

Canary in the Gold Mine: A Global Reordering?

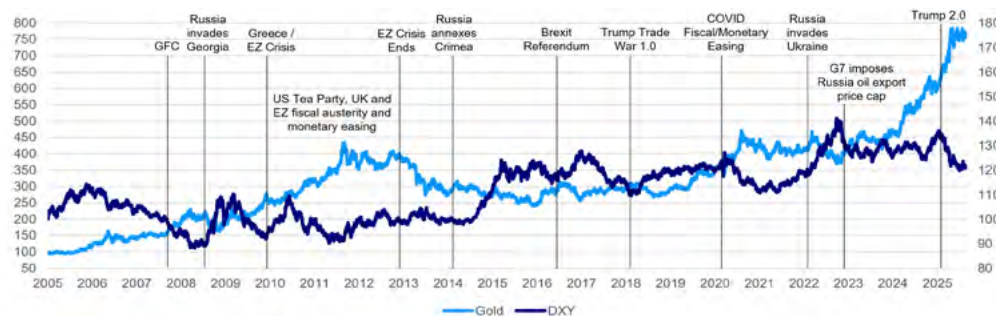


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Executive summary

- We synthesize a framework and views on the role of the US, the dollar and gold in a potential global reordering across geopolitics, geoeconomics and finance.
- “Canary in the coal mine” – originally meant literally (if canaries taken into mineshafts suffocated, coalminers knew they had to escape noxious fumes) has come to mean early warning of severe risk. The canary is now apparently in the gold mine.
- Gold, the basis of money for millennia, is making a big comeback. It has rallied through much of the strong dollar era and is now buoyant as the dollar softens.
- Central banks and investors are buying as international trust suffers from geopolitical rivalry and conflict, rising trade/investment barriers, proliferating financial/economic sanctions.
- Gold has overtaken the euro, far exceeds other currencies and is approaching the dollar as a share of official international reserves.
- The consensus is that a multipolar world is emerging from shifts in the global balance of economic, military and technological power, centered around bipolar competition between China and the US, with middle powers like Brazil, Europe and India trying to have more sway.
- Yet, enormous differences in great-power geopolitical, economic, technological or financial capabilities imply an “unpolar” world order, in which leadership varies by issue or region. The US and China may vie for economic, technological, geopolitical leadership; Russia holds the key to Eurasian stability and security; the US dominates global financial markets
- Even if a multicurrency system emerges, the dollar will likely remain first among equals, given US economic and financial dynamism. Gold is likely to remain front and centre given the uncertainty and risk posed by these rivalries. That said, a return to the gold standard is very unlikely given the size and complexity of modern finance.

Figure 1: Gold rallies on geoeconomic/geopolitical shocks through the strong-dollar era, index ¹



Source: Bloomberg, Macrobond, and Invesco. Daily data as at 22 August 2025.

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II. Past: Hegemony, Gold and Leading International Currencies

For millennia, gold was the basis of money — at first directly with gold coinage, then indirectly through the gold standard – official currencies backed by government gold holdings. Sovereigns usually required subjects to use domestic currency as legal tender, raising seigniorage with money representing a claim on gold backing.

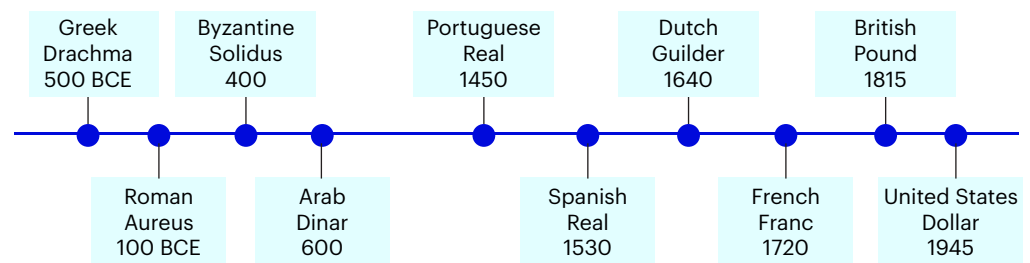
The rise of gold-backed domestic currencies required acceptance of their use in international transactions. Leading international currencies tended to be the currencies of the strongest geopolitical/geoeconomic power, with the military force and wherewithal to provide “global public goods” – freedom of navigation, enforcement of contracts and rules of international commerce, finance and relations between states; sufficient wealth to support its currency as a store of value; extensive trade underpinning cross-border invoicing and settlement with the domestic currency as a unit of account and means of payment.

