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Weekly Global Market Commentary

Jan 29, 2026

A Golden Era?

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Gold is the ultimate risk-off asset, if the global financial system was to completely fail then it should retain its value as a tradable physical asset, the definition of safe haven. Even before the events of 2026, the price of gold has appreciated 110% over the last two years, the S&P 500 over the same period is up 44%. Financial literature implies that during a risk-off market the flow of assets moves towards government bonds, the US Dollar and out of higher risk assets such as equities. The dynamics of this trade have not been as evident as theory would suggest, risk markets have been re-rating and earnings growing, yet even when looking over the last 10 years the performance of gold remains ahead of the S&P. In that period there have been negative periods for equity markets, but they have been countered with the significant investment in AI and tech. An equity investor who has achieved over 10% return per annum across the last decade would sit happy, the assumed textbook narrative is the average return in equity markets is 8% per annum, sustained returns above this should be considered a prolonged bull market.

The acceleration in the value of gold is no doubt due to the destabilization of global structures that have been in place essentially since the world left the Gold Standard in 1971. Internationalization and free trade have been the underpinnings of global growth in the last few decades. Now a year into the Trump administration, there have been more than a couple of seismic shocks to global structures. These events are testing the faith that has previously been put in the strength of the Greenback, the first notes issued that we not backed by precious metals but simply with the words “In God We Trust”. Silver has rallied nearly 300% since “Liberation Day”, as a precious metal it has always been placed behind gold, for global industry though it plays a more significant role. More than half global demand for silver comes from industry, with that demand increasing as it is used in memory chips and electric cars. Silver has also tended to be used up in its industrial cycle, relying on continued expansion of global mining facilities. If prices continue to be dragged up by protection buying, then there will need to be an expansion in the mining capacity for these and other precious metals. The clash between industrial users of the metal and value collectors for storage has bubbled over into the market.

All these movements are likely underpinned further by the de-dollarization that has been occurring in the last few years. In 2022 the dollar was 88% of traded FX volumes, there has been decline from this, but the more concerning change is the shift in FX reserves held at central banks. They still hold USD but have been increasing the share in Chinese Renminbi, especially in those countries who are continuing to scale direct trading relationships with China. Despite commodities being primarily priced in USD there are a growing number of energy contracts that are non-dollar-denominated, partial this has been increased by Western sanctions, to trade for Russian oil operators are paying in non-dollar currencies. So, with the dependance of global trading contracts and countries waning from the USD there is a rush to secure alternative financial backing. Many investment banks had already predicted gold breaking the $5,000/Oz mark by the end of the year, not however ploughing through it before the end of January. With the increased instability of global order, there is clearly more than a slight reversion back to gold as the safe asset, and the more it appreciates the “safer” it could become. The dynamics become more threatening to the US if the trend continues, as if investors pull significant capital from the Treasury market, then will drive rates up. The bond market has already forced a reversion in Trump policies, but this movement could be more subtle and therefore slowly force up long term lending rates for the US.