

Gold and silver When falling yields stop helping stocks

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Key Points:

- Treasury yields reverse sharply: A hotter-than-expected US inflation report initially sent yields soaring before a dramatic reversal pushed them below pre-CPI levels.
- Tech stocks flash a warning: Their failure to recover as yields declined raises questions about stretched valuations and the sustainability of the equity rally, although two days of weakness do not establish a trend.
- Gold finds support despite macro headwinds: Falling real yields and resilient investment demand help gold recover from its post-CPI sell-off, but the technical outlook remains fragile.
- Silver continues to underperform: Weakness across industrial metals and a breakout in the gold-silver ratio above 72.60 raise the risk of further underperformance against gold.

A dramatic reversal in Treasuries raises new questions

Wednesday's market gyrations following a hotter-than-expected US inflation report highlighted a potentially important shift in investor sentiment, with implications extending well beyond the bond market. While gold recovered from its initial sell-off as Treasury yields reversed sharply lower, technology stocks failed to respond positively to the decline in borrowing costs. Meanwhile, silver continued to struggle as the risk-off tone spread to industrial metals, driving renewed relative strength in gold.

The September US consumer price index showed headline inflation accelerating to 3.7% from 3.4%, while core inflation rose to 2.6% from 2.4%. The initial market response was predictable. Treasury yields surged as investors reassessed the outlook for Federal Reserve policy, with the two-year yield briefly rising 16 basis points and the ten-year yield jumping 12 basis points. Gold came under immediate pressure, while equities, particularly technology shares, struggled.

What followed was considerably more interesting. As risk sentiment deteriorated, investors rushed back into Treasuries, triggering a dramatic reversal that erased the initial yield spike and pushed yields below their pre-CPI levels. The dollar also lost momentum, with the Bloomberg Dollar Index reversing 0.7% from its post-CPI peak, providing additional support for gold. So far in Thursday's session, the two-year Treasury yield has fallen further to around 4.73%, while the ten-year yield has traded below 5.09%, a three-week low.

The reversal was likely amplified by short covering following a prolonged period of selling in Treasuries, which had left positioning increasingly stretched. However, the accompanying weakness in technology stocks raises a broader question: Are investors becoming more concerned about the sustainability of the equity rally than the immediate outlook for inflation and interest rates?

When lower yields no longer support equities

For much of the recent equity rally, falling bond yields have provided support for growth stocks, particularly technology companies whose elevated valuations depend heavily on expectations of future earnings. Lower yields reduce the discount rate applied to those earnings, making long-duration equities more attractive.

Wednesday's reaction challenged that relationship. Technology stocks failed to recover despite the sharp decline in Treasury yields, suggesting investors may increasingly be questioning earnings expectations, stretched valuations and the enormous capital expenditure commitments supporting the artificial intelligence investment boom.

The distinction between companies generating substantial cash flow and those relying on increasingly expensive financing to fund ambitious expansion plans may become more important. With AI-related investments having contributed significantly to the equity rally, any reassessment of expected returns could have wider implications for risk appetite.

However, one swallow does not make a summer. Two days of weakness in technology stocks, however uncomfortable, do not necessarily signal the beginning of a deeper correction. Profit-taking, stretched positioning and technical adjustments can all produce sharp but temporary setbacks. Nevertheless, the failure of equities to find support from falling yields is a warning signal worth monitoring.

Importantly, falling yields are not always positive for risk assets. When they reflect easing inflation pressures, they can support valuations. When they reflect concerns about growth, earnings or financial stability, the message becomes considerably less reassuring.

Gold caught between macro headwinds and defensive demand

For gold, this changing market dynamic presents both opportunities and challenges. The metal initially suffered as yields and the dollar surged following the CPI release, briefly falling towards its recent low at USD 4,066. However, the subsequent Treasury rally helped bullion recover most of those losses, leaving prices trading around USD 4,150 at the time of writing on Thursday, 15 October.

The recovery highlights the competing forces currently shaping gold's outlook. Short-term macro traders remain highly sensitive to movements in Treasury yields, the dollar and expectations for Federal Reserve policy. While US ten-year real yields have tumbled to 2.72% from just below 3% earlier in the week, they remain elevated by historical standards. Combined with the lingering possibility of renewed monetary tightening, this suggests that gold's macroeconomic headwinds have eased but not disappeared.

At the same time, longer-term investors continue to seek gold exposure as protection against fiscal uncertainty, geopolitical instability and potential turbulence in financial markets. This distinction helps explain why investment demand, particularly through exchange-traded funds, has remained resilient despite the recent correction and elevated yields. Since gold's recent peak on 25 August, bullion-backed ETF holdings have risen by 2.3 million ounces, while speculators have net sold 4.1 million ounces in the futures market.

The technical picture, however, remains challenging. Gold has traded within a downward-sloping channel since August and currently sits below its 21-, 50- and 200-day moving averages, highlighting deteriorating momentum following the sharp correction from earlier highs.

A break above USD 4,175 could signal the beginning of a consolidation phase, while a sustained move

above USD 4,235, a level breached during the late-September sell-off, would be needed to improve sentiment among the mentioned short-term momentum traders. Conversely, a break below USD 4,066 would raise the risk of a deeper decline towards USD 4,000, where longer-term trendline support is emerging.

For now, gold remains caught between macro-driven selling and strategic investment demand, with the latter potentially becoming more influential should equity-market confidence deteriorate further.

Silver struggles as gold's monetary appeal dominates

Silver, meanwhile, struggled for traction, partly reflecting broader weakness across industrial metals, with copper heading for a third consecutive daily decline, partly driven by easing concerns over a strike-related supply disruption in Chile. Unlike gold, silver combines monetary and industrial characteristics, leaving it more exposed to concerns about economic growth and industrial demand.

This divergence is currently visible in the gold-silver ratio, which has broken above key resistance around 72.60, now turned support, potentially signalling further silver underperformance. For silver to regain momentum, it may require more than falling Treasury yields. Stabilising equity markets, improving industrial sentiment and renewed physical demand could all be needed to support a more sustainable recovery.

A changing market narrative?

The coming sessions may help determine whether Wednesday's dramatic reversal was primarily a positioning-driven event or an early indication of changing investor priorities.

If yields continue to decline while equities remain under pressure, gold could increasingly benefit from defensive demand, while silver struggles with its industrial exposure. Conversely, a stabilisation in risk sentiment alongside lower yields would likely provide a more supportive environment for both metals, potentially allowing silver to recover some lost ground.

The key distinction is whether falling yields reflect improving inflation prospects or deteriorating confidence in growth and corporate earnings. For gold, a shift towards the latter could gradually move the market's focus away from interest-rate headwinds and towards its role as a portfolio diversifier.

That would not necessarily prevent further short-term volatility or liquidation-driven setbacks. However, it could strengthen gold's relative appeal, particularly against silver, at a time when confidence in the broader equity rally is being tested.

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