The leading country also typically set the technological pace, which tended to support its military and economic leadership, and its capacity to establish and protect commercial, financial and geopolitical stability. The leading power thus offered “hegemonic stability” in the absence of global government, in what would otherwise be a “Hobbesian world” without order, stability or predictability for trade, investment or international relations.

The opposite tended to be true during periods of transition. Pax Romana and Pax Britannica, for example, represented periods of global order and economic development including flourishing commerce, industry and progress. Their demise ushered in economic, financial and geopolitical instability, decline or conflict, e.g., the Middle Ages or World Wars. Such periods of turbulence often culminated in global reordering, with economic, financial and indeed, currency leadership passing to victorious rising powers, whose economies came to dominate as declining powers, bankrupted by competition and conflict, experienced major legs down.

The gold standard remained front and centre throughout sweeping shifts in the global balance of power; often abandoned during conflict, it was usually reinstated afterward. Indeed, most leading international currencies were proxies for gold or a bimetallic gold-silver standard. The Dutch guilder in the 1600s and the US dollar today are the two major exceptions, as fiat currencies. Excessive commitments, debt and financial instability accompanied the waning of the Netherlands’ global power and the guilder’s demise – a risk for the US dollar that gold’s resurgence may also reflect.

Figure 2: Leading international currencies were usually domestic currencies of hegemony



Note: During the Italian Renaissance, some city-state currencies, e.g., the Florentine ducato, served as international currencies for a time; they lacked macro/military heft but were hubs of financial innovation. Source: Invesco Global Market Strategy Office.

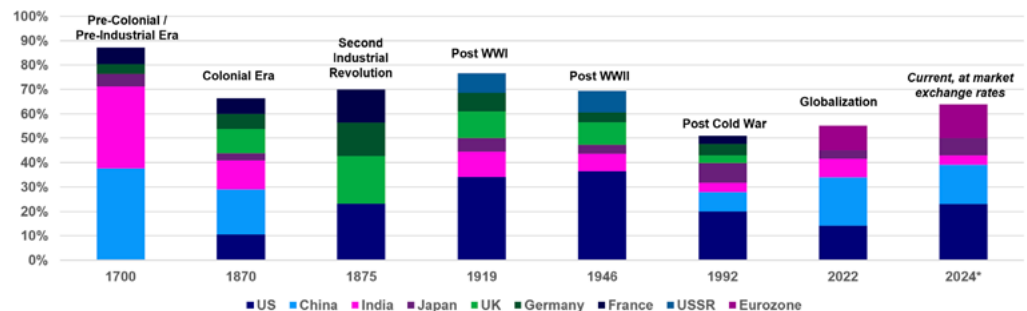
III. Present: Global Reordering and Pax Americana

Global reordering – when the rules of international engagement change comprehensively – often follows major conflicts and technological revolutions, which can dramatically, sometimes abruptly change the balance of power and distribution of economic activity. China and India accounted for 70% of global output in 1700. The Second Industrial Revolution and colonisation of Asia and Africa redistributed global GDP shares significantly. Great Britain, France, Germany and the US (after post-Civil War Reconstruction, the world's largest economy), accounted for 70% of global activity by 1875, up from just 30% in 1870 (Figure 3). The US emerged victorious in WWI, WWII and the Cold War, the three defining conflicts of the 20th Century. Yet each victory led to three different global orders, the last of which is still present, but looks to be in transition:

- **After WWI**, the US chose isolationism, abdicating its role as global hegemon despite coming out on top. The US had in effect bailed out Great Britain, which lacked credibility and could not maintain global order, at least not after Germany reasserted itself. US rejection of what might be called its destiny contributed to renewed European imperial conflict in WWII. Financial markets seemed to know better: With large gold flows into the US from war-torn Europe, the dollar was displacing sterling as the global currency of choice by the mid-1920s.
- **After WWII**, the once-reluctant hegemon embraced its newfound role with gusto but would not fight the USSR to establish global hegemony. An ideologically bifurcated world order emerged – capitalism/democracy vs. socialism/totalitarianism. The Cold War was a kind of world war waged via proxies and ideological, technological and geopolitical competition.
- **Cold War**: The US formally established a gold-based, dollar-centric financial system; trade integration with liberated allies and defeated opponents; collective security through NATO in Europe; treaties in Asia; military bases where possible. It pushed Europe to decolonize and rejected imperialism (e.g., threatening to force a sterling devaluation to stop Anglo-French efforts to reverse nationalisation of Egypt's Aswan Dam). It instigated coups and went to war in Korea and Vietnam against a “domino effect” of countries falling to communism.

