

# Will 2023 be the year that gold makes a comeback?

written by Matt Bohlson | January 4, 2023

Gold prices have recently been rising as the market anticipates the end of the U.S. Federal Reserve interest rate increases at some point around mid-2023. This combined with an inverted yield curve signaling a 2023 U.S. recession gives hope for gold investors, as gold performs best when rates are falling and in recessionary times as investors seek safe havens.

All of this begs the question will 2023 be the year gold makes a comeback?

The long-term gold price chart below shows gold prices surged higher during the Global Financial Crisis of 2008-09 and subsequent years with [interest rates falling](#) during that period and again in the 2018 to 2020 period as interest rates fell again heavily as we entered the 2020 Covid-19 recession.

**25-year gold price chart. Red arrows show the gold price often surges higher when recessions occur or when interest rates fall**



Source: [Trading Economics](#)

## **Starting from H2, 2023 looks set to a good environment for gold**

To be clear we are not yet in an environment of interest rates falling, but U.S. interest rates have recently hit [a 15 year high](#).

U.S. Federal interest rates are forecast to peak at [5.1%](#) potentially by ~mid 2023, rising from [4.5%](#) now. Assuming the U.S. is then in a recession by mid-2023, then the Fed may reverse course and start to reduce interest rates later in 2023 or into 2024. This will also depend upon inflation coming back down to 3% or less, from its elevated level of [7.1%](#) as of November 2022.

A December 2022 Bloomberg report [stated](#): “Economists Place 70% Chance for US Recession in 2023. Bloomberg monthly survey shows 0.3% average GDP growth in 2023.”

Certainly, a 2023 recession is now the base case for the

majority of analysts. Given that the equity market looks forward about 6 months, it is probably no surprise that we are seeing a rotation into gold in the last month resulting in the gold price moving [4% higher](#). Whether this is the very early stage of the next gold market bull run it is too early to say. What we can say is that interest in gold is returning and the worse 2023 is for the economy the better it helps the fundamentals for gold.

A January 3 CNBC report also [commented](#): “Gold surges to 6-month high, and analysts expect records in 2023.” The report cites the following causes for the recent rise in gold: “Gold prices have been on a general incline since the beginning of November as market turbulence, rising recession expectations, and more gold purchases from central banks underpinned demand.”

### **The U.S dollar trades inversely to the gold price**

The other key factor to consider is the U.S. dollar. If it rises then gold tends to fall in relative terms and vice versa. This is simply because gold is priced in U.S. dollars.

As shown below the U.S. dollar Index generally fell from 2002 to 2008, a period when the gold price rose.

### **The U.S. dollar Index 25-year chart**



Source: [Trading Economics](#)

## Closing remarks

Gold behaves differently to most other metals due to its safe haven status. While gold demand versus supply is a factor (including sovereign buying), the bigger factor is the economy and interest rates.

When the U.S. economy is booming interest rates and the U.S. dollar tend to rise, which is a negative for gold. Why invest in gold when equities are doing well or when cash and bonds are paying a nice dividend, compared to zero dividends from gold.

When times are bad gold becomes a safe haven, benefiting from a weaker U.S. dollar and lower interest rates.

To answer the question will 2023 be a good year for gold, you must first decide how you view 2023.

If you are positive about the U.S. and global economy and think

U.S. interest rates will keep on going higher, then gold is not for you in 2023. However, if you are negative on the economy and think rates will start to fall, then gold looks like a sound bet for 2023, or perhaps 2024.

Either way, it never hurts to diversify and build a little safety of gold into your long-term portfolio. And with inverted yield curves everywhere and 70% of analysts forecasting a 2023 recession, now looks to be as good a time as any to top up your gold holdings.