

# Gold ETFs vs. Sovereign Gold Bonds: Which is the Smarter Hedge in Today's Volatile World?

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**Capital**  
—SPROUT—



# Chairman's Message



In moments of global uncertainty, investors instinctively turn to gold. Yet the way we own gold has fundamentally changed. The physical bullion kept in a locker is no longer the only or even the most strategic choice for the modern Indian investor. Today, gold ownership is evolving into a nuanced decision between competing vehicles, each designed for different financial objectives. The Great Gold Awakening is less about whether to own gold and more about how to own it wisely. Indian portfolios are increasingly asking not merely "Should we own gold?" but rather "Which gold instrument aligns with our financial blueprint?"

This shift is not simply cyclical; it signals a structural broadening of financial literacy, investment maturity, and access to diversified gold vehicles across the investor spectrum. The rising 42% surge in gold prices during 2025, combined with unprecedented central bank accumulation globally and sustained rupee depreciation, has catalysed a generation of investors to move beyond traditional bullion and into exchange-traded instruments and sovereign-backed securities.

This month's newsletter examines precisely this decision architecture. We trace the 42% gold price surge to its institutional and geopolitical roots; we map where capital is actually flowing across ETFs and bonds globally; we benchmark returns with precision across both instruments; and critically, we decode the tax implications that ultimately determine post-wealth outcomes. More importantly, we acknowledge that the "best" gold vehicle is simply the one that best serves your financial objectives over your intended holding period.

I believe this month's analysis will provide the clarity necessary to transform gold from a generalised portfolio component into a strategically optimised wealth-building tool.

I hope readers will find this month's newsletter insightful.

**-CA Dr. Rajesh Khandol**

# Introduction: The Global Gold Rush & Your Portfolio

The past two years have witnessed an extraordinary surge in global gold prices, a phenomenon that defies easy dismissal as mere speculation. The London Bullion Market Association (LBMA) gold price reached 40 new record highs during 2024, with the average Q4 price of US\$2,663/oz yielding an annual average price of US\$2,386/oz (+23%). More staggeringly, prices have risen by around 42% in 2025, marking the strongest annual gain since the late 1970s. This isn't normal volatility; it's a structural shift.



The drivers are equally compelling. Central banks hoarded gold at a breakneck pace, buying 1,082 tonnes in 2022, 1,037 tonnes in 2023, and 1,044 tonnes in 2024, a pace that far exceeds the prior cycle, with purchases from 2022 to 2024 totalling 3,220.2 tonnes compared to 1,575.7 tonnes from 2014 to 2016. Global CB gold holdings amount to nearly 36,200 tonnes and account for almost 20% of official reserves, up from around 15% at the end of 2023.

For Indian investors, this global phenomenon takes on a particularly acute dimension. The Reserve Bank of India was once again a major purchaser in 2024, having bought 73 tonnes, more than four times the level of its gold buying in 2023 (16 tonnes). Yet simultaneously, the rupee lost about 16.5% against the dollar, amplifying domestic gold price returns beyond global appreciation.

As the world flocks to gold, Indian investors face a critical choice: how to best add this shining asset to their portfolio? Unlike Western counterparts confined to Exchange-Traded Funds, you have access to a uniquely powerful alternative: Sovereign Gold Bonds (SGBs).

The question isn't whether to invest in gold for most astute investors; that decision is already made. The question is how. And that choice will materially reshape your wealth trajectory.

# The Contenders: A Tale of Two Gold Instruments

## Gold ETFs Demystified

### What they are:

Gold Exchange-Traded Funds are investment vehicles that track the price of physical gold with precision. Each unit represents fractional ownership of bullion stored securely in vaults. You buy and sell on the stock exchange, just as you would a share, though here, you're holding metal, not a business claim.

### Global & Local View:

The Gold ETF structure is the global standard. Global gold ETFs' total assets under management (AUM) rose 6% month-on-month to US\$503bn by the end of October 2025, with holdings of 3,893 tonnes. Within India, Nippon India ETF Gold BEES has delivered a yearly return of 22.57% as of June 28, 2024, with assets under management of ₹15,189.76 crores as of November 2025.

