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COMPARATIVE ANALYSIS OF INVESTMENTS IN PRECIOUS METALS AND BONDS

Abstract: *this article provides a comparative analysis of the returns on investment instruments such as bonds and precious metals on the Russian market over the past 5 years. The author describes the opportunities for investing in these instruments on the Russian market today.*

Keywords: *bonds, precious metals, gold, silver, platinum, palladium, investments, assets, inflation, yield.*

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СРАВНИТЕЛЬНЫЙ АНАЛИЗ ОСУЩЕСТВЛЕНИЯ ИНВЕСТИЦИЙ В ДРАГОЦЕННЫЕ МЕТАЛЛЫ И ОБЛИГАЦИИ

Аннотация: *в статье представлен сравнительный анализ доходностей таких инвестиционных инструментов, как облигации и драгоценные металлы,*

на российском рынке на протяжении последних 5 лет. Автор описывает возможности инвестирования в эти инструменты на российском рынке сегодня.

Ключевые слова: облигации, драгоценные металлы, золото, серебро, платина, палладий, инвестиции, активы, инфляция, доходность.

Investing is an important part of managing both personal and institutional finances. It helps people keep their savings safe and grow their capital. People put money into investments to protect themselves from inflation, make sure their finances are stable in the future, and reach long-term goals like saving for retirement or buying a home. There are many kinds of investment assets. Stocks, bonds, real estate, and precious metals are some of the most common. Each of these instruments has its own characteristics, risks, and potential returns, allowing investors to choose strategies that suit their goals and risk tolerance.

In this article only two investment instruments will be considered: the first is bonds, the second is precious metals. Bonds provide a guaranteed interest income (coupon) which allows to predict the cash flows in the future, that is why bonds are primarily used by risk averse people [9]. Moreover, comparing with stocks, bonds are less volatile. In addition, bonds are more predictable in the times of changing interest rates because it is possible to calculate the price of a particular bond knowing the duration and convexity of it. So, it is possible not only to calculate all the coupon payments but the bond price which will give you an additional part of yield.

Furthermore, bonds are considered more reliable, especially when it comes to government or large corporate securities, since in the event of the issuer's bankruptcy, bondholders receive their payments before shareholders.

In Russia and other countries all over the world you can invest in bonds using your broker account just clicking «buy» button in the broker app.

Precious metals, in turn, primarily are also used by risk averse investors but the share of speculators in this type of assets is greater. Comparing with bonds, there are much more ways to invest in precious metals. The first way of investing in precious metals is the same as in bonds: you can buy precious metals traded on Moscow

exchange via your broker app. The second way is to invest to an unallocated metal account which can be opened in many banks across Russia. In this way you do not buy a precious metal traded on the exchange, you buy the metal from a bank. The third way is to buy physical precious metals bullions in a bank. There are two types of bullions: standard and weighted. The difference between them in the weight: for weighted bullions the weight is fixed (e.g. 1 g, 10 g, 1 kg etc.), while for standard ones there is a range of weight that can be. For instance, the range of weight for gold bullions is from 11.0 kg to 13.3 kg [4]. In addition, instead of physical bullion you can buy a physical coin produced of precious metals.

The fourth way to invest in precious metals is to buy ETF underlying asset of which is gold, silver, platinum or palladium. Nowadays on Moscow Exchange 7 ETFs are traded [7], for 6 of them the underlying asset is gold, for 1 of them the underlying asset is platinum and palladium with equal shares of 50%.

The fifth way to invest in precious metals is to buy futures underlying asset of which is gold, silver, platinum or palladium. Moscow Exchange offers two types of cash-settled gold futures: quarterly and perpetual. The first ones have a pre-determined expiration date, on which final settlements between the parties to the contract occur and investors lock in the outcome. Perpetual futures (those with no expiration date) are overnight contracts with a daily automatic rollover to the next day.

There are two more ways to invest in precious metals but they are more indirect than all those previously mentioned. The first of them implies the investment in the companies which mine precious metals. According to the second one, the investment in gold bonds is implied. Both ways are riskier than investments in precious metals itself because investor should take risk not only on the precious metal price volatility but on the company which issued this bond or stock.

In this article we will consider the return on investments in precious metals and bonds in the Russian Federation, therefore, we need to determine the list of instruments that we will compare. Among the bonds, government bonds (OFZ in Russian) and corporate bonds with AAA rating will be considered. As the quantity of bonds traded on Moscow Exchange is very high, two indexes of bonds will be considered. Indices are

calculated based on the total return of a set of bonds, eliminating the need to calculate the return for each specific bond. The first index is The Moscow Exchange Government Bond Index which includes the most liquid federal loan bonds with a maturity of more than one year. The second index is The Moscow Exchange Corporate Bond Index of bond issuers with AAA rating which includes the most liquid corporate bonds of the issuers with the highest credit rating.

