MARKET ANALYSIS

# All That Glitters Is Gold

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## Market Performance

Gold has performed incredibly well over the past three years. The recent returns achieved by the precious metal are more comparable to equity market returns than its own historical average annual return. In late April, gold reached a new all-time high of $3,500, surpassing the consensus year-end target just north of $3,000.[1] This represented an over 20% return for gold, outpacing all other major asset classes to start the year. A significant bout of inflation, skyrocketing central bank purchases, and elevated geopolitical tensions combined to drive underlying demand for safe-haven assets, particularly gold, higher. Additionally, gold's low correlation with other asset classes makes it an attractive investment during times of uncertainty and geopolitical tensions. This solid upward trend exemplifies investor demand for protection against currency inflation and debasement. While this dramatic recent run may leave gold vulnerable to short-term pullbacks, the long-term fundamental case for gold is extremely compelling and supported by structural drivers and cyclical tailwinds.[2]

## Gold as a Strategic Asset

Gold's status as a strategic asset is key to understanding its price movements. Although the precious metal has varied applications, the primary use case driving demand for gold is its function as a financial asset. Investors and central banks make up around 60% of global demand. The recent increase in demand stems from rising geopolitical tensions, notably the ongoing Russia-Ukraine conflict. Emerging market central banks have been increasing gold reserves to diversify portfolios and limit the risk of a declining U.S dollar. Central banks have been accelerating gold purchases over the last few years, significantly boosting their proportion of total gold demand. 2024 was the third consecutive year net purchases breached 1,000 tons of gold, more than double the average from 2010 to 2021. These purchases are often sticky in nature as they represent strategic allocation shifts rather than speculative investments, and thus, are mostly unaffected by short-term price fluctuations. Separately, gold ETF inflows from retail investors have begun to increase, as well, complementing central bank purchases. (Chart 1)[3] Diversified demand sources support further price increases even during periods of short-term volatility.

Chart 1[iii]


Source: World Gold Council

Gold has been used both strategically and tactically as a hedge against inflation and currency fluctuations for decades. Throughout history, gold has performed well during periods of higher inflation and maintains that quality today. Gold's appeal increases when the purchasing power of the world's fiat currencies, i.e., not backed by a physical commodity, declines.

Beyond serving as an effective hedge against rising prices, gold is widely regarded as a safe-haven asset at times of market turmoil. This was particularly evident during the significant economic uncertainty brought on by the COVID-19 pandemic and the Global Financial Crisis (GFC) of 2008. On both occasions, gold surged alongside and beyond other assets also perceived to carry less risk, such as short-term US Treasurys. Gold maintains multiple structural use cases within investor portfolios as geopolitical tensions and elevated uncertainty continue to drive meaningful volatility across global financial markets.

Correlation of assets is important in a portfolio management context. Low or negatively correlated assets provide positive diversification benefits within a portfolio consisting primarily of traditional financial assets like stocks and bonds. Some assets "zig" while others "zag", which ultimately limits portfolio-level volatility. Highly correlated assets move together, and during market drawdowns, can severely punish investors who choose to ignore the time-tested principle of portfolio diversification. Although constantly fluctuating, historically, gold has had a relatively low correlation to traditional financial assets, and portfolios that maintain an allocation to gold alongside stocks and bonds have generally achieved superior risk-adjusted returns.

Dissecting gold's role as a strategic asset and examining its long-term demand drivers suggest that the fundamental outlook for the gold market remains robust and bullish.[4] The significant and growing demand from central banks, along with gold's ability to hedge against inflation, its status as a safe-haven asset, and its role as a portfolio diversifier, all indicate that the price of gold will likely push higher.

