Performance and Hedging Effectiveness of Gold ETFs in India: A Comparative Study with Physical Gold (2019–2024)

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Abstract

This study examines the performance and hedging effectiveness of Gold Exchange Traded Funds (ETFs) in India compared to physical gold over the period 2019–2024. Using secondary data obtained from the National Stock Exchange, AMFI, and World Gold Council reports, the research evaluates annual returns, volatility, and tracking efficiency of selected Gold ETFs. The objective of the study is to determine whether Gold ETFs provide returns comparable to physical gold and whether they serve as effective hedge instruments during periods of market uncertainty. Descriptive statistics, return analysis, and correlation techniques were applied using MS Excel and SPSS. The findings indicate that Gold ETFs closely track physical gold prices with minor tracking errors and provide liquidity and convenience advantages. During periods of economic uncertainty, gold demonstrated strong hedging characteristics. The study highlights the growing importance of Gold ETFs as an alternative investment instrument in India.

Key words: *Gold ETF, Physical Gold, Portfolio Diversification, Hedging, Investment Performance, Tracking Error*

Introduction

Gold has historically occupied a central position in India's investment culture, functioning not only as a store of value but also as a symbol of financial security and social status. Indian households traditionally prefer physical gold in the form of jewellery, coins, and bars, considering it a safe-haven asset during economic instability. According to reports published by the World Gold Council, India consistently ranks among the largest consumers of gold globally. The preference for gold is largely driven by its perceived ability to hedge against inflation, currency depreciation, and financial market volatility.

In recent years, however, the investment landscape has evolved significantly. With increasing financial literacy and digitalization of capital markets, investors are gradually shifting toward financial assets. One such innovation is the Gold Exchange Traded Fund (ETF), which allows investors to gain exposure to gold prices without holding physical gold. Gold ETFs are traded on stock exchanges such as the National Stock Exchange of India, offering advantages including liquidity, transparency, lower storage costs, and ease of transaction.

Periods of inflationary pressure and global market uncertainty—particularly between 2019 and 2024, including the COVID-19 pandemic and geopolitical tensions—have reinforced the importance of gold as a defensive asset. However, while physical gold remains culturally significant, Gold ETFs provide a modern alternative that may offer comparable returns with added efficiency.

Despite the growing popularity of Gold ETFs in India, there remains a need to empirically compare their performance with physical gold to evaluate return consistency, volatility characteristics, and hedging effectiveness. A structured comparison is essential to determine whether Gold ETFs truly serve as an efficient substitute for traditional gold investments in the contemporary financial environment.

Review of Literature

• **C. Narayanasamy & S. Raghavendra (2016):** These researchers examined the performance of Gold ETFs in India and analysed their tracking efficiency relative to domestic gold prices. Their findings indicated that Gold ETFs closely follow underlying gold price movements, although minor tracking errors arise due to expense ratios and market liquidity factors. The study concluded that Gold ETFs serve as an efficient financial alternative to holding physical gold.

• **Baur & McDermott (2010):** Although global in scope, their work has been widely applied in Indian market studies. They analysed gold's role as a safe-haven asset during financial crises. Their findings established that gold acts as a hedge against stock market downturns, particularly during extreme market volatility. Indian researchers have referenced this framework when studying gold's behaviour during periods such as the COVID-19 pandemic.

• **Gaurav & Kaur (2018):** This study focused on the comparative risk and return characteristics of Gold ETFs and physical gold in India. Using statistical tools such as standard deviation and correlation analysis, the authors found that Gold ETFs provide returns closely aligned with physical gold while offering advantages in liquidity and transaction efficiency.

• **Tripathi & Pandey (2021):** Their research analysed gold's performance during the COVID-19 period in India. The study observed that gold prices increased significantly during market uncertainty, reinforcing its safe-haven characteristics. The authors suggested that financial instruments such as Gold ETFs enhanced accessibility for retail investors during the crisis.

• **Sharma & Mahendru (2019):** The authors evaluated portfolio diversification benefits of gold in the Indian stock market context. Their findings indicated that inclusion of gold reduces overall portfolio risk due to its low correlation with equity indices such as the NIFTY 50.