Figure 3: US towered over other economies after 20th Century conflicts but not after globalization,

% share of global economic output



Source: Maddison Project Database, Macrobond, Invesco. Annual data, constant 2011 international dollars, as at 06 June 2025.

Soviet Russia fostered socialism and communism in the USSR and with the Warsaw Pact, a territorial buffer against Western invasion, and worldwide to compete with the US, notably in Latin America, crystallized in the Cuban revolution and missile crisis. It established a network of vassal and “client states”, invading Hungary (1956) and Czechoslovakia (1968) to impose proxy rule. The USSR had its own bifurcated monetary system – a domestic rouble and an international clearing rouble. Many countries participated in both the US dollar-gold exchange standard and the clearing rouble, until the latter collapsed with the USSR itself.

- **After the Cold War** and Soviet collapse, “emerging markets” including the former Soviet bloc, China, India, moved towards the “Washington Consensus” – free markets, free enterprise, free trade. The dollar-centric financial system also spread across the world, including the FSU and China. States that in the past had participated in the Soviet international clearing-rouble system and the dollar system, like India and Soviet client states in Africa for example, integrated fully into the dollar system.

Thus, the US initially chose to underwrite allies’ security and economic integration after WWII, given the instability and conflict that followed its post-WWI isolationism. Eventually, after winning the Cold War, it extended the same approach almost worldwide. The US did so both times because it could: With over one-third of global GDP after WWI and WWII, a fifth after the Cold War, the US stature in the global economy, financial system and ability to project power was multiples of the next player, putting it in a unique position to provide global public goods.

The thesis that integration would spur growth, prosperity and a shared stake in a stable global system based on economic and financial competition, worked well for the US bloc. After the Cold War, it was both feasible and desirable to apply the same thesis worldwide, to the Soviet bloc, much of which collapsed financially, economically and geopolitically; to China, which was already emerging from autarky. Former European colonies that had been in or between the US and Soviet blocs, also had little choice as their economic, financial and in some cases political systems collapsed. India, for example, went through a severe economic and financial collapse of its own as the price of oil skyrocketed with the Iraq War, more-or-less coinciding with the Soviet Collapse. South Africa, under pressure of US sanctions, eventually stopped apartheid.

Fast forward and the strategy worked, if anything, too well, from the US point of view. Prosperity spread, most allies narrowed per capita income and productivity gaps with the US – as China did most significantly, becoming a rival.

The world is now economically multipolar (Figure 3, 2022/2024). China is a peer in economic, technological and military terms. Russia, far behind on other fronts, is a peer nuclear power, using force to an extent that few other powers seem prepared to.

The tables may have not turned, but the US no longer towers above all others in economic, technological or military prowess – though it continues to lead by far in finance. The late 20th Century Pax Americana is yielding in the 21st to protracted, major regional wars, which the hegemon seems to lack the willingness or capacity to restrain. Despite winning the three major global conflicts of the 20th Century, the US may feel like it’s losing the peace of the 21st Century.

IV. Imbalances: US twin deficits and external obligations

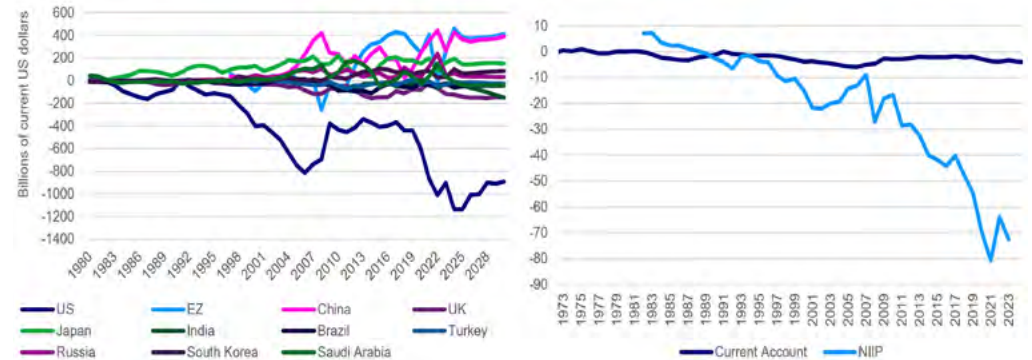
The joint, pre-2025 rally US risk assets and the dollar is at odds with widespread worries about US fiscal/external deficits and a deteriorating Net International Investment Position (NIIP); with US desires to reindustrialise; and with the secular rise in the gold price.

