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Market Outlook
3rd Quarter 2022

GOLD	▼	7.99%
SILVER	▼	6.83%
PLATINUM	▼	4.74%
PALLADIUM	▲	17.27%

On the back of continued high inflation, stocks and bonds had wild and significant downward moves during the third quarter of 2022. The concurrent slump in gold prices may have surprised investors because gold has a reputation as an inflation fighter in a portfolio. But, the strength of the US dollar was extraordinary, (the DXY gained 7.01% for the quarter and 16.87% through September 30). It soared to 20-year highs as the Federal Reserve tightened aggressively. Meanwhile, other central banks like those in Europe and the UK were tacit as their governments faced energy crises and other issues. Many analysts see the greenback rally, combined with higher interest rates, as the culprit of the gold price's weakness in Q3.

Gold

U.S. Dollar Index (DXY)

Source: MarketWatch

While gold is down 7.4% through Q3, it has significantly outperformed stocks and bonds. The S&P 500 is down 24.77% (having shed 5.27% in the third quarter). Bond values also sank; for example, the Bloomberg Global-Aggregate Total Return Index Value Unhedged USD gave up 19.89% through the first three quarters (including a loss of 6.94% in Q3) as 10-year US Treasury yields soared a massive 231 basis points.

Besides posting better returns than stocks and bonds, gold provided another portfolio benefit: fewer and less volatile price swings. The chart below shows cash is the only asset less volatile than gold since 1970 when comparing 3-month volatility and monthly returns.

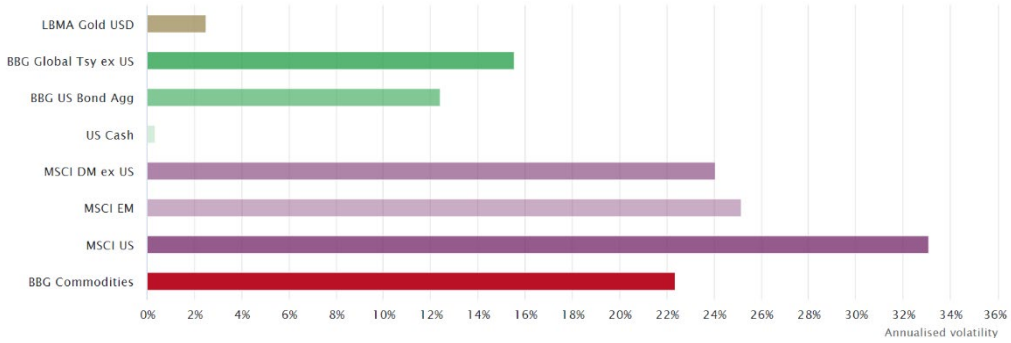
Silver

Silver prices this quarter were weaker, losing 6.86%. They are down 17.63% through Q3. With a much larger percentage loss on the year in silver compared to gold, likely on concerns over a slowing economy, we wonder if silver's relative decline to gold is a contributing factor to the significant demand that FideliTrade has seen for investment bars in recent months.

Platinum & Palladium

In platinum group metals, the palladium price's premium over platinum's jumped 37% during the quarter to $369. Palladium prices returned to over $2,000 to end Q3 at $2,214 while platinum prices dipped to $864. Against a backdrop of a weaker global economy, auto demand slumped, in turn dampening demand for platinum and palladium. However, palladium prices fared better during the quarter as Russia's war with Ukraine drags on. Russia is a major supplier of palladium, and this is not the first time the country has impacted palladium prices.

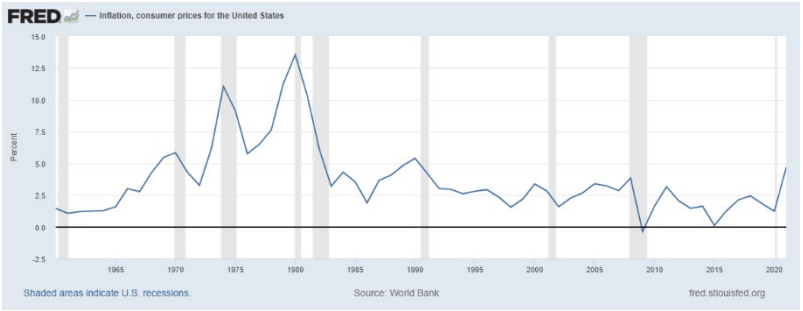
Volatility



Some strategists attribute the volatility across stocks and bonds to the Federal Reserve's decisions to raise interest rates for the last five straight meetings, including historic 75 basis point hikes in June, July and September. 30-year mortgage rates added a full percent to move to 6.7% during Q3 and are more than double what they were a year ago. This could cool the economy as home buyers have less disposable income.