Critically, gold demand rose 10% in the first three quarters of 2025 (year-on-year), led by strong investment inflows, including from gold-backed ETFs.

## Sovereign Gold Bonds Demystified

### What they are:

SGBs are sovereign securities, government bonds denominated in grams of gold rather than rupees. Issued by the Reserve Bank of India on behalf of the Government of India, they represent an explicit commitment: a guaranteed quantity of gold, with an income stream and a maturity date.

### The Unique Advantage:

SGBs are a distinctly Indian innovation. You're not simply buying gold; you're purchasing a government-backed contract that guarantees exposure whilst simultaneously paying you interest. This hybrid nature makes SGBs potentially formidable for disciplined, long-term investors seeking both safety and steady income.



# The Global Context: Why Has Gold Shone So Brightly?

Understanding gold's ascent requires examining the institutional forces that have driven it upwards with unusual precision.

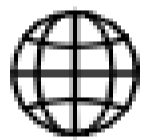
## Central Bank Demand: A Structural Shift



The most extraordinary driver is central bank accumulation. Institutional demand on the London over-the-counter gold market increased fivefold following the freezing of Russian central bank assets in 2022, with demand hitting 108 tonnes in December, compared to a pre-crisis average of 17 tonnes monthly. This isn't cyclical; it's structural.

In 2023 and 2024 alone, central banks added over 1,000 tonnes, a modern record according to the World Gold Council, reflecting countries like China, India, Turkey, Poland, and Singapore ramping up their gold holdings. This is diversification away from dollar dependence—a shift that transcends markets and borders.

## Geopolitical Safe-Haven Flows & Currency Diversification



Diversification away from U.S. dollar reserve holdings, while still moderate, has been accelerating in recent years, with the USD share ending 2024 at around 57.8%, marking a 0.62 percentage point decline. This seemingly modest shift masks a profound strategic reorientation. Gold's supreme virtue, its neutrality, has never been more valued.

## Interest Rates, Inflation & Real Returns



The narrative of gold as an inflation hedge has regained traction. When real interest rates (inflation-adjusted returns) soften, the opportunity cost of holding non-yielding gold diminishes. Full-year bar and coin demand was in line with 2023 at 1,186 tonnes in 2024, whilst technology demand grew by 21 tonnes (+7%), largely driven by continued growth in AI adoption.

## The Indian Rupee Factor: Currency Amplification

Here's the critical insight for Indian investors. In India, the domestic landed gold price has risen 17% to hit a record Rs 90,750 per 10 grams, with the increase more pronounced due to the depreciation of the Indian Rupee (INR) against the US Dollar (USD) by 1.3% year-to-date. More substantially, the Indian rupee has dropped over 3% in 2025 and is forecast to trade between 88 and 90 per dollar by the end of 2025.

- ❏ **The mathematics are compelling:** as of August, XAU/USD (Gold troy ounce) gained about 25% year-to-date, but XAU/INR and MCX gold rose closer to 30%, with the difference coming from currency depreciation. For rupee-based investors, currency headwinds have translated into returns that exceed global gold appreciation.

# The Capital Flows: Following the Money

To understand which vehicle is winning investor affection globally, observe where capital actually flows.

## ETF Inflows: A Turning Point

Gold ETFs tell an interesting story. Early 2024 saw persistent outflows as Western investors digested higher interest rates. However, in February 2025, global physically-backed gold ETFs saw significant inflows totalling US\$9.4bn, the strongest since March 2022, with North American flows recording one of their strongest months on record.

By the end of Q3 2025, global gold ETFs' total assets under management (AUM) reached US\$472bn (+23% quarter-on-quarter), reaching another record high. This represents the re-stocking of portfolios globally after a 43-month redemption cycle.

## Where Is Capital Flowing Regionally?

### Asian Investors

Asian investors bought gold ETFs aggressively in February 2025, collecting US\$2.3bn, with China leading inflows as the local gold price rally attracted investors and the Baidu Search Index (China's search engine) for "gold" rocketed to its highest since 2013.

