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US Real Rates Still Matter for Gold… Just Not as Much as You Think

Unraveling the interplay between gold and interest bearing US government bonds

- There are robust and widely available empirical studies and financial flows research showing a strong linkage between changes in US real interest rates – particularly at the 2-, 5-, and 10-year sectors – and the gold price.
- Gold, defined as a long duration zero coupon asset, is viewed by many modern-day investors as competing with yield-bearing safe-haven assets such as US Treasuries.
- The gold/real rates relationship has ebbed and flowed over time. But other key drivers of the gold price in recent years – particularly Chinese retail and EM central bank demand – have likely weakened the gold price sensitivity to US real yields. This has allowed bullion prices to surge to a record $3,000/oz+ in March 2025 despite an environment of elevated interest rates vis-à-vis the overall post-Great Financial Crisis period.[1]

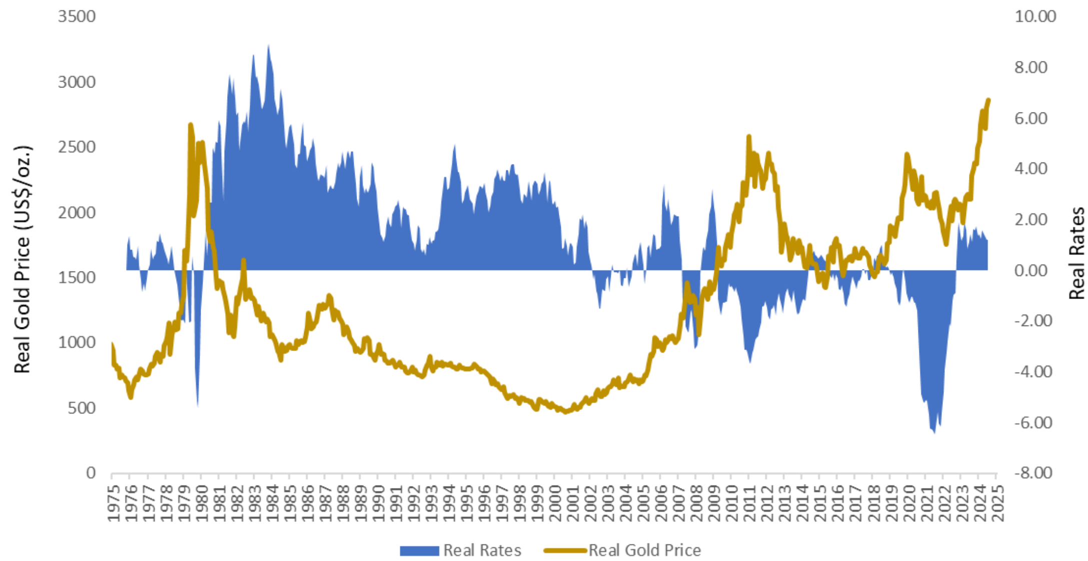
Why Real Rates Matter

The inverse relationship between gold prices and US government bond yields, traditionally expressed through real interest rates, is complex and evolving. Real interest rates, defined as nominal interest rates minus inflation, are one way to represent the actual cost of holding money. This relationship rests on two key economic principals.

1) **Opportunity cost:** When real rates rise (e.g. nominal yields > inflation), yield-bearing assets could become more attractive than gold, a non-yielding asset. Conversely, when real rates decline or turn negative (e.g. nominal yields < inflation), a store of value asset like gold could look more appealing to various investor segments. At a high level, real yields matter for tactical gold asset allocation.

2) **Currency Debasement:** Currencies can lose their real value (e.g. purchasing power) through various channels including expansive money creation or persistent deficit spending. Gold is a scarce natural resource, with a long cultural history of being tied to “original” money and “wealth.” Independent of central banks, and free from counter party credit risk (in physical form), gold cannot be debased like fiat currencies. At a high level, the long-term stability of the global monetary system matters for a strategic gold asset allocation.

Figure 1: The Evolving Relationship of Real Gold Prices and US Real Rates



Source: Bloomberg Financial L.P. and State Street Global Advisors, as of February 28, 2025. Real rates are represented by U.S. Generic 2-year yield minus U.S CPI Urban Consumers YoY. Real Gold Price is represented by Spot Price of Gold (US$/oz.) adjusted by U.S CPI Urban Consumers NSA. **Past performance is not a reliable indicator of future performance.**

As Figure 1 suggests, a historical real rates/gold inverse relationship made the yellow metal an effective hedge against inflation risk and monetary debasement fears to the extent investors felt policymakers were not up to task. However, this conventional wisdom began breaking down after the Covid pandemic, around the time of the June 2021 FOMC, and more vociferously in the 2022-2025 period. The breakdown of the relationship in recent years may suggest a secular trend on how market participants view global monetary stability and physical gold demand drivers. Rather than viewing recent bullion price action as an anomaly, investors might better understand it as evidence of gold's expanding role in a changing monetary landscape. Additionally, as gold consumption has diverted away from jewelry to public and private sector investment[2] (especially across China retail and emerging market central banks where buyers are less concerned about US interest rate movements), there is a case to be made that gold "physical" may be leading gold "financial". This transformation carries significant implications for portfolio construction, risk management, and gold price drivers for investors.

