Gold Rising: What Does This Mean for the Economy and Markets?

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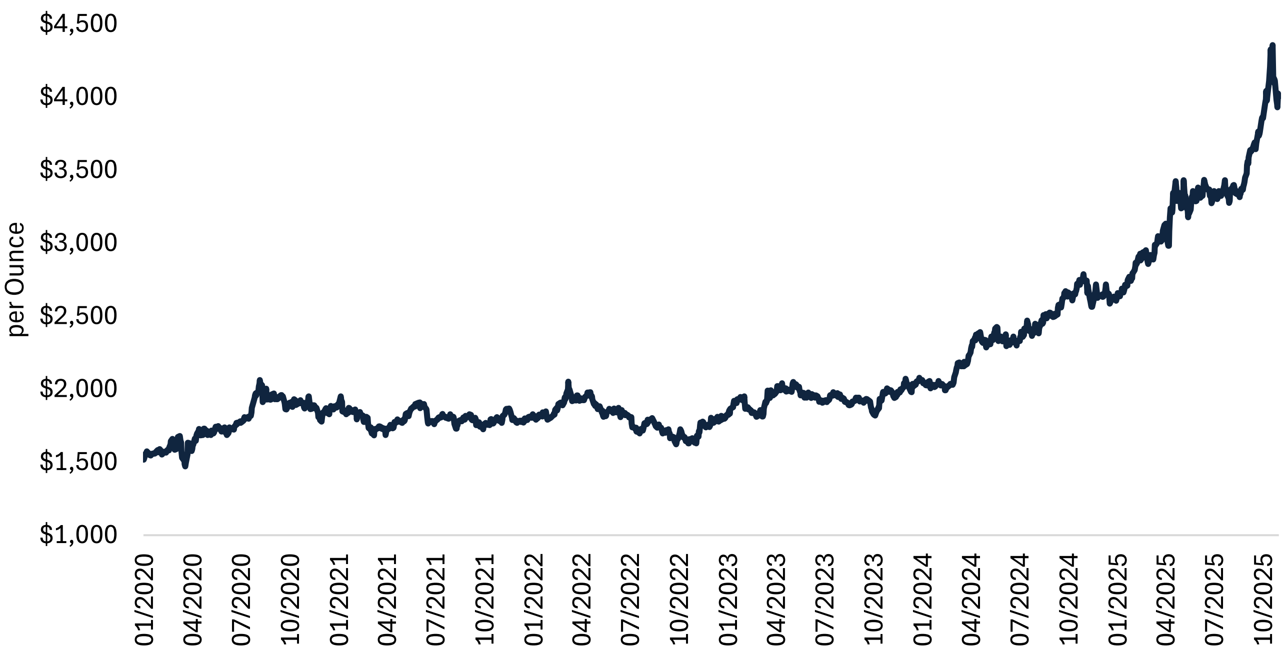
Gold rallied strongly over the past few years, rising from $1,800 per ounce at the end of 2022 to a high above $4,300 during October. More recently, the gains have accelerated. Gold began the year at **$2,600 per ounce** and climbed **30% to $3,400 by the end of August.** Prices then rose 12% in September and **13% in the first three weeks of October,** reaching record highs of **$4,356 per ounce before moderating to $4000 to end October.** At this price, gold is up 52.5% this year, on top of the 27% rise in 2024 and 13% rise in 2023.

Several factors reflecting rising concerns about the economy have driven gold's rally. One of the most significant drivers has been growing skepticism of the U.S. government and the dollar. Political uncertainty and the inability of politicians to reduce the large fiscal deficits raise questions of long-term debt sustainability. This has led investors to seek alternatives to dollar-denominated assets and has contributed to dollar weakness this year. A softer dollar reduces the relative cost of gold for non-dollar investors helping to accelerate the rise in gold.