Looking Ahead

Economic data, Fed actions and posturing, interest rates, and geopolitical events are all topics that investors can consider when looking forward. But it is the US dollar that is front of mind in 2022. It is a global safe haven, not just a currency to be bought when interest rate differentials are favorable. The Russian war with Ukraine, the energy crisis in Europe, Russian talk of using nuclear weapons, uneasy Chinese relations, and volatile oil prices are just some of the challenges the world is facing today that can influence the value of the dollar and consequently precious metals prices.



Since the Federal Reserve says it is data dependent when making decisions, and many recent Fed speeches stress the need to get high prices under control, investors might keep a close eye on the Consumer Price Index.

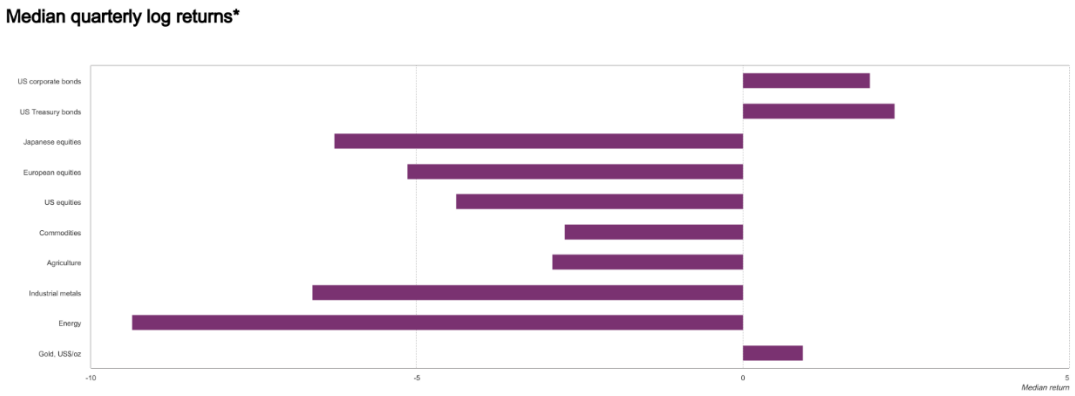
World Bank, Inflation, consumer prices for the United States [FPCPITOTLZGUSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FPCPITOTLZGUSA, October 9, 2022.

The Federal Reserve meets November 1-2 and December 13-14. After the December meeting, it will share its Summary of Economic Projections. One concern of "Fed watchers" is that in its fight against inflation, the Fed might tighten too much and propel the economy into a recession. We have already seen a harbinger of recession: yield curve inversion.

Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 2-Year Treasury Constant Maturity [T10Y2Y], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T10Y2Y, October 10, 2022.

How do gold prices perform during a recession?

Gold is one of the best performing assets in a recession:



Sources: Bloomberg, World Gold Council; Disclaimer

*Data as of 30 June 2022. Note: Analysis based on seven US recession periods since 1971 based on the NBER definition. Assets included: US corporate TR unhedged USD, US Treasury TR unhedged USD, MSCI Japan TR USD, MSCI Europe TR USD, MSCI USA TR USD, Bloomberg commodity index TR including Agriculture subindex TR, Industrial metals subindex TR (From Q1 1991), Energy subindex TR (From Q1 1984) and spot gold in USD/oz.

On the other hand, if the Fed were keen to avoid a recession, it is possible it might turn dovish. Traditionally, gold prices can appear attractive when interest rates fall. However, TD Bank sees the Fed remaining firm. Their September 30 report states, considering inflation's persistence, high interest rates may last longer than usual--even as recession risks rise. They conclude a prolonged period of "pronounced weakness" in precious metals could be in the cards.

Finally, mid-term elections are next month. Will they deliver calm and certainty? Or more political angst?

The LBMA PM Prices on September 30, 2022 were: gold $1,671.75 down $145.25 or 7.99%; platinum $864.00 down $43 or 4.74%; and palladium, $2,214.00 up $326 or 17.27%. The silver LBMA Price was $19.02 down $1.40 or 6.83%.

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