DATA UPDATE 3 FOR 2026: THE TRUST DEFICIT – FROM BONDS TO GOLD TO BITCOIN!

A tale of two (or three) markets?

A year of living dangerously!

- In my last post, I talked about the disconnect between the bad news stories that we reading and the solid performance of US equities during 2025.
- In this one, I want to focus on four news stories from last year – the **tariffs** announced at the end of March, the **downgrade of the US**, the **longest shutdown in US government history** and unprecedented **challenges to the Fed's perceived independence** - and examine how they played out in the rest of the market.
- I will start with a look at **US treasuries**, which should have been in the eye of the storm in all three of the stories, move on to to **currencies**, with a focus on the US dollar, then to **gold & silver** and close off with **bitcoin**.
- We will argue that a **loss of trust in institutions** (governments, central banks, regulatory authorities), albeit with wide variation across investors, was the thread that best explains their performance.

The Role of Trust!

- We often underestimate **how much of the modern global economy and financial markets are built on trust** - in central banks to preserve the buying power in currencies, in governments and businesses to honor their contractual commitments and in legal systems to enforce that they do.
- That **trust can be tenuous**, and when violated or even questioned, the consequences can be catastrophic.
- In fact, **one of the divides between developed and emerging markets for much of the last century** was on the trust dimension, with the implicit assumption that emerging countries well trustworthy than developed countries.
- That clear distinction **has been muddied in the twenty first century**, as crises and political developments have undercut trust even in institutions across the board.

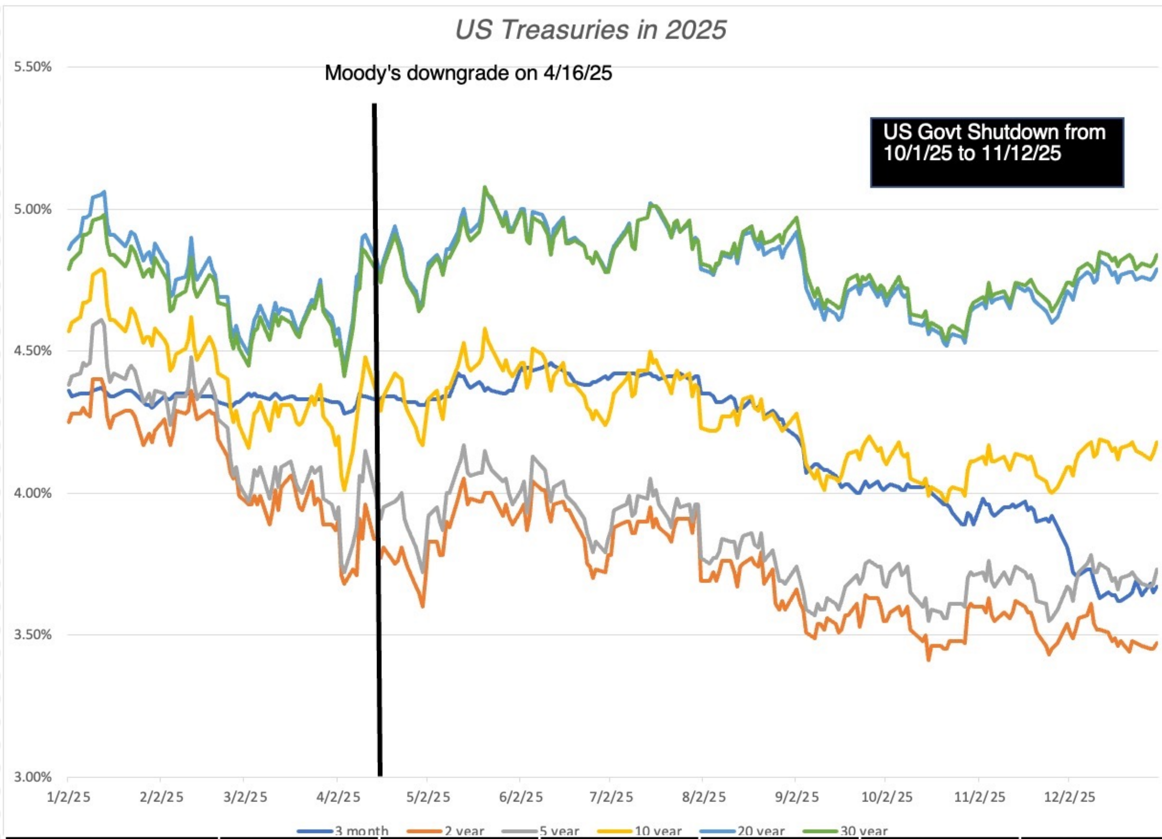
The Trust Testing News Stories

- The first of the developments was on **the tariff front**, where decades of progress towards reducing barriers to trade was upended by liberation day (on March 31, 2025), where the US imposed what seemed like arbitrary tariffs on countries, but made those tariffs punitively large.
- Just two weeks later, on April 16, 2025, Moody's **lowered its rating for the US, albeit marginally to Aa1**, reducing the number of Aaa rated countries to eight.
- On October 1, 2025, **the US government went into shutdown mode**, as congress balked at increasing the debt limit for the country, and this one stretched into weeks, before an agreement was reached to reopen the government on November 12, 2025.
- In the final months of the year, the **independence of the Federal Reserve** became a subject of discussion as news stories and pronouncements on social media suggested that the administration was seeking to put its imprint on monetary policy, through its nominees.