Yet it’s all arguably consistent with a lack of alternatives for diversifying central bank reserves, at a time when the US offered return-driven investors a mix of relatively high economic growth (with high productivity growth based on IMF, OECD and national data sources), technological innovation (based on patents and commercialization or deployment of new technologies like instant payment platforms, artificial intelligence, big data, etc.) financial dynamism (e.g., the take up and deployment of digital currencies, index trackers, ETFs, etc.) and hence high returns, all with arguably the world’s broadest, deepest, most liquid markets in both risk assets and countercyclical “safe assets”.

The coincidence of a long-running rally in gold with high returns and rising concentration in dollar assets in our view reflects both the faltering world order and economics of heavy US fiscal and current-account imbalances, and rising external obligations, with the unique success of US firms in driving strong growth in GDP, in earnings and innovation. Ironically, rising imbalances could raise the risk of a financial/currency/balance-of-payments shock in a geopolitical crisis, as an indirect result of strong economic and financial performance.

Issuing currency as an international medium of exchange implies running sizable external deficits to finance cross-border activity, whether current account deficits – importing goods, services and offsetting investment inflows from abroad; or capital account deficits, investing abroad. An external-balanced or surplus economy would create a shortage of currency and assets to finance growth in trade and investment.

Figure 4: Large US external deficits and sharp fall in net international investment position²



Source: IMF, Macrobond, Invesco. Annual data to 2023, IMF forecasts for 2024-2028, all as at 22 August 2025.

This inherent bug, arguably a feature or even requirement of the system is the Triffin Dilemma. The economist Robert Triffin argued in the 1960s that persistent external deficits would cumulate into ever-larger foreign claims, outstripping US gold reserves. Indeed, large fiscal deficits to fund the Vietnam War and Great Society Program boosted growth, external deficits and inflation, prompting Europe to demand gold instead of greenbacks. The US broke the Bretton Woods Treaty and floated the dollar, contributing to The Great Inflation of the 1970s. US allies realigned to a fiat-dollar standard – after the US restored stability with high rates and a double-dip recession, and most others after the Cold War.

Yet the Triffin Dilemma may be reemerging as a threat to currency and financial stability in a dollar-standard world order. Despite above-trend growth and full employment, US policy choices like tax cuts, subsidies, ageing-related social spending and defence needs all add up to persistently large, peacetime public deficits and debt. Major new crises – financial, pandemic, or war – would very likely mean further, sudden large increases in federal debt.

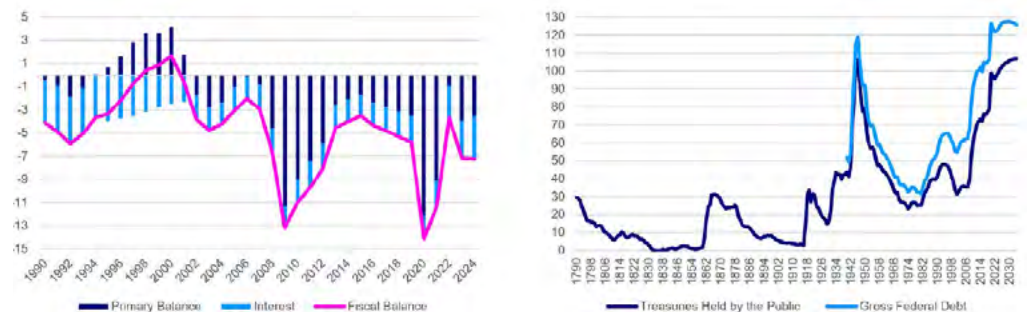
Indeed, the US has seen a sharp drop in its NIIP as foreign claims outstrip both US claims on the rest of the world and its large, persistent current account deficits. Sharply rising US external obligations are not explained by foreign Treasury holdings, which have stabilized around one-third of the total (as growth in international reserves has slowed), but by US macro/financial outperformance.

Foreign financing of US current-account deficits shifted to US private-sector assets, notably US equities as foreign investors increasingly used “US Exceptionalism” as shorthand for economic and financial outperformance of its peers, especially Western Europe and Japan. Originally the idea of the United States as a unique country founded on ideas and ideals of freedom of expression, religion, association and enterprise, rather than nationality, seems to have morphed into a connotation of exceptional innovation, economic growth and financial performance.

