Gold has been a terrible hedge for inflation this year.

Gold’s reputation as an inflation hedge hasn’t shone this year.

The metal has fallen about 5% to $1,782.05 in 2021, according to London Bullion Market Association (LBMA) prices. Inflation, meanwhile, has gone in the other direction, with the US consumer price index (CPI) showing prices jumping 6.2% in October from a year earlier. That marks the fastest gain in consumer prices in 30 years.
One of the reasons gold is seen as an inflation hedge may go back to August 1971, when US president Nixon closed the “gold window.” Until then, central banks around the world had been able to convert US dollars to gold at a fixed rate of $35 an ounce. Inflation took off after Nixon severed that link, and the price of gold also rocketed higher. That apparent correlation may have led many to believe that the precious metal could protect investors from the erosion of higher prices, the Wall Street Journal reported.

**Can crypto replace gold?**

But there’s little evidence to back up the claim that gold protects purchasing power, according to research published by Claude Erb, Campbell Harvey, and Tadas Viskanta. Harvey, a finance professor at Duke University, says gold prices have historically been too volatile to be a short-term inflation hedge. And in the meantime, some of the gold crowd may have recently moved on to crypto assets like bitcoin for protection against rising consumer prices. But bitcoin is around five-times more volatile than the precious metal.
“Cryptocurrencies are much more volatile than gold and will likely be unreliable for short-term fluctuations” in inflation, said Harvey, who pioneered the used of the yield-curve as a tool for predicting recessions. Virtual coins also tend to plunge when investors are fearful, a time when traders usually dump riskier assets like stocks, gold, and bitcoin, he added.

**How can savers protect against inflation?**

Fortunately for savers, all is not lost if prices spike higher. Treasury Inflation Protected Securities (TIPS) are US Treasury bonds that are indexed to the consumer price index. If CPI goes up, the principal of that bond increases; if CPI falls, the principal decreases. While experts say TIPS are expensive—offering little yield by historical standards—savers can use them to hedge their investments if they are worried about near-term increases in consumer prices.

And while hedging against inflation is tricky, finding assets whose returns outpace rising prices may be more doable. Data compiled by Dimensional Fund Advisors suggest a wide range of assets—including bonds, stocks, and commodities—have produced returns that exceeded inflation when held for longer timeframes.

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