The Reasons

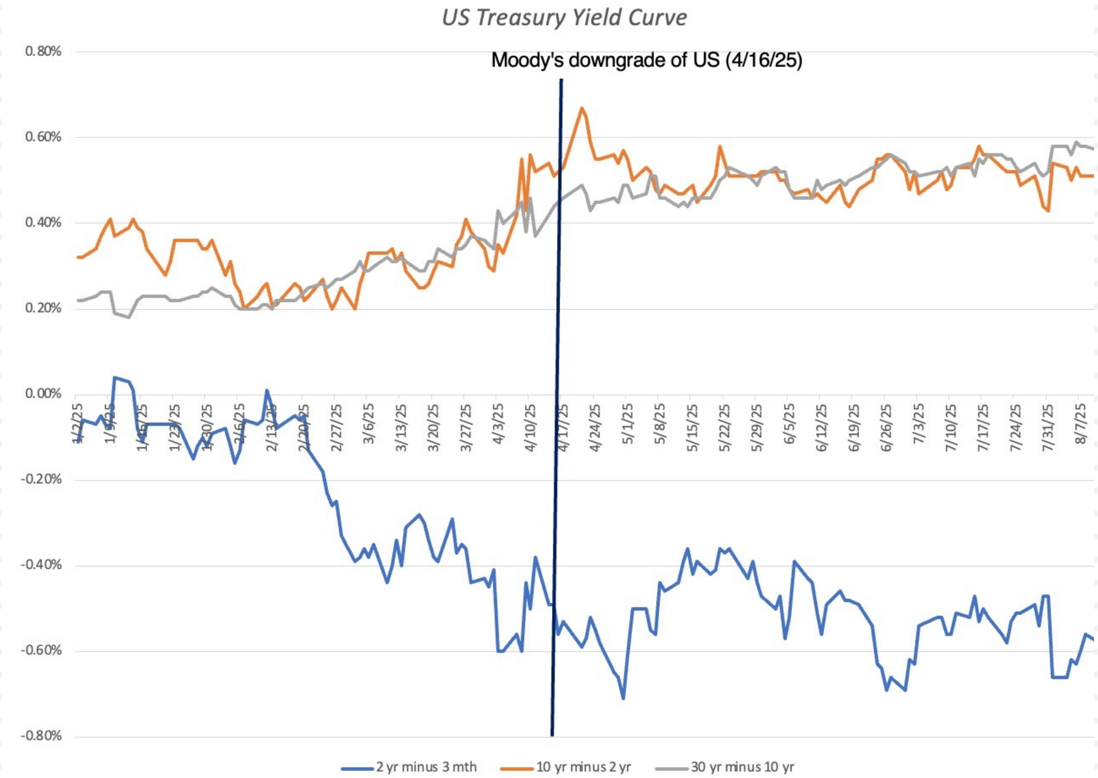
- While Donald Trump is the facile answer to why trust is slipping, the truth is that in each case, the slippage has been occurring over the last two decades.
  - The push towards barrier-free global trade **started running out of steam a decade or more ago**, as the costs of that trade created political backlash.
  - The Moody's ratings downgrade **followed downgrades by S&P, in 2011, and Fitch, in 2023**, partly in reaction to government deficit/borrowing and partly to political dysfunction.
  - The Fed's much-vaunted independence **has always been built more on norms rather that legal strictures**, and administrations through the decades have managed to nudge central banks to adopt their preferred path, and especially so in the aftermath of the pandemic.

US Treasuries in 2025



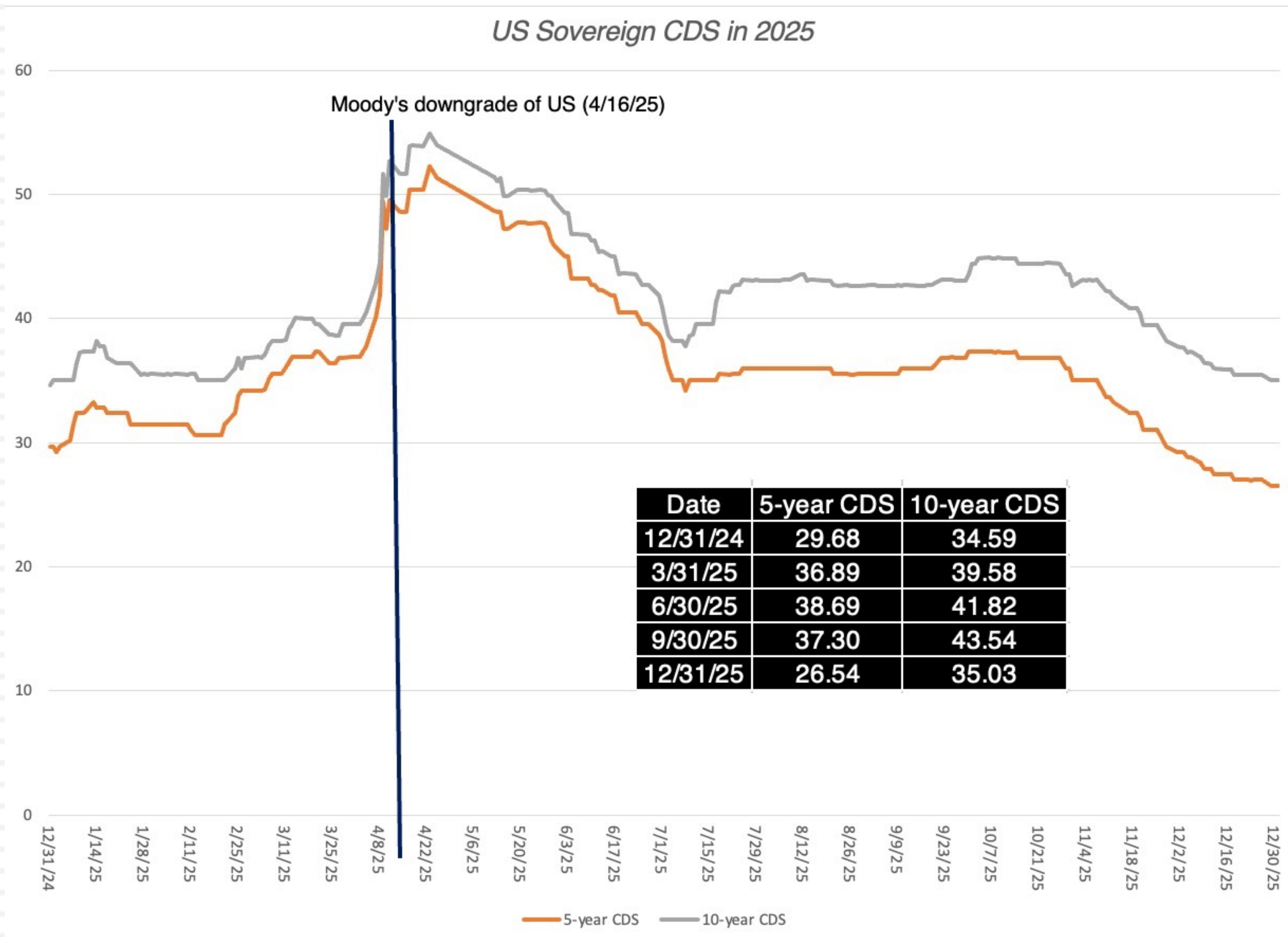
Date	3 month	2 year	5 year	10 year	20 year	30 year
1/2/25	4.36%	4.25%	4.38%	4.57%	4.86%	4.79%
3/31/25	4.32%	3.89%	3.96%	4.23%	4.62%	4.59%
6/30/25	4.41%	3.72%	3.79%	4.24%	4.79%	4.78%
9/30/25	4.02%	3.60%	3.74%	4.16%	4.71%	4.73%
12/31/25	3.67%	3.47%	3.73%	4.18%	4.79%	4.84%
Change in 2025	-0.69%	-0.78%	-0.65%	-0.39%	-0.07%	0.05%