The result appears to be significant inflows into and outperformance by US equities, corporate debt and private markets, in global portfolios. Indeed, the US Treasury has estimated total foreign claims on the US at US\$32trillion, the bulk in private-sector assets. These vast claims, in line with the US’s enormous negative NIIP have accumulated over years of large, sustained external current account surpluses in China, the Eurozone, Japan, Russia, Saudi Arabia and other energy exporters (Figure 5). The US as the largest persistent current account deficit country with a host of large, persistent counterpart current account surpluses in other countries suggests rising portfolio concentration in US financial markets.

Even though the bulk of the increase in exposure appears to have been to US risk assets and especially equities rather than bonds, the effect on fiscal and financial stability may still be substantial if there were to be significant outflows from US financial markets. For now, the Trump Administration's trade barriers and intent to weaken the dollar to promote reindustrialization, has prompted rebalancing from US stocks, bonds and the dollar, as investors fear that US performance will deteriorate, and that taxes on capital flows may follow goods tariffs. Amid rising geopolitical tensions, deteriorating US fiscal and external positions and the return of US protectionism, unilateralism and unpredictability – and in the absence of an alternative – official investors, including central banks and sovereign wealth funds have sharply increased gold purchases as a store of value – and private investors have followed suit.

Figure 5: US fiscal deficits (left) used to widen in recession, debt ratios in war; but now in peacetime, % of GDP³



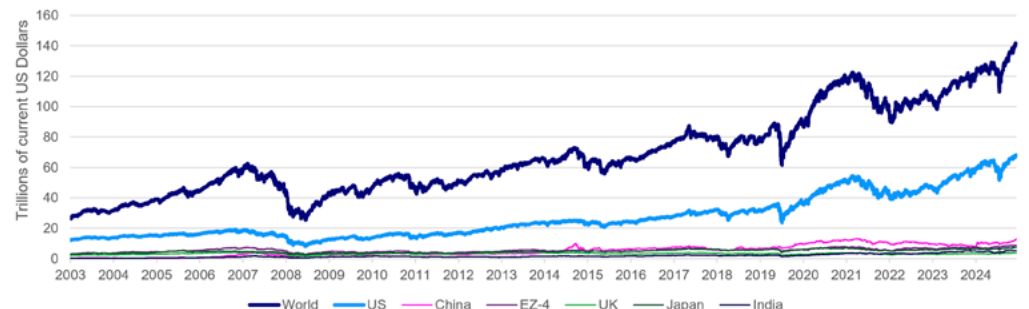
Source: IMF, World Bank, OMB, Macrobond, Invesco, annual data through 2024, right OMB forecasts to 2034, as at 6 June 2025.

V. Financial Markets: Heavy gold flows despite US macro/financial dynamism

US financial leadership persists despite geoeconomic/geopolitical rebalancing toward rivals. The US continues to lead market capitalisation, turnover and liquidity across stock markets. The US Treasury is the largest single issuer of debt with the most depth and liquidity. US dollar liquidity is so high and transaction costs so low that transactions between other currencies are often better executed through the dollar than bilaterally.

Heavy global portfolio and index concentration in the US reflects inflows to benchmarked funds, more recently passive-index trackers, adding momentum to performance. The fundamental underpinning reflects the much-touted theme of “US exceptionalism”, discussed above. Indeed, since the GFC, the US has delivered higher productivity growth, far greater leadership in tech, AI, and the “Fourth Industrial Revolution” (alongside China) and stronger corporate earnings growth than its peers.

Figure 6: US leads global stock market capitalisation and performance⁴



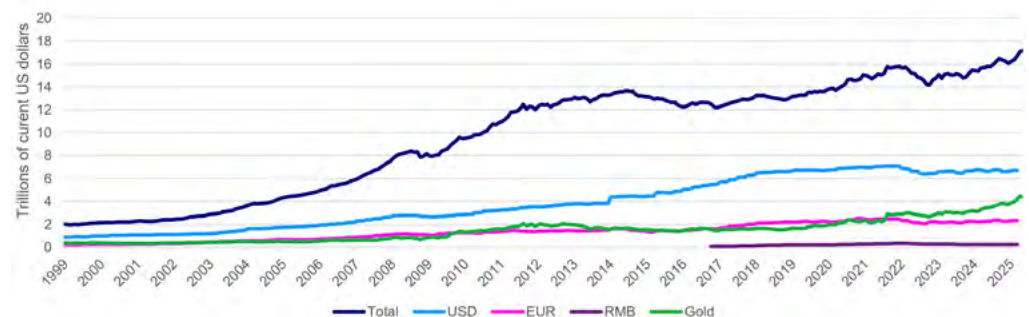
Source: Bloomberg, Macrobond, Invesco. Daily data to 22 August 2025.