### Indian Market

India, whilst maintaining healthy inflows, saw a moderation compared to January 2025's record levels.

### North America

Critically, North America and Asia led global inflows in October 2025, with North American funds recording inflows of US\$6.5bn in October alone.

## Institutional Positioning: Futures and Non-Commercial Longs

Combined bar and coin holdings, ETFs and net non-commercial futures length in COMEX gold rose by 3% year-on-year in 2024 to around 49,400 tonnes, dominated by around 45,400 tonnes held as bars and coins by private investors. This suggests that the driving force isn't mere speculation, but rather structural repositioning of wealth.

# Returns Across the Board: The Evidence

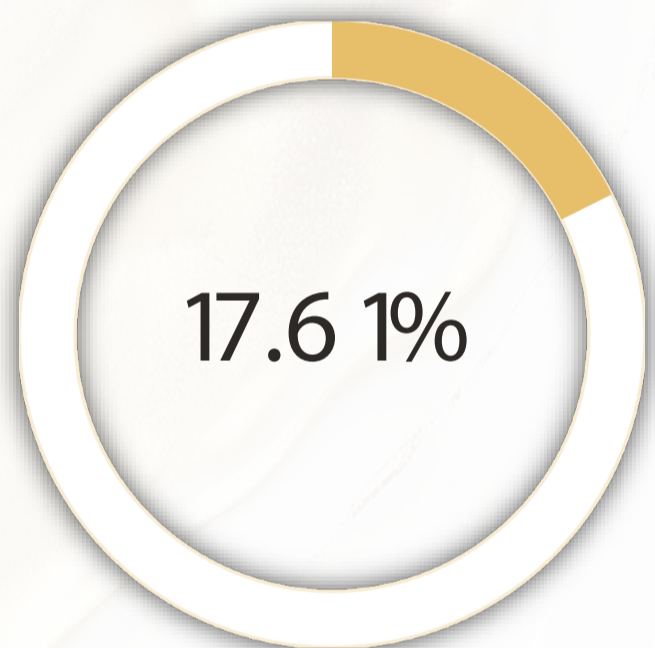
## Global Gold Price Returns: 2023–2025

From January to April 2025, gold prices rose from \$2,624.61 to \$3,499.98 amid escalating geopolitical tensions. In late August, the bullish trend resumed, pushing prices to \$4,381.24 by the end of October.

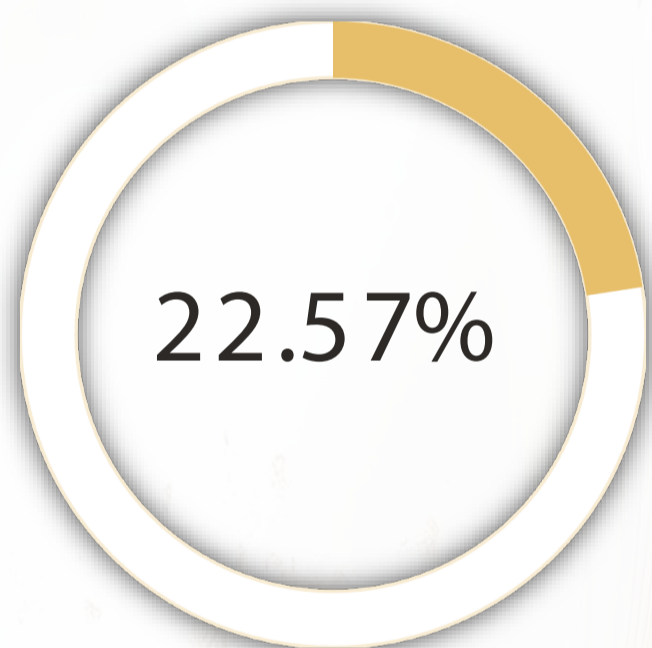
For the longer perspective, Gold has delivered an average annual return of 7.98% between January 1971 and March 2024, according to Statista, but recent performance has vastly exceeded this historical average.