Treasury Yield Curve in 2025



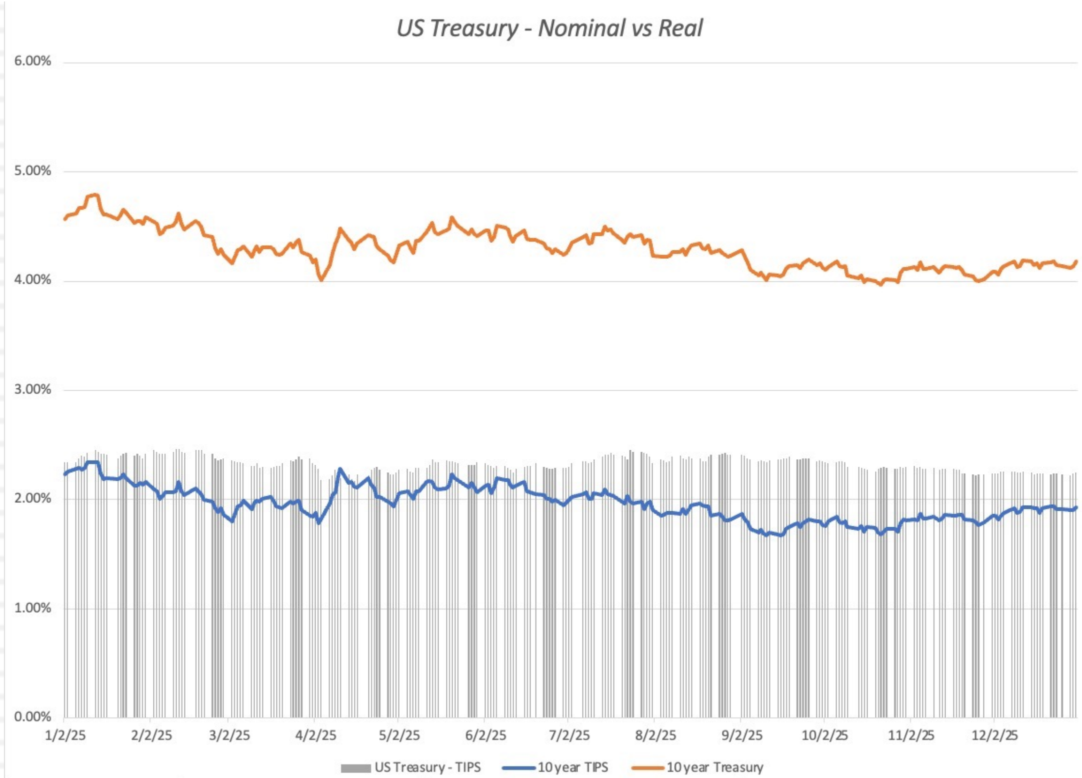
Date	2 yr minus 3 mth	10 yr minus 2 yr	30 yr minus 10 yr
1/2/25	-0.11%	0.32%	0.22%
3/31/25	-0.43%	0.34%	0.36%
6/30/25	-0.69%	0.52%	0.54%
9/30/25	-0.42%	0.56%	0.57%
12/31/25	-0.20%	0.71%	0.66%
Change in 2025	-0.09%	0.39%	0.44%

Sovereign Default Risk?