Rich valuations and equity market concentration in US tech stocks may well indicate a bubble, yet US tech firms have delivered innovation, market share, revenue and earnings unlike the dotcom bubble, when many were burning cash. And bubbles have come and gone elsewhere without transformation – the Eurozone (financials, industrials, real estate), China (residential real estate) and or Japan (commercial real estate).

US rivals apparently leave something to be desired from a market perspective. Europe used to be a peer in market performance, economic scale, productivity growth (albeit at lower levels). But since the financial crisis and Brexit, the EZ and UK have lagged the US on all fronts. China has matched or outpaced US innovation, but until recently delivered weak market performance, likely due to policies intended to de-risk real estate and tech, which the state had perceived as skewing resource allocation and economic incentives.

Yet, why should the gold rally have gathered steam through the decade-and-a-half US-exceptionalism rally (Figure 7)? The twists and turns of gold flows are revealing. Until the GFC, DM central banks were divesting gold for it had little role in a fiat-currency world. EM central banks, many with dollar pegs or export-led growth models, focused on the dollar, not gold. But after the GFC (and Russia's invasion of Georgia, also in 2008), EM central banks began adding monetary gold to official international reserves, and DM central banks stopped selling. After Russia's invasion of Ukraine and far-reaching retaliatory sanctions (e.g., severing of Russia from SWIFT, the freezing and much-debated seizure of half its official reserves and efforts to limit oil revenues), the canary in the gold mine really began flashing warning signals.

Figure 7: Gold surpasses EUR, nears USD, explains bulk of reserve rise since Ukraine war



Source: IMF IFS, COFER, Invesco. Monthly and quarterly data through April 2025 as at 22 August 2025.

Since the Ukraine war and sanctions, the share of the US in total official international reserves, including monetary gold, has fallen. The share of the euro and most other countries has levelled off. But gold's share has risen, accounting for most of the rise in official reserves since 2022.

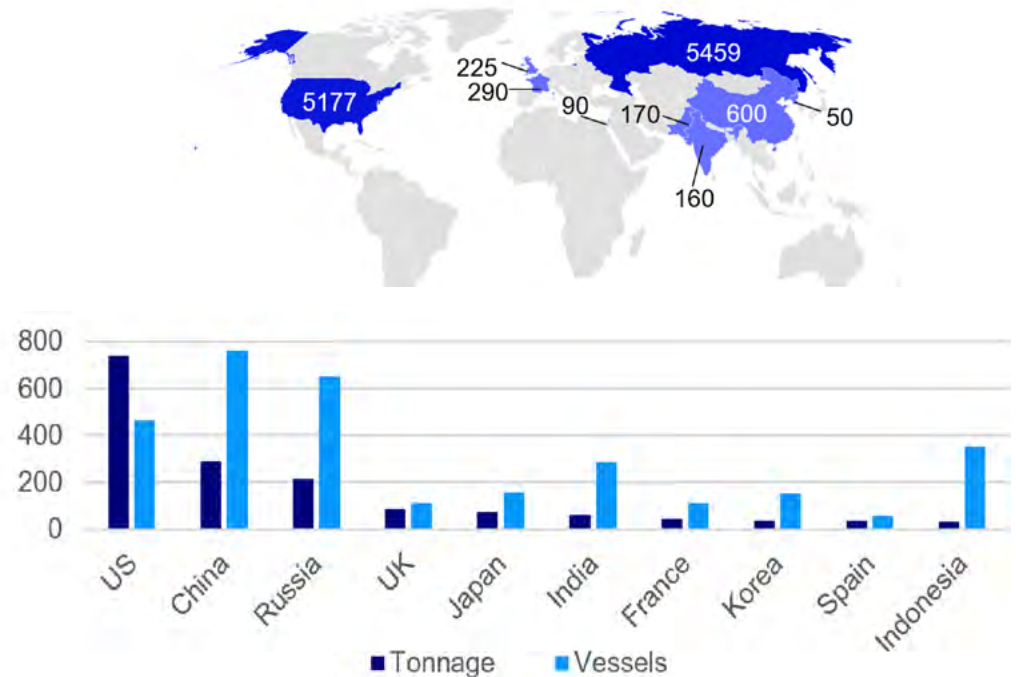
The canary in the gold mine seems to be signalling that the "TINA" problem persists – there is no alternative to the dollar other than gold itself. Central banks would rather seek safety in gold, the liability of no government, yet a substance most have considered an asset throughout history.

