Market performance and macro factors

Gold report

Q2 2025

Introduction

In our quarterly Gold Report, we review the performance of the gold price and touch upon other asset classes, as well as explore significant macro factors, including bond yields, the US Dollar and inflation expectations.

Key facts from Q2 2025

Gold price return in Q2
5.7%

US 10yr-2yr spread widened in Q2
+18 bps

Fed's forecast for core inflation
3.1%
at end of 2025

US Dollar Index
-6.7%
in Q2

Data: Bloomberg, as at 30 June 2025.

Market performance

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Gold gained 5.7% in Q2 2025, adding to its exceptional Q1 performance. The possible impact of new sweeping trade tariffs dominated financial markets, but concerns eased as the quarter progressed, and risk assets rebounded strongly. The Treasury curve steepened as attention turned to the US national debt, with this and further weakening of the USD providing support for gold.

Macro factors

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The Fed raised its forecast for core inflation at the end of the year while also seeing unemployment increasing and real GDP slowing, all due to the impact of trade tariffs and the immigration policies of the US administration. The uncertainty around tariffs is keeping the Fed on hold regarding any changes to interest rates.

Quarterly price performance

Gold followed its stellar Q1 performance by recording a 5.7% gain in Q2, ending the quarter at US$3,303 per ounce. The quarter began with the gold price dragged below US$3,000 as the market weighed up the impact on the economy of new widespread tariffs while some investors may have also been scrambling to finance margin calls on equity positions. However, when the US administration announced on 9 April that it was pausing trade tariffs for 90 days, equities and gold rallied just as sharply as they had fallen, and the gold price then spent the rest of the quarter trading within a relatively narrow range, consolidating around the US$3,300 level. Events that normally would have moved the gold price had little impact, including conflicts first between India and Pakistan and later between Iran and Israel and the US.

Likewise, gold remained supported even after Chair Powell said the US economy is in good shape and the Fed is in no rush to cut rates, despite mounting pressure from the Trump administration. The latest “dot plot” shows mixed views among Fed officials but with two cuts being the prevailing expectation for the second half of 2025. According to CME FedWatch, however, the futures market is pricing in three cuts by year-end, with the odds having improved from 22% to 46% over the course of the past month. The market does seem aligned with most Fed members in thinking there won’t be a change made to rates at the July meeting. However, gold investors started shifting their focus away from interest rates and the USD (which continued to weaken) and towards the risks associated with the massive US national debt.

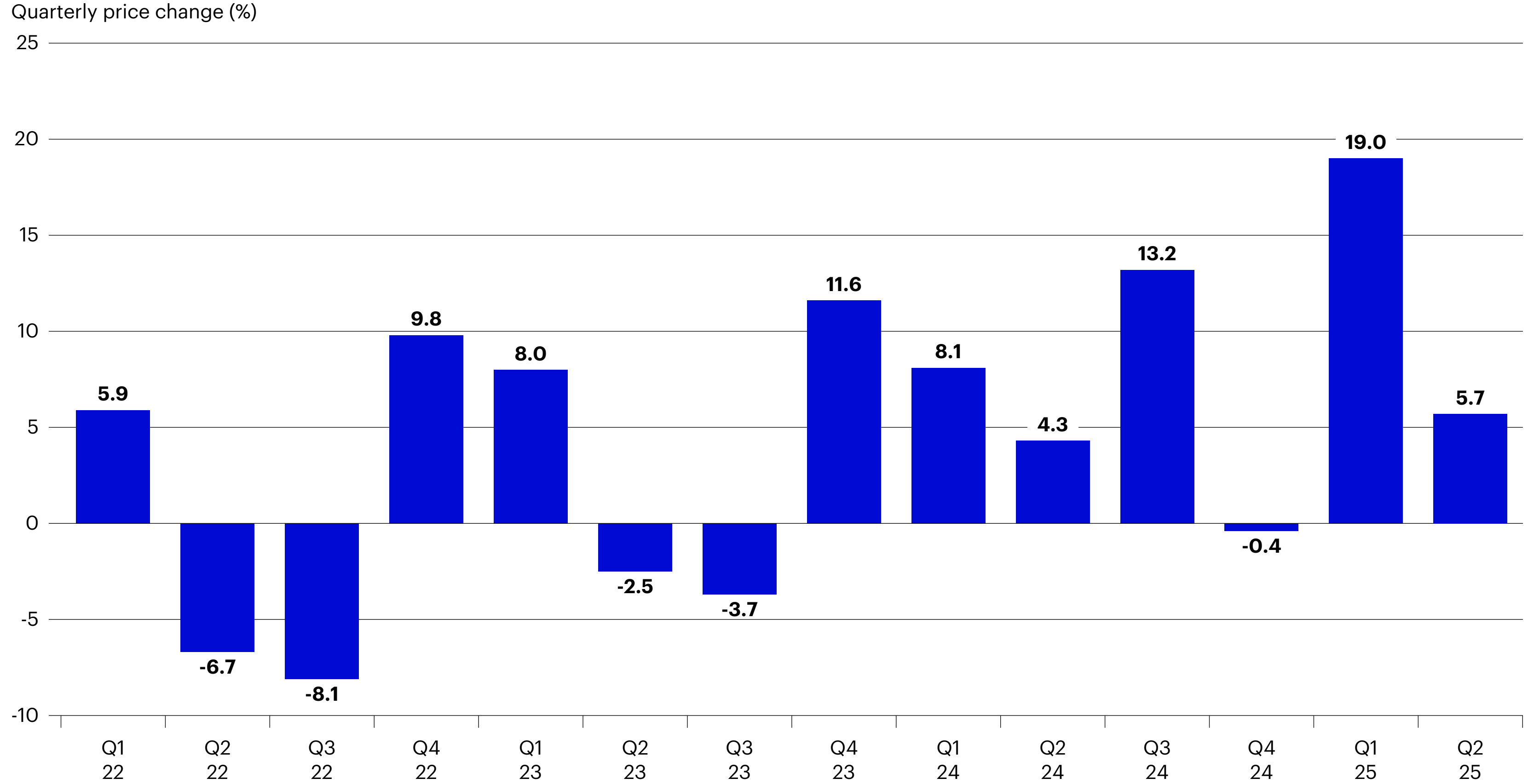
Gold price return in Q2

5.7%

Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, from 31 March to 30 June 2025.

