



### Investors tipped to turn to gold-backed fund as equities returns plunge

- Investors at the Nairobi Securities Exchange (NSE) have been tipped to turn to the gold-backed exchange traded fund to hedge against lower returns from equities and fixed income securities in their asset portfolios.
- According to the NSE chief executive Geoffrey Odundo, the metal is a good option especially for long-term investors such as pension funds, insurance funds and company schemes because it retains value, thus ironing out portfolio dips during market shocks.
- Gold in the NSE is traded under the ABSA NewGold exchange traded fund (ETF), whose price is derived from the international price of gold.
- Last week, the ETF hit an all-time high of KES.2,100, in line with the rise in the price of gold to its highest ever level of US\$.2,072 an ounce.
- The metal is considered a safe haven investment at a time of economic shock, uncertainty in stock markets and depreciation of the dollar.
- The uptake of the ETF in the market has however been slow even during Covid-19 period despite increased demand globally for gold.
- Investors at NSE have seen their wealth measured through market capitalization fall by KES.526.3Bn (20.8%) since the start of the year.

### Our View

- **Investors should consider the NSE listed NewGold ETF for diversification purposes as gold is considered a 'safe haven' investment in times of market uncertainty because it is less volatile than other investments, like stocks.**
- Allotting part of the investment portfolio to gold ETFs is a wise idea as it will help keep the portfolio robust and the returns stable.
- The gold-backed fund is outperforming other investment options at the bourse, which has been going through a prolonged period of falling share prices.
- Since it started trading at NSE on 27<sup>th</sup> March 2017, the ABSA NewGold ETF's unit value has grown 57.6% from KES.1,250 to KES.1,970 as at yesterday's closing price. The EFT has gained 34% year-to-date.
- As coronavirus uncertainty continues to push the precious metal higher, gold prices could hit record highs due to the combination of growing demand, few substitutes and limited supply.
- Even though the gold-backed security was part of the market strategy to diversify options for investors from equities and bonds, investors are yet to embrace the product due to lack of awareness.
- We believe ABSA and the NSE need to do more investor awareness and sensitization on the investment channel to boost uptake.
- Another contributor for the low uptake is the price which is restrictive as it requires an investor to buy a minimum of 100 shares which is currently approximately KES.197,000.