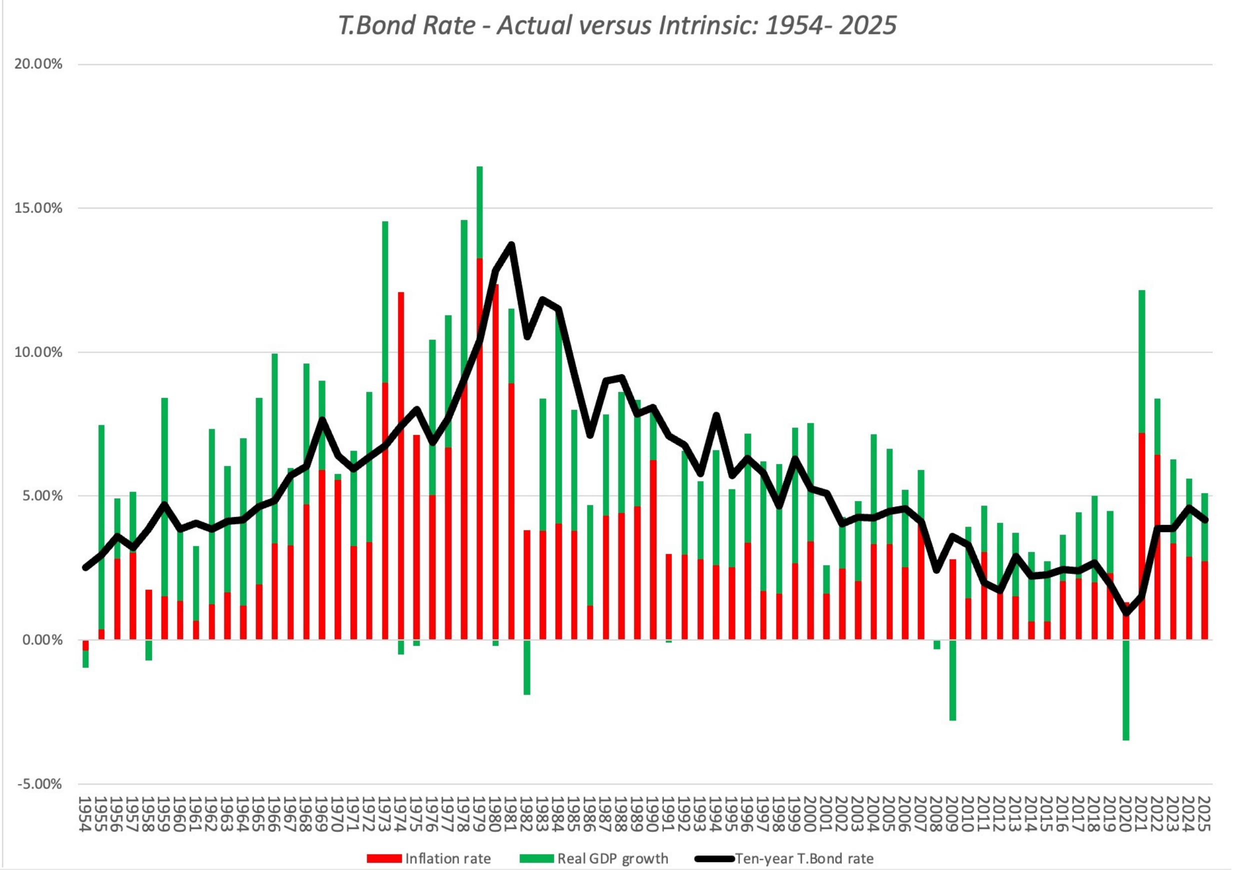
Date	5-year CDS	10-year CDS
12/31/24	29.68	34.59
3/31/25	36.89	39.58
6/30/25	38.69	41.82
9/30/25	37.30	43.54
12/31/25	26.54	35.03

Higher inflation?



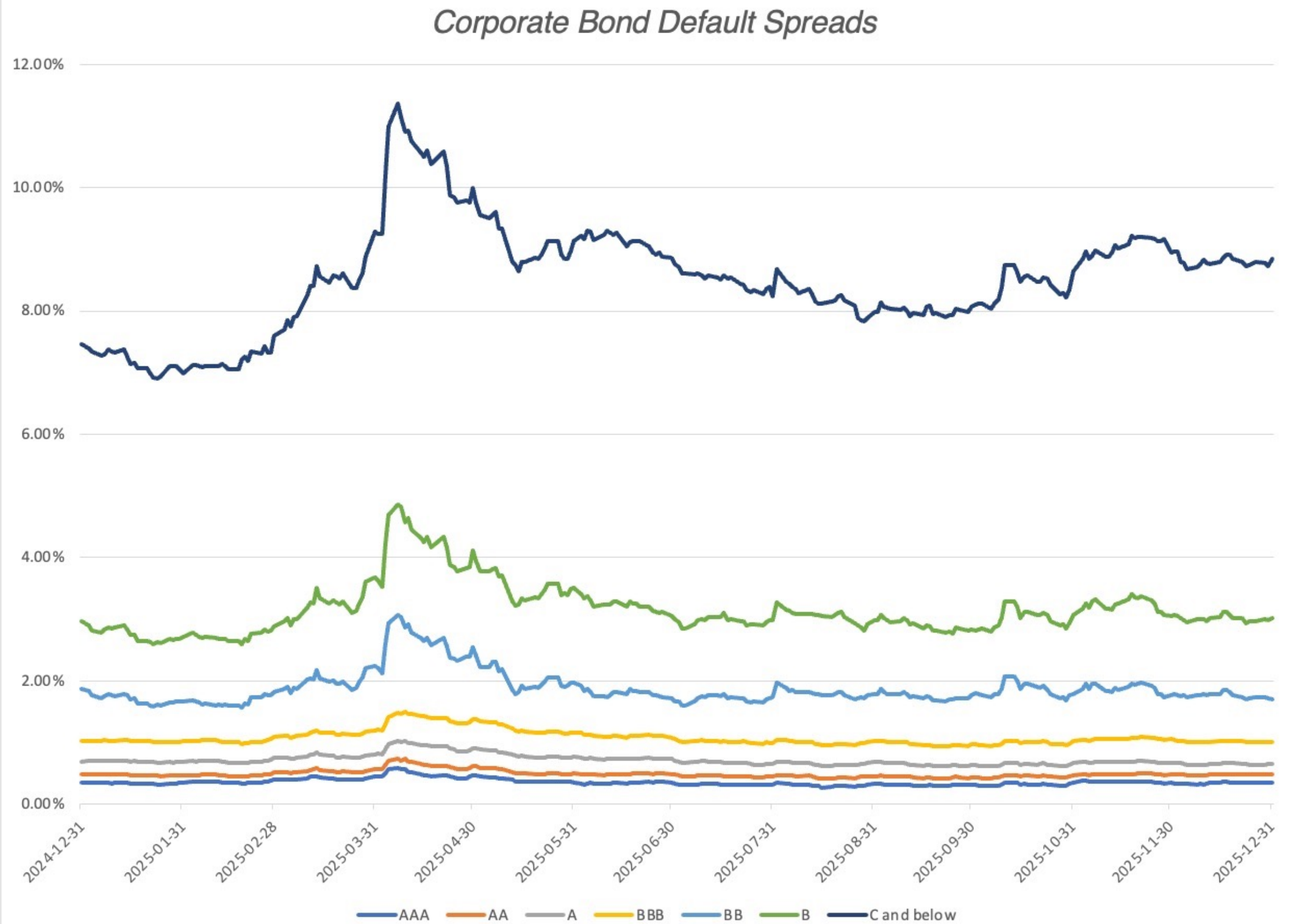
Date	10 year TIPS	10 year Treasury	US Treasury - TIPS
1/2/25	2.23%	4.57%	2.34%
3/31/25	1.85%	4.23%	2.38%
6/30/25	1.95%	4.24%	2.29%
9/30/25	1.80%	4.16%	2.36%
12/31/25	1.93%	4.18%	2.25%

The Fed's Independence Day!



