

**IS GOLD STILL GLITTERING?**

**Introduction**

It is that time of the year, when Gold takes centre stage and dominates most conversations, but, in 2025 gold has been dominating news almost throughout the year. Thanks to this stupendous performance, Gold has outperformed almost all asset classes except Equity in the last 5 years largely driven by very high returns in the last 2 years. Since September 2023 Gold has generated an annualized return of 37%, significantly outperforming all asset classes

	5 yr CAGR	2 yr CAGR
<b>Nifty (Equity)</b>	19.7%	13.8%
<b>Gold</b>	16.6%	37.2%
<b>Real estate</b>	5.7%	7.5%

(Source- value research, housingpriceindex.in)

We analyse the key reasons for this unprecedented rally and provide an outlook on Gold based on certain data sets which we believe are logical and can help us determine whether to purchase gold even at the current levels.

**Key reasons for this unprecedented rally**

In the last 100 years of gold history, it has been rare when gold has provided such significant annualized returns.

Years	Annualized returns
<b>1970-1980</b>	34.0%
<b>2001-2012</b>	18.2%
<b>2022- 2025..till date</b>	31.0%

(Source- Bankbazaar.com, value research)

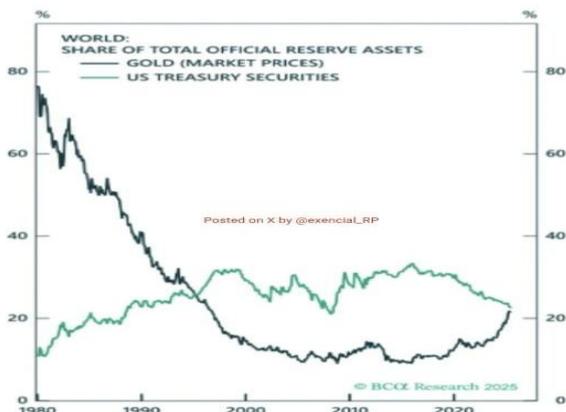
As seen in the table, a majority of the returns in gold were delivered in 2 decades of 1970-80 and 2000-10. The 70s showed significant global economic instability after the collapse of Bretton Woods System. USA decided to end gold standard to print more dollars along with the 1973 gulf oil crisis that created a decade of high inflation, low GDP growth and weakening US dollar.

While the 2000-10 gold rally were primarily driven by weak dollar post the dotcom bubble burst in 2000 and boom in the emerging economies led by China and India that absorbed significant demand in Gold.

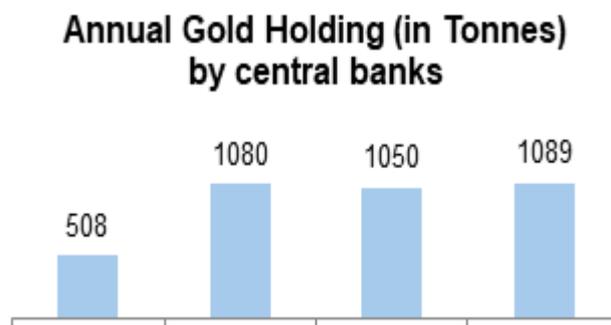
The current gold rally is again largely driven by weakening dollar amidst policy uncertainties under the new regime in USA especially, related to global trade. The current rally is also significantly supported by central banks across the globe that are steadily reducing their dollar reserves for gold in the past few years.

**Central banks renewed interest in Gold**

As seen in the charts below, global central banks have doubled their average annual holding from nearly 500 tonnes per annum in the last decade, to more than 1000 tonnes per annum in the past three years. One can see how gold reserve percentage holding is steadily increasing its share over US treasuries in the official Central bank reserves.