Quarterly price returns

Although it may not have been as strong as Q1's performance, gold's price appreciation in the second quarter was ahead of the 4.4% average over the previous 12 quarters and marked the strongest Q2 since 2020, when the gold price spiked at the start of the pandemic.



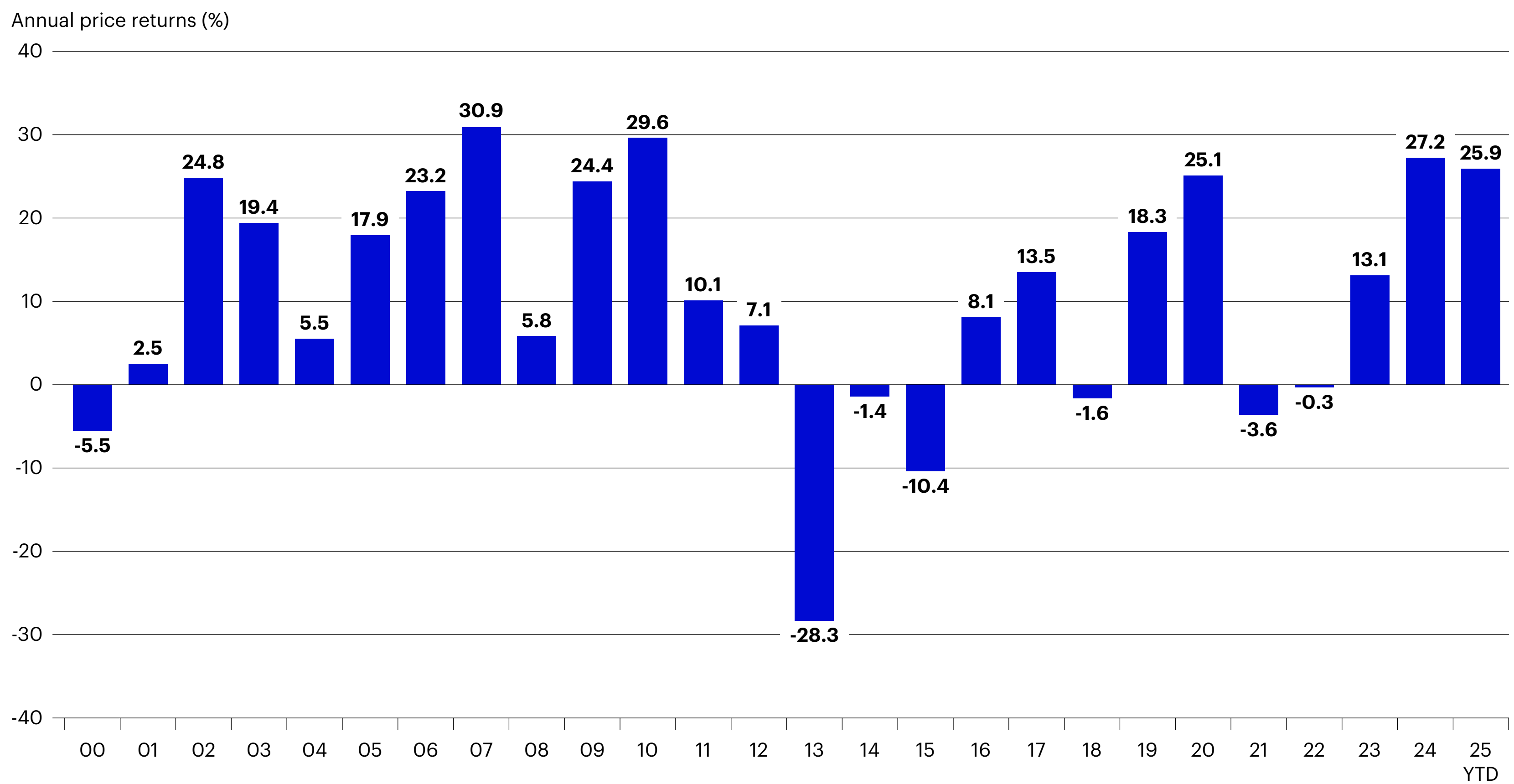
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 June 2025.

Market performance

Macro factors

Annual price returns

With half the year gone, and gold racking up a 25.9% YTD gain, 2025 could be one of the best years in history for the yellow metal. Looking to the second half of the year, gold is likely to continue receiving support from central banks, assuming they remain net purchasers, but whether the gold price is able to hang onto the gains made so far in 2025 – or even push to new highs – will depend on the evolution of the US economy and global trade.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD. "2025 YTD" as at 30 June 2025.