## Indian Gold ETF Returns: Nippon India GOLDBEES

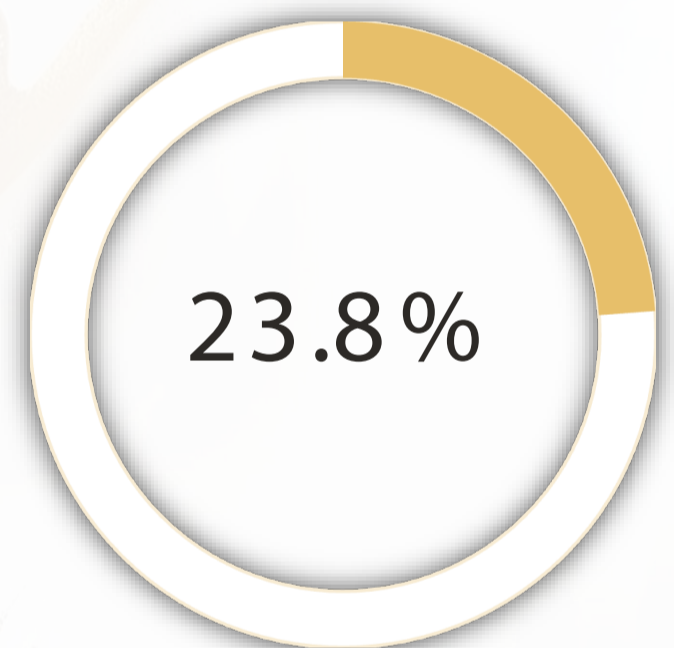
Over the past five years, Nippon India ETF Gold BeES has delivered an annualised return of 17.61% as of 31 October 2025. More specifically, GOLDBEES delivered a yearly return of 22.57% as of June 28, 2024, compared to 23.8% earnings posted by the underlying index.



5-Year Annualized Return  
Nippon India ETF Gold BeES



Yearly Return  
As of June 28, 2024



Underlying Index  
Benchmark performance

## Long-Term Rupee Impact on Gold Returns

Gold on MCX rose from Rs 30,000 to Rs 90,000 per 10 grams between 2019 and 2025—a return of about 200%. Over the 5-year period (2019-2024), gold delivered a CAGR of 17.2% annually, compared with Nifty's CAGR of around 16.9%, making gold a competitive investment option.

# Head-to-Head: ETFs vs. Bonds on Key Metrics

Comparing Gold ETFs and Sovereign Gold Bonds requires precision. Here's how they stack up across the dimensions that matter most:

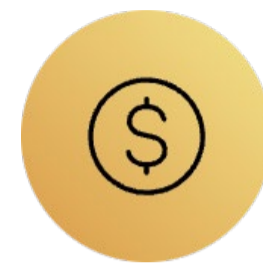


## Liquidity

**Gold ETFs:** These trade on the stock exchange during market hours with the same ease as any equity. Need to exit your position? Sell instantly at the prevailing market price. Your capital lands in your demat account within T+2 settlement. This is financial agility at its finest.

**SGBs:** SGBs impose a structured lock-in framework. Redemption at maturity (8 years) is a straightforward government honour. However, if circumstances force an early exit, you face complexity. Whilst SGBs become tradable on secondary markets after a 30-day initial settlement period, this secondary market is considerably less liquid than ETF exchanges. Finding a buyer at a fair price requires patience; the bid-ask spread can be wider.

**Winner (for liquidity): Gold ETFs, decisively.**



## Costs

**Gold ETFs:** You pay an annual expense ratio, typically ranging from 0.5% to 1% per annum. On a ₹1,00,000 investment, that's ₹500-₹1,000 yearly, a small but meaningful drag on returns.

**SGBs:** There are no management fees. None. The government does not charge you for the privilege of sovereign backing. If you trade SGBs on the secondary market, you'll pay brokerage commissions (usually minimal), but there's no recurring annual levy.