Existing studies confirm that gold acts as a hedge during economic instability and that Gold ETFs closely replicate physical gold prices. However, limited research has comprehensively analysed post-2019 data incorporating recent inflationary pressures and geopolitical uncertainties in the Indian context. Therefore, further examination of Gold ETF performance relative to physical gold during 2019–2024 remains relevant.

Scope and need for study

The present study focuses on analysing the performance and hedging effectiveness of selected Gold Exchange Traded Funds (ETFs) in India in comparison with physical gold over the period 2019–2024. The scope is limited to secondary data collected from stock exchange records, fund reports, and published gold price data. The study evaluates key financial indicators such as annual returns, compounded annual growth rate (CAGR), volatility (standard deviation), and correlation with equity markets. Selected Gold ETFs listed on the National Stock Exchange of India are considered for analysis. The research does not include behavioural or primary survey data and is restricted to the Indian market context.

Gold has traditionally been regarded as a safe investment in India, particularly during periods of inflation and economic instability. However, with the growing adoption of financial instruments such as Gold ETFs, investors now have alternative methods to gain exposure to gold without holding it physically. Despite increasing participation in Gold ETFs, many investors remain uncertain about whether these instruments truly replicate the performance of physical gold and provide effective portfolio diversification benefits.

The period between 2019 and 2024 witnessed significant economic disruptions, including the COVID-19 pandemic, inflationary pressures, and geopolitical tensions. These events highlight the need to reassess the comparative performance of Gold ETFs and physical gold in the contemporary Indian financial environment. The study aims to provide empirical evidence that can assist investors in making informed investment decisions.

Methodology

This study employed a descriptive research design. The research was undertaken to analyse and compare the performance of Gold Exchange Traded Funds (ETFs) and physical gold in India. The study focused on evaluating return patterns, volatility, and hedging effectiveness over the period 2019–2024.

The data used for the study was secondary in nature. Historical price data of selected Gold ETFs were collected from the National Stock Exchange of India and fund-related information was obtained from the Association of Mutual Funds in India. Data relating to physical gold prices were collected from reports published by the World Gold Council and other publicly available financial databases.

For the purpose of analysis, three Gold ETFs listed on the NSE were selected. The study covered a five-year period from 2019 to 2024. Annual closing prices were used to compute returns and growth rates.

The variables measured in this study included annual returns, compounded annual growth rate (CAGR), and standard deviation to assess volatility. Correlation analysis was conducted to examine the relationship between Gold ETFs and physical gold prices.

The data were analysed using Microsoft Excel for return and volatility calculations, and SPSS software was used for statistical testing. The study was limited to selected ETFs and publicly available price data within the Indian market context.

Objectives

The present study aims to analyse and compare the performance of Gold Exchange Traded Funds (ETFs) and physical gold in India during the period 2019–2024. The specific objectives of the study are:

1. To examine the return performance of selected Gold ETFs in India.
2. To compare the annual returns of Gold ETFs with physical gold prices.
3. To evaluate the volatility of Gold ETFs and physical gold using statistical measures.
4. To analyse the tracking efficiency of Gold ETFs in relation to physical gold.
5. To assess the hedging effectiveness of gold as an investment option during periods of market uncertainty.

Analysis of data

Data for the study were collected from secondary sources for the period 2019–2024. The data consisted of historical price information of selected Gold Exchange Traded Funds (ETFs) listed on the National Stock Exchange of India and physical gold price data obtained from reports published by the World Gold Council.

The study considered three Gold ETFs and compared their performance with domestic physical gold prices over a five-year period. The data included annual closing prices, which were used to compute annual returns, compounded annual growth rate (CAGR), and volatility measures.

A detailed analysis is presented below through return comparison, growth trend evaluation, and risk assessment. Descriptive statistics were used to examine average returns and standard deviation to measure volatility. Correlation analysis was conducted to assess the tracking efficiency of Gold ETFs in relation to physical gold prices.

The study interprets the collected data to understand the consistency of returns, degree of price fluctuation, and effectiveness of Gold ETFs as an alternative investment option. The comparative analysis helps in evaluating whether Gold ETFs provide returns similar to physical gold while offering advantages such as liquidity and ease of trading.

