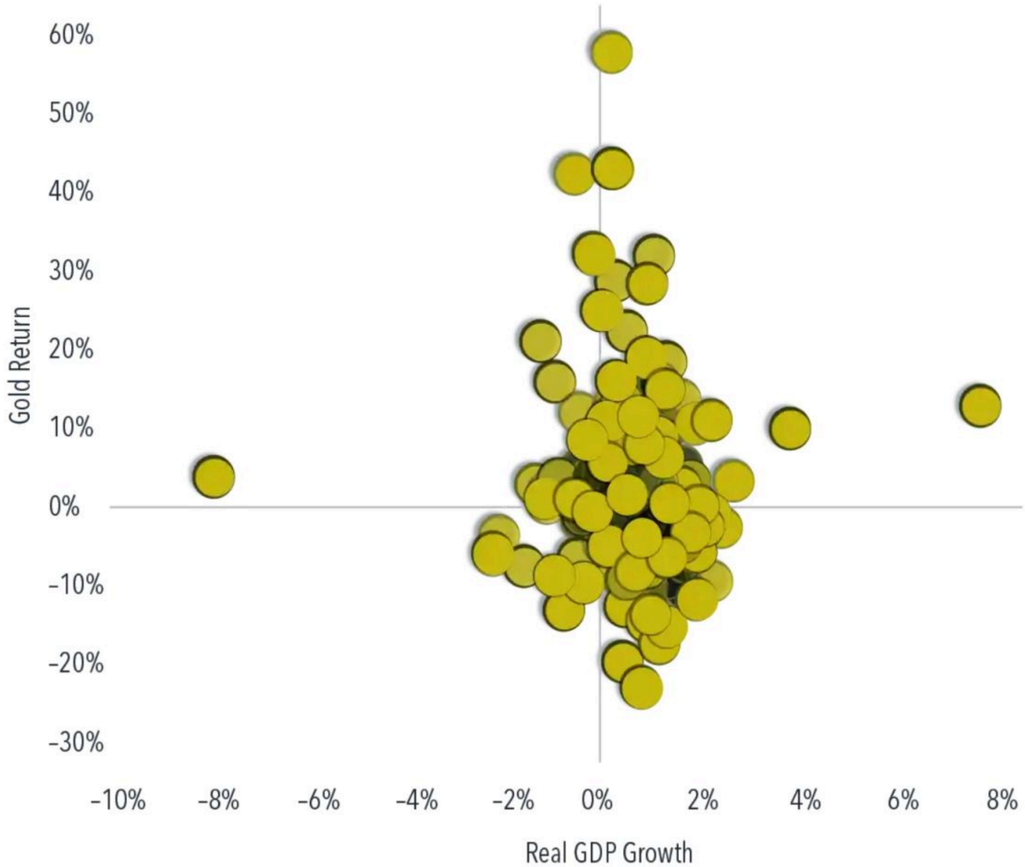
## Quarterly Gold Return vs. Real GDP Growth

*January 1, 1970–March 31, 2025*




Source: Dimensional

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