USD v Gold

Inverse relationship. A falling dollar increases the value of other countries' currencies. This increases the demand for commodities including **gold** and it increases the price of **gold**. When the U.S. dollar starts to lose its value, investors look for alternative investment sources to store value. **Gold** is an alternative.

Inflation v Interest

Inverse relationship. As interest rates are lowered, more people are able to borrow more money. The result is consumers have more money to spend, causing the economy to grow and inflation to increase. As interest rates are increased, consumers tend to save as returns from savings are higher. With less disposable income being spent as a result of the increase in the interest rate, the economy slows and inflation decreases.

Stocks v Bonds

Inverse relationship and correlated for special occasions. Stocks do well when the economy is booming; consumers are buying and companies have better earnings. Bonds do well when the economy is in decline, and investors prefer the guaranteed interest payments from bonds. At the top of the market when there is too much liquidity, investors are buying both bonds and stock and both rise. When investors have fear, they panic sell and bonds and stock both go down. Earnings drive stock prices and interest rates drive bond prices.

Bonds v Gold

Gold is generally viewed as an inflation hedge while bonds are viewed as a deflation hedge.

Gold and bonds are both used by traders as a common safe-haven hedge. When volatility is high and stocks are behaving erratically, investors tend to flock to assets that hold their value better. A vote of no-confidence in the stock market can translate into a bullish rise for both Treasuries and gold prices. If the Federal Reserve takes action such as increasing the money supply through bond purchases, this will lift bond values as well, while sending investors a message that the economy may be weak – something that helps gold prices go higher.

But interest rates are the real underlying fundamental force between gold prices and Treasuries. If inflation rises faster than the yield of the 10-year Treasury making real rates negative, then gold becomes a wealth preservation trade. It might not offer investors a yield, but it does protect against the devaluation of their money. In this kind of scenario, interest rates may rise along with inflation, but if real rates are still negative, then gold prices should rise along with them – while the price of bonds falls.

Stocks v Gold

Completely inverse

Bonds v Interest

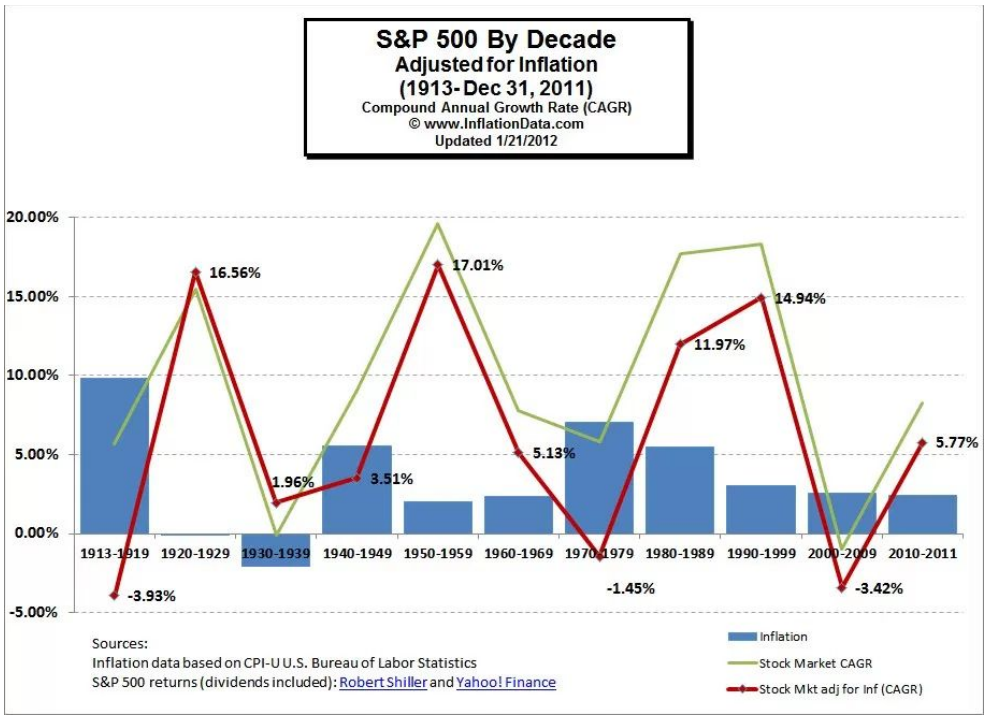
Inverse relationship. Bond prices fall as interest rates rise. As interest rates move up, the cost of borrowing becomes more expensive. This means that demand for lower-yield bonds will drop, causing their price to drop. As interest rates fall, it becomes easier to borrow money, and many companies will issue new bonds to finance expansion. This will cause the demand for higher-yielding bonds to increase, forcing bond prices higher. When the US economy is acting poorly, central bankers tend to lower interest rates to help stimulate growth. As interest rates go down, bond prices go up.

Stocks v Interest

Inverse relationship. When interest rates are rising, both businesses and consumers will cut back on spending. This will cause earnings to fall and stock prices to drop. On the other hand, when interest rates have fallen significantly, consumers and businesses will increase spending, causing stock prices to rise.

Stocks v Inflation

Studies have produced conflicting results when several factors are taken into account, namely geography and time period. If all commodities are going up stocks would probably go up as well, since companies produce commodities. But that isn't always the case. Often high inflation can actually squeeze profit margins and cause companies to lose money or barely break even.



Bonds v Inflation

The first effect is that rising inflation can cause the U.S. Federal Reserve to raise short-term interest rates in order to reduce the demand for credit and help prevent the economy from overheating.When the Fed raises short-term rates, longer-term rates also tend to go up. Since bond prices and yields move in opposite directions, rising yields mean falling prices—and a lower principal value for your fixed-income investment. Raising inflation rates also take a huge chunk out of the value since the inflation is likely to overshadow the growth of the bond.

DOW Jones vs Bonds: The bond market showed steady growth while the DOW suffered a significant loss. This lasted until the end of the recession.