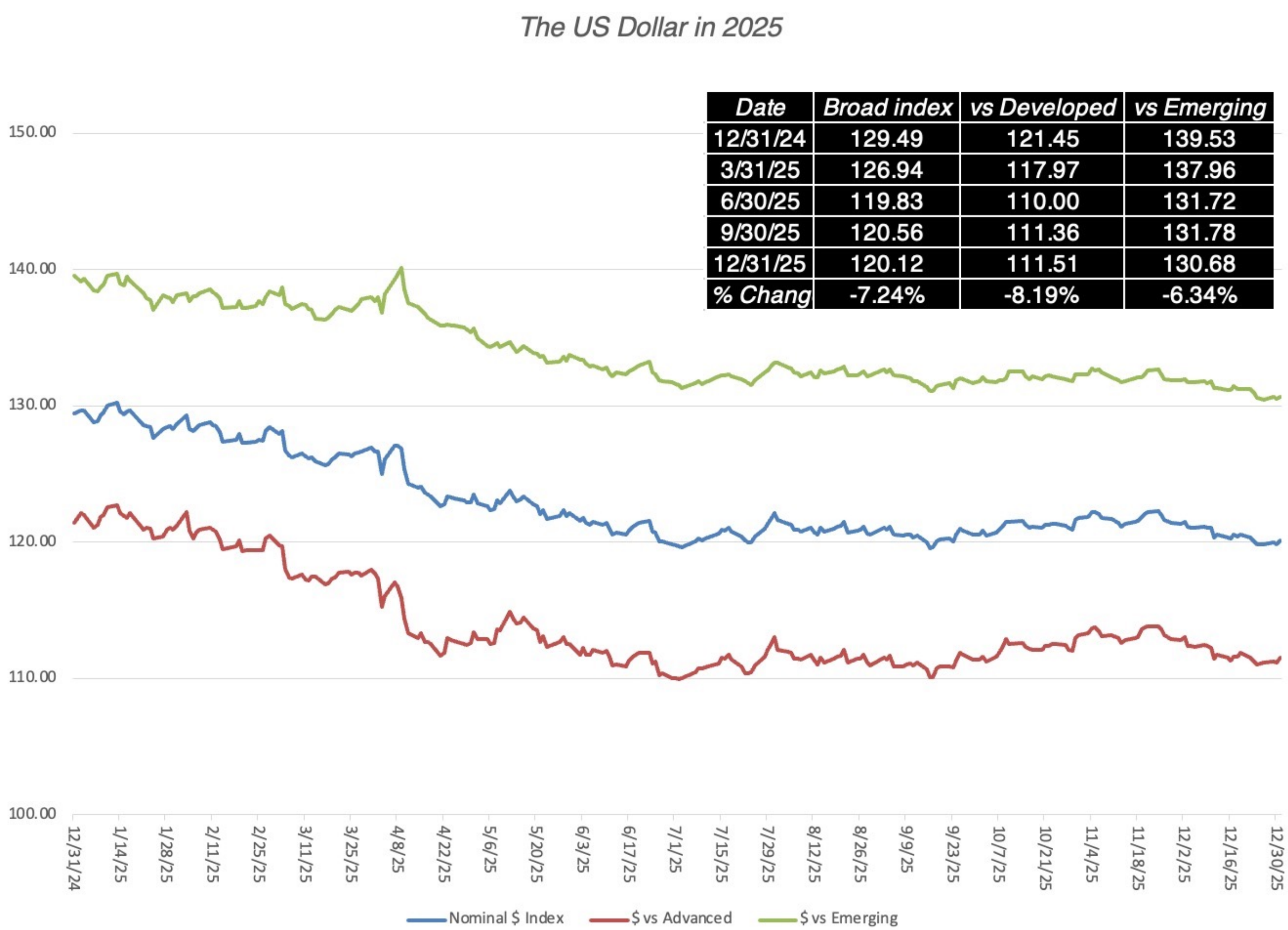
Year end	Ten-year T.Bond rate	Inflation rate	Real GDP growth	Intrinsic riskfree rate	Intrinsic - T.Bond Rate
1954-1980	5.83%	4.49%	3.50%	7.98%	-2.15%
1981-2008	6.88%	3.26%	3.04%	6.30%	0.58%
2009-2020	2.36%	1.81%	1.32%	3.13%	-0.77%
2021-2025	3.61%	4.52%	2.98%	7.50%	-3.90%
1954-2025	5.50%	3.57%	2.92%	6.48%	-0.98%
End of 2025	4.18%	2.74%	2.36%	5.10%	-0.92%