The Evolution of the Gold-Real Rates Relationship

The relationship between US real rates and gold prices has undergone significant evolution across five distinct economic periods from the 1980's to the present. Using empirical data, we can observe in Figure 2, how this relationship has transformed from a very strong negative correlation to a more nuanced and complex dynamic that has ebbed and flowed over the past decade in particular.

While conventional analysis typically employs the US 10 year TIPS yield or US 5 year TIPS yield as a proxy for real interest rates when evaluating gold's opportunity cost, our analysis deliberately uses the 2 year Treasury yield adjusted for inflation (e.g. US CPI Urban Consumers YoY). This shorter duration metric captures the more immediate opportunity cost dynamics that often drive tactical positioning in the gold market as well as market-implied Fed policy expectations (e.g. while the 10 year Treasury rate is the benchmark for most US lending, the 2 year Treasury rate is more reactive to Fed policy guidance).

Figure 2: How Gold is Navigating Its Market Evolution During Various Business Cycles

	1980's: Highest Real Rate Environment		1990's: Period of Stability		2000's: Pre Great Financial Crisis		2010's: Post Great Financial Crisis		2020's: Post Pandemic Era	
	Apr-83	Jul-90	Jan-94	Mar-01	Jun-04	Nov-07	Dec-15	Feb-20	Mar-22	Feb-25
Real Rates	5.76	3.62	1.39	0.96	-0.37	-1.31	0.38	-1.19	-6.15	1.19
Real Rates BPS Change		-214		-43		-94		156		734
Real Rates Average		5.05		3.23		1.00		-0.21		-0.71
US Dollar (Trade Weighted)	47	67	82	113	105	90	113	116	117	128
Cumulative Returns		45%		39%		-15%		3%		10%
Real Gold Price (US$/oz.)	1,399	889	825	478	682	1,188	1,444	1,961	2,235	2,858
Real Gold Cumulative Returns		-36%		-42%		74%		36%		28%
Real Annulized Returns		-6%		-7%		18%		8%		9%
Gold Price (US$/oz.)	429	361	377	263	402	784	1,075	1,589	1,988	2,858
Annulized Returns		-2%		-5%		22%		10%		13%
Nominal Cumulative Returns		-16%		-30%		95%		48%		44%

Source: Bloomberg Financial L.P. and State Street Global Advisors, as of February 28, 2025. Note: Real rates is represented by U.S. Generic 2-year yield minus U.S CPI Urban Consumer YoY. US dollar is represented by US Fed Trade Weighted Nominal Broad Dollar Index, Gold is represented by Spot Price of Gold (US$/oz.), and Real Gold is represented by Spot Price of Gold (US$/oz.) adjusted by U.S CPI Urban Consumer NSA. **Past performance is not a reliable indicator of future performance.**

In the late 1980's period, the classic inverse relationship held strongly with higher 2 year real rates averaging 5.05%, creating significant opportunity cost for holding gold as the US Dollar appreciating 45% amplified gold's negative performance.[3] Additionally, inflation expectations eventually collapsed, reducing the need for gold as a debasement hedge. Gold's strong sensitivity to real rates pushed the real gold price down 36% during this period.[4]

In the mid-to-late 1990's period, the inverse relationship remained relatively strong with real gold prices dropping by 42% as real rates averaged 3.23% while the US dollar appreciated by 39%.[5] This reinforced that despite a lower real rates average than the 1980's, a strengthening US dollar can be a headwind for gold. Additionally, lack of monetary debasement fears created a stable economic environment that reduced gold's safe haven appeal (e.g. recall bipartisan budget reform efforts in US congress and the Clinton White House ending its tenure with projected fiscal surpluses).

In the mid 2000's period, a new gold bull market was underway with the yellow metal appreciating by an inflation-adjusted 74%.[6] Real rates averaged 1.00% with the US dollar dropping 15%.[7] Gold's sensitivity to real rates was critical but other factors, such as monetary credit expansion, global liquidity, and US dollar weakness become prominent. While the inverse relationship still mattered, early signs of changing relationship dynamics appeared in this period amid the growth of Chinese and Indian commodities consumption and the further financialization of commodities including the introduction of physically-backed gold ETFs.