**Winner (for cost efficiency): Sovereign Gold Bonds.**



## Additional Earnings

**Gold ETFs:** Pure gold price exposure. No income generation. Your return is entirely dependent on whether gold appreciates or depreciates.

**SGBs:** Here's the sweetener. The government pays you a fixed 2.5% annual interest on your initial investment, paid semi-annually. On a ₹1,00,000 SGB purchase, you receive ₹1,250 every six months, totalling ₹2,500 annually, regardless of whether gold prices rise or fall. This income component is meaningful; over an 8-year holding period, it substantially enhances total returns.

**Winner (for income): Sovereign Gold Bonds.**



## Safety

**Gold ETFs:** Your investment is backed by physical gold, held in secure vaults by custodian banks (typically Standard Chartered, ICBC, or similar). Regulatory oversight ensures these vaults are audited and insured. The gold is real; the risk is primarily custodial and that risk is minimal given the calibre of institutions involved.

**SGBs:** Your investment carries the sovereign guarantee of the Government of India. This is a different beast entirely. You're not relying on a private custodian's vault; you're relying on the full faith and credit of a nation-state.

**Winner (for safety):** Both are highly secure; SGBs edge ahead due to sovereign backing.

## Taxation: The Decisive Factor

This is where strategy crystallises into real wealth differences.

### Gold ETFs

Taxation on Gold ETFs has been restructured. Short-term capital gains (STCG) if held for 24 months or less are taxed at your applicable income tax slab rate (ranging from 10% to 30%, depending on your bracket). Long-term capital gains (LTCG) if held for more than 24 months are taxed at a flat rate of 12.5%, without indexation, even though the ETF itself continues to be physically backed by gold.



### Sovereign Gold Bonds

SGBs operate under a more nuanced taxation framework. The semi-annual interest income (fixed 2.5% per annum) is fully taxable as "Income from Other Sources" at your applicable marginal tax slab rate, whether you're in the 10% or 30% bracket. However, here's the transformational advantage: capital gains upon redemption at the full 8-year maturity are completely exempt from taxation. If you purchase an SGB for ₹1,00,000 (in the secondary market) and redeem it for ₹1,50,000 at maturity, that entire ₹50,000 gain faces zero tax.

If you sell an SGB on the secondary market before the 8-year maturity, different rules apply. Sales within 12 months of purchase trigger STCG at 20% and sales after 12 months but before the full term trigger LTCG at 12.5% without indexation.

For a high-income investor in the 30% bracket, this SGB advantage is staggering. The post-tax returns can materially exceed those of ETFs.

**Winner (for tax efficiency on long-term returns):** Sovereign Gold Bonds, decisively, if held to maturity.

# Performance in Volatility: Global and Local Perspectives

The volatile backdrop of 2024 and into 2025 has tested both instruments rigorously.

Since both ETFs and SGBs track the same underlying asset, the domestic gold price in rupees, their price performance before costs and taxes has been virtually identical. When gold rallied, both your ETF and your SGB appreciated proportionally. There's no hidden outperformance in price appreciation.

In volatile markets, both have proven resilient. Gold's properties, non-correlation with equities, universal demand, and inflation hedging have shone through regardless of the vehicle. But for the patient investor, the SGB's structural advantages compound powerfully over market cycles.

## The Investor's Dilemma: Which One is For You?

Investment decisions are not one-size-fits-all. Your financial blueprint, your timeline, and your temperament matter enormously.

### Choose a Gold ETF if:

- **You need high liquidity and flexibility.** Life doesn't always follow an 8-year plan. If you anticipate the need to access capital at unpredictable intervals, the ETF's instant tradability is invaluable.
- **You are an active trader or want to use gold for short-term tactical allocations.** Some investors use gold as a crisis hedge, buying when volatility spikes and selling when normalcy returns. ETFs excel here; SGBs punish frequent turnover.
- **You have an investment horizon of less than 3-5 years.** The SGB's tax advantage only crystallises at the 8-year mark; shorter horizons favour ETFs.