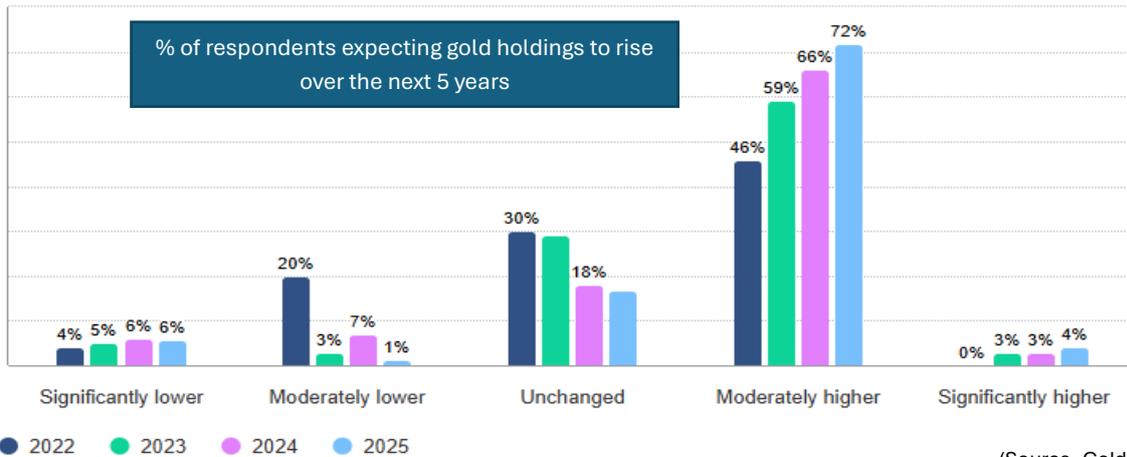


(Source- Bloomberg)



**Near to medium term outlook**

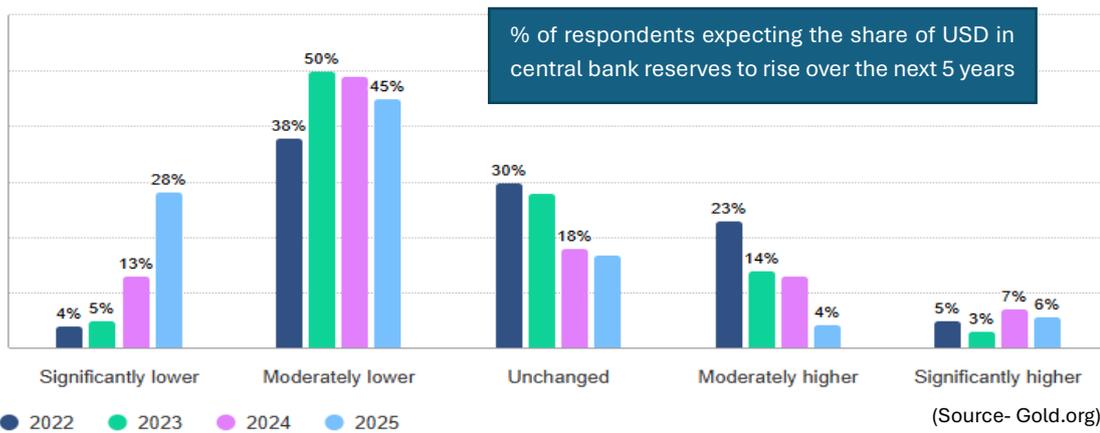
As per the recent survey of Global Central Banks carried by the World Gold Council, almost 76% of the respondents believe that proportion of Gold held as total reserves would be higher in five years.



(Source- Gold.org)

As seen above, the respondents representing their central banks believe that gold holding may be relatively high over the next 5 years and we can also see a steady increase in the percentage of respondents favouring gold holdings, since 2022.

The respondents seem to be apprehensive on the outlook of US Dollar. While maintaining its position as the dominant global reserve currency, the respondents believe that the share of USD in global currency trades will be lower over the next 5 years.



(Source- Gold.org)

Nearly 73% of the respondents believe that USD share may come down over the next 5 years and number of respondents who believe in this phenomenon has significantly increased from 42% in 2022 to 73% in 2025.

