

Gold breaks with real yields as fiscal concerns reshape investor demand

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US 10-year real yields hit their highest level in more than 20 years on Friday at 2.63%, a 76 basis point increase since the start of the year, while total gold-backed ETF holdings continued to recover following a drop in H1 2026. The divergence highlights an increasingly notable disconnect between gold demand and what historically has been a strong inverse relationship with real yields.

In simple terms, the real yield is the return an investor expects to earn from a bond after accounting for inflation. Historically, it has been regarded as key to determining the direction of gold, as the yellow metal and other hard assets such as silver and platinum do not pay interest or dividends, so higher real yields can make bonds more attractive relative to holding gold. When real yields rise, gold has traditionally faced pressure.

Back in 2022–23, when central banks aggressively raised interest rates and real yields surged, investors - primarily in the West - responded by cutting their exposure to gold through ETFs. Gold prices, however, remained remarkably resilient during that period, supported by strong central-bank buying that helped offset ETF investor selling. In other words, the gold price decoupled from real yields, while ETF holdings did not.

Fast forward to today and the picture has changed again. Real yields are rising, with the 10-year tenor reaching its highest level in 20 years amid sticky inflation and a renewed surge in long-end government bond yields. Yet instead of triggering another wave of ETF liquidation, investor demand for gold is showing resilience. This time, therefore, it is not just the gold price that has decoupled from real yields - ETF holdings are showing signs of doing so as well.

This suggests that the traditional opportunity-cost argument - higher real yields making a non-interest-bearing asset such as gold less attractive - is increasingly being challenged by other considerations. One explanation is growing concern about fiscal sustainability and rising government debt burdens. Investors may increasingly view higher long-term yields not simply as an attractive alternative to gold, but also as a potential warning signal about fiscal risk, rising debt-servicing costs and financial stability. In that environment, gold's role as an asset outside the traditional financial system may become more important.

The result is an unusual backdrop in which high and rising real yields are no longer necessarily bearish for gold. Combined with continued central-bank demand, the return of ETF buyers in the West alongside already robust demand from investors in Asia suggests the investor base supporting bullion has broadened compared with 2022–23.

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