ValuAlliance
Asset Management

THEMATIC NOTE

Thoughts on Gold

Understanding the cyclical and structural forces
driving gold price movements in the current macro environment

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ValuAlliance Thematic Note: Thoughts on Gold

Understanding the Drivers of Gold: Cyclical vs. Structural

Gold has corrected by c. 11% since the U.S./Israel launched joint military action in Iran, following a strong 65% rally in 2025. This pullback has occurred despite elevated geopolitical risk that would typically support safe haven demand, revealing that price action is being influenced by macro-financial conditions. Specifically, rising real interest rates and a stronger dollar (the DXY, a measure of USD strength relative to a basket of currencies, has firmed up from 97.6pts. to 99.1pts., since the start of the war) have increased the opportunity cost of holding non-yielding assets like gold, and made it more expensive in local currency terms for international buyers.

This trend highlights a broader dynamic: gold prices are not driven by any single factor, but rather by the interaction between cyclical and structural forces. These cyclical drivers, most notably real interest rates, dollar strength, and monetary policy expectations tend to dominate price movements over shorter horizons. These variables are currently aligned in a way that is unfavourable for gold. Real yields remain elevated, while expectations for easing have been pushed further out following renewed inflation pressures from higher energy prices in Mar-26 and Apr-26. Combined with a stronger USD, these conditions explain the recent pullback in gold prices. As illustrated in the chart pack on page 2, periods of rising U.S. interest rates (and expectations) and dollar strength have historically coincided with downward pressure on gold prices.

Set against these cyclical drivers are the more structural drivers that exert influence over longer time horizons. Chief among these forces is central bank demand. The share of USD in global central bank reserves has dropped from 60% to about 40%, while gold's share has tripled from its lows to 30%, with attrition accelerating over the past few years led by emerging market (EM) central banks. The pace of purchases by central banks reflects a broad shift in global reserve management. Official purchases have tracked above historical averages post-2020, with central banks adding over 863 tonnes of gold in 2025 alone, and over 1000 tonnes on average between 2022 and 2024. As of early 2026, for the first time, the value of official central bank gold holdings has surpassed that of U.S. Treasuries.

This shift is being driven by a combination of factors, including rising concerns about U.S. fiscal sustainability, the increasing use of financial sanctions in times of conflict, and a desire among central banks to diversify reserve assets. China, as part of the BRICS coalition, has been at the forefront of this trend. Survey evidence from the World Gold Council indicates that a large majority of central banks intend to further increase their gold allocations while gradually reducing exposure to the dollar. Taken together, these dynamics point to a persistent source of reserve-driven demand that is less sensitive to short-term price movements and tied to long-term strategic considerations.

The interaction between these cyclical and structural dynamics is central to interpreting the current environment. While tighter financial conditions have driven the recent correction, the persistence of structural demand helps explain why this adjustment has been relatively orderly. As such, to our mind, the current phase is better framed as a response to restrictive macro conditions than as a clear break in the longer-term bullish trend, supported by central bank purchases amid geopolitical fragmentation.

Historical precedent also provides some context to draw parallels, though it should be applied with caution. The cycles of the 1970s and 2000s were underpinned by significant structural shifts (change in monetary regime, erosion of trust, and broadening access to gold) that coincided with periods of low/declining real rates (cyclical drivers).

1970s super cycle: Gold's rally was triggered by the end of the gold backed monetary system which broke the link between the USD and gold, allowing its price to float. This happened alongside high inflation, oil shocks, and weak confidence in paper currencies, which pushed gold higher as real rates stayed negative. The rally peaked when gold hit $850/oz in 1980, before collapsing when Paul Volcker sharply raised interest rates, strengthening the USD and restoring confidence in the financial system.

2000s super cycle: Gold started rallying again after the dot-com crash of 2008, a period of low interest rates, and a weaker dollar brought it back into favor with investors. The cycle of the 2000s was sustained by easy monetary policy, and easier access to gold through innovative structures like ETFs at a time when investors were interested in safe assets. As institutional money flowed into these ETFs, the funds had to buy and store physical gold to back the shares, which created real demand in the market. Gold prices peaked near $1,900/oz in 2011, and the bull run eventually faded as the global economy recovered, interest rates rose, and the dollar strengthened.

In today's context, we think that if real interest rates remain elevated and the dollar remains strong, cyclical pressures are likely to persist, limiting upside. Conversely, a shift toward monetary easing, if accompanied by renewed dollar weakness, could reduce these headwinds and allow structural demand to play a more dominant role.

