

# GOLD'S PRICE SURGE IN 2025: MACRO SIGNAL OR PRICING NOISE?

The Golden Rule (Is there one)?

# A Great Year for Stocks, Bonds and Gold?

- In 2025, as stock and bond markets have climbed walls of worry almost nonchalantly to reach new highs, gold has been a surprisingly big winner, building on a recovery that started in 2022 to crest \$4000 an ounce.
  - For long term proponents of investing in gold, this has been vindication, but even for investors who have never held gold in their portfolios, there is a message from the gold's rise that we ignore at our own peril.
  - I must confess that I have never felt the draw of gold, and have never held it in my portfolio, but I have always been fascinated by the hold that gold has on some investors, and the reasons for its longevity.
- In this post, I will start by first positioning gold in the investment continuum and then examining its price movements, both in 2025 and with a longer-term perspective, to get a handle on the drivers of these movements.

# Gold: What is it?

	To value	To price
Assets	Can be valued based upon expected cashflows, with higher cashflows & lower risk = higher value.	Can be priced against similar assets, after controlling for cash flows and risk.
Commodity	Can be value based upon utilitarian demand and supply, but with long lags in both.	Can be priced against its own history (normalized price over time)
Currency	Cannot be value	Can be priced against other currencies, with greater acceptance & more stable purchasing power = higher price.
Collectible	Cannot be value	Can be priced based upon scarcity and desirability.

# Assessing Gold

- It is an **inefficient currency**, and while there are undoubtedly transactions where gold coins have been used as tender, difficulties associated with checking authenticity, security and breaking down into small units have limited its use through history.
- It **can be used as a commodity**, as is the case when it is used to make jewelry or statues (or in tooth fillings), but even when used in this context, it is often held more for its value as a collectible than for aesthetic reasons.
- It **is as a collectible that gold has stood out**, with governments, banks and individuals attaching value to it over time.

# Implications

- Since gold, absent cash flows, cannot be valued, arguing **whether gold is under or over valued is a pointless one, just as it is for bitcoin.** In fact, if your investment philosophy is strictly tethered to finding investments that are under valued by the market, gold will not have a place in your portfolio, explaining Warren Buffett's longstanding aversion to it, as an investment.
- Gold is priced every day, and **that pricing process is driven by demand and supply,** and while we will outline macro variables that can affect one or both, it is ultimately a process where mood and momentum will carry the day.

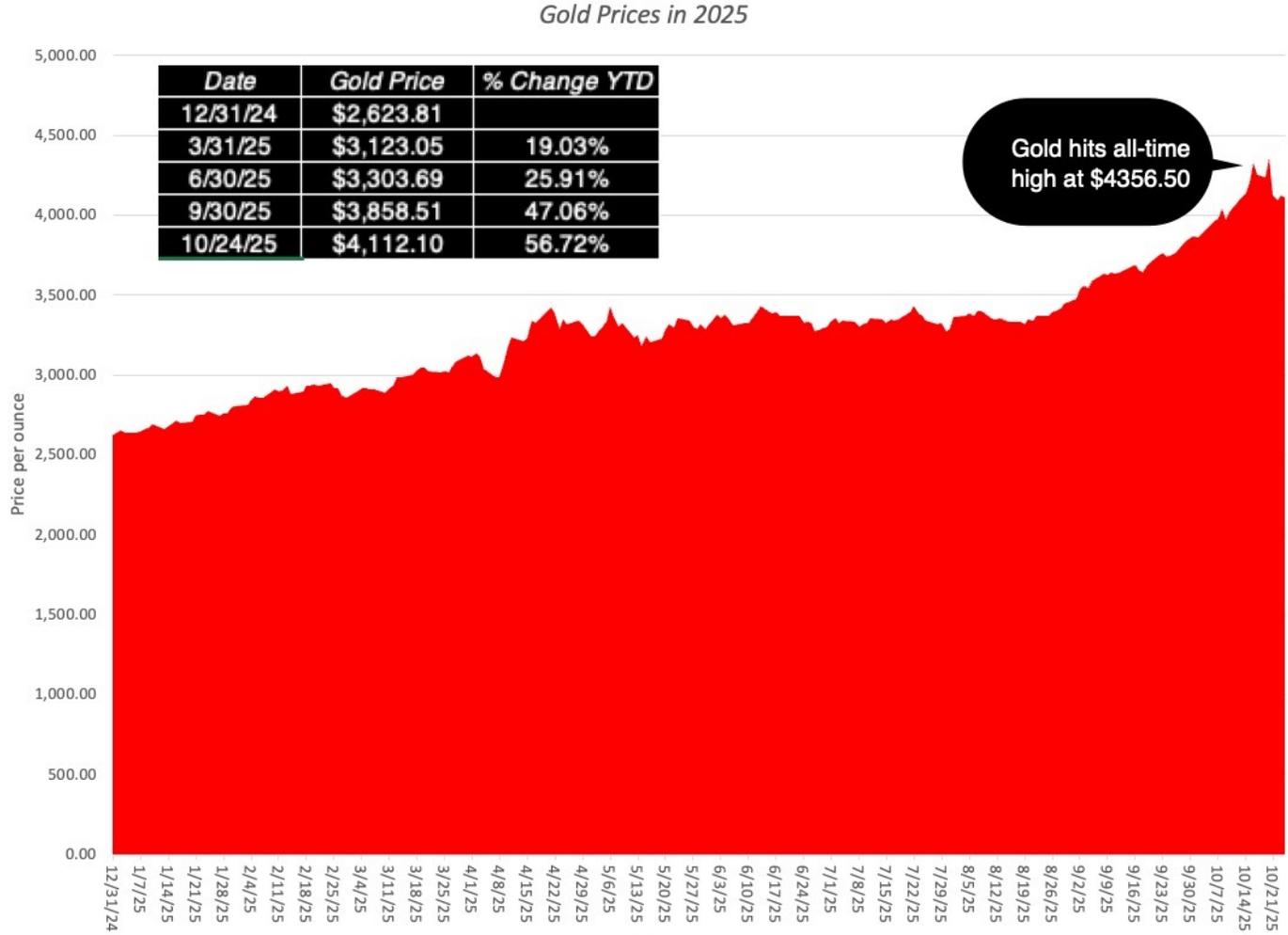
# Is it a good collectible?

