SGMF Dynamic Asset Allocation Fund Trades | October 2023

Exiting gold.

SEI exited its position in gold.

When SEI initiated the gold position, an important part of our rationale was that we viewed it as a hedge against restrictive monetary policy potentially leading to further strains on financial stability—similar to the banking sector stresses experienced in the first quarter. We consider holding gold to be a “long volatility” position. In other words, all else equal, when risks rise (for example, geopolitical risk or recession risk) we expect gold prices to rise also.

There have been two developments that led us to eliminate the gold position. First, the opportunity cost to hold gold has increased with interest rates in recent months, as investors that own gold give up the potential to earn the risk-free rate. Second, the correlation between gold and equities has risen to historically high levels. Said differently, when volatility (risk) rises, we typically expect stocks to fall and gold to rise. However, in recent months, higher interest rates have sent both stock valuations and gold prices lower together.

With these dynamics in mind, S&P 500 Index put options are now our preferred implementation to get exposure to higher volatility. We think that equity volatility remains attractively priced, while the cost to hold gold has become less attractive given the cost of carry.

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