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Gold: Between inflation fears and diversification of reserves

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Gold prices remain under pressure, mainly because real yields have risen rapidly. In the medium term, however, we expect a higher price, not least because central banks are systematically buying gold to diversify their reserve holdings. This demand should support the gold price and strengthen its role as a strategic diversifier in a portfolio, especially when investors are concerned about longer-term government debt and inflation risks as well as persistent geopolitical tensions.

Gold has lost momentum in recent months, but we think the bigger picture remains intact: The precious metal is far more than a traditional "safe haven" in times of geopolitical unrest. Increasingly, gold is being driven by another, more structurally important factor: robust demand from central banks.

At first glance, gold's recent lackluster performance is not straightforward to interpret. Although geopolitical risks remain elevated because of the war in the Middle East, gold has lost significant value in recent months. A key reason lies in monetary policy: Rising energy prices and inflation concerns have sharply shifted market expectations for the Federal Reserve in a short period of time. While rate cuts had been priced in only a few months ago, the market now expects the Fed to leave its policy rate unchanged for the time being. The resulting higher real yields increase the opportunity cost of holding an asset that does not generate ongoing income, like gold. This inverse relationship between gold and real yields—long the main driver of gold price movements—has therefore clearly reasserted itself. Looking ahead, this means that as long as markets fear the Fed will keep policy restrictive for the foreseeable future, it will be difficult for the gold price to recover.

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If, however, it becomes clear that the recent inflation pressure is not triggering broad second-round effects, we believe the Fed is likely to adopt a more moderate tone later in the year and resume easing. That is entirely plausible if trade flows through the Strait of Hormuz recover under a possible agreement, in our view. Real yields could also fall if the blockade persists. In such a risk scenario, it is easy to imagine pressure on economic growth increasing and markets once again pricing in lower policy rates. Unlike in 2022, second-round inflation effects currently seem less likely to us because labor market conditions are far less tight. An environment of falling, or at least less burdensome, real yields would be an important tailwind for gold and a possible catalyst for a price recovery. We expect the price to rise to USD 5,500 per ounce by year-end.

Regardless of that, central banks are also likely to continue playing an important role. They have been buyers of gold for years and remain an important stabilizing anchor for the market. In the first quarter of 2026, purchases amounted to around 244 tons according to market reports. Annualized, that would be the fourth-highest annual demand since 1950. This is not a tactical trade anticipating the next price move, but a strategic decision: Gold is gaining weight as part of foreign exchange reserves because it carries no counterparty risk, is seen as politically neutral, and can effectively diversify reserves in a more geopolitically fragmented world. This structural demand can create a floor that cushions cyclical periods of weakness.

For investors, that is crucial. While ETF inflows, futures positioning, or jewelry demand can fluctuate in the short term, central banks operate with a long horizon. They do not buy gold because the momentum happens to be favorable, but because the architecture of the global financial system is changing. Studies by the IMF and other organizations show that gold reserves have gained importance since the financial crisis—especially where reserve managers are seeking greater protection against geopolitical risks, sanctions, and currency dependencies.

There is another, often underestimated, driver as well: the global debt situation. High budget deficits and rising debt-servicing costs are fueling concerns that government bonds may no longer provide the same defensive function in the coming years as they once did. If equities and bonds diversify less reliably in periods of stress, gold becomes more attractive as a real asset that does not depend on an issuer. That is precisely why we now see gold not just as a crisis metal, but also as a strategic portfolio tool.

That does not mean the path upward will be linear. The gold price is likely to continue reacting to market dislocations and the interest-rate environment. Anyone who views gold only as a reflex to uncertainty therefore risks missing out on the broader core of the investment case: persistent central bank buying, a gradual diversification of reserves, and the search for a buffer against debt and currency risks.

Our conclusion? Gold should be seen not only as a tactical trade, but also as a strategic diversifier. Especially in an environment in which equity and bond prices are once again more positively correlated, and in which geopolitical volatility and fundamental concerns about the sustainability of public debt are shaping market calculations, gold can play an important stabilizing role in a portfolio. Not every correction is a warning signal. Some are simply the price of remaining invested in a structurally supported trend.

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