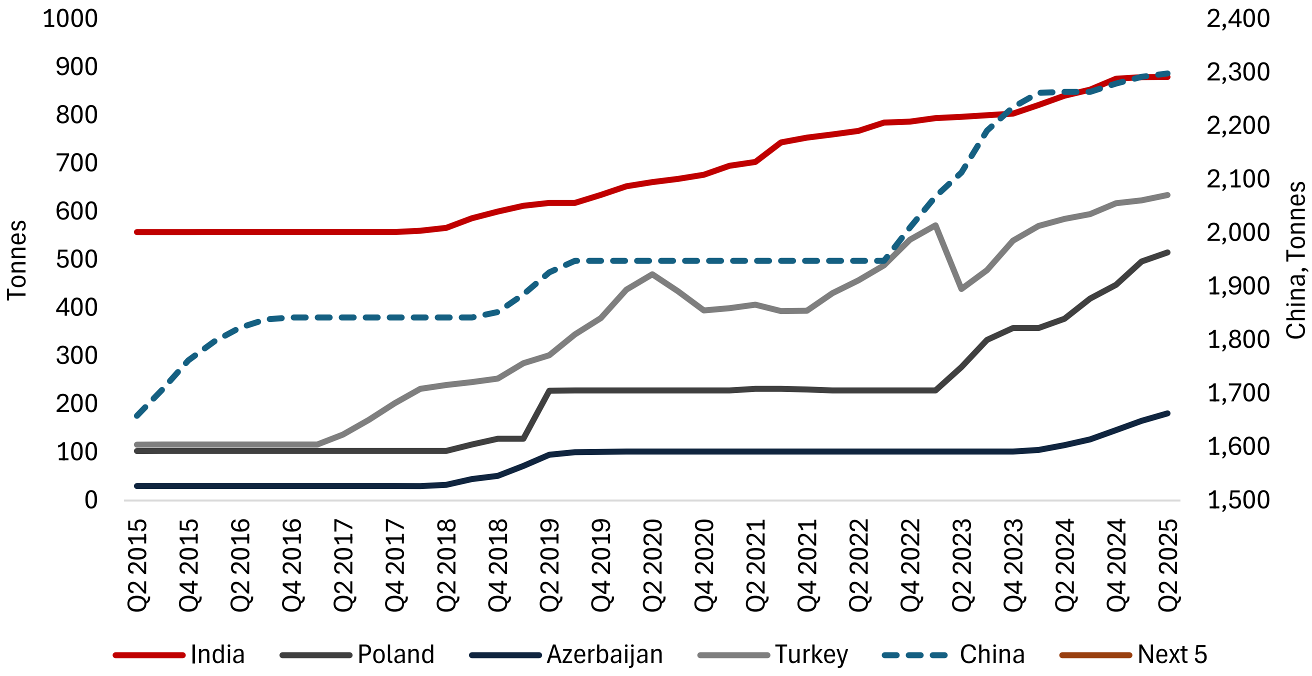
Gold reaches record on investor and central bank flows



Source: Bloomberg/Bradesco Investments Inc.

Central banks have also played an important role in global gold demand. After the start of the Russia-Ukraine war in 2022, central banks noticeably started increasing their gold reserves. The U.S. government's use of the dollar and Treasury securities as geopolitical leverage highlighted the potential vulnerability of dollar-based reserve holdings, prompting countries such as China to diversify away from U.S. assets and increase gold allocations. We expect central bank purchases of gold to continue, leading to steady demand in the future.

