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# Gold's allure remains untarnished

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**Financial markets have settled into a somewhat uneasy calm in the shadow of tariff uncertainties. We believe that the risk-reward balance favors looking through the near-term risks in selected instances. We have recently turned Attractive on US equities and remain positive on silver despite vulnerability to near-term risk events. We have also raised our gold price targets on the back of strengthening near- and medium-term demand.**

After two weeks of tariffs-induced volatility, an uneasy calm seems to be settling on markets. The VIX equity volatility index has fallen from a 7 April high of 60 to below 40, while the S&P 500 has rebounded 7.5% after a 12% decline. Additionally, US Treasury yields and the USD index (DXY) seem to have stabilized as well. With President Trump pausing reciprocal tariffs and exempting key tech products from tariff hikes, risk appetites and risk assets might at first glance appear to be on the path of recovery.

But the situation is somewhat more nuanced. While we did recently shift our view on US equities to Attractive, we also acknowledge that the near-term outlook is somewhat clouded by some event risks. We also recently upgraded our price targets for gold, as near- and medium-term demand supports appear to have strengthened.

**Extreme negative tail risks for US equities reduced.** Notwithstanding the continued presence of more-moderate issues, we believe the 90-day pause in "reciprocal tariffs" on all countries besides China indicates a sensitivity to market stress, and thus the existence of some version of a "Trump put." This in turn warranted raising our downside scenario S&P 500 price target to 4500 (more symptomatic of a "normal" recession) from 4000. We also believe the news flow is likely to get incrementally better, as the Trump administration seems likely to be more inclined to demonstrate "success" in the form of "deals" or sector carve-outs to be agreed within the 90-day "pause". Such progress on negotiations should provide encouragement for investors to look through near-term tariff-induced economic weakness.

However, we also remain cognizant of the fact that it is far from certain that the pause in “reciprocal tariffs” on other trading partners will result in more long-lasting deals. Also, the sizable tariffs on China will almost certainly cause economic disruption if they remain in place.

**Gold resumes its climb after a brief wobble.** After a brief dip to USD 2955/oz on tight market liquidity, gold has again proven its enduring quality as a hedge against risk aversion by quickly bouncing back above USD 3200/oz. We have raised our gold price target from USD 3200/oz to USD 3500/oz, through 1Q2026. In the near term, safe haven demand and tactical positioning by speculators should keep the price of gold supported as escalating geopolitical tensions and fears of inflation lurk in the background.

More interesting though are emerging signs of a structural shift in gold allocations. We had previously noted indications of central banks systematically raising the share of total reserves held in gold as part of a move to diversify out of the USD. China’s recent allowing of insurance funds to invest in gold seems to indicate that this policy goal remains very much alive. We expect central banks will buy around 1000 metric tons in 2025 (up from 950 metric tons). Also, we had noted that private investors appear to be following suit—this seems to have spurred a reversal of the multi-year ETF redemption cycle. We expect this to accelerate and raise our estimate of ETF net buying in 2025 to 450 metric tons (from 300 metric tons), alongside strong retail coin/bar demand.

**Silver lining in silver’s dip.** The liquidity crunch that led to gold’s brief tumble also took the price of silver along, albeit to a much larger extent. While gold saw a max drawdown of 5.7%, silver fell as much as 17.5%. While silver has rebounded alongside gold—as much as 15.4% versus 9.8% respectively—it remains, at USD 32/oz, almost 6% below the 2 April close. This has seen the gold-silver price ratio surge from 92 to almost 103 before moderating to 100 currently. We maintain our silver price target of USD 38/oz through 1Q2026.

We believe the backdrop for silver remains constructive. While industrial application demand for silver could struggle in the near term, we expect investment demand to improve and support prices. Expectations of deeper rate cuts would provide broad support for precious metals, including silver. We therefore like to stay long silver and look beyond some of the risk-off dynamics in the market. In the meantime, we like selling the downside price risks in silver in 2Q25, in view of the fall in prices and the increase in option volatility.

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