Corporate Bonds: The Story with Spreads



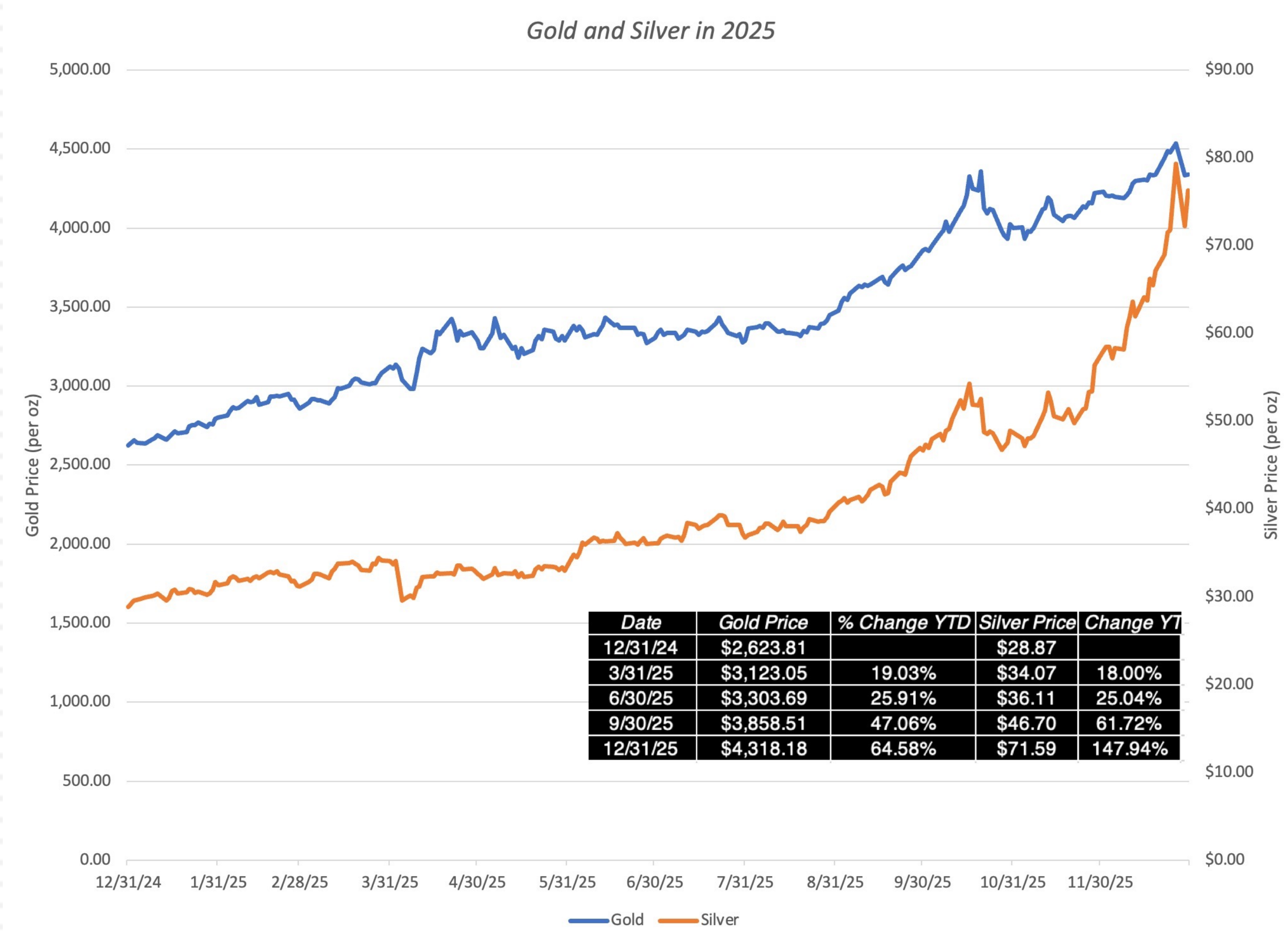
Date	AAA	AA	A	BBB	BB	B	C and below
12/31/24	0.34%	0.48%	0.69%	1.02%	1.86%	2.96%	7.46%
2025-03-31	0.44%	0.56%	0.81%	1.20%	2.24%	3.68%	9.28%
2025-06-30	0.35%	0.49%	0.73%	1.08%	1.71%	3.05%	8.86%
2025-09-30	0.31%	0.43%	0.63%	0.97%	1.77%	2.83%	8.07%
2025-12-31	0.34%	0.49%	0.65%	1.01%	1.69%	3.01%	8.85%
Change in 2025	0.00%	0.01%	-0.04%	-0.01%	-0.17%	0.05%	1.39%

The US Dollar



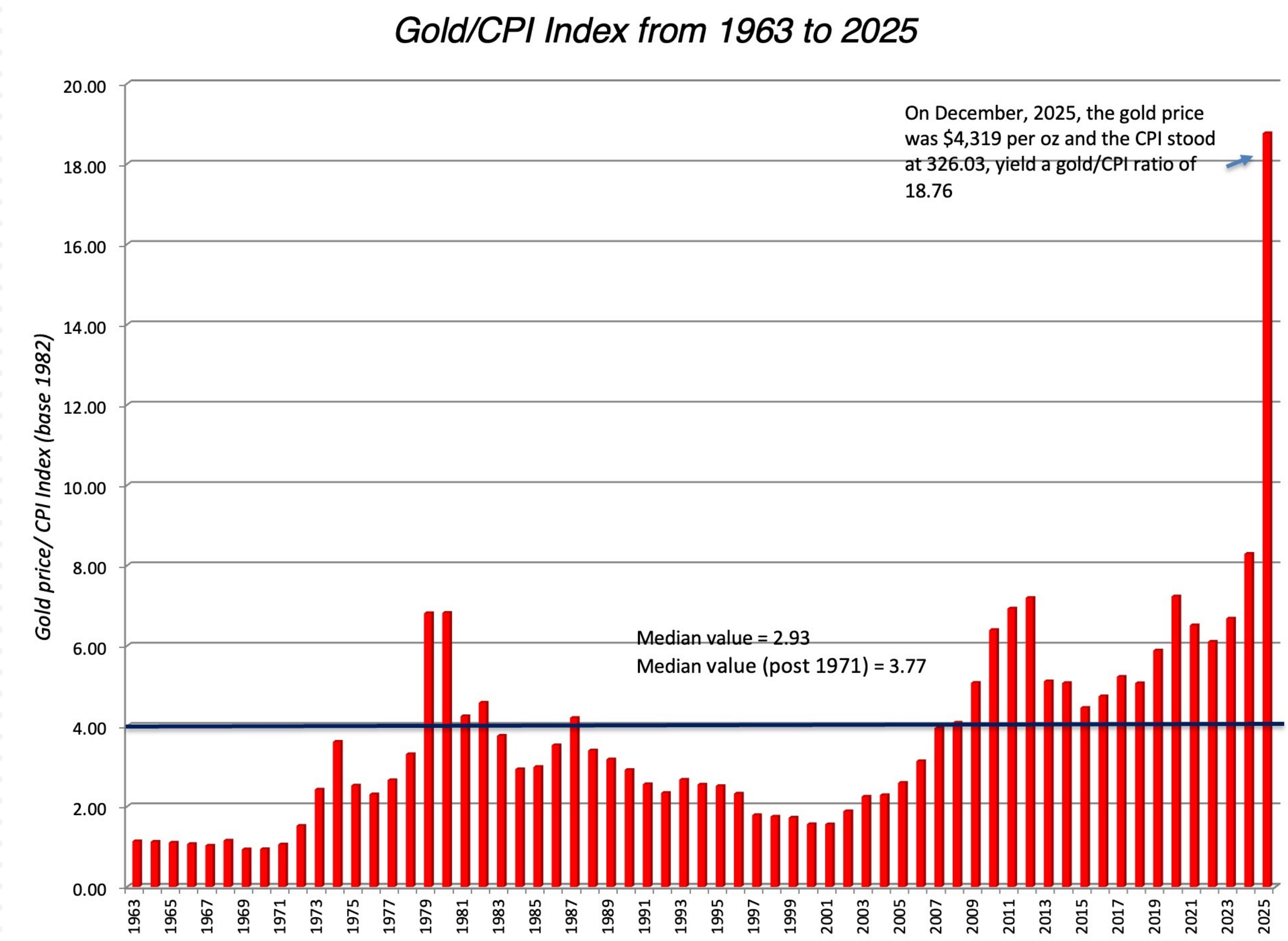
Date	Broad index	vs Developed	vs Emerging
12/31/24	129.49	121.45	139.53
3/31/25	126.94	117.97	137.96
6/30/25	119.83	110.00	131.72
9/30/25	120.56	111.36	131.78
12/31/25	120.12	111.51	130.68
% Chang	-7.24%	-8.19%	-6.34%