Central banks increase Gold reserves to diversify away from US Treasuries



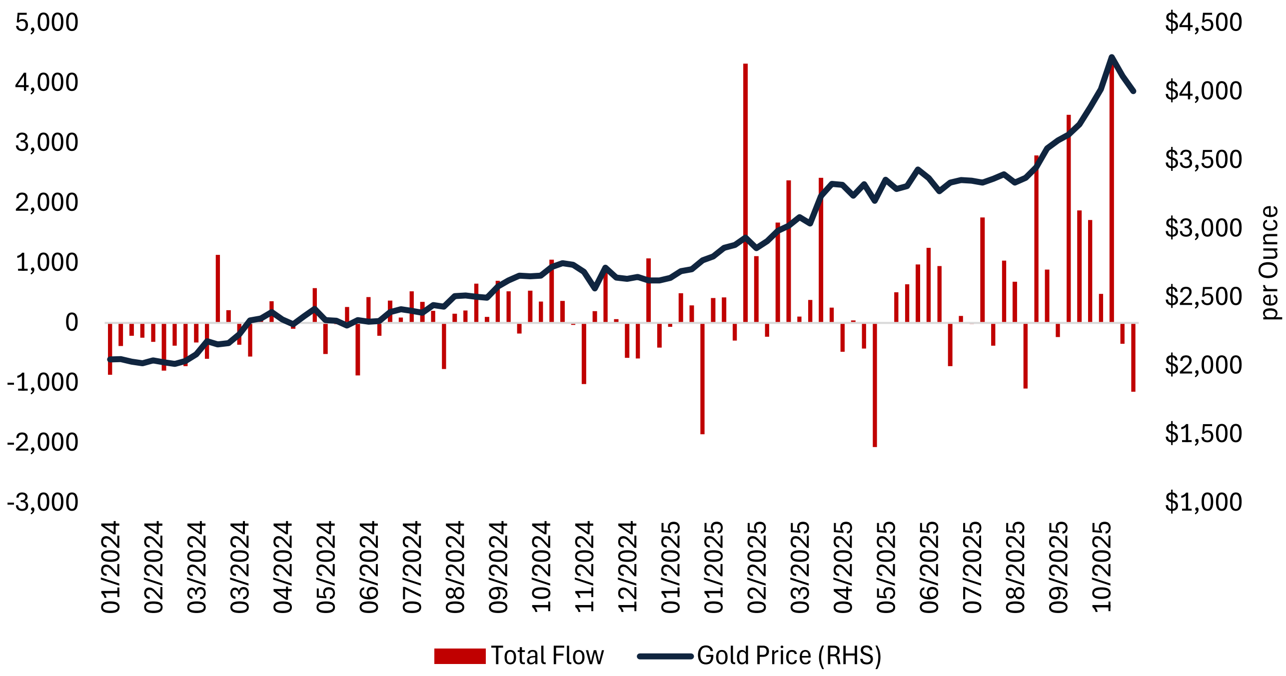
Inflation concerns have added another layer of support. Tariff-driven price pressures and a shift from an integrated to a fragmented global economy have increased expectations of higher inflation, making gold an attractive hedge. Importantly, gold's role as a diversifier extends beyond the dollar; most other major currencies face their own structural challenges, reinforcing gold's status as a universal store of value. In addition, the risk that policymakers may tolerate higher inflation to erode debt burdens also favors gold. Supply constraints have further magnified these effects, as gold production remains relatively inelastic, meaning even modest demand increases can trigger sharp price movements.

Investor flows have amplified these dynamics. Gold ETFs began attracting substantial inflows around October 2024, coinciding with the U.S. presidential election. The prospect of renewed trade wars, higher tariffs, and expansive fiscal spending, implying larger deficits and debt, prompted investors to seek refuge in gold. The acceleration in price gains over the past few months appears driven largely by investment flows as investor FOMO (Fear Of Missing Out) compounded by safe-haven buying amid renewed trade tensions and the U.S. government shutdown has added fuel to the rally.

Source: Bloomberg/Bradesco Investments Inc.

Both futures open interest and ETF flows increased sharply in September and October, leading directly to the rising gold price. Investor flows are volatile and the strong recent inflows could reverse quickly due to profit taking or a reduction in geo-political tensions. We may have seen the start of this at the end of October as gold prices fell from a peak of $4,356 to $4000. Since October 22nd, ETF flows turned negative, erasing half the flow since the start of October. Futures open interest has similarly fallen since the peak.

