Media Note on Akshay Tritiya by Chirag Mehta, Senior Fund Manager - Alternative Investments, Quantum AMC

The auspicious day of Akshaya Tritiya is around the corner. A day meant to mark unending prosperity and wealth in Indian culture. As such, this day and its gold buying tradition seem to make good sense in this pandemic-stricken world where global policymakers are resorting to monetary inflation (aka printing money), credit expansion and government spending to tackle the economic fallout of Covid-19. This is because all these measures have set the stage for higher inflation and gold, a monetary asset has a long-standing positive correlation with inflation. Investing in gold can be a good way for investors to diversify their currency-denominated wealth into assets that can preserve value over the long term and aren't eroded by inflation.

In addition to inflation protection, gold has the potential to optimize portfolio returns in the near to medium term. With many countries including India currently seeing a resurgence in Covid-19 cases, the risk and uncertainty on the pandemic front are back. New waves and variants of the virus are taking a toll on the fragile economic recovery, which could trigger pullbacks in risk assets like equities. Gold could benefit from the resulting risk aversion, just like it did last year. Given the lingering health and economic crisis, central banks around the world, led by the Federal Reserve will continue to stay accommodative to support growth, which means interest rates will stay low for longer, making bonds less effective as portfolio diversifiers. Low nominal rates accompanied by higher inflation will keep real interest rates even lower and boost demand for gold. Gold's competitor dollar will be under pressure going forward as all the pandemic relief measures debase the dollar and add up to the massive debt levels of the US.

On the other hand, the Indian rupee is also back to its depreciating trend with the second wave of Covid-19 and resulting restrictions raising concerns on the growth outlook and prompting foreign investors to trim their Indian investments. This too will support domestic gold prices.

But while attempting to maximize and optimize wealth, investors shouldn't underestimate the importance of the instrument used to take exposure to gold, as it could make all the difference. Amateur investors prefer physical gold like gold coins, bars and jewelry which are marred with risks like impurities, price inefficiencies and even illiquidity in times of pandemic-induced lockdowns. Sophisticated investors on the other hand choose financial or digital ways to invest in the precious metal. White digital gold offerings meet the purity and liquidity criteria, they fall short on regulation and price efficiency due to high premiums and bid-ask spreads. Another avenue for gold investing is Sovereign Gold Bonds. These bonds pay annual interest and are tax-efficient, but they suffer from low secondary market liquidity resulting in price inefficiencies. While these bonds offer exposure to gold, they do not fulfill the needs of auspicious related buying as they are not backed by physical gold. Gold ETFs on the other hand is backed by 24 karats physical gold and let us sit in the safety and comfort of our home while we buy and sell gold as and when we want. These instruments are traded on the exchanges at the prevailing market price of physical gold with no making charges eating into investor returns.

So what if we are holed up in our homes? We've got a good reason and a way to keep the gold buying tradition going. With Gold ETFs, gold investing can be free of impurities, liquid, well-regulated, price-efficient and only a click away.

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