The 2010's period offered a crucial lesson in how the starting point of real rates can fundamentally influence their impact on gold prices. Despite real rates averaging a negative and historically low -0.21% from late 2015 to early 2020,[8] gold's real price appreciation was only 36%.[9] However this performance, while impressive, fell short of the mid-2000s gains primarily due to a strong US dollar environment that appreciated over 3%,[10] possibly capping gold price upside. Additionally, a weaker inverse correlation between gold and real rates began to emerge during this period as structural shifts in demand, financial repression, and geopolitical risks became more dominant gold price drivers amid central bank buying. This evolution likely helped set the stage for gold's subsequent behavior in the 2020's.

In the post pandemic era, gold has realized its most significant deviation from its historical relationship with real rates, with gold often reacting asymmetrically to money markets and interest rate movements. Gold has remained resilient appreciating a real 28% despite yields rising by 734 bps with U.S. dollar strengthening 10%.[11] This suggests that while real rates can still impact gold, they might no longer cap bullish runs as effectively- signaling that investors are likely prioritizing debasement concerns, or EM physical demand in the public and private sectors, over rate sensitivity in the current cycle.

Conclusion

This analysis highlights that the real rates and gold relationship has undergone substantial transformation through the past four decades. The change in relationship can probably be derived with the evolution of supply and demand fundamentals for gold. In short, a sharp rebound in China retail gold demand post-Covid and record central bank bullion purchases 2022-2024 have outweighed the headwinds of sharply higher real yields across the US curve.[12]

Of course, the gold price has never only been a function of real interest rates. And the impact of the US dollar in relation to yields matters for denomination effects. However, as the “combination of drivers” of the gold price evolves, it seems to us that real yields are becoming less critical. It may be too early to say this is a structural shift. But it is a trend worth monitoring. Adding depth to future analysis would also be taking into account more than just a real yield level and period change, and trying to glean signals with the real interest rate and the shape of the UST curve. This could possibly enhance our understanding of which duration matters most for gold in a given period/regime.

In broad context, the 1980’s gold market was meaningfully more concentrated, with few market participants, regular central bank de-stocking, high barriers to retail financial flows, and a less dynamic investment sector which allowed the relationship between real rates and gold prices to be more direct and mechanical. In the post pandemic era, global gold demand patterns, particularly physical consumption from emerging markets and central banks, seem for now to be proving more decisive for gold’s price trajectory than typical US real rates models would suggest.

Investors should keep in mind that in this particular business cycle, US real rates still do matter for gold sentiment and tactical trading flows (and lower real yields YTD are certainly one reason gold ETFs have seen large inflows and bullion prices have rallied in 2025). However, in the overall post-pandemic regime, real rates appear to be losing prominence. So we would argue gold investors and allocators should still pay attention to yields for the time being, but noting they may not matter as much for price evolution.

Footnotes

1. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025. Note: Gold is represented by Spot Price of Gold (US$/oz).
2. Source: World Gold Council – Gold Demand Trend: Q4 and Full Year 2024, as of 2/28/2025.
3. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.
4. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.
5. Source: Bloomberg Financial L.P. & State Street Global Advisors, as of 2/28/2025.
6. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.
7. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.
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11. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.
12. Source: Bloomberg Financial L.P. and State Street Global Advisors, as of 2/28/2025.

Glossary

Central Bank
A financial institution given privileged control over the production and distribution of money and credit for a nation or a group of nations.

COMEX
The main futures market for trading metals, including gold, silver, copper, and aluminum.

Consumer Price Index
Represents changes in prices of all goods and services purchased for consumption by urban households.

Gold Spot Price
The price in spot markets for gold. In US dollar terms, spot gold is referred to with the symbol “XAU,” which refers to the price of one troy ounce of gold in USD terms.

FOMC
A committee within the U.S. Federal Reserve System responsible for setting monetary policy.

Great Financial Crisis
Refers to the economic downturn from 2007 to 2009 after the bursting of the U.S. housing bubble and the global financial crisis.

LBMA Gold Price PM (US$/oz)
IBA independently administers the price and provides the auction platform on which the LBMA Gold Price is calculated, while LBMA own the intellectual property rights. The platform is electronic, tradeable, auditable and in line with the IOSCO Principles for Financial Benchmarks.

Real Rates
The Interest rate after adjusting for inflation. It reflects the true cost of borrowing an the actual yield on investments by stripping out the effects of rising prices.

Shanghai Futures Exchange
A major commodity futures exchange located in Shanghai, China. The SHFE offers trading in a variety of commodities, including metals, energy products and agricultural goods.

Treasury Inflation-Protected Securities (TIPS)

A treasury bond whose principal and interest payments are adjusted for inflation, protecting investors from the effects of rising prices.

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