

Gold ETFs attract Rs 6,657 crore inflow in 2020

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Synopsis

The inflow came after witnessing a net pullout from safe-haven assets for six consecutive years, mainly on fears of a global slowdown and volatility in equity and debt markets.



Economic downturn due to coronavirus pandemic and weakness in the US dollar encouraged investors to infuse a whopping Rs 6,657 crore in gold exchange-traded funds in 2020. In comparison, a net inflow of just Rs 16 crore was seen in the entire 2019. The inflow came after witnessing a net pullout from safe-haven assets for six consecutive years, mainly on fears of a global slowdown and volatility in equity and debt markets.

Assets under management of gold funds surged over two-fold to Rs 14,174 crore at the end of December 2020 from Rs 5,768 crore a year ago, data from the [Association of Mutual Funds](#) in India showed.

Gold with its safe-haven appeal emerged as one of the best performing asset classes and a preferred investment destination among investors in 2020, as investors put in a net sum of Rs 6,657 crore in 14 gold-linked [ETFs](#).

Barring March and November, such instruments had seen a net inflow in 2020.

Himanshu [Srivastava](#), Associate Director - Manager Research, [Morningstar India](#), said investors attracted towards the instrument due to multiple factors such as economic downturn caused due to coronavirus pandemic, weakness in the US dollar and tension between the US and China.

According to Nishant Kohli, founder and business head-wealth at Mudra Portfolio Managers, uncertainties in the market led to too much increase in gold's return which led to attracting investments even from retail participants. However, once things start getting back to normal, the weightage of gold in the portfolio will start coming down.

"Risk aversion has traditionally seen a flight to gold. This led to the sharp rally in 2020. But the correction in August has given some leeway for investors to accumulate. Lack of closure on the COVID-19 pandemic saga and lockdowns could still keep interest in gold alive well in 2021," Vidya Bala, co-founder of Primeinvestor.in said.

Prior to the inflows seen in the past two years, the safe-haven asset had witnessed an outflow between 2013 and 2018.

Gold ETFs had witnessed a net withdrawal of Rs 571 crore, Rs 730 crore, Rs 942 crore, Rs 891 crore, Rs 1,651 crore and Rs 1,815 crore in 2018, 2017, 2016, 2015, 2014 and 2013, respectively. Such instruments had seen an inflow of Rs 1,826 crore in 2012.

"Historically, investors have preferred to invest in gold during uncertain times and it is clear from net flows in [Gold ETF](#) during the year 2020. Except for the month of March and November of 2020, we have seen huge net inflows in Gold ETF compared to the previous year," said Harshad Chetanwala, co-founder, MyWealthGrowth.com.

Considering the threat posed by the pandemic to the global economy and the markets, this segment may continue gaining traction from investors, Srivastava said.

MyWealthGrowth.com's Chetanwala suggested that investors should not go overboard with gold despite the surge in inflows and look at it from an asset allocation perspective. Gold should not be invested just for generating higher returns. Traditionally, over the long-term, it has given marginally higher return than inflation.