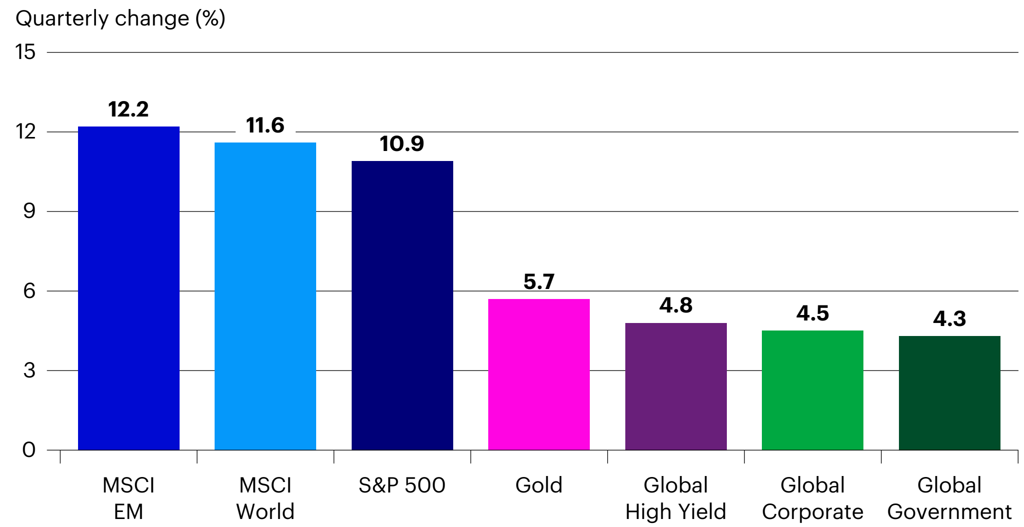
Market performance

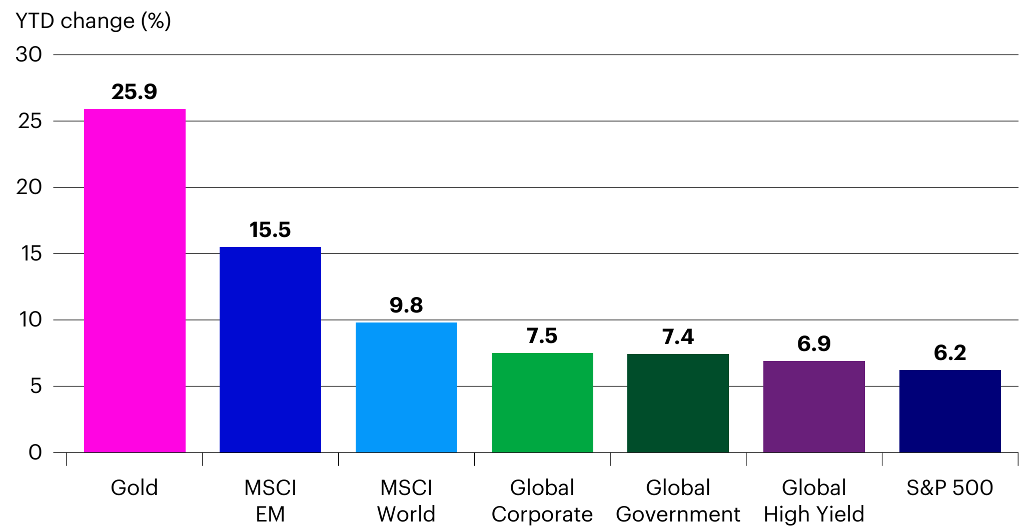
Macro factors

Asset class returns

Despite sharp falls in the first week of the quarter, all major asset classes in our review ended Q2 with strong gains. Risk assets were the strongest, led by emerging market equities but with US equities not far behind. The other end of the risk spectrum also performed well, with global bond markets also delivering strong total returns, albeit coming up short compared to gold's 5.7% return.

Gold has been the best-performing asset year to date, with the haven asset's 25.9% return a long way ahead of the return of both riskier equities and more defensive fixed income assets.





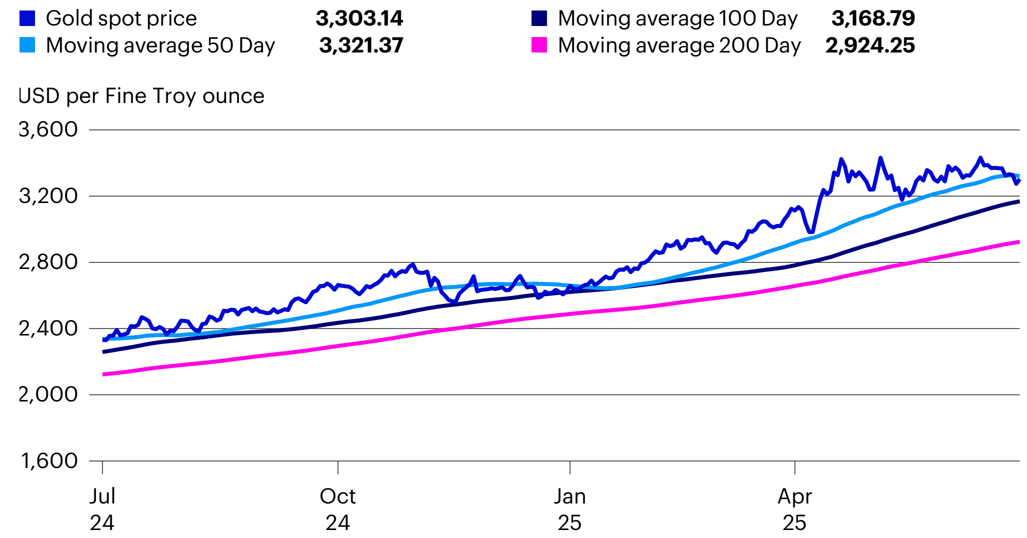
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, as at 30 June 2025.