1. Scarcity: At the start of 2025, there were approximately 244,000 metric tons of gold in the world, held in a variety of forms (jewelry, gold bars & coins etc.).
  - ▣ While gold production in 2024 amounted added 3,000 tons to this quantity, it is estimated that there about 60,000 metric tons of gold that are still in reserves.
  - ▣ That puts it in a sweet spot between elements like platinum that are too scarce (about 10,000 metric tons) to be widely held, and more difficult to extract, and elements that are too plentiful to hold their value.
2. Durability: For a collectible to hold its value, it has to be durable, and one of the reasons that gold acquired its collectible status is because it is so chemically stable, malleable and does not oxidize or corrode (when it comes into contact with acids and other agents).
3. Desirability: There is something about gold that exerts a hold on human beings. From the Greek myth of Midas, the king whose touch turned everything to gold, to the legend of El Dorado, a city made of gold, that led the Spanish to cross the ocean to seek it out in South America, gold has driven narratives and altered history.

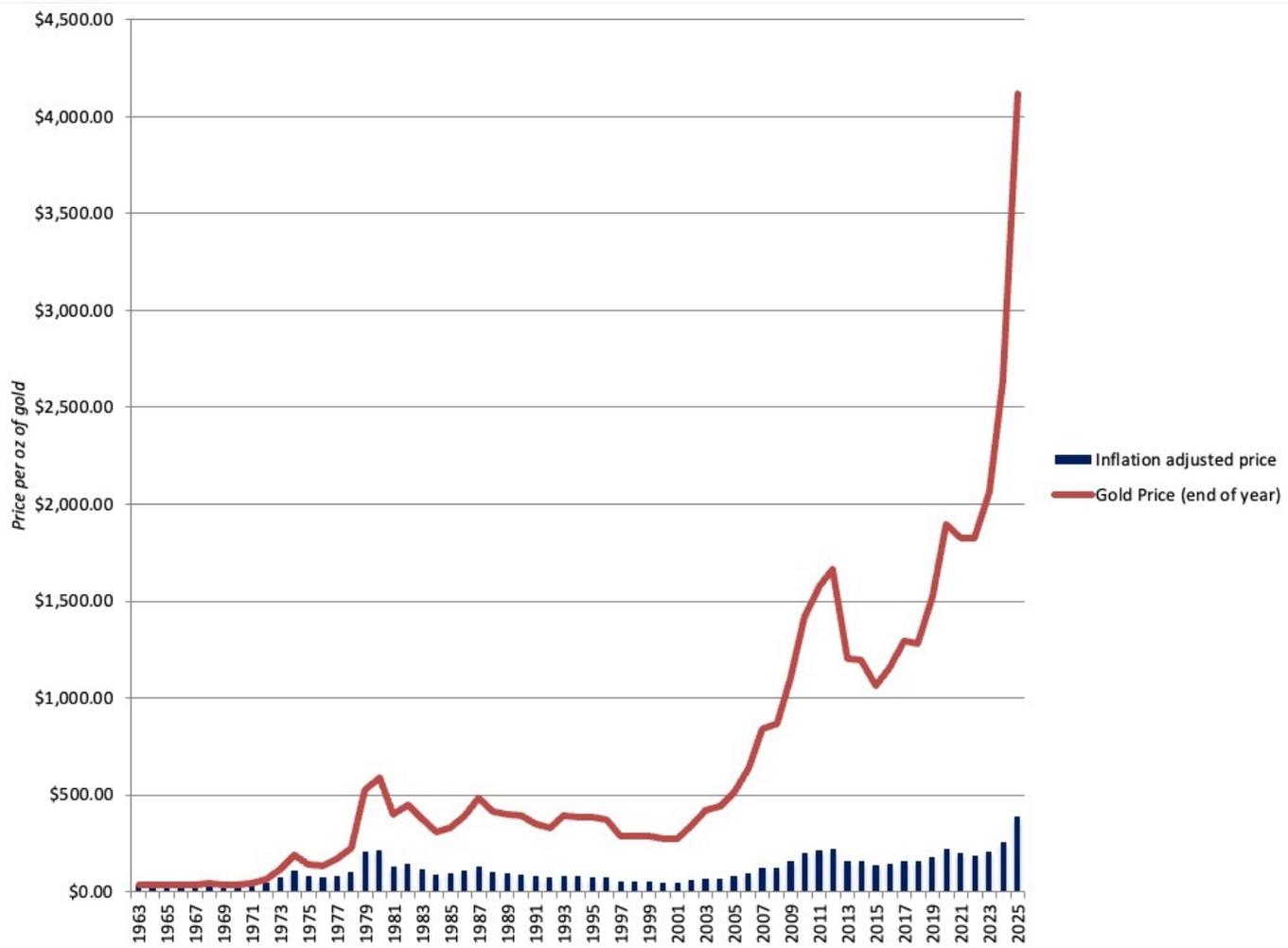
# Gold: A History of Usage

- Gold has been valued as precious by civilizations going back millennia, with evidence of usage in the form of coins going back to the Lydian civilization, located in Turkey in 600 BC, with the Greeks and the Romans following.
- Issuers (governments and kingdom) of fiat currencies tied them to gold to get skeptical populaces to hold them. In the nineteenth century, this linkage was formalized in the gold standards, where paper currency issuance was backed by holdings in gold, with paper money convertible into gold.
  - ▣ England adopted a de facto bimetallic (silver and gold) standard in the early 1700s, but a miscalculation by Isaac Newton on the silver/gold ratio, where silver was overpriced relative to gold, made it a gold standard.
  - ▣ While England did not formally adopt the gold standard until 1818, the United States, at its birth as a country, and eager to have its new currency (the dollar) be accepted as currency, followed England's model, with a brief break during the civil war.
- In the second half of the nineteenth century, the gold standard became the base for most major currencies, but two events in the early twentieth century put it to the test.
  - ▣ The first was the First World War, governments in need of money to fund their armies found their hands tied by the constraints of gold, and many were forced to abandon convertibility.
  - ▣ The United States stayed with the gold standard into the Great Depression, with some economists blaming the Fed's actions trying to defend it for worsening the economic collapse.
  - ▣ After the Second World War, the United States emerged as the economic superpower, and with the Bretton-Woods agreement, the US dollar took the place of gold at the center of the global monetary system, with the dollar convertible to gold at a fixed price.