VI. Future: Geopolitical, economic, technological and military competition

An open world economy has helped many countries narrow productivity gaps with the US. Yet, economic and military leadership are no longer aligned. Militarily, the world is tripolar, led by the US, China and Russia by far (Figure 8). Technologically, the US and China are at or nearly on par, with others far behind. Yet, in military technology, leadership is mixed. China and Russia are far ahead in hypersonic missiles. In AI, China and the US vie for leadership; other great powers lag.

Much is said about US military spending still dwarfing China's; or middle powers (e.g., France, the UK) which dwarf Russia's economy. Yet such comparisons ignore lower prices for men and materiel in "emerging markets" (e.g., Russia, China); the political will to retain or grow arsenals; and greater willingness to use force, as per Russia's staying power for a war of attrition against Ukraine, even though it is backed by the far greater resources of the West.

Figure 8: Nuclear arsenals (left) and naval fleets point to a militarily tripolar world ⁵

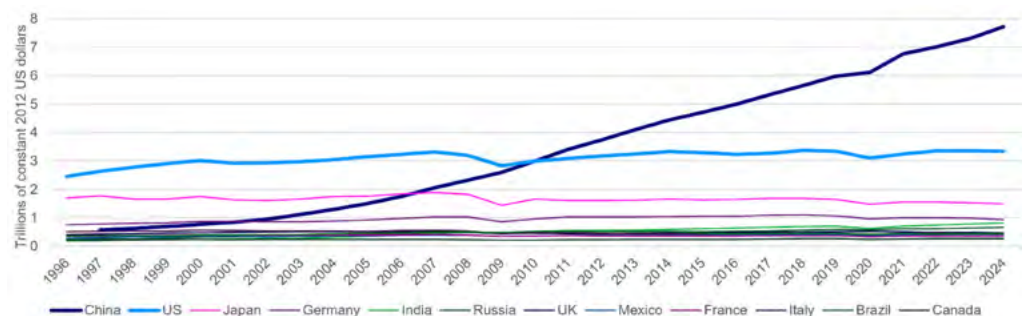


Source: Stockholm International Peace Research Institute, armedforces.eu, Reddit, wdmw.org, Invesco. Left, January 2024; right, January 2025; as at 22 August 2025.

Russia and the US have a commanding lead in nuclear warheads. China is rapidly adding. Smaller arsenals may make war unwinnable through “MAD” – mutually assured destruction. But deterrence requires surviving a first strike with enough firepower to launch a second strike.

Hence conventional economic, military and technological competition matter even for nuclear powers as doubts about US security guarantees proliferate. US fears of being overextended are magnified by vast differences in industrial capacity. China’s industrial output is twice that of the US, multiples of other countries combined, as is its shipbuilding. Ukraine shows that modern warfare still entails mobilizing industry for tech, drones, ammo. The US may face an unbeatable rival in China, a challenge not seen since the height of the Cold War. Indeed, some US China hawks think China is adding to industrial “overcapacity”, despite deflationary pressures, to create greater mobilization capacity in case of war; hence, the US reindustrialisation push.

Figure 9: Chinese industrial capacity dwarfs other economies’ ability to mobilise for war



Source: World Bank, Invesco, annual data as at 22 August 2025.

VII. Conclusion: US and dollar primus inter pares in a potentially “unpolar” world order

Central banks and private actors are sending mixed though not necessarily conflicting signals. Today’s canary in the gold mine is an early warning that though a global reordering may be underway, there is no clear global leader. Willingness to rely on the US and the dollar may be reaching their limits. Political, fiscal and monetary authorities may see risks of a breakdown in the international system, perhaps by the US abdicating its hegemonic role as underwriter of global security, freedom of navigation, and open trade and investment. Yet, the lack of a reserve shift from dollars to euros or renminbi – despite much-improved performance by EZ and Chinese financial markets – suggests that market participants do not believe another great power can replace the US in the global order.

In the interwar era a century ago, the UK clearly lacked the geopolitical/geoeconomic clout to maintain global order, given the rise of Germany, Japan and the US. In that gold-standard era, the dollar displaced sterling as the world’s leading currency, once WWI had demonstrated US capabilities – despite US reluctance and isolationism.