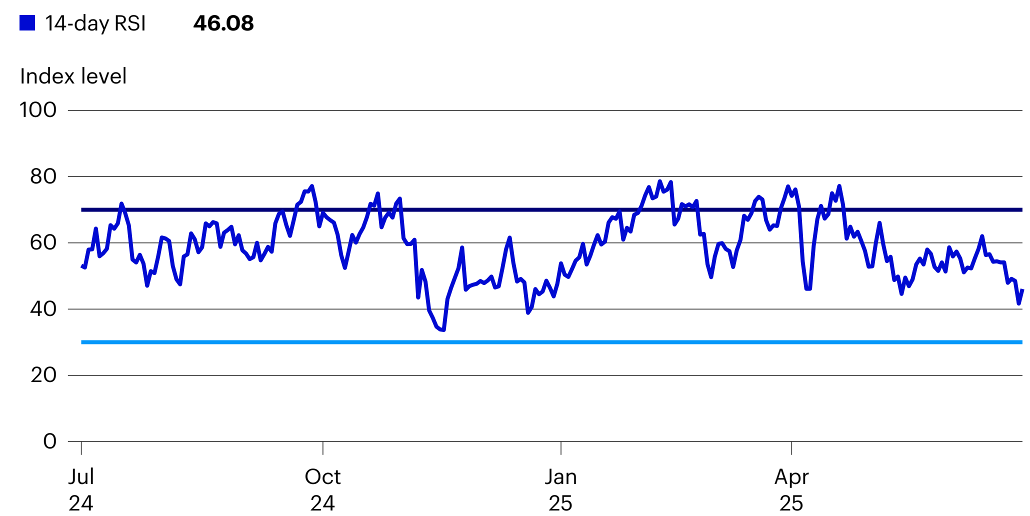
Market performance

Macro factors

Relative strength of the gold price

The gold price was in overbought territory for much of April but then spent the rest of Q2 in a more moderate range, according to the 14-day Relative Strength Index. Spot gold crossed under its 50-day moving average late in the quarter, potentially signalling a near-term bearish trend.



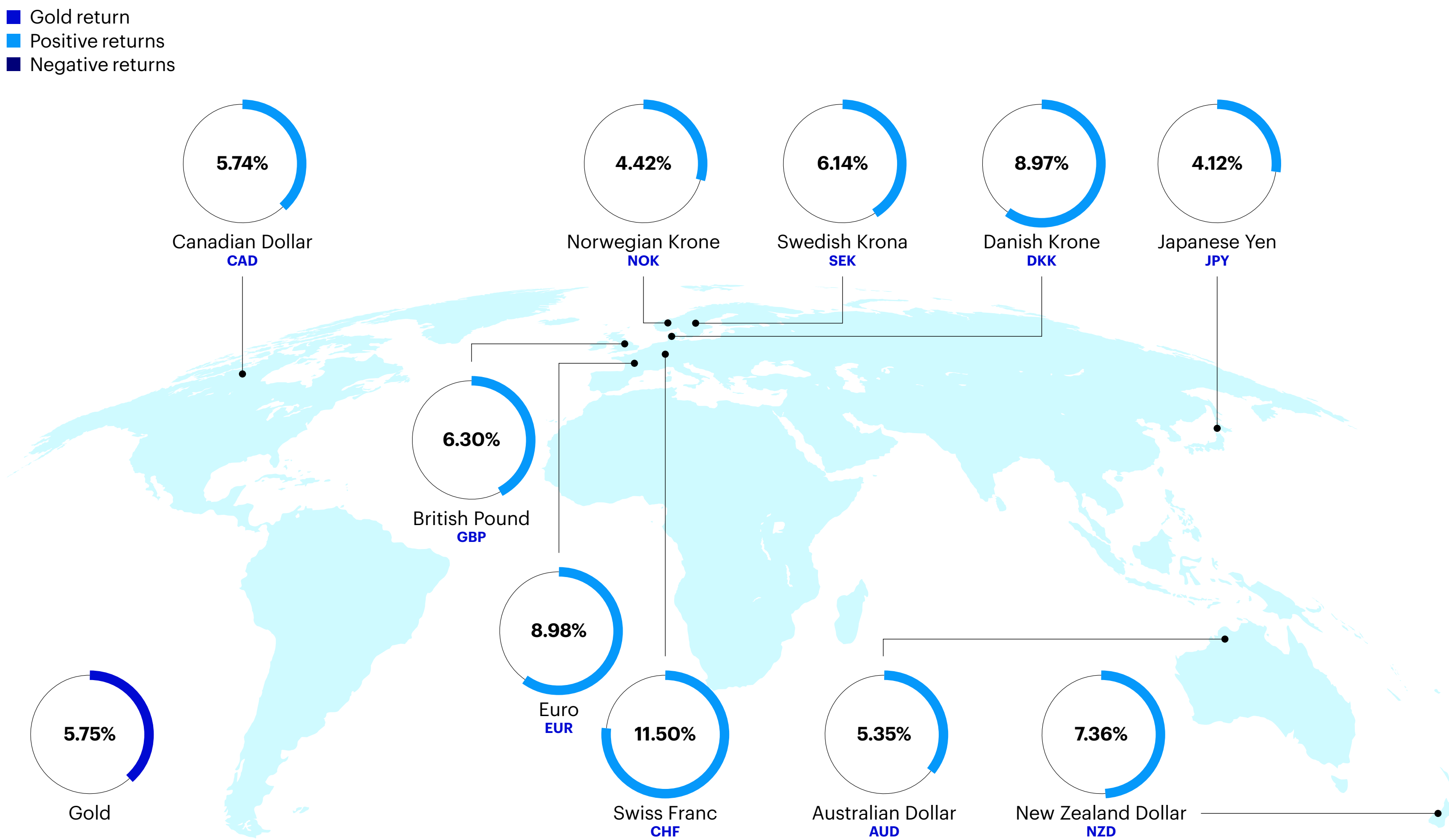


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2025.

G10 currencies

With the USD weakening further, every other major currency in review appreciated in Q2, with many reaching multi-year highs relative to the greenback. Dollar weakness has been driven largely by the threat of stagflation, with uncertainty over the outlook for both economic growth and inflation, and with signs that international investors continue diversifying away from USD assets. During the quarter, the GBP hit its highest level since February 2022, the EUR since November 2021 and the CHF reaching levels not seen since 2011.