# A Pricing History: Gold In 2025



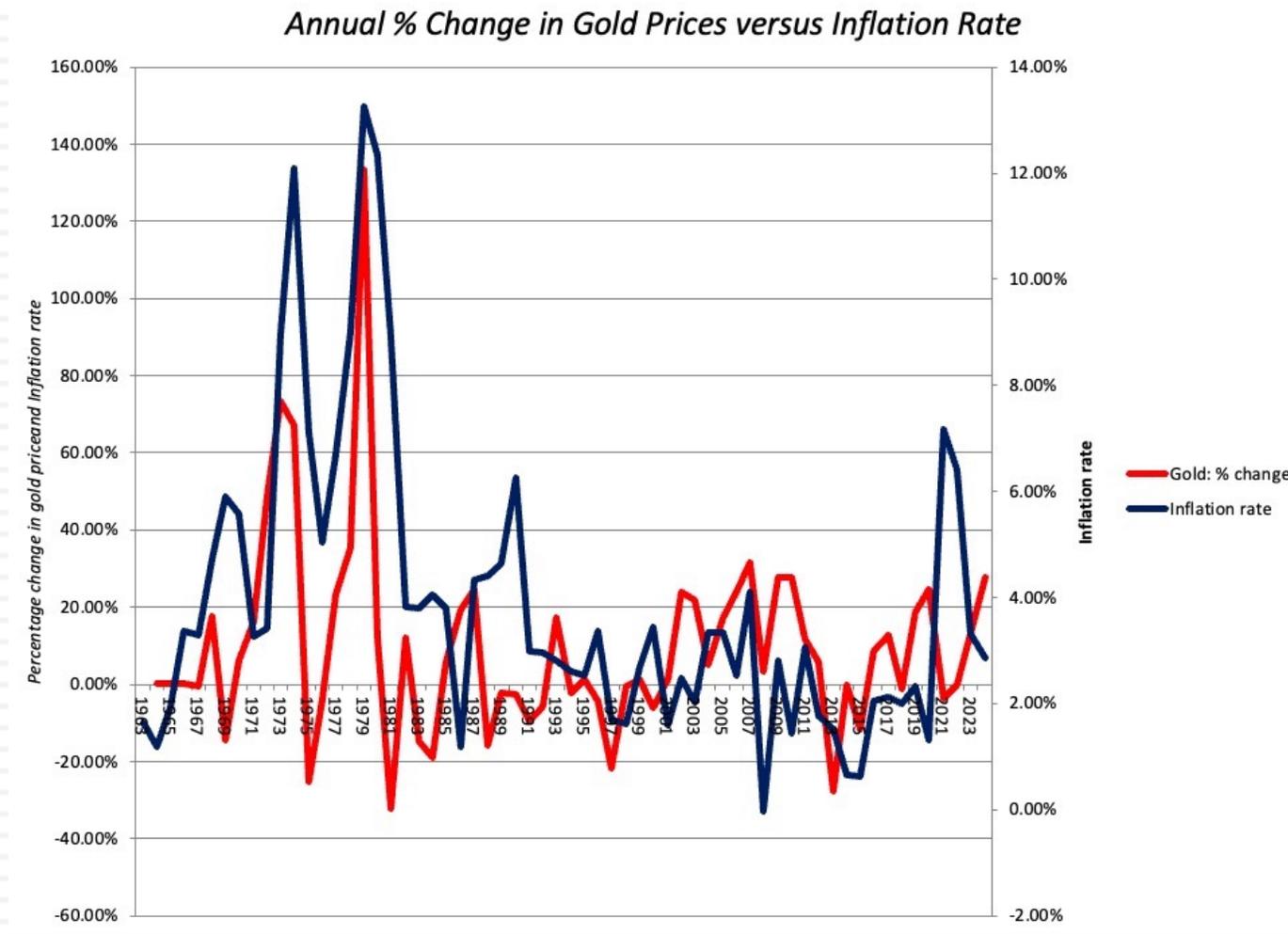
# Gold Prices: From 1963 to 2025



# Drivers of Gold Prices

- There is an alternate route that can be used to estimate the "**fundamental**" **value of a commodity** by gauging the demand for the commodity (based on its uses) and the supply.
- While that may work, at least in principle, for industrial commodities, it is **tough to put into practice with precious