Among the precious metals, gold, silver, platinum and palladium will be considered because they are also traded on Moscow Exchange [7].

We will compare the yields of bonds and precious metals over several periods: over the last year, over the last 3 years, over the last 5 years.

Below there is the graph of the values of The Moscow Exchange Government Bond Index. According to it, the return on investment is 31.35% over the last year, 20.34% over the last 3 years, 17.67% over the last 5 years.

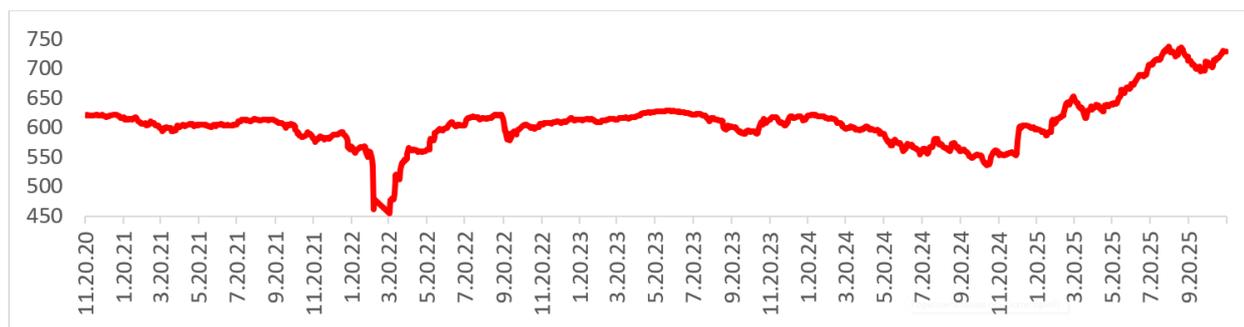


Fig. 1. The dynamics of the values of The Moscow Exchange Government Bond Index, 2020–2025, rubles [6]

Below there is the dynamics of the values of The Moscow Exchange Corporate Bond Index of bond issuers with AAA rating. According to the figure, the return on investment is 27% over the last year, 33.1% over the last 3 years, 44.02% over the last 5 years.

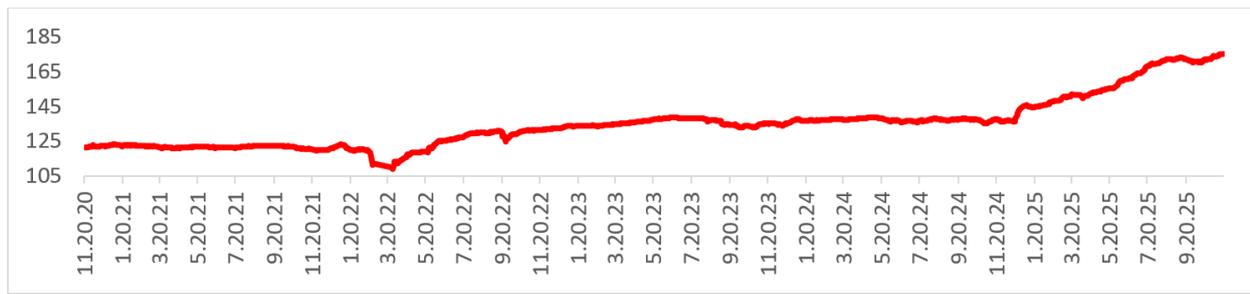


Fig. 2. The dynamics of the values of the The Moscow Exchange Corporate Bond Index of bond issuers with AAA rating, 2020–2025, rubles [5–7]

Here is the graph of the price of gold traded on Moscow Exchange [4]. The financial instrument which is presented here is called GLDRUB_TOM which means that the settlements will be made tomorrow if you buy this instrument today. According to the graph, the yield of investing in gold is 26.29% over the last year, 211.23% over the last 3 years and 131.22% over the last 5 years [3].



Fig. 3. The dynamics of gold price, 2020–2025, rubles [1]

The next precious metal traded on Moscow Exchange is silver. Let us look at the graph of its price dynamics. According to the chart, if you had invested in silver five years ago, you would have increased your capital by 126.61% today. If you had invested three years ago, your capital would have grown by 184.02%. If you had invested one year ago, your capital would have grown by 12.86%. Therefore, the highest return for silver of the periods listed above occurred over the past three years.



Fig. 4. The dynamics of silver price, 2020–2025, rubles [2]

Regarding platinum, according to the chart, the return is significantly lower than the return of gold or silver over the past three or five years. However, over the past year, platinum has appreciated significantly more than gold or silver. Over the past year, platinum's return was 29.43%, while this indicator is equal to 108.16% over the past three years and 75.09% over the past five years.



Fig. 5. The dynamics of platinum price, 2020–2025, rubles [8]

Palladium is the only precious metal listed on the Moscow Exchange that has lost value in every period analyzed except the most recent year. The return over the most recent year was 15.21%, while the values for the remaining periods are negative: over the last three years, the palladium price has fallen by 4.6%, and over the last five years, by 35.72%.

