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L&G prospects for gold in equities

By Amanda Smith

Legal & General's multi-manager team is investing in gold and energy through equities because it is cheaper than direct exposure to the underlying assets.

The firm recently trimmed US exposure in its portfolios to increase allocation to gold equities and energy equities. It says this was not due to a big regional call on the US but because it was the best way to maintain the balance between asset classes.

The team is positive on gold as a hedge against the uncertainty brought into play by recent events in Japan, conflict in the Middle East and Africa, European sovereign debt problems and inflation.

Instead of gaining exposure to physical gold through an exchange-traded fund, L&G holds the Investec global gold fund. This provides greater potential for growth because gold mining shares are lagging the price of physical gold.

The L&G team is also playing the energy theme through equities rather than direct exposure through the futures market. It has a positive long-term view on energy due to the imbalance in supply and demand.

One of L&G's investment themes is the hunt for scarce resources, with countries such as China needing to secure their energy sources to support long-term growth. Equities are preferred because prices are attractive relative to the underlying price of oil and are benefiting from an increase in mergers and acquisitions in the sector.

The team says the geopolitical risks of investing in energy were quite low but have widened substantially against the backdrop of the recent conflicts. These conflicts are clearly not going to be resolved quickly, so energy equities can act as a partial hedge against the situation.

L&G multi-manager investment funds co-manager Tim Gardner says: "It might sound counterintuitive but having a lot of things to worry about is quite healthy for markets.

"When markets worry over nothing they are prime for a big fall, as it is often things they are not thinking about that bring about that fall."