Overall, the recent correction in gold prices reflects the re-emergence of cyclical headwinds rather than a breakdown in the underlying structural case. The balance of evidence points to a market that is adjusting to tighter financial conditions while still supported by longer-term shifts in reserve management, and geopolitical alignment.

NB: Please be aware that this note is intended to frame the key drivers shaping Gold's behavior rather than to express a directional view on Gold prices, and outcomes will ultimately depend on how these cyclical and structural forces evolve over time.

Feature	Post-Bretton Woods (1971 – 1980)	Global Liquidity Cycle (2001 – 2011)	Current Cycle (2024 – Present)
1. Trigger (What started the rally?)	Break down of the Gold—Dollar link via the Nixon shock	Dot-com crash of the 2000s, monetary easing, and 2008 financial crisis	Post Covid-19 monetary expansion, rising fiscal stress, and de-dollarization trends
2. Peak (How high did prices go?)	~$850 / tonne (1980)	~$1,900 / tonne (2011)	Ongoing but prices peaked at ~$5,300/ tonne in January 2026
3. Driver (What sustained the rally?)	High inflation, negative real interest rates, oil shocks and weak USD	Falling real interest rates, weak USD, ETF inflows, and emerging market demand	Central bank gold buying and shifting reserve preference, high global debt, geopolitical fragmentation, and elevated inflation
4. End Catalyst (What ended the rally?)	Paul Volcker hiked rates to 15% sharply turning real rates positive and leading to USD strength	Rising real interest rates, strong USD, and post-crisis stabilization	Yet to be determined

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Chart Pack

Chart 1: Evidence suggests strong negative correlation between USD strength and Gold prices

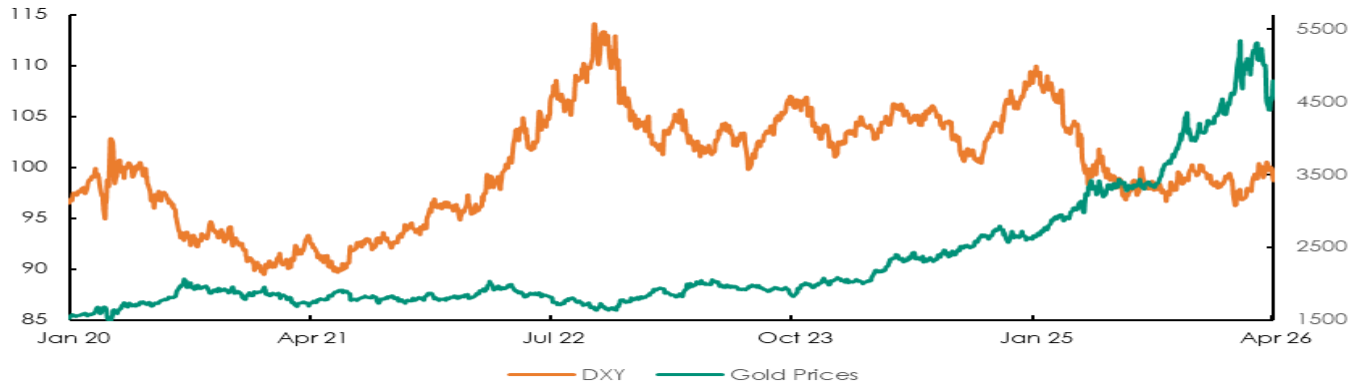


Chart 2: Higher interest rates pressure gold prices lower

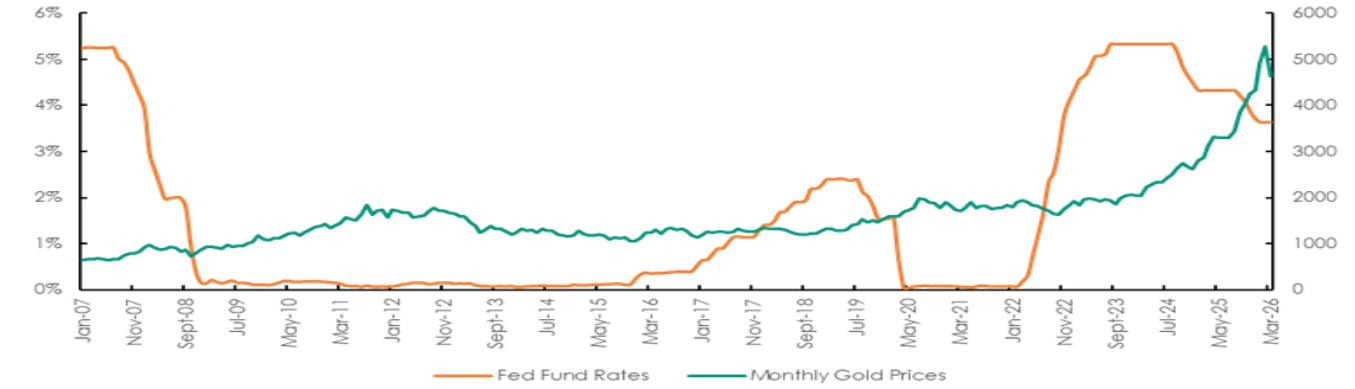


Chart 3: Annual gold purchases by global central banks (in tonnes)

