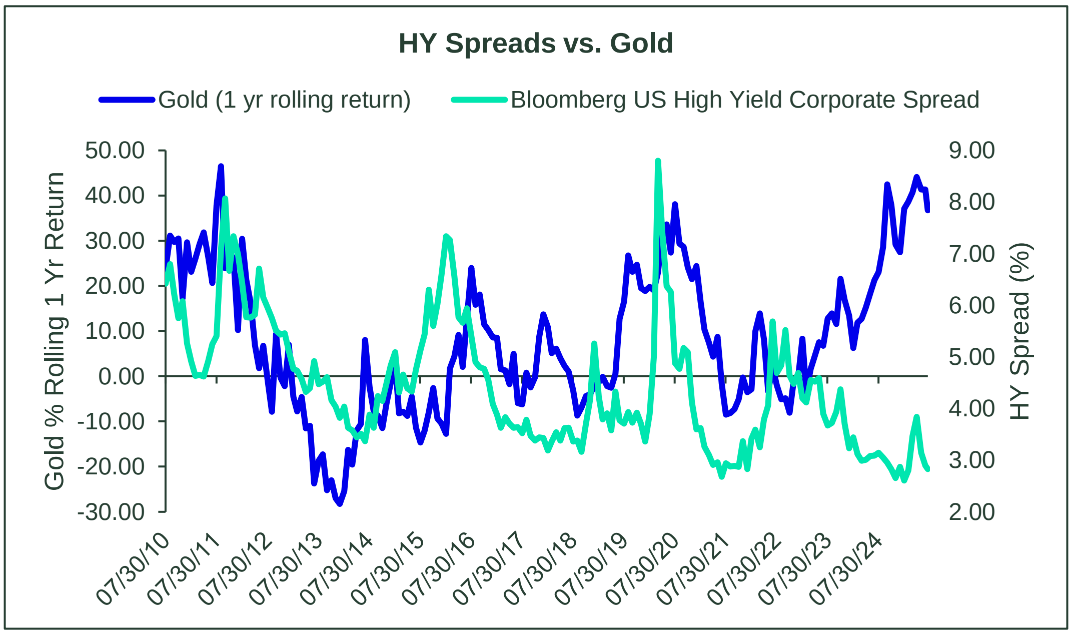
STATE STREET INVESTMENT MANAGEMENT

July 24, 2025
Commentary

Mind on the Market

Chart of the Week



Source: FactSet, Bloomberg. Data as of 7/18/2025 in USD.

Gold is a store of value, often appreciating when capital is at risk and credit spreads widen. Historically, this relationship has held true, as shown in the chart. However, more recently, gold has rallied even without a corresponding move in spreads. With limited room for further compression, the appeal of high yield lies in the attractive carry it offers. Gold's divergence with high yield spreads began during the throes of inflation's move higher, but has persisted even as inflation continues to normalize (2.7% Core PCE as of May's print). Let's explore the dynamics that continue to support gold despite lower implied volatility and tight spread risk.

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Weekly Highlights

Central Banks net gold reserves, full year 2024 (Source: World Gold Council)	US: DXY, US Dollar Index YTD (Source: FactSet, as of 7/23/2025)	Gold (NYM $/ozt), Price YTD (Source: FactSet, as of 7/23/2025)
+1,045t	-10.6%	+30.0%