ETF flows increased sharply as Gold reached record highs



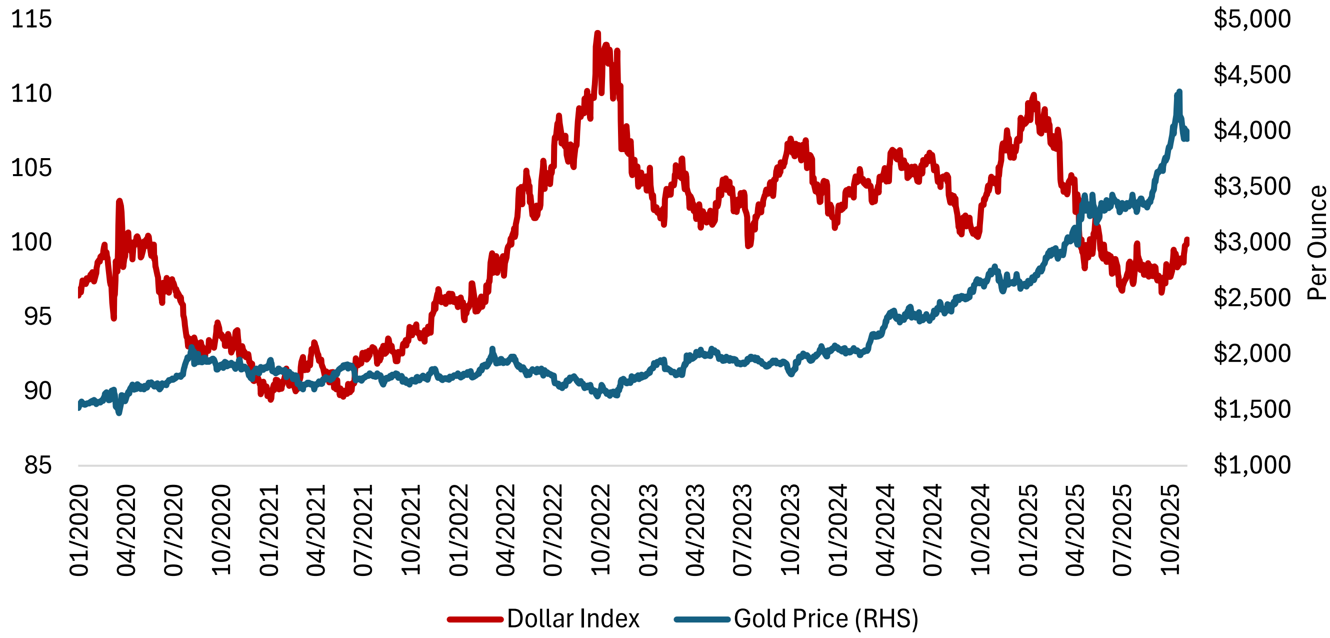
What the rising Gold price could mean for Investors

Historically, rising gold prices often correlate with a steepening yield curve. Lower short-term yields reduce the relative attractiveness of Treasuries, while higher long-term yields could reflect rising inflation expectations, both supportive of gold. For much of this year, there was a strong correlation between the steepening yield curve and rising gold price. However, since late August, the correlation has broken down as the yield curve has flattened and longer-term yields fell due to concerns over the U.S. government shutdown and escalating trade tensions. Once these risks subside, we expect a re-steepening of the yield curve with longer-term yields rising as inflation concerns reassert themselves.

The sharp rise in gold also underscores growing skepticism about the dollar's resilience. While the dollar has firmed in recent months, structural pressures suggest further weakness ahead, particularly if fiscal imbalances persist.

Source: Bloomberg/Bradesco Investments Inc.

Recent dollar weakness has made gold more attractive



Gold's extraordinary performance this year reflects structural shifts in investor psychology and global economic dynamics. Persistent fiscal deficits, geopolitical fragmentation, and inflation risks have revived gold's status as a cornerstone of portfolio diversification. We believe there is a risk that the strong rise in the price over the past few months may reverse in the short-term as speculative investor flows weaken. But the longer-term outlook is for a continued rise in the price as investors and central banks continue to diversify away from Treasuries and the Dollar. Any short-term weakness could offer opportunities to build longer-term positions.

Source: Bloomberg/Bradesco Investments Inc.

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