### Choose a Sovereign Gold Bond if:

- **You have a long-term (8-year) investment horizon and are comfortable with it.** If this capital will remain untouched for nearly a decade, the SGB's structure rewards you handsomely.
- **You want to maximise post-tax returns.** For investors in higher income brackets, the tax-free capital gains at maturity are transformative. An SGB often outperforms an ETF on an after-tax basis for disciplined, long-term investors.
- **You value sovereign safety and desire an income stream.** The 2.5% annual interest is a comfort—it returns capital steadily whilst you wait for gold appreciation. This income buffer also psychologically softens volatility.
- **You seek to diversify beyond equities and traditional bonds.** SGBs offer a unique asset class that combines the stability of government backing with commodity exposure.

# The Global View: Are Indian Gold Bonds a Uniquely Advantageous Product?

Whilst investors worldwide have converged on Gold ETFs as the standard vehicle for gold exposure, India's Sovereign Gold Bonds represent something rarer: a government innovation tailored to local conditions and tax structures.

Few nations offer bonds denominated in physical commodities with sovereign backing, fixed interest, and eventual tax-free maturity. Singapore has experimented with gold-backed instruments, but none quite match India's SGB framework for retail investors. The US has no equivalent; European investors do not have this option.

This raises a thought-provoking question for the globally minded Indian investor: While global investors are piling into ETFs for safety, your government has provided you with a potentially superior, tax-efficient tool. Are you making the most of it?

The answer, for many, is no. SGBs remain underutilised relative to their merit, often overshadowed by the simplicity and global familiarity of ETFs. Yet for those willing to embrace a structured, patient approach to wealth-building, this indigenous product punches well above its weight.



# Final Verdict: It's About Your Financial Blueprint

There is no single "best" option. Strategy trumps absolutes.

Gold isn't just glittering again, it's reclaiming mindshare. And in a world where volatility has become the norm, Indian investors aren't asking if gold belongs in their portfolios; they're asking which format will win the race for returns.

Look past the noise, and you'll see a clear divide emerging.

For investors who are playing the wealth-building game, not the trade-the-swings game, **Sovereign Gold Bonds are the powerhouse vehicle**. The built-in interest plus tax-free redemption at maturity creates a return profile that other gold products simply can't match without taking additional risk. In a market obsessed with alpha, the SGB quietly delivers it.

But markets reward agility too, and that's where **gold ETFs flex their strength**. Instant liquidity, tactical rebalancing, and frictionless buying and selling make ETFs the preferred tool for investors who want price exposure without being locked in. If your strategy demands speed and precision, the ETF belongs in your arsenal.

Gold has already proven itself for centuries. The real strategy call today is selecting the **instrument that best amplifies your investing philosophy, disciplined**, compounding growth... or dynamic, opportunity-driven allocation.

Whichever path you choose, gold's role in Indian portfolios isn't fading; it's evolving. The smart investor evolves with it.



# Performances

## (1) Equity Market

Indices	01-11-2025	30-11-2025	High	Low
BSE S&P SENSEX	83835.10	85706.67	86055.86	82670.95
NIFTY 50	25696.85	26202.95	26310.45	25318.45

## (2) Mutual Fund

### AUM Data of Mutual Fund

(INR. In Lakh Crore)

Particulars	AUM As On 31-10-2025	Fresh Fund Mobilize During Nov-25	Redemption During Nov-25	AUM As On 30-11-2025
Total AUM of all mutual funds scheme	80.22	10.60	10.27	80.55
AUM of equity oriented (growth) schemes	35.37	0.64	0.35	35.66

Source: Association of Mutual Fund of India (AMFI)

### SIP Contribution

(INR. In Crore)

Month	SIP Contribution	SIP AUM
Nov-2025	29,445	16,52,665

### (3) FII & DII Inflow/Outflow Position – Nov 2025

FII's **selling** in the month is 0.18 Lakh.

DII's **buying** in the month is 0.77 Lakh

(INR. In Crore)

FII /DII	Gross Purchase	Gross Sale	Net
FII	3.08 Lakh	3.25 Lakh	(0.18 Lakh)
DII	3.18 Lakh	2.41 Lakh	0.77 Lakh

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