under the radar report
SMALL CAPS

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GOLD ANALYSIS: So where to now?

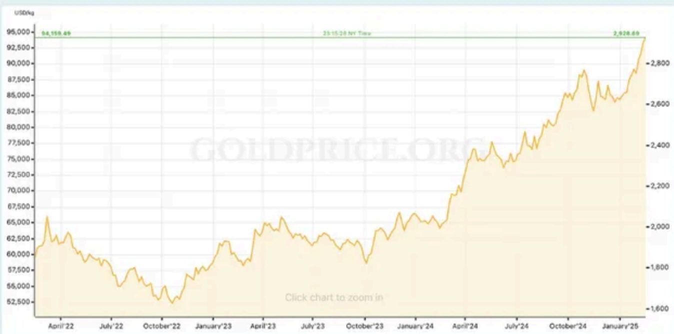
Gold's run is not nearly as important as the cost of production of gold stocks, which are highly profitable in any currency. You want to be finding a combination of production growth and stability. That's why Northern Star Resources (NST) covered below remains one of our Best Buys.

RACING TOWARDS US$3000 AN OUNCE

3-year gold price in $US and $A

The combination of rising demand from Central Banks and geopolitical uncertainty, all supercharged by ETF buying is propelling gold higher. Whether or not it keeps going up is not as important as the cost of production of gold stocks, which are highly profitable in any currency. You want to be finding a combination of production growth and stability.

US$ Gold Price in the past 3 years



A$ Gold Price in the past 3 years

SOURCE: Gold Price

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Upside Case

· Gold could rise higher on continued demand from central banks and investors.
· Some central banks are switching from US$ bonds into gold.
· The geopolitical environment has deteriorated.
· Uncertainty over tariffs.

Downside Case

· After such a rise, gold is due for a pause.
· Lower demand for gold jewellery (lower in 2024).
· Silver is not going up at the same rate as gold, which has historically been the case.
· Gold stocks often lead in a gold price rally. This time, the widely used GDX ETF (VanEck Gold Miners ETF) is trading below its recent peak.

COMMENT

The gold price has been soaring recently and has benefited particularly from uncertainty due to the introduction of tariffs by the USA, and is playing catch up with other assets, including technology stocks and crypto.

Gold miners are getting a leverage boost from the sharp price rise at the same time as a rise in the US dollar. The Gold ETF (GOLD) is up above $41, which translates to a return close to 50% over the past 12 months.

Under the Radar's Small Cap Portfolio has held **GOLD** for a number of years now, which has led to a double-digit annual return.

There may have been a change in its negative correlation to the stock market, however. In the same way that crypto has become a risk asset that is positively correlated with other risk assets such as technology shares or the NASDAQ 100 Index proxy. As gold has become more positively correlated with other assets, it may lose its ability to hedge against a globally disruptive event. At the same time, the precious metal is benefiting from increased central bank demand which has been going on for a couple of years, which partly reflects the US government steps to freeze Russian assets after the invasion of Ukraine. Central banks are now looking for assets which they can potentially pull away from US control.

There are also factors which lead physical gold to be undersupplied in the US and oversupplied in Europe. This is a technical phenomenon which emerged at other times of significant price moves. But maybe indicative of the end of a move, and after a strong run, gold may settle at or below $3000 for a few months to consolidate its gains. But while other assets remain inflated, there is no reason why gold will not also remain high.

SUMMARY: WE REMAIN HOLDERS OF GOLD BUT PREFER GOLD PRODUCERS

A deterioration in international trade relations may provide a further reason for investors to gravitate towards gold, so we remain holders, but with a lower risk-reward than a year ago when the price was below US$2200. Check out the gold stocks we like, in order of preference: **$NST**, **$EVN**, **$RMS**, **$EMR** & **$PNR**.

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