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Market Interconnectedness and Gold Investment Preferences: Evidence from Emerging Markets

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Abstract: Gold holds a distinctive position in the Indian economy as both a financial asset and a culturally significant store of wealth. This study examines whether spillovers from major financial markets influence different forms of gold demand in India. Specifically, it investigates the impact of equity market performance, government bond yields, exchange rates, inflation, market volatility, and cryptocurrency movements on gold-related investments and consumption. Using monthly time-series data and path analysis models, the study evaluates the transmission of financial market developments to gold exchange-traded funds (ETFs), bullion prices, gold coin purchases, and other indicators of gold demand. The findings reveal that market spill overs have selective rather than uniform effects across different forms of gold demand. Inflation significantly influences investment in gold ETFs, indicating that investors continue to use gold-based financial products as a hedge against rising prices. Equity market performance represented by the NIFTY 50 index and fluctuations in the USD–INR exchange rate significantly affect RBI bullion prices, highlighting the sensitivity of market-linked gold instruments to broader financial conditions. In contrast, traditional forms of gold demand remain largely unaffected by financial market movements, reflecting the continued importance of cultural, social, and precautionary motives. The study concludes that gold in India serves as a conditional hedge whose effectiveness varies across investment forms and market environments.

Keywords: Gold Prices, Financial Market Spillover, Safe Haven, Exchange Rates, Conditional Hedge