metals** in general, and gold because the demand is not driven primarily by practical uses.
- While gold does not have an intrinsic value, there are at least three factors historically that have influenced the price of gold- **inflation, fear of crises and real interest rates.**

# 1. Inflation and Gold Prices

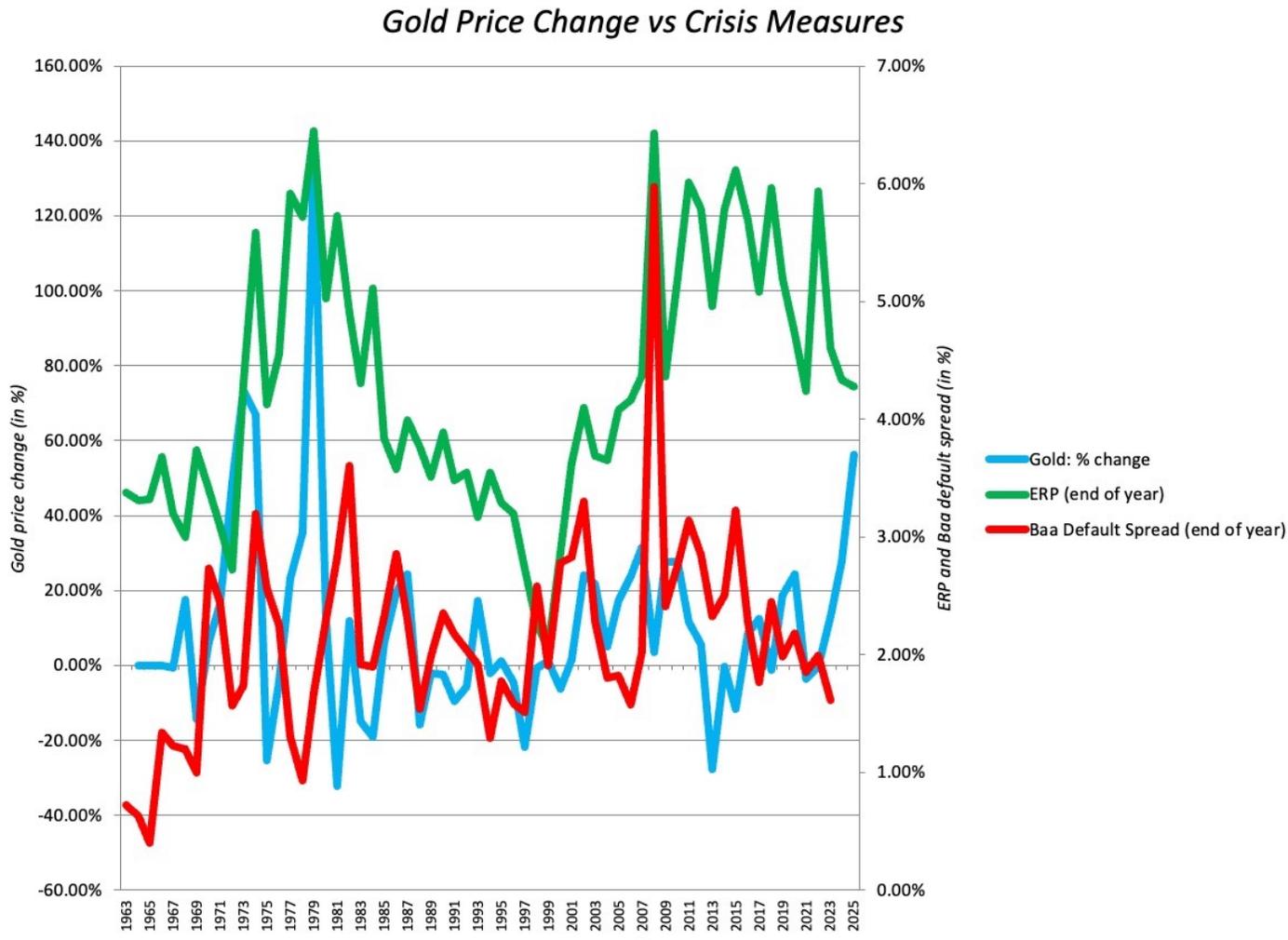


% Change in Gold price =  $-0.06 + 3.92$  (Inflation rate)  $R\text{ squared} = 18.8\%$