Q2 returns of gold and G10 currencies in USD (%)



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Market performance

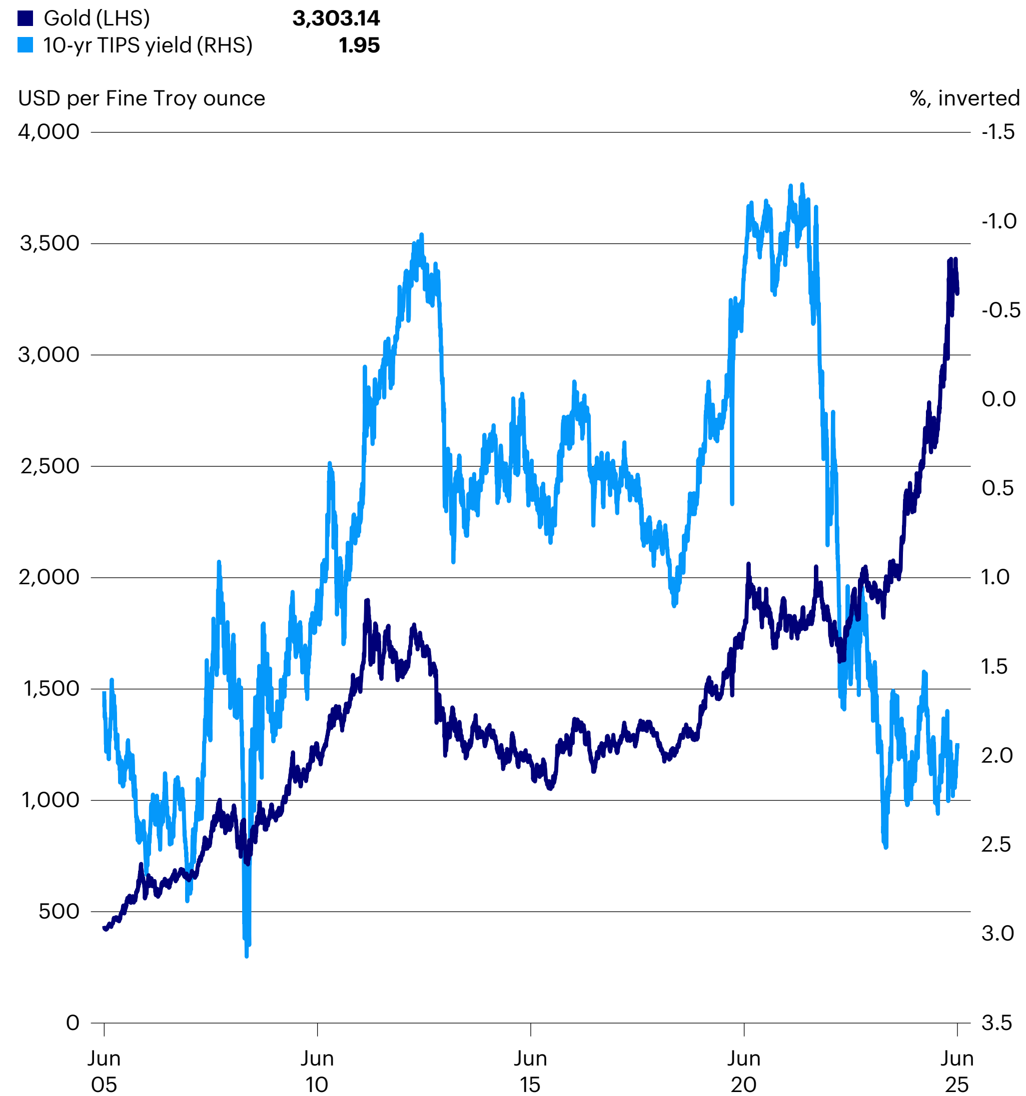
Macro factors

Gold price and real bond yields

Real yields ended the quarter seven basis points higher than at the end of Q1. The US 10-yr TIPS yield spent most of the period above 2.00% (closing as high as 2.29% on 11 April) before ending the quarter at 1.95%. The Fed increased its inflation forecast (see page 12) but with bond yields rising further in the period. The US Treasury curve steepened, with the 10yr-2yr constant maturity spread widening from 0.34% at the end of Q1 to 0.52% at the end of Q2, having hit a high of 0.67% in the period. While the prospects of a weaker growth outlook hit the short to medium part of the curve, longer-dated bonds came under pressure from concerns over US debt sustainability, with bond investors requiring additional compensation for taking on the longer-term risk. Higher bond yields are generally negative for gold, as it increases the opportunity cost of holding the non-yielding asset, but the uncertainties driving this situation could help offset the traditional relationship between the gold price and bond yields.

