CIBC ASSET MANAGEMENT

Market Spotlight

Alternative investments and the price of gold

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Alternative investments enter the mainstream

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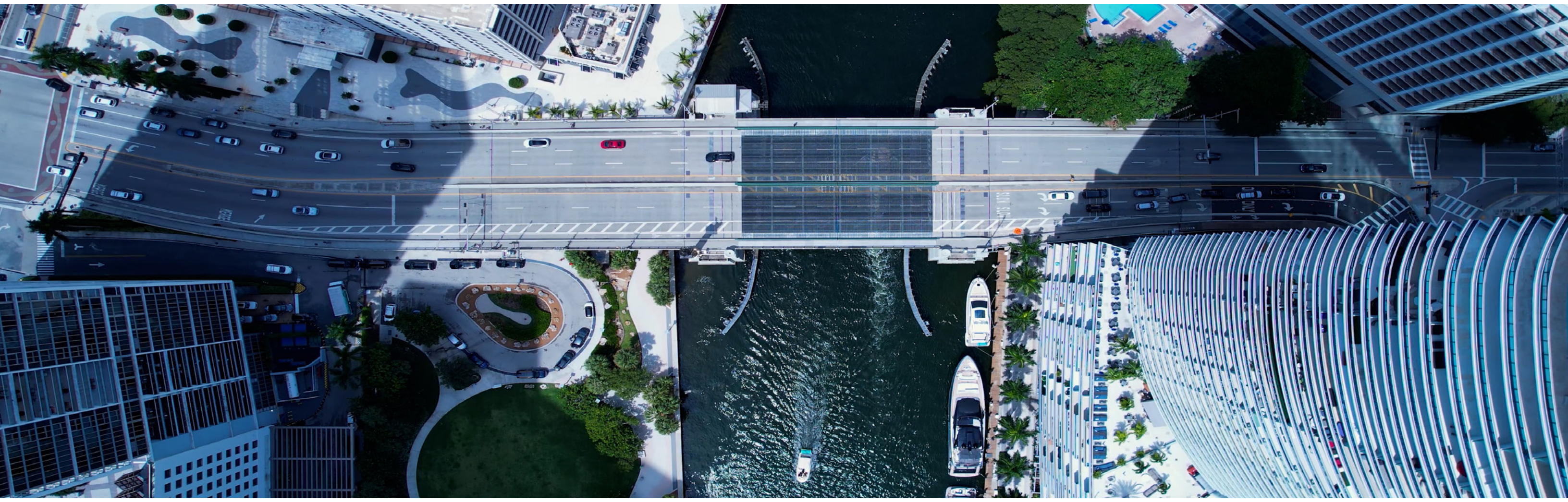

While traditional assets—publicly traded stocks and bonds—continue to form the foundation of most investment portfolios, many investors are looking for additional tools to enhance income and boost total returns. To meet these needs, there is a deepening availability of alternative investments, such as private equity, private credit, real assets, and hedge funds.

What are alternative investments?

Alternative investments encompass a variety of strategies, each offering unique benefits to investors. Private equity involves investing in the ownership of private companies at different stages of their lifecycle. This includes venture capital for early-stage companies, growth equity for more established businesses, and buyouts where controlling stakes change hands. Private equity can enhance returns for investors as it provides opportunities to invest in companies at earlier stages of development before they go public at a premium. Private equity, as the name suggests, also includes a liquidity premium vs. public markets and so can be a good replacement for some of the public equity allocation.

Private credit, also referred to as private debt, involves lending money directly to private companies. This form of non-bank lending can be an attractive option for the fixed-income portion of a portfolio, as it aims to deliver higher income, currently around 9-10% annualized, paid monthly.

Real assets, such as infrastructure, real estate, and natural resources, provide another compelling option. These investments involve physical assets and can take the form of either equity or debt. Real assets play a crucial role in creating a well-diversified portfolio by complementing the traditional equity and fixed-income mix. Additionally, they act as a hedge against inflation, as the value of physical assets and the income they generate tend to adjust with the cost of living.

Hedge funds also fall under the broader umbrella of alternative assets. Hedge funds primarily invest in public securities and add value through investment selection and sophisticated financial strategies.

Each of these options can benefit an investor's portfolio in different ways. Focusing on those providing access to private companies, private equity can enhance returns, private credit can provide higher income, and real assets can provide a combination of growth and income while offering inflation protection. Importantly, all three categories—private equity, private credit, and real assets—offer returns that are not highly correlated to public markets, which helps reduce overall portfolio volatility and improve risk-adjusted returns.

Before investing in alternatives, it is essential for investors to understand the purpose of each investment and how it aligns with their financial goals. By taking a thoughtful approach, focusing on long-term outcomes and working with a CIBC advisor or representative, investors can achieve greater portfolio efficiency and potentially higher returns.

Record high prices of gold—What investors need to know

Daniel Greenspan
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The price of gold has surged this year. On January 1, 2025 it was US$2,657/oz. As of June 6, 2025 it was US$3,310/oz. The reasons for this remarkable performance are many, and include traditional factors and structural shifts reshaping the global financial landscape.

Gold traditions

There are four traditional drivers to the price of gold. It can act as a hedge against inflation as it tends to maintain its value when the purchasing power of a dollar decreases. Second, lower real interest rates increase gold's attractiveness by reducing the opportunity cost of holding it compared to interest-bearing assets. Third, a weaker US dollar typically elevates the prices of hard assets priced in dollars, such as gold. And finally, it's been a trusted store of wealth for thousands of years, and so periods of perceived crisis can accentuate its appeal. All four of these factors are now present in the market.

Central banks are diversifying reserve assets

After the 2022 invasion of Ukraine, Western sanctions froze roughly US$300 billion of Russian state assets. This exposed vulnerabilities in holding politically sensitive assets and underscored the importance of expanding reserves beyond US dollars and US Treasuries. Gold was a key beneficiary. In 2023, central banks purchased 1,037 tonnes of gold. In 2024, central banks collectively added another 1,045 tonnes. This was the third consecutive year of net purchases surpassing 1,000 tonnes, illustrating a clear strategic shift towards gold as a secure and neutral reserve asset.

Rethinking the international role of the US

Central banks are also increasingly starting to question America's leadership role in institutions integral to the global financial system and trade relations. The very foundations that support the US dollar as a reserve currency. As a result, central banks are pivoting away a little from US dollars and into assets like gold.

How to invest in gold

Investors considering gold exposure typically have two options: physical gold bullion and shares of gold mining companies. Gold bullion provides direct exposure to gold price movements and can act as a hedge against inflation, currency debasement, and geopolitical uncertainty. It offers stability and security but lacks income generation.

In contrast, shares of gold mining companies can offer leveraged exposure to gold, as mining companies' profitability typically increases disproportionately to the gold price due to fixed operational costs. At the same time, these companies often carry greater risk related to operational, geopolitical, environmental, and management factors. Mutual funds—such as CIBC Precious Metals Fund—provide access to Canadian gold miners.

Should you have questions about the potential role gold might play in helping you achieve your investment objectives, contact your CIBC advisor or representative.

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Contact us any time

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