Gold and Silver

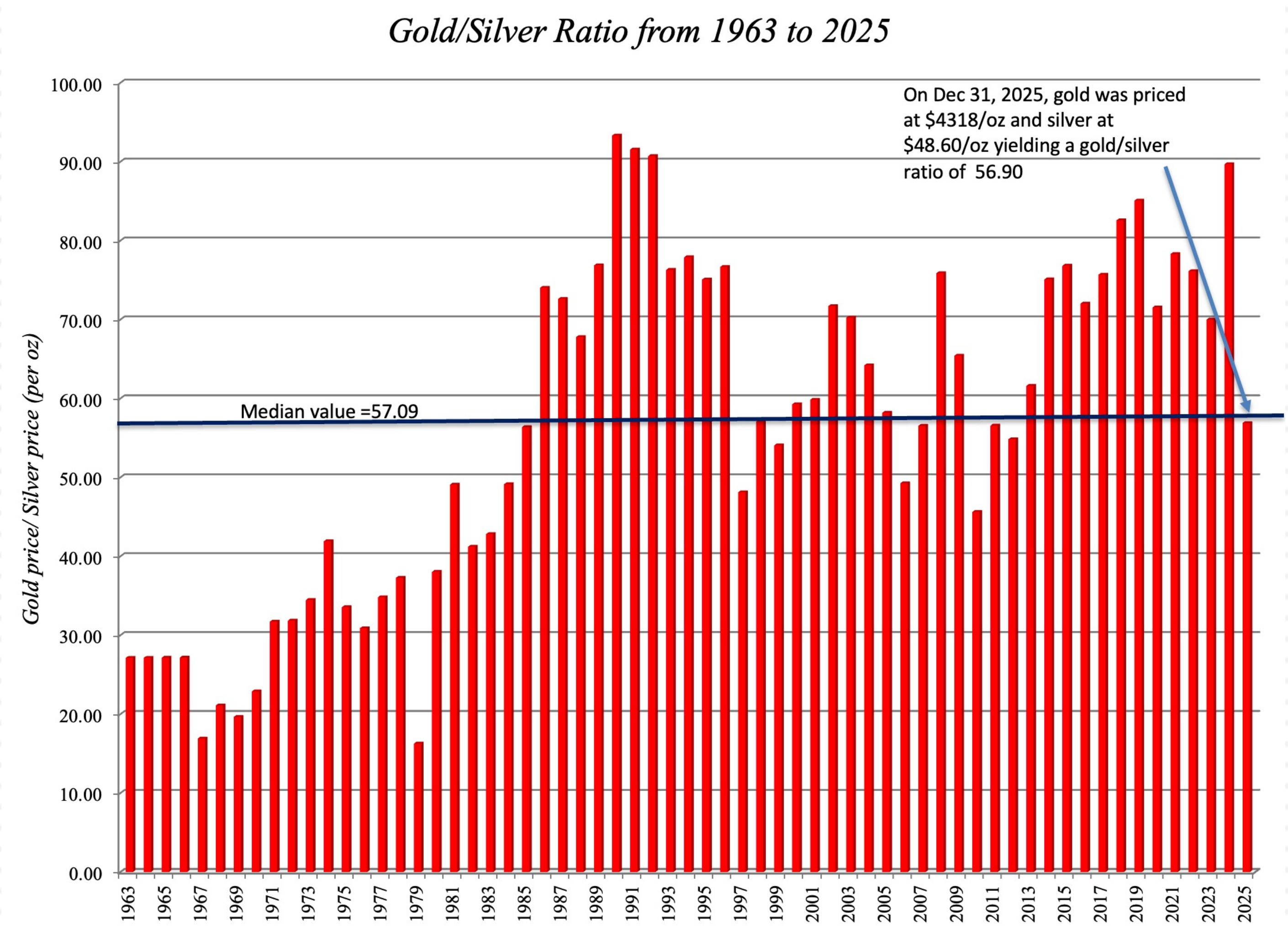


Date	Gold Price	% Change YTD	Silver Price	Change YT
12/31/24	$2,623.81		$28.87	
3/31/25	$3,123.05	19.03%	$34.07	18.00%
6/30/25	$3,303.69	25.91%	$36.11	25.04%
9/30/25	$3,858.51	47.06%	$46.70	61.72%
12/31/25	$4,318.18	64.58%	$71.59	147.94%