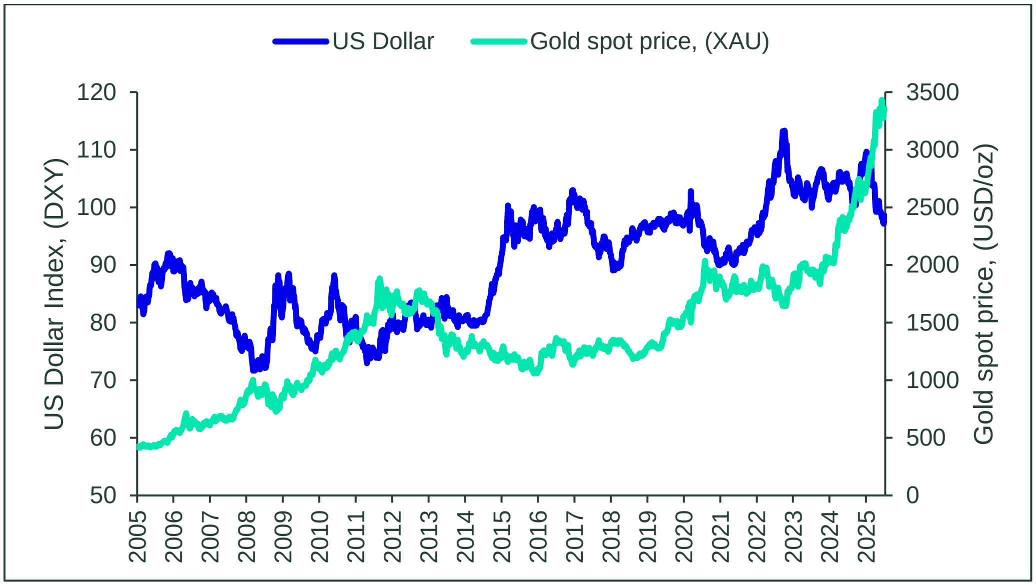
Gold's Message: A Warning for US Risk Assets?

Echoes of April's roller coaster ride for US equities linger in some financial corners, but it is hard to deny their steady V-shaped climb in recent months. Coupled with the collapse in implied vols across markets, money managers awakening from a deep slumber might be forgiven for (mistakenly) believing that a slew of new trade deals, clear policy guidance from the Fed, and subdued geopolitical risks had suddenly quashed macro uncertainty. So how best to throw cold water on the groggy investor?

To paraphrase Richard Dreyfuss playing Dr. Leo Marvin in the early 1990s cinematic classic, we say: "What about gold?". Many historical analogs suggest that a march in the S&P 500 from correction territory to fresh records in a matter of a few months should prompt profit-taking and a potential bear market for the yellow metal. However, despite the equity rally, it is notable that bullion prices are down only ~3% from their all-time intraday highs of $3,500/oz, while gold vol skew has generally remained bullish.

So what is the gold market screaming about?

It seems related to the US dollar. As the S&P 500 jumped from ~4,800 to ~6,300 trough-to-peak, the US dollar kept weakening, hitting YTD lows in July. The lingering impact of investors questioning US financial dominance post-Liberation Day and more recently dovish Fedspeak from Waller and Bowman (and potential concerns about the fate of Chair Powell) play a part here. However, beyond simple denomination effects, gold investors appear concerned about US fiscal trajectory. Indeed as "bullish-for-bullion" trade tensions deescalated to "bearish-for-bullion" on continued delays and optimistic tweets starting mid-April, the OBBBA passed the House and then became law in July. This legislation will conservatively add $3Tn in cumulative deficits to the CBO forecast window. Furthermore, the de-dollarization narrative is not just domestic—in 2024 gold eclipsed the Euro as the second largest official sector reserve holding. This is a trend unlikely to reverse anytime soon and buttresses the case for $3,000+ gold. Alt-fiat demand is tangible.



Source: Bloomberg Financial L.P., State Street Investment Management. Data from 1/7/2005 to 7/18/2025.

Additionally, gold serves as a tail risk and duration hedge. Rates vol is down from their April peaks, yet the long-end of the curve remains fickle, especially as stock bond correlation stays elevated. High gold prices are at odds with compressed credit spread risk, improved sentiment and the pricing-in of a soft economic landing. However, the Fed remains in a wait-and-see mode, weighting the lagged hard data, particularly around employment and inflation. As trade agreements trickle in, as they did from south-east Asia this week, the market still awaits news between the US and China, where renewed tensions could derail any other progress. If valuations remain high across most markets, and uncertainty continues to cloud the longer end of the yield curve, investors embrace safe-havens and diversifiers, like gold, on these tail risks.

We don't find the gold market to be a leading indicator for the state of the world. Often, its price is reactive to other asset markets, as opposed to being co-determined (e.g. think oil and EMFX). However, as US risk assets rally to fresh heights, the yellow metal suggests that there are still some underlying risks under the surface.

Source: Bloomberg Financial L.P., State Street Investment Management. Data as of 7/21/2025. Past performance is not a reliable indicator of future performance.

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** This figure is presented as of March 31, 2025 and includes ETF AUM of $1,553.58 billion USD of which approximately $106.42 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated. Please note all AUM is unaudited.*

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