Weekly Market Flash

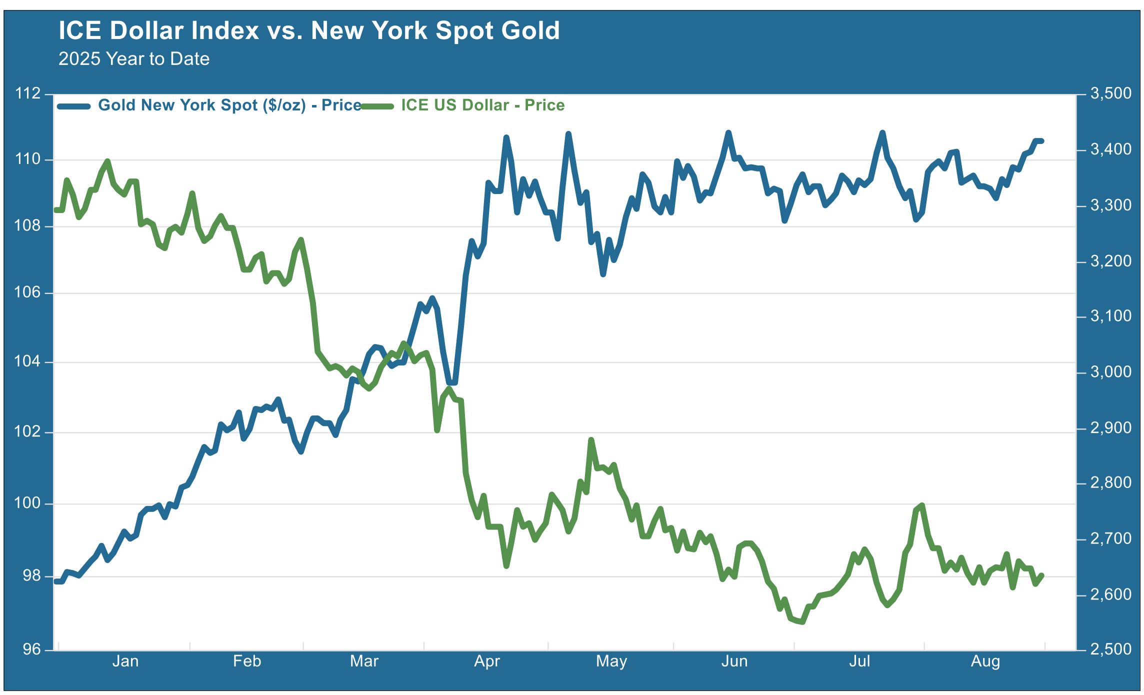
Revenge of the Gold Bugs

August 29, 2025

The gold bugs are one of the more colorful subcultures among the sprawling highways and byways of global financial markets. Mind you, investing in gold returns nothing to its buyers other than the hope that the price will go up as opposed to down. No dividends, no interest coupons to clip, no other sources of periodic cash flows delivered to your account. Just a promise based on the storied history of thousands of years as a sought-after decorative commodity and the lingering aura of the time, a century and more ago, when nearly all the principal national currencies of the world were bound together in the tough-love strictures of the international gold standard. The precious metal continues to fascinate and beguile, while those campy, over the top ads on late-night cable TV can elicit scorn or condescending amusement from smart money sophisticates. Or so it was, anyway, before the gold bugs saw the value of their holdings jump by more than 30 percent in this year alone. 80 percent over the past two years. Take that, smart money types!

The Stagflation Trade

While gold has been steadily rising over the course of the year, the US dollar has been falling. This is a trade we have seen before, back in the stagflation era of the 1970s. Higher potential inflation coupled with anemic growth lessens the attraction of dollar-denominated assets, while investors latch onto the scarcity characteristics of gold and other precious metals.



Source: MVF Research, FactSet

The stagflation trade has been running somewhat ahead of the data, though. A scan of the headline macro numbers early in the third quarter did not scream "stagflation." Real GDP growth for the prior quarter was over three percent, with continued resilience from the all-important consumer spending component.

Inflation was not trending notably higher, despite persistent concerns about the effect of the ever-changing tariff regime. Employment trends were steady from month to month. Private sector investment was growing on the back of the billions of dollars of capital expenditures going into AI infrastructure. And why invest in gold, anyway, when intermediate-term fixed income instruments continued to offer attractive real interest rates?

The numbers tell a somewhat different story today. Somewhat different, not radically different. The labor market is showing clear signs of weakness, based on below-forecast payroll growth numbers for July and sharp downward revisions for the prior two months. Inflation, while by no means out of control, has been creeping up slowly. Today's Personal Consumption Expenditures report from the Bureau of Economic Analysis showed that core PCE (the metric preferred by the Fed in its inflation deliberations) rose by 0.3 percent in July for a 2.9 percent year-on-year gain – higher than the previous month and moving in the wrong direction away from the Fed's two percent target rate. We won't know the Q3 GDP numbers until mid-October, but the current consensus average from Blue Chip Economic Indicators has real growth for the quarter coming in below one percent.

Diversification Alternatives

What concerns us most, when we look at the above chart, is the trend of the dollar. Our portfolios, rationally, have a high concentration of dollar-denominated equity and fixed income assets. Now, there is always room for a certain amount of exposure to alternative assets, including commodities such as precious metals, as conditions warrant. But the majority of our holdings are always going to be in the equity and fixed income categories, so that is where the main action is going to be as we model out scenarios that include the possibility for an extended period of stagflation. As we see the global economy evolving to a more multipolar and less US-dominated future, the logical strategy would seem to call for more diversification among assets denominated in other major currencies. This is a theme we will be coming back to on a regular basis in the coming months. We will not be surprised to see that dollar index trend lower as we head into 2026.

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