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Macroeconomic Determinants of Gold Industry Stock Returns

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MACROECONOMIC DETERMINANTS OF GOLD INDUSTRY STOCK RETURNS

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Over the past 12 years, the gold bullion continues to become a significant investment. Financial advisors and analysts have recommended investors invest a small portion of their portfolio into the precious metal commodity asset. Gold mining stocks offer investors the ability to leverage the volatile but rising gold prices. The expected relationship between gold price and gold stock returns is that for every 1% increase in gold prices, gold stocks can be expected to gain 2-3%. Building on a multifactor model by Faff and Chan (1998), we examine how macroeconomic factors such as market returns, foreign exchange rate, and interest rate affect the U.S. gold industry stock returns over the period 1996-2011. We contribute to the literature by exploring the significance of business cycle in explaining gold stock returns.