US 10yr-2yr spread widened in Q2

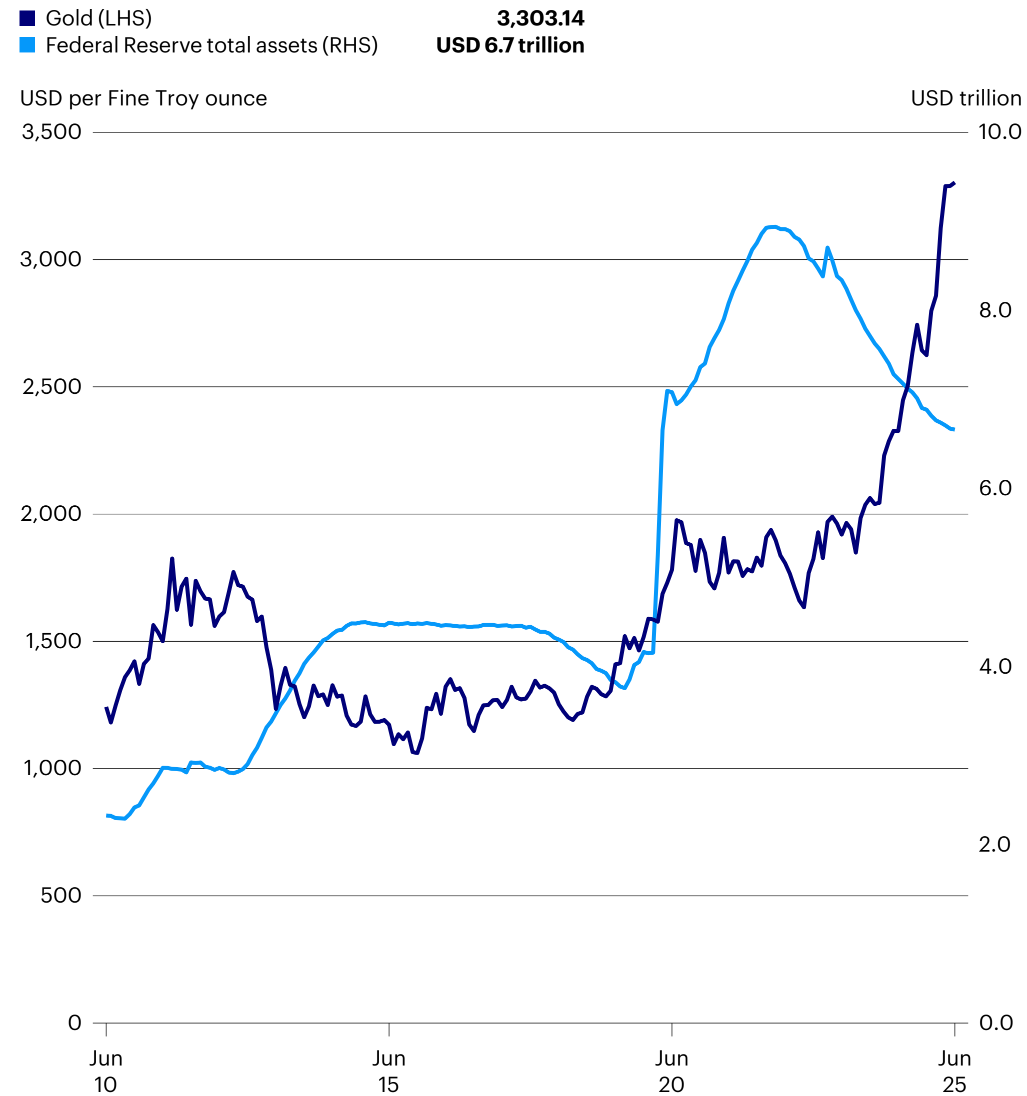
+18 bps



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2025.

Gold price and Fed balance sheet

At US$6.68 trillion, the size of the Fed's balance sheet is now just under where it was following the initial, massive QE undertaken in 2020. Since the Fed began tightening in June 2022, the balance sheet has been reduced by US$2.2 trillion through a program of allowing maturing securities to run-off its balance sheet without replacement. The Fed started slowing the pace of this run-off program in April, allowing time to observe economic developments. Fed officials have also pointed out that the balance sheet is unlikely to return to pre-pandemic levels.

