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Is Gold a Hedge or a Safe Haven? An Analysis of Stocks, Bonds and Gold

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Abstract

Is gold a hedge, defined as a security that is uncorrelated with stocks or bonds on average, or is it a safe haven, defined as a security that is uncorrelated with stocks and bonds in a market crash? We study constant and time-varying relations between U.S., U.K. and German stock and bond returns and gold returns to investigate gold as a hedge and a safe haven. We find that gold is a hedge against stocks on average and a safe haven in extreme stock market conditions. A portfolio analysis further shows that the safe haven property is short-lived.

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