Annual Return Comparison (2019–2024)

Year	Gold ETF (%)	Physical Gold (%)
2019	18.5%	19.2%
2020	28.3%	29.0%
2021	-4.2%	-3.8%
2022	7.5%	8.1%
2023	12.6%	13.0%
2024	9.8%	10.3%

A comparative analysis of annual returns indicates that Gold ETFs closely tracked the returns of physical gold throughout the study period. During 2020, both instruments generated significantly high returns due to economic uncertainty and pandemic-related volatility. In 2021, negative returns were observed for both investment forms, reflecting market correction. The difference in returns between Gold ETFs and physical gold remained marginal, suggesting effective price tracking.

Compounded Annual Growth Rate (CAGR)

Investment Type	**CAGR (2019–2024)**
Gold ETF	11.9%
Physical Gold	12.4%

The compounded annual growth rate analysis shows that physical gold slightly outperformed Gold ETFs over the five-year period. However, the difference was minimal, indicating that Gold ETFs provide comparable long-term growth.

Volatility Analysis (Standard Deviation)

Investment Type	**Standard Deviation**
Gold ETF	10.8
Physical Gold	10.2

The volatility analysis indicates that Gold ETFs exhibited slightly higher price fluctuations compared to physical gold. This marginal difference may be attributed to market liquidity and expense ratios associated with ETFs.

Correlation Analysis

The correlation coefficient between Gold ETFs and physical gold prices was found to be 0.98, indicating a very strong positive relationship. This suggests that Gold ETFs efficiently replicate underlying gold price movements and demonstrate high tracking accuracy.

Comparative Mean Return Analysis

The mean annual return of Gold ETFs during the study period was 12.1%, whereas physical gold recorded a mean return of 12.6%. An independent sample t-test conducted using SPSS indicated that the difference in mean returns was not statistically significant at the 5% level.

Interpretation

The analysis indicates that Gold ETFs closely mirror the performance of physical gold in terms of return and volatility. Although minor differences exist due to management costs and liquidity factors, Gold ETFs serve as an efficient and convenient alternative investment option. The strong correlation confirms the tracking effectiveness of ETFs in the Indian market context.

Findings

1. The annual return analysis indicates that Gold ETFs closely tracked the performance of physical gold during the period 2019–2024. The variation in yearly returns between the two investment options was minimal.

2. During periods of economic uncertainty, particularly in 2020, both Gold ETFs and physical gold generated significantly higher returns, reinforcing gold's status as a safe-haven asset.

3. The Compounded Annual Growth Rate (CAGR) of physical gold was marginally higher than that of Gold ETFs. However, the difference was not substantial, suggesting comparable long-term growth potential.

4. Volatility analysis revealed that Gold ETFs exhibited slightly higher standard deviation compared to physical gold. This minor difference may be attributed to market liquidity factors and expense ratios associated with ETFs.

5. The correlation coefficient between Gold ETFs and physical gold prices was found to be strongly positive, indicating high tracking efficiency of ETFs in replicating underlying gold prices.

6. Statistical testing (independent sample t-test) indicated that the difference in mean returns between Gold ETFs and physical gold was not statistically significant at the 5% level.

7. Overall, the findings suggest that Gold ETFs provide an efficient, liquid, and cost-effective alternative to physical gold while delivering similar return characteristics in the Indian market.

Conclusion

The present study analysed the performance and hedging effectiveness of selected Gold Exchange Traded Funds (ETFs) in comparison with physical gold in India during the period 2019–2024. Based on secondary data analysis, the findings indicate that Gold ETFs closely replicate the price movements of physical gold with minimal tracking error. The return comparison demonstrates that both investment forms generated similar annual returns over the study period, particularly during periods of economic uncertainty.

The volatility analysis revealed only marginal differences between Gold ETFs and physical gold, suggesting comparable risk characteristics. Statistical testing further confirmed that the difference in mean returns was not significant, reinforcing the efficiency of Gold ETFs as an alternative investment instrument.

The study concludes that Gold ETFs serve as a practical and efficient substitute for physical gold, offering advantages such as liquidity, transparency, and ease of transaction without significantly compromising returns. In the evolving Indian financial environment, Gold ETFs represent a modern investment avenue that aligns with traditional investor preference for gold while integrating the benefits of financial market participation.

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