# Investment Class Returns: By Decade

<i>Decade</i>	<i>Actual Inflation</i>	<i>Unexpected Inflation</i>	<i>Stocks</i>	<i>T. Bills</i>	<i>T. Bonds</i>	<i>Baa Corp Bonds</i>	<i>Gold</i>	<i>Real Estate</i>
1931-40	-1.92%	0.88%	5.72%	0.54%	4.09%	8.58%	NA	-0.28%
1941-50	5.51%	2.84%	13.79%	0.60%	2.02%	4.74%	NA	8.59%
1951-60	2.24%	-2.02%	17.89%	2.17%	1.95%	2.57%	NA	2.81%
1961-70	2.53%	1.23%	8.92%	4.33%	3.02%	3.13%	6.15%	2.92%
1971-80	7.44%	3.01%	10.34%	6.80%	3.60%	6.39%	38.09%	8.72%
1981-90	5.13%	-2.73%	14.47%	8.43%	13.51%	15.40%	-2.46%	5.09%
1991-2000	2.95%	-0.90%	16.88%	4.61%	8.19%	9.13%	-2.37%	4.13%
2001-10	2.57%	-0.17%	3.54%	2.13%	5.80%	8.51%	18.35%	2.96%
2011-20	1.76%	-0.32%	14.34%	0.51%	4.64%	7.44%	4.08%	5.31%
2021-25	4.55%	2.28%	15.63%	3.21%	-2.41%	0.70%	18.71%	7.07%

# 2. Risk and Crises



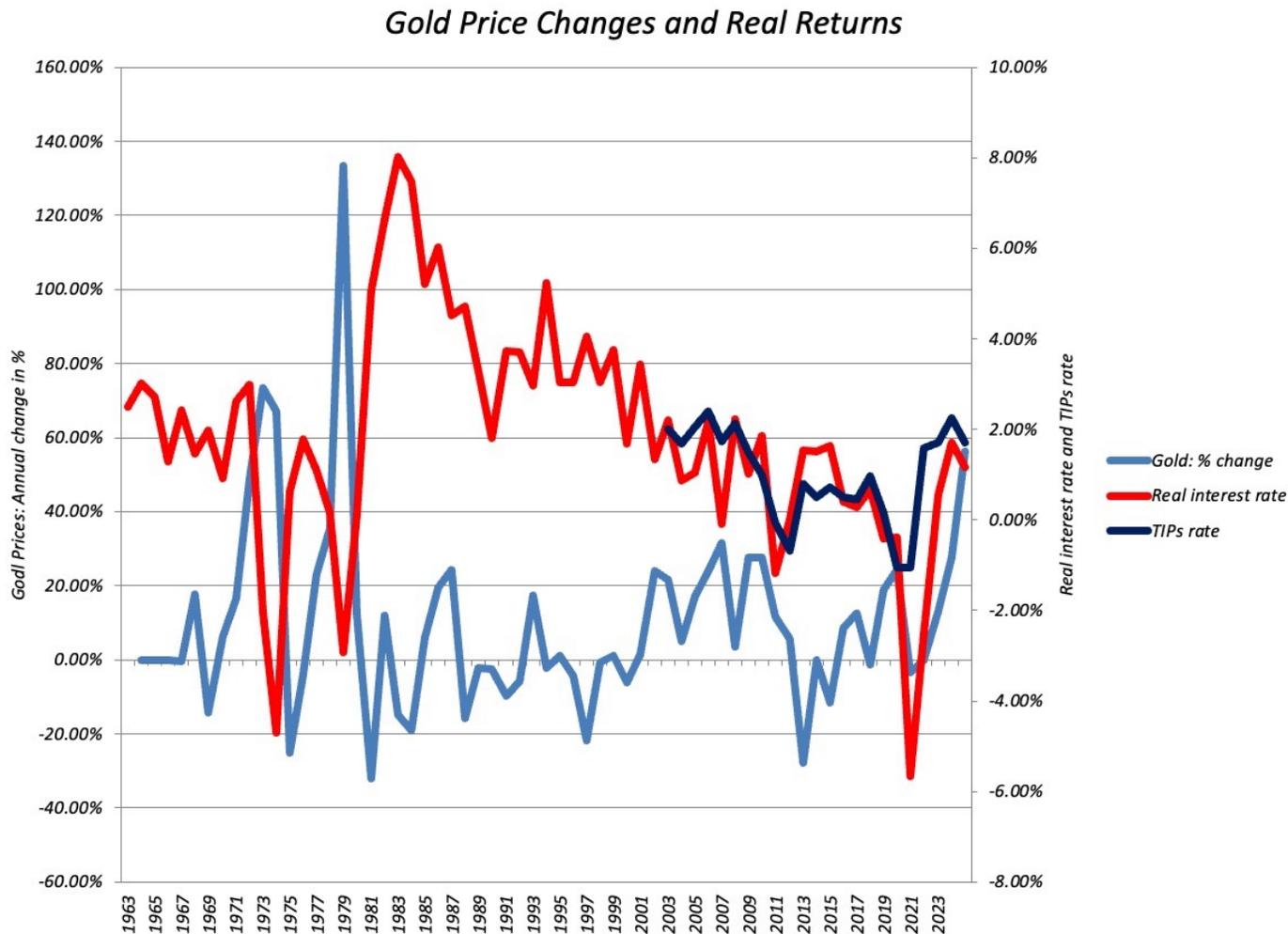
$\% \text{ Change in Gold Price} = -0.13 + 5.21 (\text{ERP})$