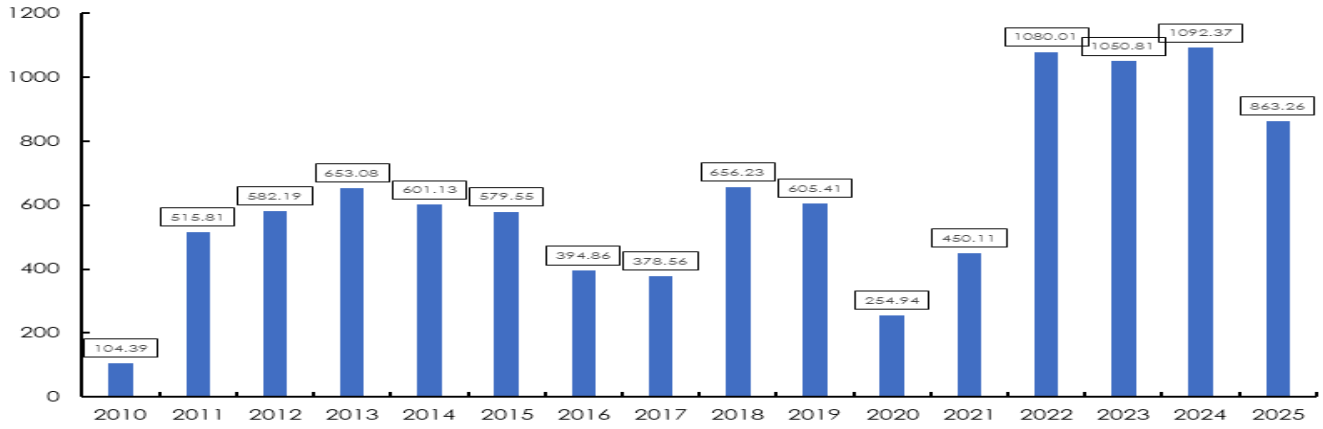
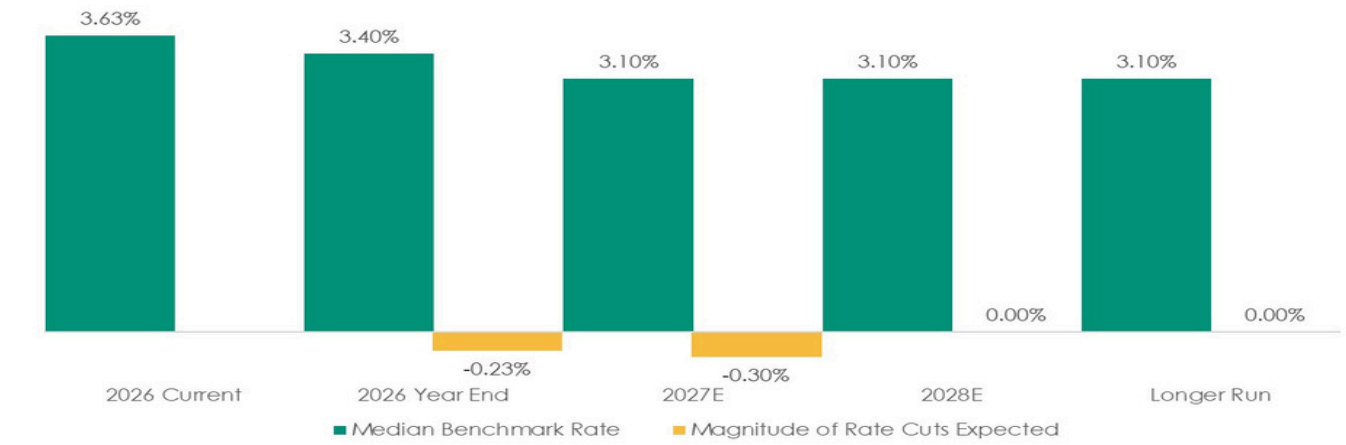


Chart 4: FOMC now guiding to just one rate cut this year



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