In today’s multi-dimensional, fiat-currency world order, however, economic, military, technological and financial leadership are no longer directly aligned as in the past. Today’s world economy is tripolar, across China, the US and the EZ. With India soon to be the third largest national economy, a quadrupolar world economy probably lies ahead, with multipolar tendencies, as Japan and the UK will likely continue to influence global macro/financial activity. Yet militarily, the world is tripolar among China, Russia and the US, with others far behind. Technologically, the US and China are on par or close, but others lag far behind. Financially the US has no peer, but its fiscal and external obligations could pose risks if there were a sudden loss of confidence, as in a future financial crisis, conflict or other major disaster.

Against this backdrop, the US under two non-consecutive Trump administrations is reassessing its global role and commitments, and is reprioritizing, arguably to avoid falling into the UK/USSR trap – overextended and overcommitted to a world order that it is unwilling or unable to sustain. With echoes of interwar isolationism and protectionism and the 1971 Nixon Shock (unilaterally breaking the Bretton Woods Treaty and the dollar-gold exchange standard), the US is withdrawing from leadership and engagement in many multilateral institutions, and seeking to reorder global trade, to tilt what it sees as an unfair system toward balance (or its own favour). Yet, the administration is also using strong-arm tactics to achieve foreign policy goals: Coercion against adversaries and allies; high, discretionary country- and sector-specific tariffs; threats of annexation and force (e.g., bombing Iranian nuclear sites); maintaining or threatening to escalate financial sanctions against Russia itself and third countries (e.g., India). The message seems to be one of unilateralism.

Gold, therefore, may also be signalling a stalemate and an incomplete global reordering – an “unpolar” world order, in which leadership may vary from issue to issue, time to time or region to region depending on how vital the interests, capabilities and political will at stake of the relevant great powers. Such a situation may be difficult to see as a world order at all, perhaps a disorder, yet it would be consistent with high gold prices – and with better balanced economic and financial market performance across major economies, as investors seek to diversify risks instead of concentrating most of their eggs in one basket. The US and the dollar would likely be first among equals with all the exceptional US advantages of economic, financial and technological dynamism, massive resources and hemispheric protection by two oceans – even as other great powers rise.

Abbreviations:

EZ – Eurozone

DM – Developed Markets

EM – Emerging Markets

GFC – Global Financial Crisis

1. DXY (RHS) is a nominal index of the US dollar against a selection of other major, liquid currencies – EUR, JPY, GBP, CAD, SEK, CHF. DXY and gold (\$/troy oz), indexed to 01 January 2005=100.
2. NIIP – Net International Investment Position: Claims of US investors on the rest of the world minus claims of non- residents on the US.
3. Primary balance, US federal revenue minus non-interest spending. Gross Federal Debt includes Social Security Trust Fund Surpluses held in non-marketable Treasuries. OMB, independent, non-partisan agency tasked with forecasting macro and fiscal trends.
4. Bloomberg All Country Index; EZ-4, Germany, France, Italy, Spain.
5. Global nuclear weapon inventories: US: 5177, Russia: 5459, UK: 225, France: 290, China: 600, Pakistan: 170, India: 160, Israel: 90; North Korea: 50. Vessels and naval tonnage in 100,000s. Naval power probably reflects both number of vessels for greater agility in naval warfare and reach, vs. tonnage for firepower/ability to project power.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations), and investors may not get back the full amount invested. **Past performance is not a guide to future returns.**

Alternative investment products, including hedge funds and private equity, involve a high degree of risk, often engage in leveraging and other speculative investment practices that may increase the risk of investment loss, can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, may involve complex tax structures and delays in distributing important tax information, are not subject to the same regulatory requirements as mutual funds, often charge high fees which may offset any trading profits, and in many cases the underlying investments are not transparent and are known only to the investment manager. There is often no secondary market for hedge funds and private equity, and none is expected to develop. There may be restrictions on transferring interests in such investments. Rental inflation is the increase in the cost to rent a home.

The risks of investing in securities of foreign issuers, including emerging market issuers, can include fluctuations in foreign currencies, political and economic instability, and foreign taxation issues.

Investments in real estate related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITs or similar structures, tend to be small and mid-cap companies and their shares may be more volatile and less liquid.

Alternative products typically hold more non-traditional investments and employ more complex trading strategies, including hedging and leveraging through derivatives, short selling and opportunistic strategies that change with market conditions. Investors considering alternatives should be aware of their unique characteristics and additional risks from the strategies they use. Like all investments, performance will fluctuate. You can lose money.

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