

Fed tightening should not alter gold's structural story post-pandemic

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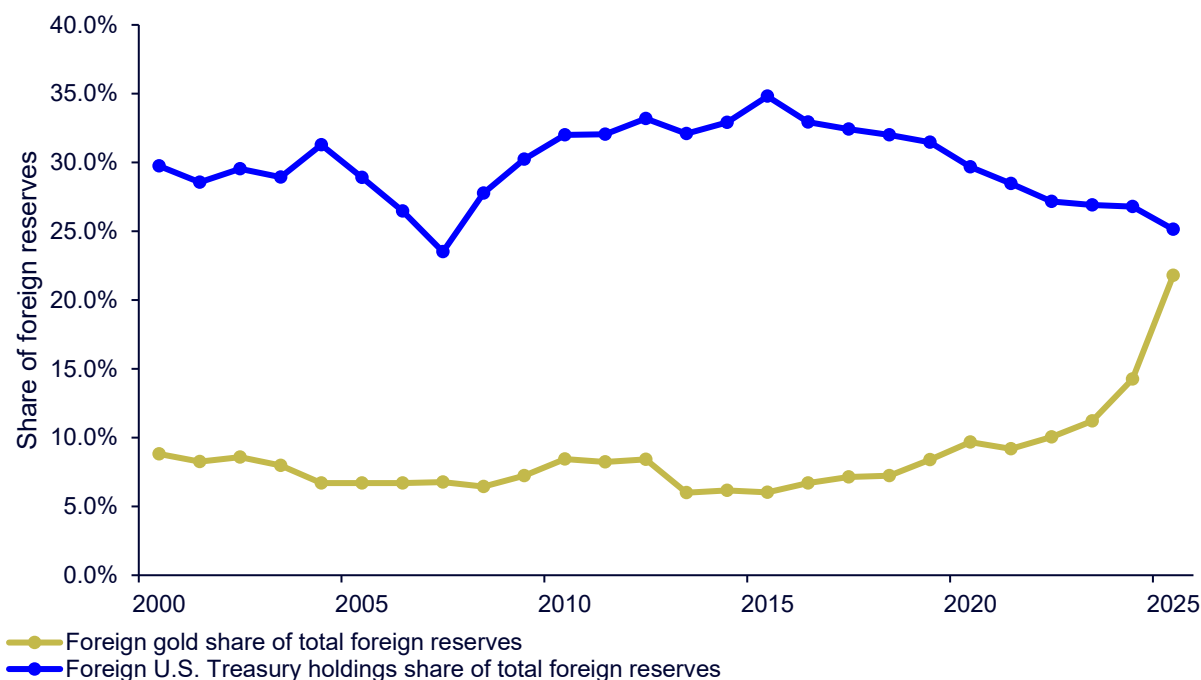
When higher yields carry a different signal

The U.S. 10-year Treasury yield stood near 1.5% at the start of 2020, while gold traded close to \$1,500/oz.¹ In Q3 2026, the 10-year has breached 5.0% for the first time since 2023.² But gold remains historically elevated above \$4,000/oz after reaching a record \$5,400-5,500/oz earlier this year.³ Conventional analysis suggests that higher nominal and real yields should raise the opportunity cost of holding a non-interest-bearing asset and weigh on bullion. Yet that relationship has been far less binding in the post-pandemic cycle, with gold absorbing materially higher Treasury yields even as markets price further Fed tightening through the end of 2027.⁴ The most dangerous phrase in finance, “this time is different,” warrants caution. Yet with U.S. debt-to-GDP scaling 100%⁵ and gold proving resilient alongside elevated real yields, a broader question emerges: are investors entering a different regime for gold exposure?