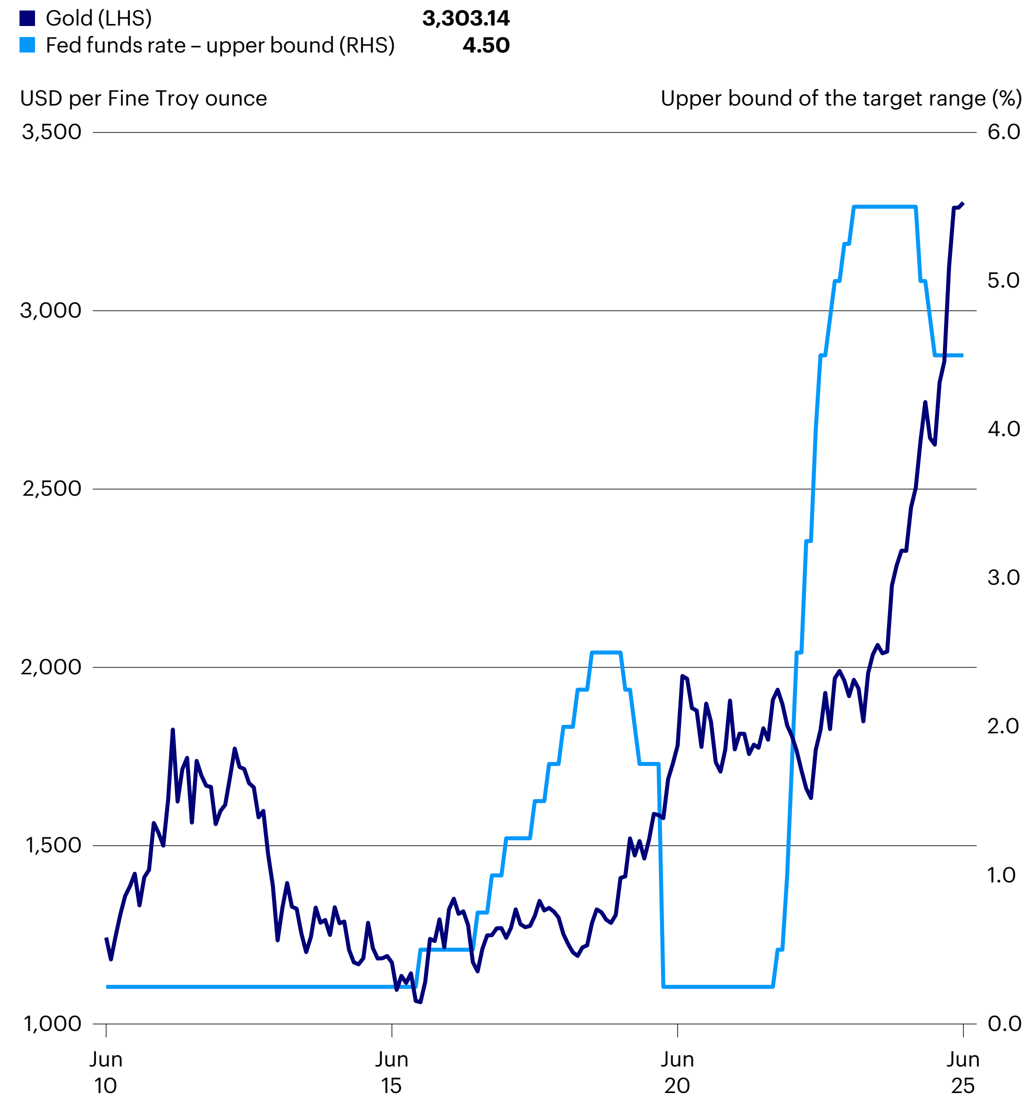


Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2025.

Gold price and US interest rates

The Federal Open Market Committee (FOMC) left rates unchanged, as expected, at both its May and June meetings. According to the CME FedWatch, the futures market places only a 20% chance of a rate cut when the committee next meets at the end of July. There will then only be three meetings scheduled until the end of the year, with a rate cut most likely in September. June's "dot plot" shows only a slim majority of officials expecting a total of 50 basis points of reductions by the end of the year, while an almost equal number expects rates to remain on hold at their current level for the rest of 2025.

The futures market is more dovish, however, with a 46% chance that US rates are cut by a total of 75 basis points to a target range of 350-375 basis points at the end of the year. The difficulty in predicting the path of interest rates is that some FOMC members are trying to factor in the unknown impact of unknown tariffs, which may or may not ever materialise and, if they do, may be much less severe than initially thought. The jobs market is another unknown, with the Fed predicting unemployment to rise while recent data has shown more resilience.



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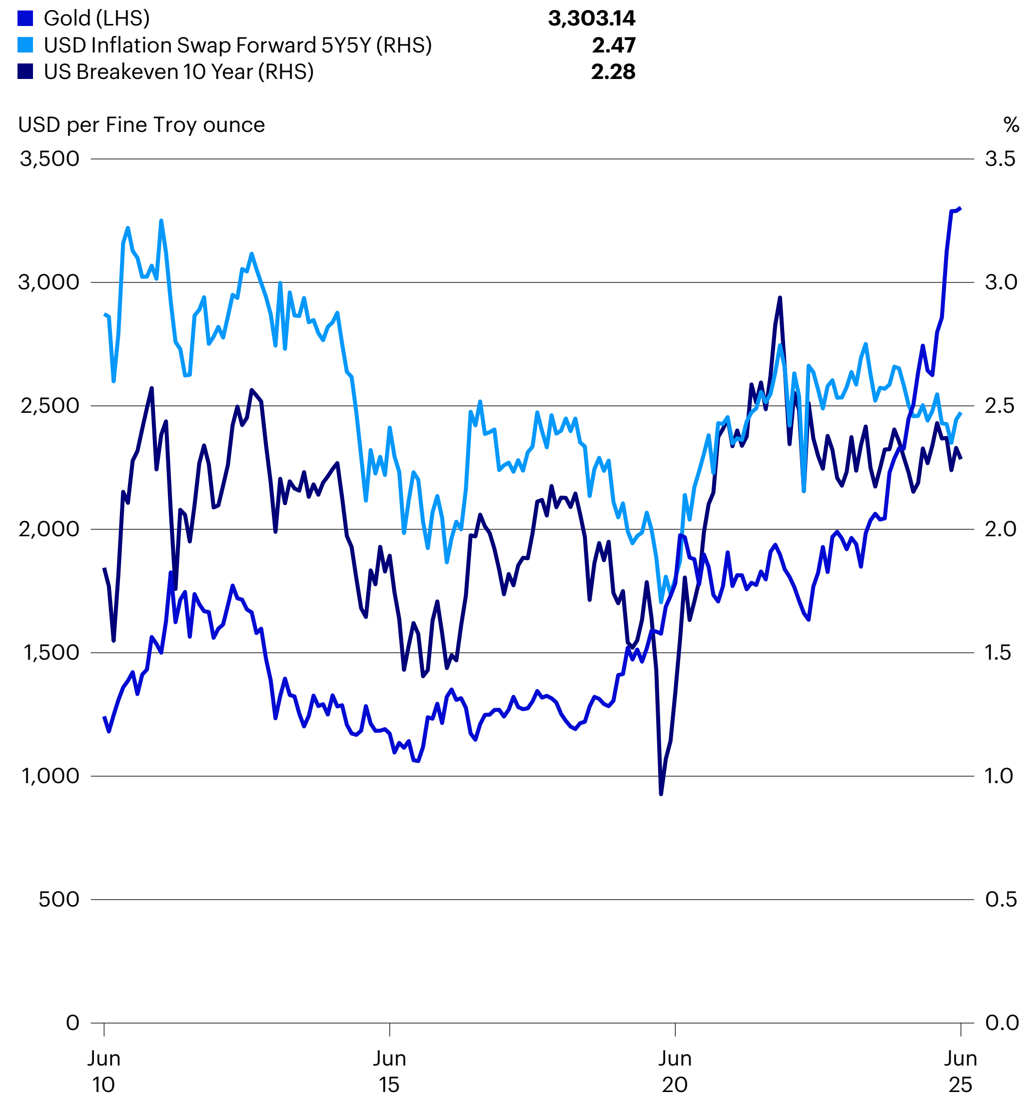
Gold price and inflation expectations

Inflation expectations edged up in Q2 despite encouraging data helped by lower energy prices. However, after its June meeting, the Fed increased its forecast for core inflation (as measured by the Personal Consumption Expenditures index) to 3.1% by the end of 2025, up from 2.8% in March. Chair Powell also reported that the committee expects US unemployment at the end of the year to rise to 4.5% (versus 4.4% expected in March) and for real GDP growth to slow to 1.4% (versus 1.7% in March). Powell is attributing these revisions to the anticipated future impact of the US administration's trade tariffs and deportation policies.