$R \text{ squared} = 5.02\%$

$\% \text{ Change in Gold Price} = 0.13 - 1.32 (\text{Baa Rate} - \text{T.Bond Rate})$

$R \text{ squared} = 0.20\%$

# 3. Gold and Real Rates



% Change in Gold price = 0.18 – 4.69 (T.Bond Rate - Inflation Rate)

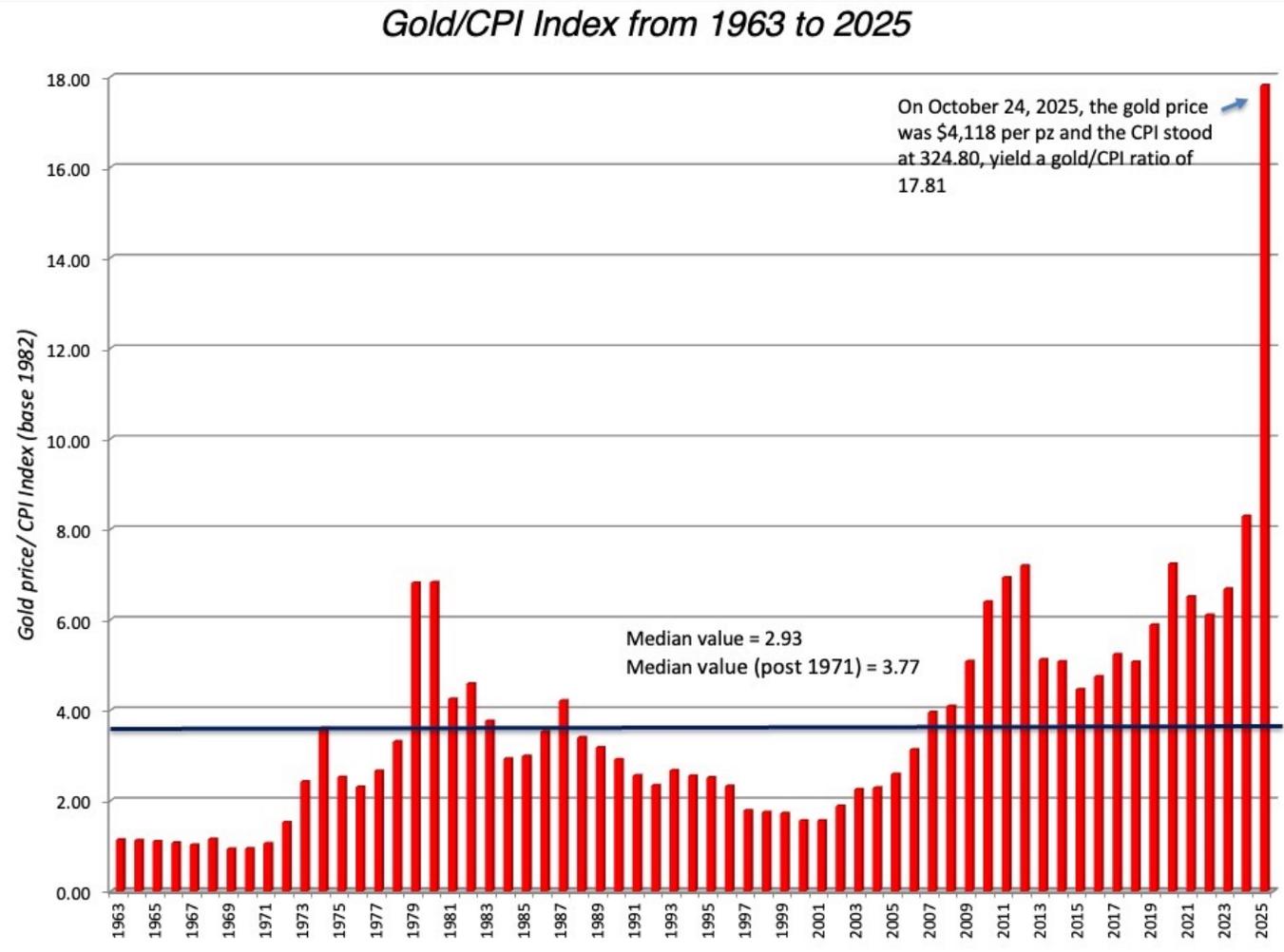
(5.34) (4.20)