For gold, the source of a move in yields matters as much as the level of yields. Yields rising alongside stronger economic growth, improving productivity, and firmer corporate earnings would represent a more traditional headwind, increasing competition from risk assets and raising gold's opportunity cost. A rise in yields driven by a widening term premium, however, can carry a fundamentally different signal, one increasingly tied to the changing composition of Treasury demand and the compensation required to clear a growing supply of bond duration. Foreign participation in the Treasury market has declined materially, with foreign investors' share of outstanding marketable Treasury securities falling from roughly 50% in 2010 to about 31% in 2025.⁶ The shift is also evident within foreign official reserve portfolios, where Treasuries declined from roughly 30% of total foreign reserves in 2000 to about 25% in 2025, while gold's share increased from roughly 9% to nearly 22% over the same period (Figure 1).⁷

As the Treasury buyer base has shifted, the marginal bid has increasingly moved toward more price-sensitive private investors. If those investors require greater compensation for inflation uncertainty, heavier sovereign issuance, and deteriorating fiscal fundamentals, higher yields may increasingly reflect a greater risk premium on government debt rather than simply a stronger growth outlook.

Figure 1: Gold gains ground on Treasuries in foreign official reserves



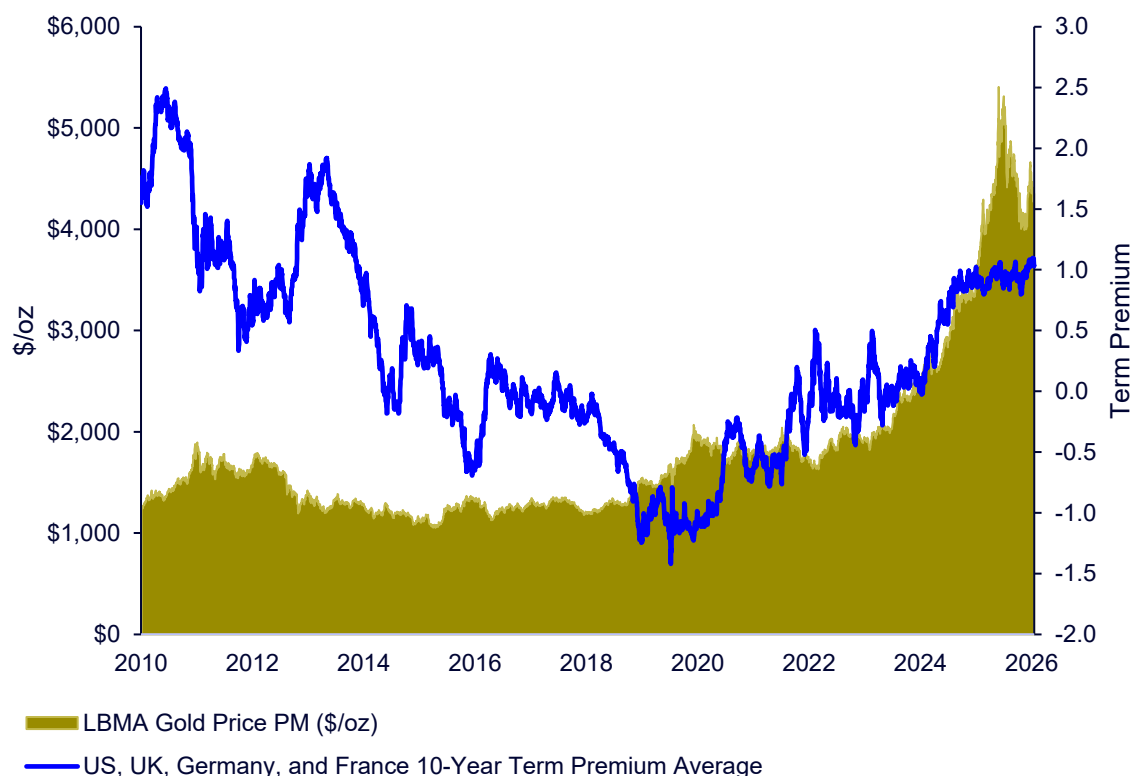
Sources: State Street Investment Management, World Gold Council, U.S. Department of the Treasury – Treasury International Capital (TIC), as of December 31, 2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