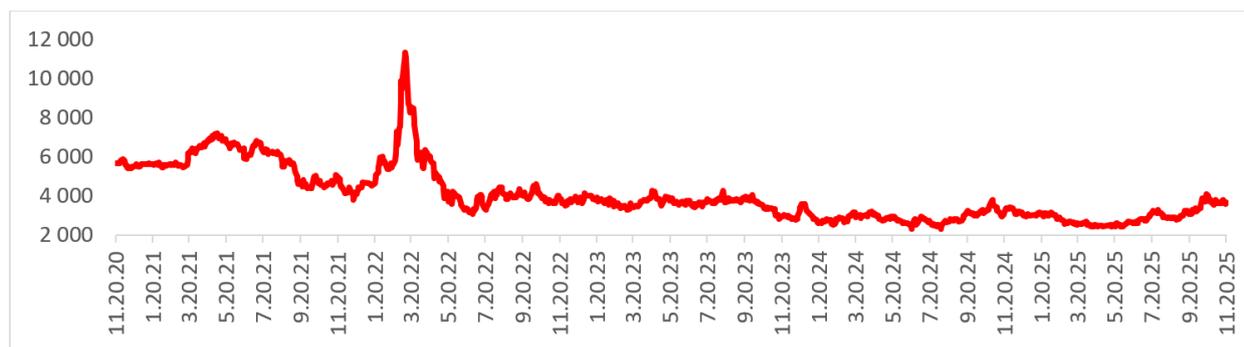


Fig. 6. The dynamics of palladium price, 2020–2025, rubles [8]

To sum up, let us compare the return on investment in different precious metals and bonds. For this purpose, let us construct one more graph which reflects yields of all the mentioned assets. Over the last year, government bonds were the most profitable asset with the yield of 31.35%. As for precious metals, the yield of gold and platinum is close to the yield of government bonds. The yield of corporate bonds is also close to the yield of government bonds. At the same time, the yield of silver and palladium is quite small comparing with bonds and other metals over this period.

Over the last 3 years, the most profitable asset was gold, with the yield of 211.23%. Other precious metals, excluding palladium, also gave a high level of return on investment. At the same time, government and corporate bonds do not give such level of yield.

Over the last 5 years, gold was also the most profitable asset, with the yield of 131.22%. The return of investment in silver is also quite high, as well as in platinum but this cannot be said about bonds, both government and corporate.

Summing up, we can say that precious metals such as gold, silver and platinum were the best options for conservative investors to save and multiply their money over the period of 3 or 5 years while palladium was a bad investment over the same periods. The yields of precious metals are extremely variable and depend on the chosen precious metal. Sometimes (e.g. the case of palladium) precious metals may give negative yield. At the same time, bonds, both government and corporate, have almost stable positive yields over different periods of time but they do not give such high level of return on investment as precious metals may give.

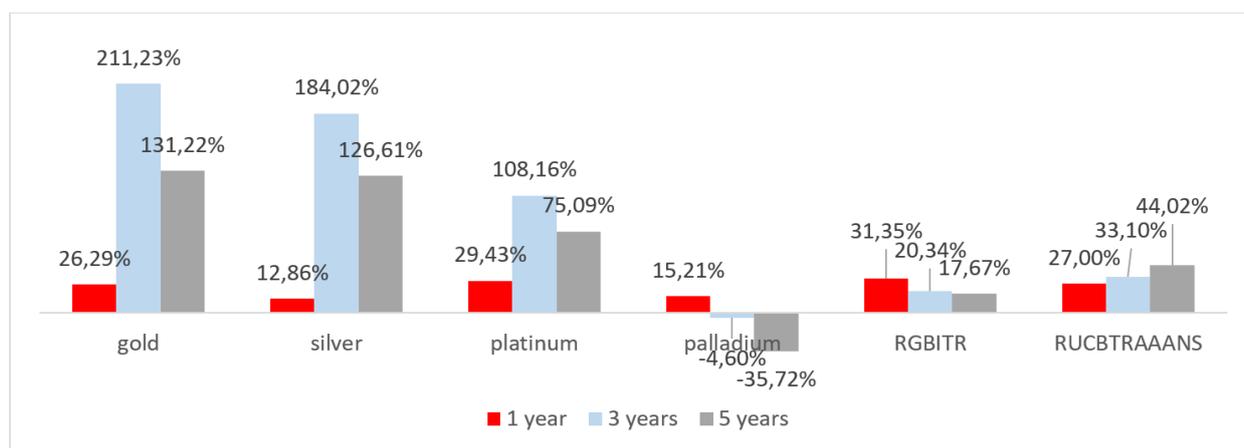


Fig. 7. The yield of precious metals and bonds, 2020–2025, % [8]

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