## Is Gold Currently Overvalued?

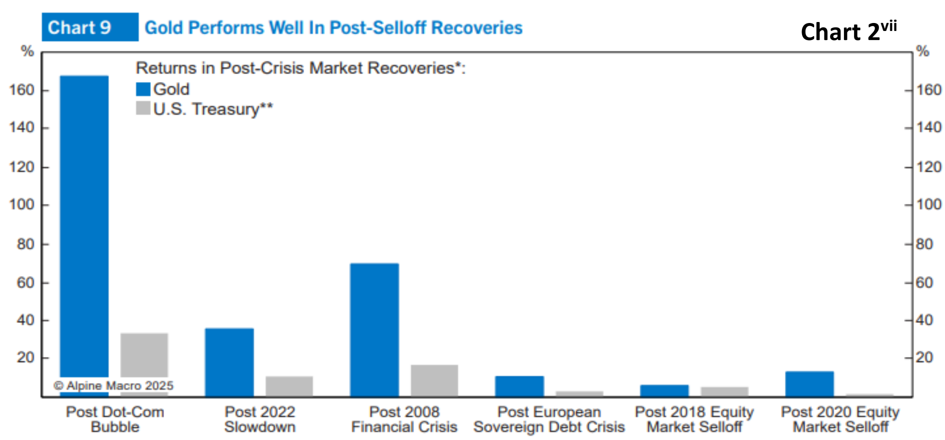
The nearly exponential recent rise in the price of gold may suggest investor sentiment has become overly bullish. The gold market could be overdue for at least a minor correction or shakeout, as market positioning is excessively long. However, stretched positioning and overly positive sentiment don't necessarily derail the current bull market for gold. The underlying fundamental drivers remain strong. Regular central bank buying, elevated geopolitical risks, and a growing need for downside protection support continued investor demand. Despite the strong gold rally over the past few years, rapid and extended price increases are not unheard of for the precious metal. The 1970s and 1980s were laden with uncertainty surrounding trade policy and marked by ballooning deficits, not unlike today. During those periods, gold amassed cumulative returns of 374% and 666%, respectively.[5]

## A Look Ahead

Investors have had to deal with heightened levels of uncertainty in recent years, and the tariffs levied by the Trump Administration in early April are only the latest in a series of volatility-inducing macroeconomic events. Although current trade policy remains unpredictable, negotiations to establish bilateral agreements with major trading partners are ongoing, and a 90-day pause for reciprocal tariffs is in place while those negotiations continue. Despite the recently improving policy outlook, a significant risk-off trade buoyed gold prices through the first quarter, and substantial geopolitical risks in both the Middle East and Europe continue to drive volatility across financial markets.[6]

Treasury bonds are susceptible to bouts of volatility (Chart 2)[7], as evidenced by rising yields and falling prices just last month. Rising concerns over mounting U.S. debt and the significant budget deficit have weakened the U.S. dollar and forced bond prices lower. Gold, on the other hand, provided much-needed diversification benefits and limited portfolio volatility as investors expressed concern over the U.S. fiscal position. Gold is priced in USD, so as the dollar weakens, it becomes cheaper for foreign investors to buy gold. This is crucial because many countries are becoming more self-reliant and less dependent on global trade agreements (partly out of necessity, given the recent sharp increase in U.S. tariffs). This trend encourages central banks to hold more physical assets like gold within their borders. Foreign countries being able to buy U.S. gold for cheap increases demand for gold.

Chart 2[vii]




## Conclusion

Investors may benefit from adding a gold allocation to portfolios to hedge against inflation and uncertainty. However, those considering such an allocation should remain cognizant that a resolution to geopolitical conflicts or trade-related volatility may reduce investor demand for the precious metal and stifle returns. The dramatic runup in recent years does leave gold vulnerable to short-term pullbacks, but price declines should be viewed as buying opportunities for investors looking to establish exposure to the yellow metal. Given greater uncertainty across financial markets today, the secular bull case for gold remains strong, and the key fundamental demand drivers remain intact. Gold is a unique asset with a proven ability to limit drawdowns and volatility while improving risk-adjusted returns within a broader portfolio.

### *Disclosures*

Investing in gold involves risks, including the potential loss of principal. Past performance is not indicative of future results. Gold prices can be volatile and may be affected by various economic, political, and market factors. This communication should not be considered a recommendation or guarantee of future performance. Before investing, consult with a financial professional and carefully consider your investment objectives, risks, charges, and expenses.

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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### *Economic Definitions*

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**GDP:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

### *Index Definitions*

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Municipal Bond Index:** The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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[1] Gold prices are forecast to rise another 8% this year | Goldman Sachs
[2] Will_Golds_Glittering_Run_Continue.pdf
[3] The Daily Shot Brief – May 13th, 2025 - The Daily Shot Brief; World Gold Council
[4] Will_Golds_Glittering_Run_Continue.pdf
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