A regime shift in duration risk and gold

Persistent inflation pressures and the upward trajectory of global debt loads during non-recessionary periods could be underpinning a regime shift toward a structurally higher term premium. Global sovereign debt now stands near \$108 trillion, or roughly 91.5% of world GDP,⁸ while U.S. total public debt crossed \$40 trillion in August 2026, with the latest \$1 trillion added in roughly five months.⁹ The CBO projects federal debt held by the public to rise from approximately 101% of GDP in 2026 to a record 120% by 2036, while federal net interest costs are projected to more than double from roughly \$1 trillion to \$2.1 trillion, equivalent to nearly one-quarter of federal revenues.¹⁰ With debt-service costs continuing to rise in a higher rate environment, the challenge is increasingly one of supply, receipts, and fiscal spending. Elevated sovereign financing needs are also competing with hefty private-sector issuance for long-duration capital (e.g., AI and energy capex build), while geopolitical and trade-related uncertainty complicates the traditional foreign-demand backdrop.

This represents a meaningful reversal from the post-GFC regime, when Fed duration absorption, a declining neutral rate, excess global savings, and subdued inflation compressed term premia and kept the U.S. 10-year term premium below zero from roughly late 2015 through early 2021.¹¹ In the post-pandemic environment, the U.S. 10-year term premium has risen to roughly 0.8%, its highest level in more than a decade.¹² The repricing has also extended beyond the U.S., with the average 10-year term premium across the U.S., U.K., Germany, and France moving materially higher as gold has advanced (Figure 2).¹³

Figure 2: Gold has advanced alongside rising developed-market term premia



Sources: State Street Investment Management, Bloomberg Finance L.P., as of September 10, 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

The dollar as a potential adjustment channel

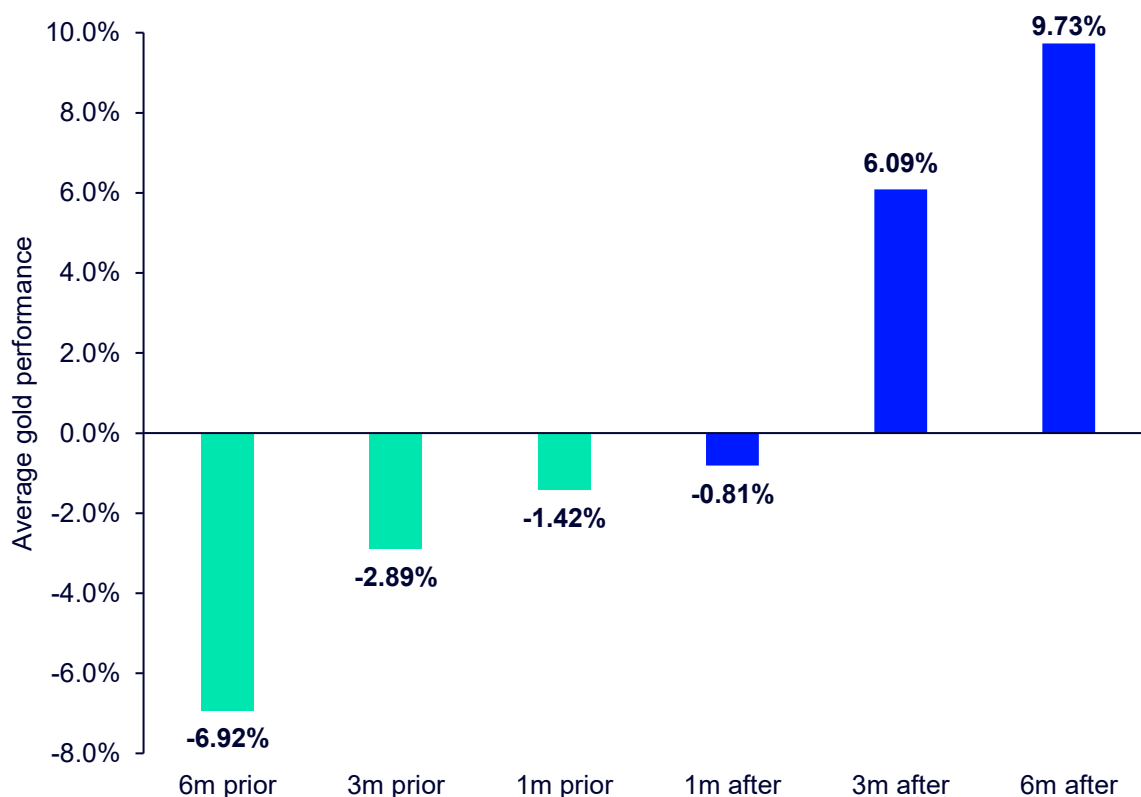
The U.S. dollar may increasingly represent another channel through which rising fiscal and duration pressures are expressed. The Fed's September hike and prospect of additional tightening have provided renewed near-term support,¹⁴ but the recent rally does not necessarily alter the broader dollar trend. Measures also intended to support Treasury-market liquidity or restrain long-term financing costs may smooth market functioning and blunt dislocations at the long end, but they do not change the underlying trajectory of debt and deficits or resolve broader policy uncertainty. In this new scenario, efforts to contain borrowing costs may cap pressure in yields at the margin, while wary investors can express those concerns through other asset markets, including concerns that current policy trajectories are effectively devaluing fiat currency purchasing power for consumers.