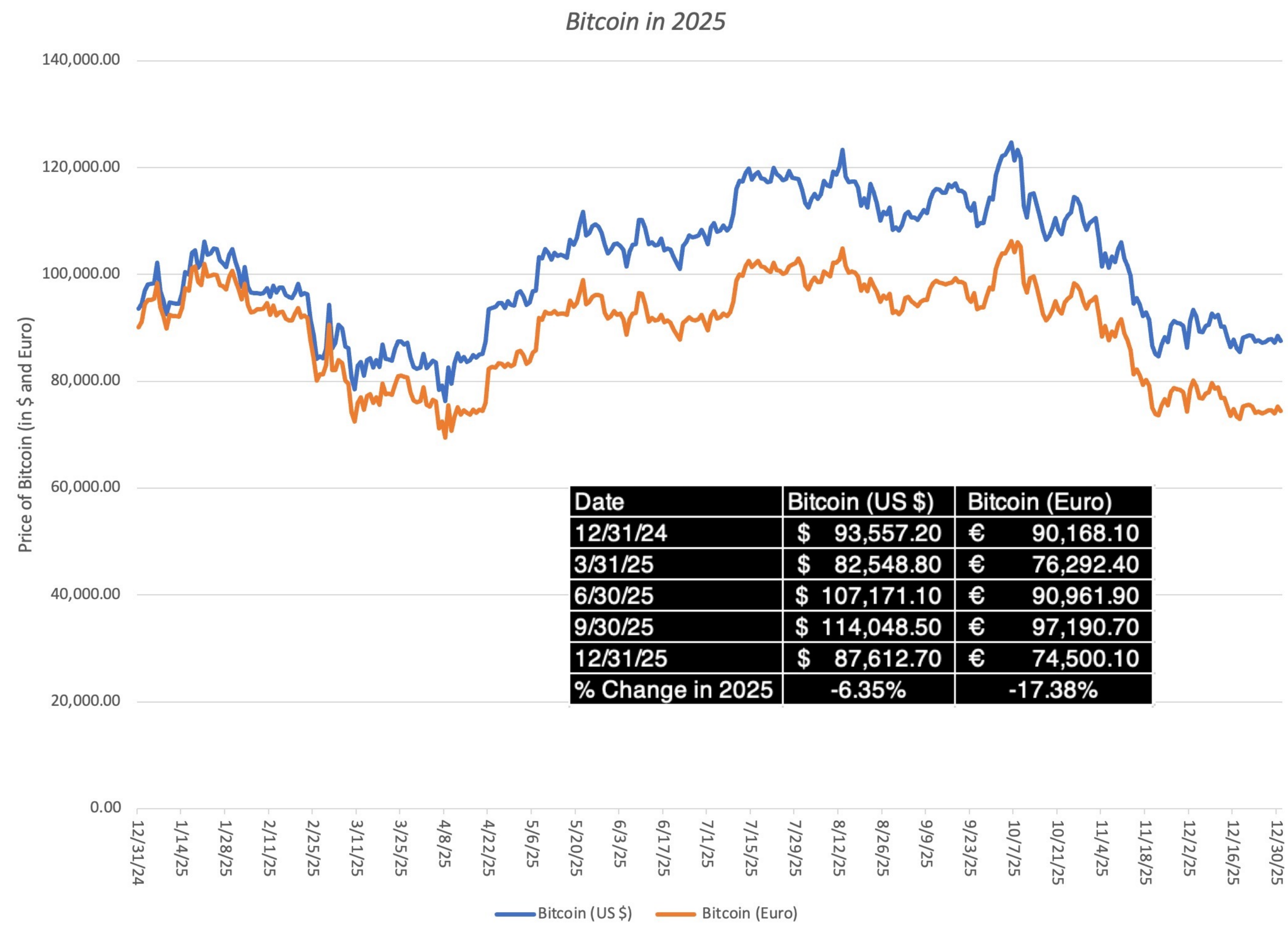
Gold and Inflation!



Silver rises, relatively…



Bitcoin, currency or collectible?



Date	Bitcoin (US $)	Bitcoin (Euro)
12/31/24	$ 93,557.20	€ 90,168.10
3/31/25	$ 82,548.80	€ 76,292.40
6/30/25	$ 107,171.10	€ 90,961.90
9/30/25	$ 114,048.50	€ 97,190.70
12/31/25	$ 87,612.70	€ 74,500.10
% Change in 2025	-6.35%	-17.38%

And asset co-movements…

Asset Group	Bitcoin	Gold	Silver	S&P 500	US Small Cap	US 10-yr bond
Bitcoin	1					
t						
Gold	0.0227	1				
t	0.1603					
Silver	-0.0679	**0.5193**	1			
t	-0.4814	4.2965				
S&P 500	**0.3514**	-0.0549	0.15	1		
t	2.654	-0.3889	1.0725			
US Small Cap	**0.3474**	-0.0231	0.1748	**0.8804**	1	
t	2.6196	-0.1637	1.255	13.129		
US 10-yr bond	-0.1963	0.0992	0.0646	**-0.3949**	-0.159	1
t	-1.4155	0.7049	0.4579	-3.0396	-1.1387	

The story that binds…

- The big news stories of the year, from the ratings downgrade to the government shutdown to the soap opera of who would lead the Fed all **fed into a storyline of fraying trust in US institutions**.
- While that trust deficit should have led to rising interest rates and a tough year for bonds, the **actual bond market performance, like equities in the prior post, suggested that markets were not swayed**.
- That does not mean that no one cared, since a **subset of investors** were concerned enough about the trust issue **to push the dollar down and put gold and silver prices on a stratospheric upward path**.
- **Bitcoin remained the outlier**, moving more with stocks and bonds, albeit without their upside (at least this year), and less with collectibles.