

Daily: Look beyond rates to gold's long-term support

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Thought of the day

Gold has come under renewed pressure over the past two weeks amid rising US Treasury yields, hawkish comments from Federal Reserve Chair Kevin Warsh, and stronger-than-expected US payroll data. Following a 15% gain in the first three weeks of August, gold prices have since fallen 5.5%.

We now expect the Fed to raise policy rates by 50 basis points this year. The resulting pressure from higher real yields and a stronger US dollar is likely to remain a near-term headwind for gold.

But just as we do not believe near-term Fed decisions undermine the medium-term outlook for global equities—which is supported by AI spending, resilient economic activity, and broad earnings growth—we do not think they diminish gold's strategic role in a portfolio.

Gold remains a valuable diversifier, in our view, especially for investors with an affinity for real assets.

Robust central bank demand should provide a stable foundation for gold. The People's Bank of China purchased 650,000 ounces of gold (around 20 metric tons) in August, up from 640,000 ounces in July and its largest monthly addition since October 2023. The purchase extended Beijing's buying streak to 22 consecutive months, but China is not alone in seeking to increase its gold reserves. According to a recent World Gold Council survey, nearly 90% of surveyed central banks expected global official gold reserves to increase over the next 12 months, with 45% expecting their own holdings to rise. We continue to expect annual central bank purchases of between 750 and 1,000 metric tons, providing an important source of structural support for gold.

Fiscal concerns should reinforce the long-term diversification trend. Higher US rates and resilient growth make the near-term US dollar outlook stronger, but persistent concerns about fiscal sustainability could constrain its appreciation over a longer horizon. Elevated government debt should also reinforce the gradual shift away from concentrated US dollar exposure. This should benefit gold, which is widely viewed as a reliable store of value and an alternative to traditional reserve currencies. Over the medium to long term, a weaker US dollar would also boost demand for the precious metal and support its price.

Gold can help cushion portfolios against inflation and geopolitical uncertainty. Persistent inflation and geopolitical uncertainty reinforce gold's role as a portfolio hedge and diversifier. Institutional investors often cite gold's performance during crises, its potential to hedge geopolitical risks, and its diversification benefits as reasons to maintain or increase their holdings. Gold has also historically offered protection against inflation over long periods. According to the Global Investment Returns Yearbook, real returns of gold and commodities since 1900 have been positively correlated with inflation.

So, we believe the long-term investment case for gold remains positive. We view gold primarily as a portfolio hedge and diversifier, rather than as a tactical expression of the next Fed decision. Underallocated investors could use periods of weakness to build strategic exposure within a well-diversified portfolio.

Source: <https://www.ubs.com/global/en/wealthmanagement/insights/chief-investment-office/house-view/daily/2026/latest-08092026.html>