If embedded fiscal concerns increasingly migrate from the bond market into FX markets, gold may benefit as an alternative store of value, particularly as inflation can erode real returns in fixed income. That channel may become more relevant if foreign demand for U.S. sovereign assets is pressured by geopolitical and fiscal headwinds. The 2025 precedent is notable; tariff uncertainty and mounting fiscal concerns coincided with an approximately 8% decline in the Bloomberg Dollar Spot Index, its weakest annual performance since 2017, while gold rallied roughly 65%.¹⁵ A renewed perception that federal borrowing is becoming more difficult to sustain could reinforce the alternative-fiat trade and increase demand for gold as a scarce monetary asset and store of value.

Gold through a renewed tightening cycle

Since the September 16th Fed meeting, gold has traded strong despite renewed dollar strength, after markets had largely priced the anticipated 25 basis-point hike in advance.¹⁶ Historically, that pattern is not unusual. Across modern Fed hiking cycles, median gold returns were -6.9% over the six months before the first hike, -2.9% over three months and -1.4% over one month, before improving to +6.1% three months after and +9.7% after six months (Figure 3).¹⁷ The pattern suggests much of the rate's headwind could historically be discounted before tightening begins.

Figure 3: Gold weakness has historically preceded the first Fed hike



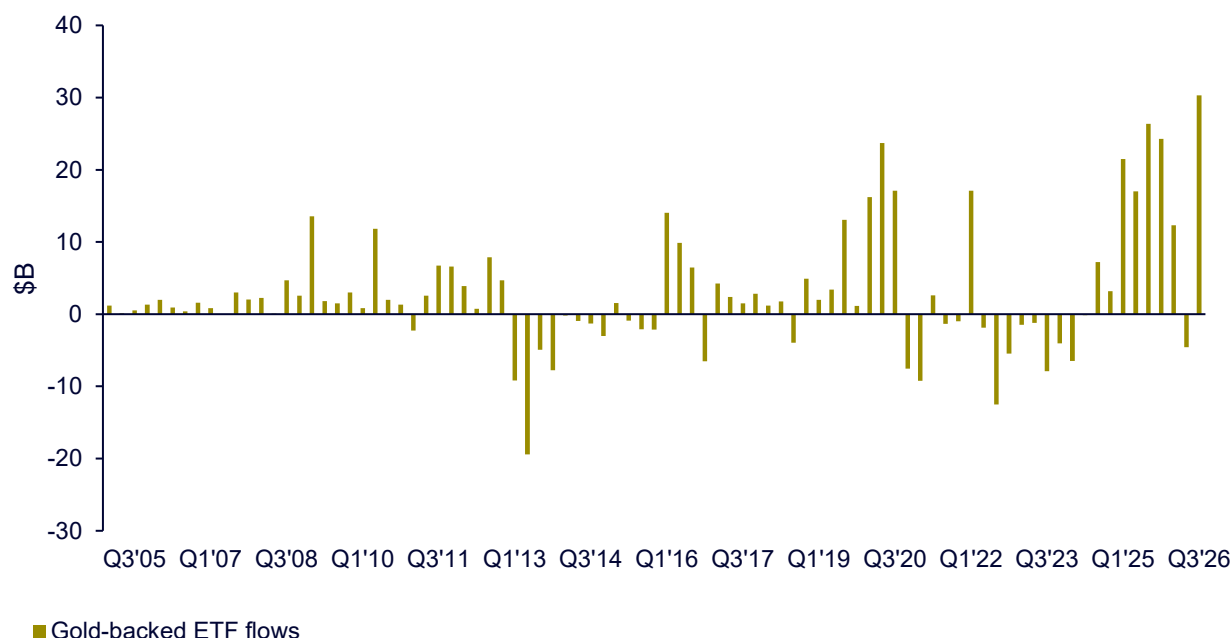
Sources: State Street Investment Management, Bloomberg Finance L.P., as of September 16, 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

The 2022–2023 tightening cycle offers a useful recent analog. Gold prices remained historically elevated and broadly resilient around \$1,800–\$2,000/oz even as the Fed tightened aggressively and policy rates reached their highest levels of the post-GFC era.¹⁸ At the same time, gold ETFs were a persistent source of net supply, with redemptions averaging roughly 180–200 tonnes annualized each year from late 2020 through mid-2024.¹⁹ Yet those flows were absorbed by strong physical demand, led by official-sector sources and, concurrently, record Chinese retail demand, helping buttress bullion prices through the tightening cycle.