

Gold's Time to Shine

It is perhaps natural that many should turn to gold as concerns mount over the U.S. dollar's continued role as the global monetary system's anchor. Gold, after all, has a long and storied history as money, an official reserve, and the anchor of the global monetary and trading system.

Gold is up 47% so far this year (Exhibit 1). The U.S. dollar, in contrast, has depreciated about 10% against a basket of major currencies. The gold rally so far this year is the largest since 1979, when the price of gold doubled in the wake of inflation fears triggered by the oil price shock. And adjusted for inflation, gold prices are well above their previous 1979 peak (Exhibit 2).

EXHIBIT 1: GOLD SHINES AS U.S. DOLLAR LOSES ITS LUSTER

Source: Bloomberg. US\$ per ounce of gold. Data through September 30, 2025.



Central Bank and ETF Gold Flows

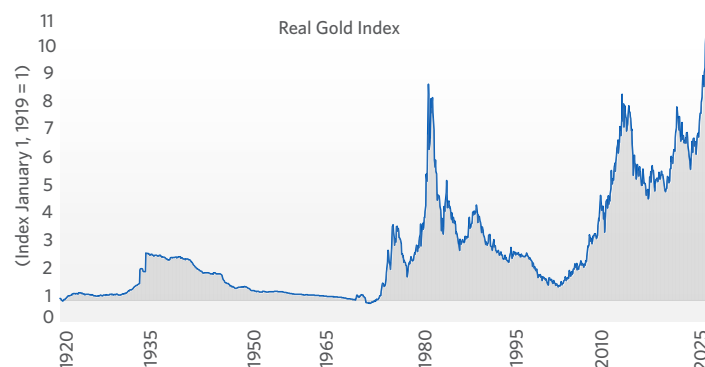
There have been two notable drivers of demand for gold over the past 18-24 months: central banks and ETFs. Gold purchases by central banks have increased sharply in recent years. Since 2022, annual acquisitions have exceeded 1,000 tons, about double the annual pace over the previous decade. By the end of 2024, gold, valued at market prices, was the world's second largest reserve asset, representing 20% of total central bank reserves compared with 46% for the U.S. dollar and 16% for the euro.

The surge in central bank purchases that began in 2022 coincided with Russia's invasion of Ukraine and, according to survey data, was motivated largely by geopolitical uncertainty, concerns about sanctions, and in "anticipation of changes in the international monetary system." Concerted gold purchases by Russia, which began as part of a de-dollarization campaign following its invasion of Crimea in 2014, represent about half of recent central bank purchases. While demand has been motivated by geopolitical factors, gold has traditionally been held by central banks as a long-term store of value, a hedge against economic risks and inflation, and a diversifier from the U.S. dollar and other reserve currencies.

Gold-backed ETFs have also been a key source of recent demand. Since their creation in 2003, these ETFs have grown considerably as a major holder of gold. By the end of the third quarter, global gold ETFs held 3,838 tons of gold (\$472 billion), more than any central bank except the U.S., which held 8,133.5 tons. ETFs have increased their gold holdings at a near record pace so far this year, with net inflows through September totaling 619 tons (\$64 billion). U.S. ETF flows dominated global flows, although European ETF demand has also been strong.

EXHIBIT 2: GOLD'S VOLATILE REAL VALUE NOW AT ALL-TIME HIGHS

Source: FRED and Strategic estimates. Data through September 30, 2025.



Drivers of Gold Demand

Because gold earns no income and holding gold entails storage costs, gold prices are typically modeled as inversely related to real interest rates. This inverse relationship held up well between 2008 and 2022, but has broken down since, giving credence to survey data that recent gold demand has been driven largely by geopolitical concerns.

In addition to the concerns related to Russia's invasion of Ukraine, erratic U.S. economic and trade policies have raised doubts over the economic governance of the keeper of the globe's monetary anchor. The prospect of easier monetary and fiscal policy during a period of full employment and above target inflation is raising fears of currency debasement.

As highlighted by the volatility of its real value (see in Exhibit 2), history suggests that gold has not been a consistently reliable inflation hedge. Nevertheless, it is still viewed as a hedge against adverse economic developments and is naturally in high demand when economic policy uncertainty and geopolitical tensions are high. Another dimension to the recent run in gold prices is momentum. As Oscar Wilde observed, "nothing succeeds like excess." Fear of missing out on a once in a lifetime rally is a prime driver of recent gold demand, especially by ETFs. It is a source of demand that can be just as easily reversed.

Note: Opinions expressed herein are current as of the date appearing in this material and are subject to change at the sole discretion of Strategic. This document is not intended as a source of any specific investment recommendations.