*R Squared = 21.9%*

# The Bottom Line

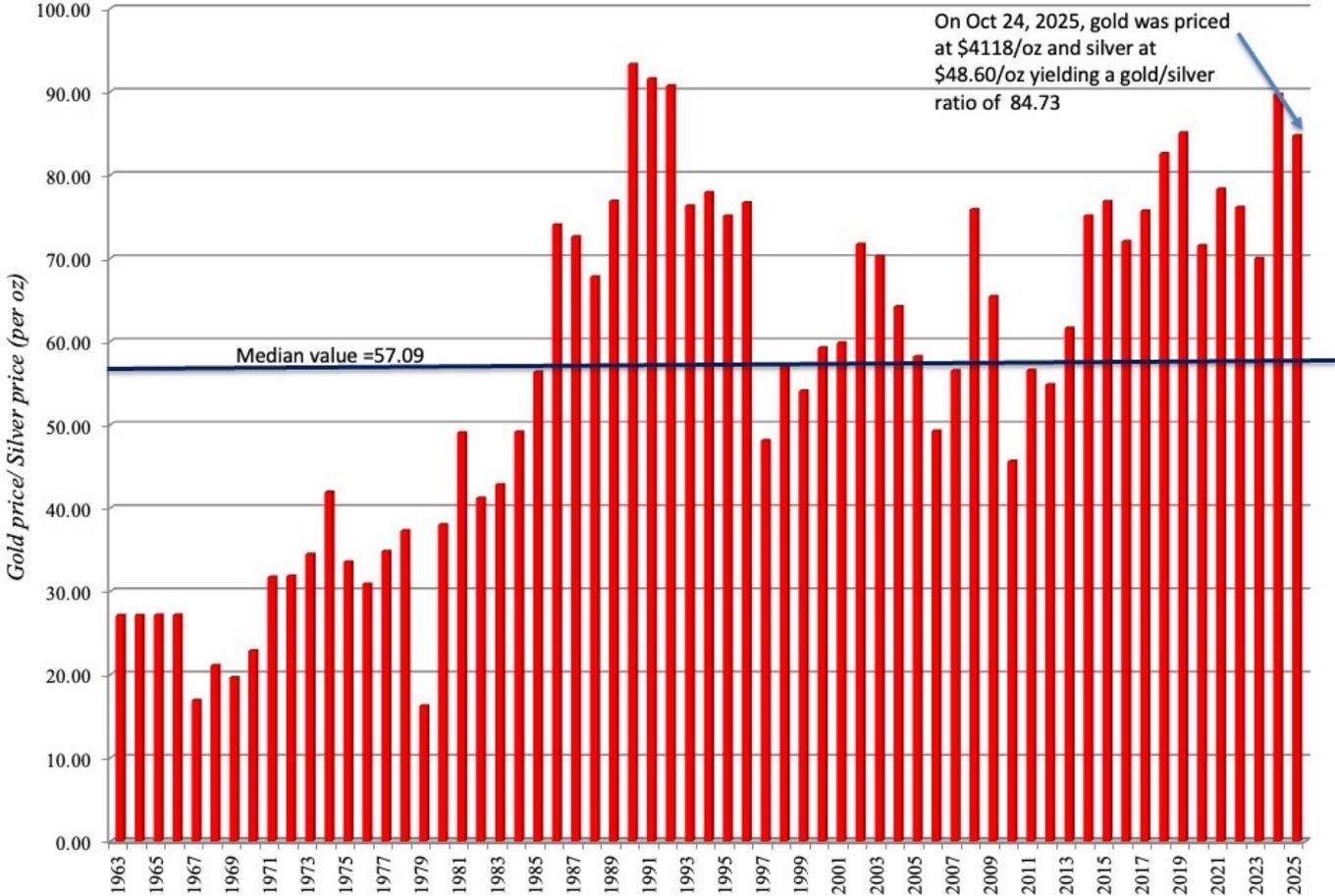
- Gold is often **touted as a hedge against inflation and crises, but the evidence from history is nuanced.** With inflation, it is a better hedge against unexpected inflation than expected inflation, and even with unexpected inflation, only for increases that put inflation above normal bounds. In short, **it is a hedge against hyper inflation but not just higher-than-usual inflation that falls within normal bounds..**
- With crises as well, the evidence is mixed, since gold prices are, for the most part, unaffected by movements in equity and bond risk measures that fall within historical bounds, but **increase during risk events that are uncommon and potentially catastrophic.**
- Investors who add gold to their portfolios because of the protection it offers should recognize it more akin to **buying insurance against extreme events**, and more useful if the bulk of their wealth is in financial assets.

# Is Gold overpriced? An inflation test!



# Against Silver!

Gold/Silver Ratio from 1963 to 2025



# The Bottom Line

- If you **believe that history is your best guide for the future and that mean reversion will win out**, it is undeniable that **gold is overpriced against almost every metric it is usually priced against**. In fact, you could argue that the rise of gold prices in the last decade is unprecedented since it has not been accompanied by raging inflation or by market crises (though there have been economic crises).
- **The counter is that using historical data as a guide, gold has been overpriced over the last decade**, a period over which its price has increased almost four-fold, from \$1060/oz at the end of 2015 to \$4,118 on October 24, 2025.
- When an investment stays overpriced for that long, it is legitimate to question whether the pricing metric is flawed, and **whether there a structural shift has occurred** that has shifted the distribution.

# Structural Changes

1. More pathways to buying/holding gold: The rise of Gold exchange traded funds has reduced or removed both constraints allowing more investors entree into the gold market.
2. Mistrust of central banks: Investments in financial assets (stocks and bonds) are a reflection of the trust in central banks (and government) working to preserve the buying power of the currencies that they issue. In the aftermath of central banking activism, post-2008, that trust has depleted, at least for a segment of the population, leading to a shift to gold (and bitcoin).
3. Slippage of the US dollar: Even after the US removed its last formal connection to the gold standard in 1971, the strength of the dollar and the centrality of the US economy allowed investors to use it as a safe haven, as a substitute for gold. It is undeniable that the US economy and dollar have been under stress for the last decade or more, with the ratings downgrade for the US being only a manifestation of these stresses. With no other global currency ready to take the place of the dollar, you can argue that gold is once again asserting its role as safe have, and that the rise in its price reflects that status.
4. The Trump effect: While the first two factors have been in play for decades, this year has seen unusual turmoil, as tariff threats and economic wars threaten to unravel an economic world order that has governed markets and economies for much of the last century. While there are some who will welcome that development, it is not clear what the replacement will be, and the possibility of a catastrophic outcome is perhaps greater than it was a year or two ago.