²⁰ Central banks purchased an average of roughly 1,074 tonnes annually from 2022 through 2024, underscoring the record official-sector bullion bid.²¹ That physical demand base has since been joined by a rebound in ETF and broader investor demand, strengthening the underlying demand mix even as monetary policy looks set to tighten again in the U.S. and some other G10 economies.

Conclusion

The Fed path for rates matters, particularly as policymakers remain focused on curbing inflation risks and achieving the ~2.0% target.²² But the longer-term challenge extends beyond monetary policy to the fiscal backdrop itself. Gold is a scarce monetary asset with thousands of years of history as a form of money and wealth preservation. And in a global landscape where the U.S. and broader G10 sovereigns face persistent fiscal and inflationary pressures, the conventional relationship between higher rates and gold may be evolving. That does not make gold immune to tighter policy, especially during tactical episodes. But resilient physical demand, now joined by recovering ETF investor flows, suggests its structural support likely extends beyond the rate cycle alone.

Figure 4: Quarterly global gold fund flows



Sources: State Street Investment Management, World Gold Council, as of September 18, 2026. Note: Q3 2026 figures are preliminary and reflect information available through September 18, 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

Footnotes

1 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

2 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

3 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

4 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

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6 State Street Investment Management, 2025 Federal Reserve Board — Financial Accounts of the United States (Z.1), Table L.210/F.3.2: Treasury Securities, as of December 31, 2025

7 World Gold Council, U.S. Department of the Treasury - Treasury International Capital (TIC), State Street Investment Management, as of December 31, 2025