Fed's forecast for core inflation

3.1%

at end of 2025



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Gold price and the US Dollar

The USD continued to weaken significantly, with the Dollar index (DXY) down by 6.7% in the latest quarter and by 10.7% since the beginning of the year. The USD's decline in Q2 was driven by concerns that trade tariffs would have a negative impact, causing economic growth to slow and inflation to rise. And even though the market now expects the US to avoid recession and actual data shows that inflation has come down, global institutions have been diversifying away from the USD and opting for other havens, including currencies such as the EUR and CFH but also gold. Gold is now the second-largest reserve asset held by central banks globally, overtaking the EUR and now behind only the USD.

US Dollar Index
-6.7%
in Q2

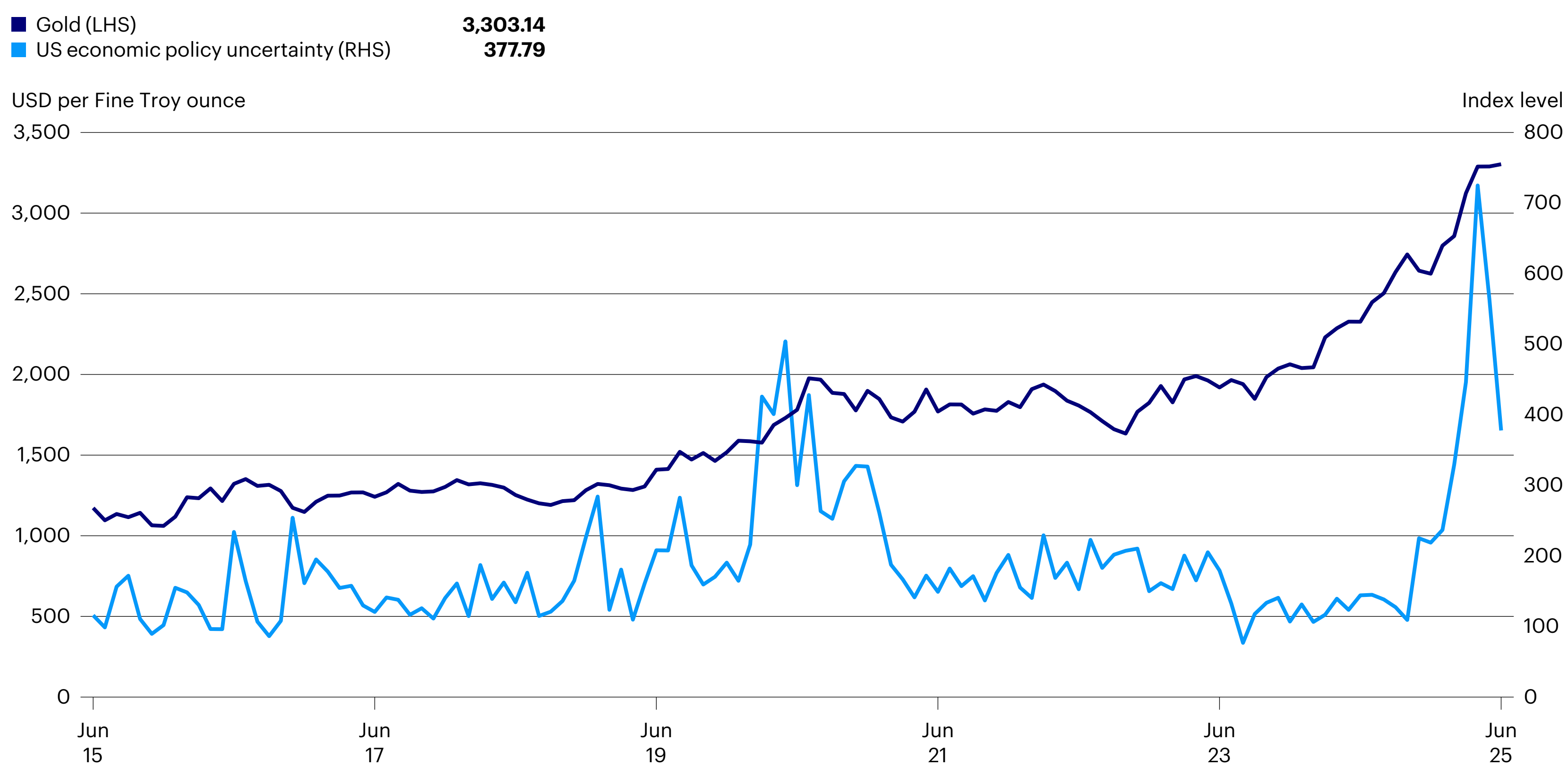
Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2025.

Market performance

Macro factors

Gold price and economic risks

The US Economic Policy Uncertainty index rose sharply in April to its highest level in history, as media outlets increased their coverage of the potential impact of tariffs and other policy from the new US Administration. This index is measured by the count of the word 'uncertain' or 'uncertainty' with 'economy' and words related to the federal government. While actual policy decisions can have more definitive outcomes, uncertainty tends to be positive for gold, and while the index fell back in May and June, it remains at historically high levels.



Past performance is not a reliable indicator of future returns. Source: Bloomberg, in USD, to 30 June 2025.

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