Goldman Sachs Exchanges

Recession watch: How to hedge now

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Allison Nathan:The recent historic tariff announcements have raised the risk of recession, so how can investors hedge against this risk? I'm Allison Nathan, and this is Goldman Sachs Exchanges. Today I'm joined by Daan Struyven, our co-head of Global Commodities Research, who's making the case that oil and gold are particularly well positioned to protect investors against recession risk today.

Daan, it's great to have you back on the program.

Daan Struyven: It's great to be on Allison. Thank you so much.

Allison Nathan: So Daan, I want to start with gold. We think of it as a safe haven asset. We think of it as an asset you want to own in a portfolio when the economy is struggling, when risk markets are struggling. And in fact, gold, as you're going to tell us, has had a tremendous performance, in the recent period.

But it's been somewhat surprising, I think, to a lot of investors that that hasn't been the case every day. In fact, in some of the most volatile days in the recent week, I should say, gold sold off along with risky assets. So first, give us some insight into those moves. How do you explain them?

Daan Struyven: Yeah, so I think it's mostly because of forced selling, basically investors suffering losses on portfolios of risky assets such as equities and being forced to come up with liquidity to meet those margin calls. And one of the possibilities through which you can meet these margin calls is by selling gold.

This is not that unusual. We have seen this before, but what happens typically once equity volatility stabilizes, spec positioning tends to rise back up. And in fact, if you look at price section of the last week, silver was down 11%.

Gold was down 4%. But investors are more reluctant to liquidate gold positions because the long-term outlook remains structurally very bullish, and because we think it should be a great hedge against recession risk.

Allison Nathan: Well, when you think about that positioning though, just to be clear, investors are still quite long gold. I mean, if you think about how much unwound in recent days, where would you put that?

Daan Struyven: Yeah, so, before the announcements of the tariffs, we were, you know, around percentile 85 or so of the distribution, we don't have the data yet, for this week. But we think that positioning is now probably pretty close to the median, to historical average. Based on the partial positioning data through Thursday and the price action, we, uh, we have seen.

So in other words, positioning is quite clean. And so I think this is a very attractive entry point to enter long gold positions, especially as a hedge, both against the general risk of a recession in the US or globally, but also given the particularly important role that gold could play to mitigate against the likely drivers of a potential recession — namely tail policy risk from the US, whether it's on the trade policy side, pressure on the Fed or other changes in US institutions and governance that may erode the trust of global investors in US assets. Gold would do really well in all of those potential scenarios for a recession,

Allison Nathan: We're still above $3,000 per troy ounce on gold. So where do you think gold is headed? Obviously our discussion is mostly about around hedging risk. So it's a hedge, but you actually have an outright bullish call on gold.

Daan Struyven: That's the beauty. In the base case where the US economy stagnates but avoids a recession, we have gold, uh, rising another 10% by year end, $3,300 per troy ounce.

But if you look at the risks around that forecast, they are very much skewed to the upside. In fact, we think that gold could rally to $4,250 per troy ounce by year end if we were to see a recession, which was really boost ETF, investors' demand, for gold as the Fed would cut probably by around 200 basis points.

If central banks were to continue the very rapid purchases rhythm of gold over the last few months, you would get there too. And finally, the third condition you sort of need to get this very big upside would be that uncertainty stays high and spec positioning would actually, you know, bounce back and, and go to high levels. And I think. Yeah, it is, it is an extreme upside scenario, but if you put those conditions together, it is a fairly plausible scenario for global markets in the US economy in the year.

Allison Nathan: Okay, interesting. Let's turn to oil. You have cut your oil price forecast pretty dramatically. You actually are below where the market forwards are pricing right now.

So very bearish from that perspective. Not entirely surprising because we obviously have seen concerns about recession rising, you associate that with lower oil demand, but you make the case that oil, you know, is kind of set for a double whammy here. If we think about the risks ahead. Talk to us about why you are, so negative on oil right now.

Daan Struyven: Yeah. So, uh, Brent oil is trading currently around $64 per barrel. By year end, we are at $62 per barrel, but by the end of next year, 2026, we're at $55 per barrel. And the risks here are skewed to the downside. The two key assumptions we are making for our forecast, were that oil would decline significantly in ‘26 is one, the US economy avoids the recession, but it's a close call.

And second, the supply increases from OPEC Plus. Will be moderate, but at the risk to both assumptions point to potentially lower prices than our base case. For instance, if you were to see a global slowdown in a typical US recession, but keeping OPEC policy constant, Brent by the end of 2026 would be in the mid-forties. If you were to see a combination of both a full unwind of OPEC, voluntary production cuts and a global slowdown. Our models would point to Brent by the end of next year, just under, 40. And so we think that, uh, oil puts - basically insurance policies, uh, protecting investors against lower oil prices - are really quite attractive right now.

