Gold's decadal returns among the worst in history

Updated: 23 Sep 2022, 06:31 AM IST

With a return of just 3.4% in rupee terms in the 10 years ending 16 August, gold investors have been unable to even beat inflation

Goldhas had a difficult decade. With a return of just 3.4% in rupee terms in the 10 years ending 16 August,goldinvestors have been unable to even beat inflation. This is highly unusual for the precious metal. A Mint analysis of 10-year rolling returns forgold(based on WorldGoldCouncil price data) shows it has delivered a 10-year return lower than 3.4% CAGR only 3% of the time if you look at data starting 1979-89.

On an average,goldhas fetched a 10-year return of 9.8%. Its worst 10-year was 1980-1990. This was when Fed chairman Paul Volker raised rates to unprecedented levels and slew inflation.

Positive real interest rates raised the cost of keeping money in a non-interest-bearing asset like gold. Over this decade,gold was stagnant with a CAGR of just 0.6%. Its best 10-year period was from 30 November 2001 to 30 November 2011 with 21.3% returns.

The year 2001 marked the bottom of the dot-com crash, a powerful starting point for most assets. Asset prices, including that of gold rose throughout the following decade, with some brief interruptions such as the 2008 crisis. In 2011,gold prices surged on a bout of inflation that resulted from central bank money printing, marking a top for the precious metal.
Although its current 10-year return is not at its worst, it certainly sits in a small category.

According to Navneet Damani, senior VP – Commodity Research at Motilal Oswal Financial Services, the rise in inflationary pressure could continue for the next few months. “Medium-term under performance could continue, however in the long run gold is likely to beat inflation," he says. Damani adds, “We continue to maintain a neutral stance for gold, because along with the negatives, factors such as geopolitical tensions, fears about slower global growth, central banks gold buying activity etc. could lend support to prices."

So, should one continue to invest in gold? According to Vishal Dhawan, founder & CEO, Plan Ahead Wealth Advisors,gold protected investors against adverse movements in other growth assets like equities and against a depreciating rupee which has happened fairly consistently over the years. “This means investors should continue to allocate 5-10% of their portfolios to gold. They need to have at least a 10-year investment horizon."

******