GOLD RUSH:
WHY IS GOLD HITTING NEW HIGHS?

THANDEKA: GRADUATE INVESTMENT SPECIALIST

MAY 2025

Gold was first smelted in ancient Egypt around 3600 BC, marking the beginning of its long-standing role as a symbol of wealth and enduring value. Over the millennia, it has come to embody a dual identity — both a store of value, revered in jewellery and coinage, and a modern financial asset actively traded in global markets. This rare combination of tangible allure and investment utility underpins gold's lasting appeal. In 2025, that appeal is still on full display, with the gold price breaking through the symbolic $3,000 barrier in March and climbing to a record high of nearly $3,500 an ounce in April.

Gold prices have surged over 40% in the past year, driven by a combination of central bank buying, looser monetary policy and rising geopolitical tensions and macroeconomic uncertainty. This article examines gold's role in investment portfolios, explores the factors behind the recent rally, and considers what this means for investors.

GOLD'S ROLE IN INVESTMENT PORTFOLIOS

Gold serves as an insurance policy for investment portfolios — contributing to long-term returns, enhancing diversification, and offering liquidity. Reasons investors may hold gold include:

- **It acts as a safe haven during times of uncertainty**

  Gold tends to attract investors during periods of geopolitical tension or economic stress. In March 2025, for example, concerns over tariffs and market instability helped drive prices sharply higher.

- **It offers diversification benefits**

  Gold typically moves independently of equities and bonds. This low correlation makes it a useful diversifier — helping to offset losses during market downturns and reduce overall portfolio volatility.

- **It can provide a hedge against inflation over time**

  Gold has historically maintained its value over multi-decade periods. Unlike fiat currencies, which lose purchasing power, gold — being finite and not tied to any issuer — tends to hold or gain value as inflation rises.

- **It provides liquidity and is free of credit or counterparty risk**

  Gold is easily traded for cash on global markets, with no reliance on issuers or counterparties. Unlike bonds or deposits, its value is not tied to anyone's solvency — making it especially reliable during systemic crises, when even money market funds or bank deposits may face liquidity freezes or credit events.

THE DOLLAR-GOLD RELATIONSHIP

Gold's performance has traditionally been closely tied to the US dollar. Gold prices tend to fall when the dollar strengthens and rise when it weakens. This inverse relationship exists largely because gold is priced in dollars — a stronger dollar makes gold more expensive in other currencies, dampening international demand.

Also, since gold is a non-yielding asset, the opportunity cost of holding it falls when interest rates fall. At the same time, falling interest rates make it less attractive to hold US dollars, reducing demand for the currency and contributing to its weakness.

However, in recent years this inverse relationship has occasionally broken down — with gold and the dollar rising simultaneously for the better part of 2024.

Two key factors explain this unusual alignment:

1. **Gold and the US Dollar as Simultaneous Safe Havens**

   Given heightened global uncertainty, investors have sought safety in both the US dollar and gold. The dollar remains the world's most liquid and trusted reserve currency, underpinned by the narrative of US exceptionalism. Gold, meanwhile, is a hard asset not tied to any single government or economy. During periods of intense geopolitical risk, these two assets have not competed for safe haven flows - they have shared them.

2. **Record Central Bank Purchases**

   In 2023, central banks bought over 1,000 tonnes of gold — the second-highest annual total on record. Motivated by a desire to diversify reserves and reduce reliance on the dollar, this wave of central bank buying has helped push gold prices higher, even as the dollar has strengthened.

RECENT SHIFTS AND MARKET DYNAMICS

More recenty though, this relationship has normalised, with the US dollar weakening while the gold price continues its ascent. Since January 2025, the US dollar has begun to weaken as investors reassess its status as a safe haven amid growing policy uncertainty. Recent tariff announcements targeting strategic sectors have revived fears of a broader trade conflict, fuelling inflation concerns and undermining confidence in the US growth outlook.

These developments have challenged the long-held narrative of US exceptionalism — the idea that the US economy can reliably outperform its global peers. In the first quarter of 2025, gold exchange-traded funds (ETFs) recorded their largest quarterly inflow in three years, with investors adding approximately $21.1 billion, or 226.5 metric tonnes of gold. This surge reflects mounting political and economic uncertainty, escalating global trade tensions, and a possible erosion of confidence — even among US investors — in the dollar's traditional role as a safe haven.

WHY FOORD CONTINUES TO HOLD GOLD

At Foord, our meaningful allocation to gold in recent years has been beneficial for investors. Looking ahead, we continue to recognise gold's role as a hedge against uncertainty and a strategic asset. Our expectations of looser monetary policy, rising inflationary pressures and elevated geopolitical tensions all continue to be supportive of gold prices. Most importantly, gold remains an effective diversifier and shock absorber should conditions deteriorate further. For these reasons, gold retains its appeal as a solid, uncorrelated asset in an increasingly uncertain geopolitical environment.