8 IMF, World Gold Council, State Street Investment Management, as of June 30, 2026

9 State Street Investment Management, U.S. Department of the Treasury, "Debt to the Penny," Fiscal Data, Bloomberg Finance L.P., as of August 31, 2026

10 State Street Investment Management, Congressional Budget Office, "The Budget and Economic Outlook: 2026 to 2036" (Pub. No. 61882, February 11, 2026), and "The Long-Term Budget Outlook Data: 2026 to 2056" (Pub. No. 62044, February 25, 2026)

11 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

12 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

13 State Street Investment Management, Bloomberg Finance L.P., as of September 10, 2026

14 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

15 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

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18 State Street Investment Management, Bloomberg Finance L.P., as of September 21, 2026

19 State Street Investment Management, World Gold Council, as of September 21, 2026

20 State Street Investment Management, World Gold Council, as of September 21, 2026

21 State Street Investment Management, World Gold Council, as of September 21, 2026

22 State Street Investment Management, Bloomberg Finance L.P., as of September 16, 2026

Glossary

Basis Point (bp): One one-hundredth of one percentage point, or 0.01%. For example, 50 basis points equals 0.50%.

Central Bank: A public institution responsible for monetary policy and financial stability, often including setting policy interest rates, managing reserves, and supporting the functioning of the financial system.

Debt-to-GDP Ratio: Government debt expressed as a percentage of gross domestic product, used to assess debt relative to the size of an economy.

Debasement Risk: The risk that a currency loses purchasing power over time, often associated with inflation, high debt levels, money creation, or declining confidence in a currency.

Duration: A measure of a bond's sensitivity to changes in interest rates. In general, bonds with longer duration tend to be more sensitive to interest-rate movements.

ETF (Exchange-Traded Fund): An investment fund that trades on an exchange like a stock and generally seeks to track an index, commodity, sector, or investment strategy.

Federal Debt Held by the Public: Federal debt held outside the U.S. government, including Treasury securities owned by investors, institutions, the Federal Reserve, and foreign holders.

Federal Reserve: The central bank of the United States, responsible for monetary policy, financial stability, supervision, payments, and related functions.

Fiscal Deficit: The amount by which a government's spending exceeds its revenue over a given period, requiring additional borrowing.

Fixed Income: Investments that generally provide interest income, such as bonds and other debt securities. Fixed income investments are subject to risks including interest rate, credit, and inflation risk.

Foreign Official Reserves: Assets held by foreign central banks and monetary authorities, commonly including government securities, deposits, foreign currencies, and gold.

Inflation: An overall increase in the price of an economy's goods and services during a given period, translating to a loss in purchasing power per unit of currency. Inflation generally occurs when growth of the money supply outpaces growth of the economy. Central banks attempt to limit inflation, and avoid deflation, in order to keep the economy running smoothly.

Monetary Policy: Actions taken by a central bank to influence interest rates, financial conditions, inflation, and economic activity.

Net Interest Costs: The government's interest payments on debt minus interest income received.

Neutral Interest Rate: The theoretical policy interest rate that neither stimulates nor restrains economic growth. It cannot be observed directly and may change over time.

Policy Rate: A short-term interest rate set or targeted by a central bank to influence borrowing costs and broader financial conditions.

Real Rate: An interest rate adjusted for inflation. It is intended to reflect the inflation-adjusted cost of borrowing or return on lending.

Sovereign Debt: Debt issued by a national government to finance spending and meet other funding needs.

Term Premium (premia): The additional yield investors may require to hold a longer-term bond instead of a series of shorter-term bonds. It can change with inflation expectations, supply and demand, and uncertainty.

Treasury Securities: Debt obligations issued by the U.S. Department of the Treasury, including Treasury bills, notes, and bonds.

Yield: The income return on an investment, usually expressed as an annual percentage. For bonds, yield can be affected by coupon payments, price, maturity, and credit risk.

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