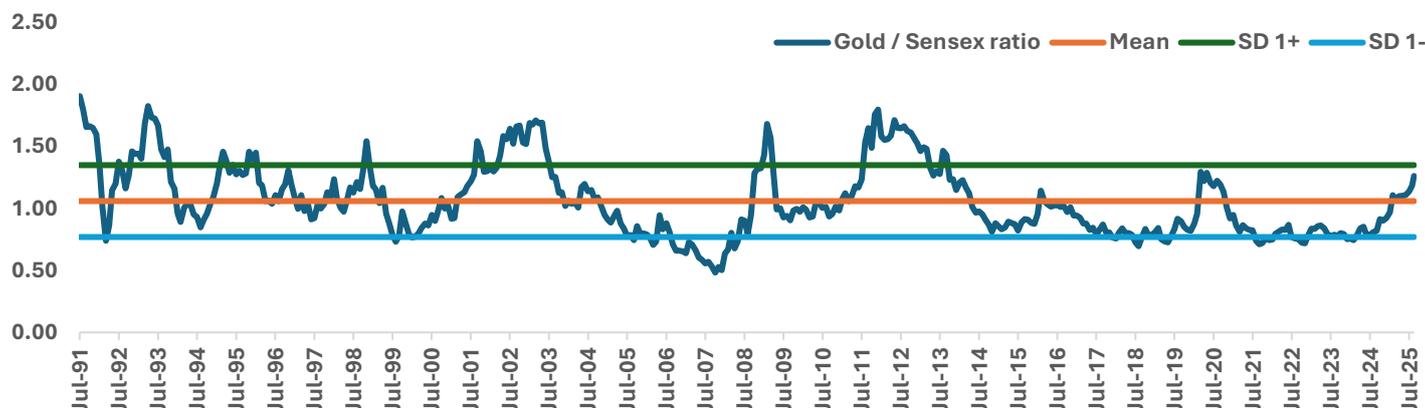
It may be noted that dollar has weakened in the last year due to policy related uncertainties under the new regime and spike in recent inflation data. If the macros in the USA remain volatile going forward, it may provide further tailwinds for holding



Therefore, we believe that Gold provides a good hedge amidst global trade and geopolitical uncertainties which seem unlikely to moderate in the near to medium term

**But does it make sense to buy even at these levels ...let's examine how to value gold**

**Gold/Sensex ratio to understand the near to medium term outlook for gold**



(1 Standard Deviation means higher risk)

(Source- BSE, World Gold Council)

As an asset class, gold doesn't have any valuation metric, but we can determine to some extent the relative value of gold over equity through Gold to Sensex (our benchmark for equity) Ratio. We have noticed that whenever this ratio has approached standard deviation of 1, the prospective return of gold over equity has been moderate, at least for the medium term. One may question that even if there was a higher standard deviation in year 2002, gold has still performed well in that decade. However, during that period equity significantly outperformed gold. Therefore, we believe that this ratio help us logically to determine the outlook of gold.

**Based on this ratio that is inching close to a standard deviation of 1, we believe there is reasonable upside to gold prices in the medium term but, prospective return from equity can be significantly higher.**

**Conclusion**

We believe that Gold has a good tailwind in the current decade given the macroeconomic and geopolitical uncertainties. However, in our opinion the near to medium term outlook significantly favours equity due to fair valuations over Gold and improving earning prospect, at least in India. Also given that gold is not income producing asset, it can only act as hedge and deserves only small tactical allocations, we continue to believe that Indian equities will produce much higher returns than gold. However, since the macro and geopolitical environment supports gold prices we feel an additional allocation of 5-7% through new money is warranted in portfolios which has no gold, as on date. For the portfolios where gold is present, we don't recommend buying at this price. From a tax standpoint, long-term capital gains on gold ETFs attract a flat 12.5% rate, therefore we can consider this as a part of tactical allocation and switch to equity if the need arise.

**We wish you a very Happy Dussehra and extend our best wishes for the upcoming festive season. With the government incentivising consumption, we recommend using the recent equity underperformance and favourable conditions to deploy funds into equities—either through lumpsums or increase SIP allocations. Gold definitely will find its place in the portfolio as required.**

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