# Gold's Place in your Portfolio

- **Gold as a core investment:** There are some investors who have built their portfolios, with gold as a central component, representing a significant portion of their wealth.
- **Gold as insurance:** For investors with the bulk of their portfolios in financial assets (stocks and bonds), gold holdings can help insure their portfolios, at least partially, against inflation and market/economic crises.
- **Gold as a trade:** In trading, the key to winning is timing, buying when prices are low and selling when they are high, and there are some who make their money on gold by timing its ups and downs well.
- **Gold as a signal:** There are many investors who have no desire or are averse to holding gold in their portfolios, but use gold prices as signals of either hyperinflation or economic catastrophes to structure their portfolios.

# 1. Core Investment

	<i>Gold</i>	<i>US Stocks</i>	<i>Gold minus Stocks</i>
Annual Return (1984 - 2024)	5.49%	11.68%	-6.19%
Standard Deviation (1984-2024)	16.63%	16.48%	0.15%
Worst year (1984-2024)	-27.61%	-36.55%	8.94%
Median (1984-2024)	4.32%	15.61%	-11.29%
Best year (1984-2024)	31.92%	37.20%	-5.27%
\$100 invested in 1984	\$ 848.11	\$8,298.82	-\$7,450.71
\$100 invested in 2004	\$ 465.40	\$ 705.33	-\$239.93
\$100 invested in 2014	\$ 216.49	\$ 338.77	-\$122.28

- **The Draw:** For investors who have a deep attachment to gold combined with a distrust of financial assets, governments and central banks, the net effect of holding a portfolio dominated by gold is that it improves their odds of passing the sleep test, i.e., you don't lose sleep wondering how your portfolio is doing.

## 2. Insurance

- Trade off: Gold has been only a weak hedge against inflation and market crises that fall within normal bounds, but has done much better as a edge against hyperinflation and catastrophic market/economic risks. Adding gold to a financial asset dominated portfolio can provide insurance against the latter, but only if held in large enough quantity to make a difference.
- The draw: All investors should be concerned about catastrophic risks, but it is undeniable that this concern varies across investors, with older and more risk averse investors more inclined to have that concern. It is also true that worries about catastrophes vary over time, increasing across investors in troubled times.

# 3. Trade

- Trade off: Getting the timing right in trading is easier said than done. While the peaks and bottoms of gold prices are easy to pinpoint in hindsight, it is worth remembering that many investors who became rich riding the gold price boom from 1977-1979 lost it all in the next five years. The traders who bought gold in 2022 are riding high, at the moment, after a three-year surge in gold prices, but they too may be looking at disappointment, if they do not cash out at the right time.
- The draw: Trading is a pricing game, and since price is determined more by mood and momentum, success in gold trading comes down to detecting momentum shifts before they occur, and trading on that basis. For some gold traders, this capacity may come from examining charts on gold prices and volume, and for others, it may be in reading the macroeconomic tea leaves, especially on inflation.

# 4. Signal

- Trade off: The allure of gold as a signal of inflation and market crises comes from history, where gold prices have tended to rise during periods of high inflation and economic uncertainty. Much of the relationship, though, is contemporaneous, i.e., gold prices rise in periods when inflation is high and risks surge, and there is only weak evidence of gold prices being a leading indicator of future changes.
- The draw: Since portfolios composed primarily or entirely of financial assets are badly damaged by unexpected inflation or a market meltdown, having a predictor, even a flawed one, that can give advance warning has big payoffs. In particular, if gold prices rising is a signal that inflation will be higher than expected in the future, you could alter your asset allocation, shifting money from stocks and long terms bonds to short term bills and commercial paper, or even your asset selection, moving money from companies that have little pricing power and significant operating risk to companies with substantial pricing power and predictable earnings streams.

# The Bottom Line on Gold

- Gold has **had a good run this year**, and I will not begrudge those who got into it early. Some undoubtedly just got lucky to be at the right place at the right time, but some were prescient in detecting a shift in the market vibe, especially in 2025.
- The truth is that the market for gold has been and always will be a niche market, drawing a subset of investors, but that niche shrinks and expands over time.
  - When the world is stable and times are good, the niche is composed almost entirely of true believers, a mix of gold bugs, conspiracy theorists and doomsday cultists who believe that fiat currencies are more paper than money and that financial asset markets are insider-controlled scams.
  - In scarier times, the niche expands, drawing in investors who normally invest in stocks and bonds, but decide, either because of distrust of central banks or perceived market bubbles, that they need the safety of gold.
- While I do not have a listing of everyone holding gold in October 2025, I will wager that it includes names that you would normally expect to see in the list, drawing in investors from financial asset markets who see signs of a market bubble or an economic catastrophe.