Allison Nathan: What is the rationale for OPEC to be increasing production into a slowdown.

Daan Struyven: Yeah, so I think the starting point is a starting point of high spare capacity. Roughly 6% of global oil production capacity is currently shut in countries such as Saudi Arabia, the UAE, or Russia. And OPEC has been stabilized in the market, has been supporting prices for several years now, and so, patience levels have diminished somewhat over time, in particular because compliance with production cuts from countries such as Kazakhstan and Iraq has diminished. And so I think that OPEC Plus has decided to bring back production to markets precisely when global markets are becoming more concerned about downside to the demands outlook. For two reasons, incentivize better compliance from the countries that are not producing in line with the quota and also trying to slow down US shale supply growth. And in fact, we have now cut our US production forecast and are now looking for declines in US production.

Allison Nathan: But aren't they shooting themselves in the foot? I mean, I'm asking the obvious question here, but they're also going to suffer the lower prices off the back of this. How does that work?

Daan Struyven: Yes. I think it all the calculus very much depends on, are the production increases successful in restoring cohesion and compliance. Are the production cuts successful in slowing down US shale growth, and the jury is still out there and it very much depends on how the other countries and the US shale complex will react.

And we are starting to reach oil prices that are becoming the breakeven point. So a pressure point for increasingly large number of oil producers. We think that the average, breakeven price in WTI terms for the US producers is around $50 per barrel. So we're starting to get closer to that, to those pressure points.

Allison Nathan: So if I am hearing you correctly, Don, we think there's going to be a demand shock to oil. There's going to be a positive supply shock, which seems counterintuitive, but as you explained makes sense, from an OPEC point of view. So ultimately less demand, more supply, much lower oil prices. So if we put that in the context of how we started this conversation and recession hedges, I mean we've seen, we are going to see a lot of assets falling amid recession concerns, but are you saying that oil, let alone gold, but oil could also play a role as a recession hedge here?

Daan Struyven: Yeah. So the title of our 2025 outlook was: Stay Selective and Hedge the Tails. Our new tagline is: It's Time to Hedge with Commodities. With long gold positions and short oil positions, especially for 2026, where our forecast is well below the forwards and where the risks are skewed to the downside. Why is it attractive to use oil puts as a recession hedge? Both because you have this double whammy - more supply and less demand - but also because the cost of insurance, implied volatility, for instance, in oil markets, is still cheap. It's still low, for instance, to the cost of insurance, implied volatility in equity markets.

Allison Nathan: Interesting. So ultimately though, are we seeing investors doing this? What are you seeing investors, how are they operating in the commodity space at this point?

Daan Struyven: Yeah, we have seen a surge in trading volumes for puts. So insurance policies protecting against lower oil prices, after a period of, you know, pretty low transaction volume. So markets are sort of waking up to these downside risks, when they have all already partially realized.

Allison Nathan: I mean, I know you probably don't have precise data on this, but if we think about who's putting on those puts, is it macro investors? Is it equity investors who are looking for a put, like how do you think about the type of investors who's engaging in this activity at this point?

Daan Struyven: Yeah, macro investors in particular, equity investors. Because if you get a negative growth surprises, it's obviously negative for equities, for bonds, you have some potential hedging benefits, there as well. And then the oil producers themselves, especially US oil producers, or oil producers elsewhere in the world who are at the higher end of the cost curve and who want to protect against potential additional downside price pressure.

Allison Nathan: Right. So that's a different kind of hedging in a way, hedging your actual business model. So how else are smart investors engaging in commodity markets right now at this really uncertain and volatile moment?

Daan Struyven: So I think we have seen a lot of investor interest in the implications of tariffs on US metals. And that has led to some very big moves in the regional, differences in prices, in metals, across the world. And there continue to be some opportunities as the, the tariffs on US copper imports are still very likely ahead of us. They're not announced yet. I think investors with a very long run investment horizon continue to stay focused on the pretty positive long-term copper outlook. Yes, if you see a global slowdown, copper prices are likely to fall, but that would probably not derail the bullish outlook and the deficits. It would simply delay them. In fact, if you have lower prices now, you would actually, you know, support, demand and discourage supply.

And you may potentially sow the seeds of a tighter market down the road. So a lot of our investor clients are still very focused on sort of the structured, pretty interesting copper outlook. But cyclically, it may be more challenging in coming quarters.

Allison Nathan: Thanks so much, Daan. Always so insightful.

Daan Struyven: Thanks a lot, Allison.

Allison Nathan: This episode was recorded on Tuesday, April 8th, 2025. I'm Allison Nathan.

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