Gold's role in decarbonising investment portfolios

Including gold as a portfolio asset can have a positive impact on portfolio performance from a climate transition perspective says the *Gold and climate change: Decarbonising investment portfolios* report from the World Gold Council (WGC).

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The report (WGC) looks at gold's potential impact on the carbon profile of investment portfolios and their alignment with climate targets.

Positive impact on portfolio performance

Its aim is to provide investors and stakeholders with a greater understanding of the implications regarding the transition to net zero carbon for gold in the context of a global multi-asset portfolio.

"Our new research clearly highlights the significant role that gold can have in making a positive impact on portfolio performance from a climate transition perspective," says John Mulligan, director, climate change lead.

He adds that gold typically outperforms when markets are stressed, and climate-related risks are going to challenge all markets more often and more severely.

"Gold's diversification potential is going to be increasingly relevant, and this research reinforces its strategic benefits as a risk mitigation asset.

“But investors also need to be confident that their holdings can contribute to the decarbonisation of the global economy and that their portfolios are increasingly aligned to Net Zero pathways. Our analysis strongly suggests that gold can help support this transition,” he says.

This analysis adopts a very conservative scenario by assuming that the gold in these portfolios will largely be sourced from newly mined supply and that investors in bullion and bullion-backed products therefore ‘inherit’ the embedded carbon footprint associated with new gold production.

In practice, gold would be sourced from the plentiful above-ground stocks, so the findings very likely overstate the embedded emissions associated with gold holdings in a portfolio.

Key findings of the report

The benefits of holding gold in a globally diversified portfolio (of equities and corporate bonds) include:

- Reducing the portfolio’s overall carbon footprint without sacrificing returns.
- Increasing portfolio alignment to climate targets and decarbonisation (Net Zero) pathways.
- Increasing the allocation to gold lowers the implied temperature increase of a portfolio.
- Reducing the vulnerability of the portfolio to climate transition risks and shocks, such as the introduction of a carbon tax.

The positive portfolio climate effects were achieved without adversely affecting the risk-return profile of the portfolio.

In fact, there were strong indications that an allocation to gold would improve the performance and risk profile of the portfolio, in addition to its climate transition benefits.

The report builds on earlier works from the council in 2018 (*Gold and Climate Change: An Introduction*), 2019 (*Gold and Climate Change: Current and Future Impacts*) and 2020 (,i>Gold and Climate Change: The Energy Transition).The World Gold Council collaborated with specialist climate risk consultancy Urgentem who provided the majority of primary analysis.