WHAT’S NEXT FOR GOLD

2 June 2025

WHAT'S NEXT FOR GOLD AFTER HITTING $3,300?

Over the past 20 years, the U.S. government has expanded its outstanding Treasury debt by roughly $24.6 trillion. Today, foreign countries hold about 32% of that total. While non-US demand kept pace with issuance during the early 2010s, some major holders, particularly China and Japan, have since scaled back their positions.

Figure 1: US Treasury Securities Outstanding (USD Billion)

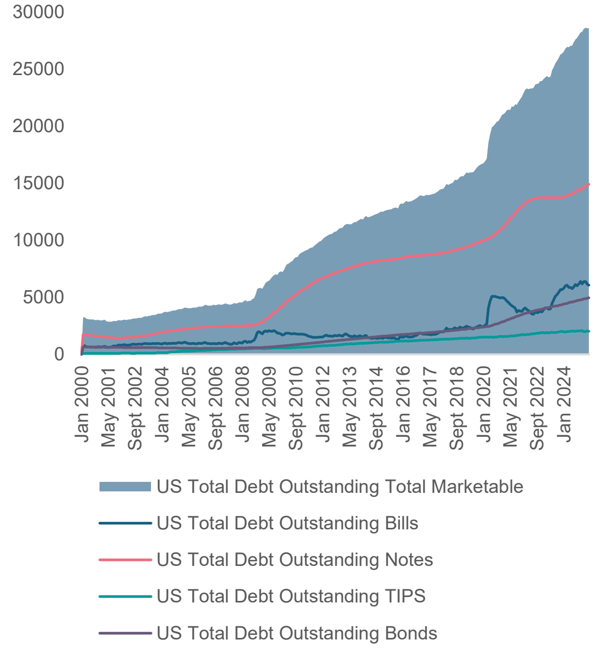
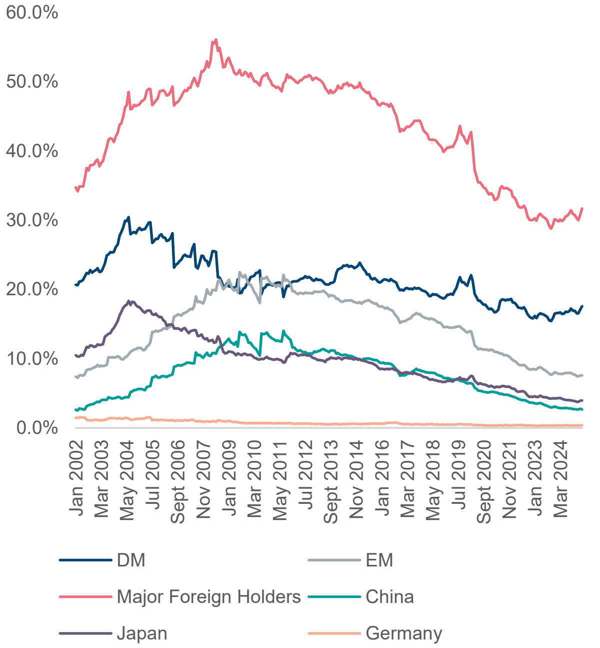


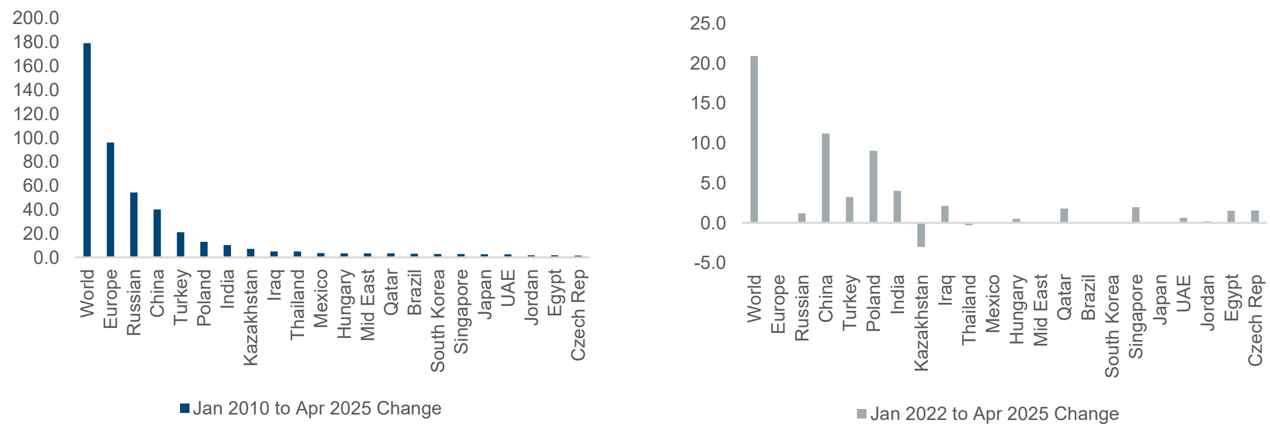
Figure 2: Foreign Holding % of US Treasury Securities Outstanding



Source: Bloomberg. DM countries include Australia, Belgium, Canada, Denmark, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, Norway, Singapore, Spain, Sweden, Switzerland and United Kingdom. EM countries include Brazil, Chile, China, Colombia, India, Malaysia, Mexico, Philippines, Poland, Saudi Arabia, South Korea, Taiwan, Thailand and Turkey.

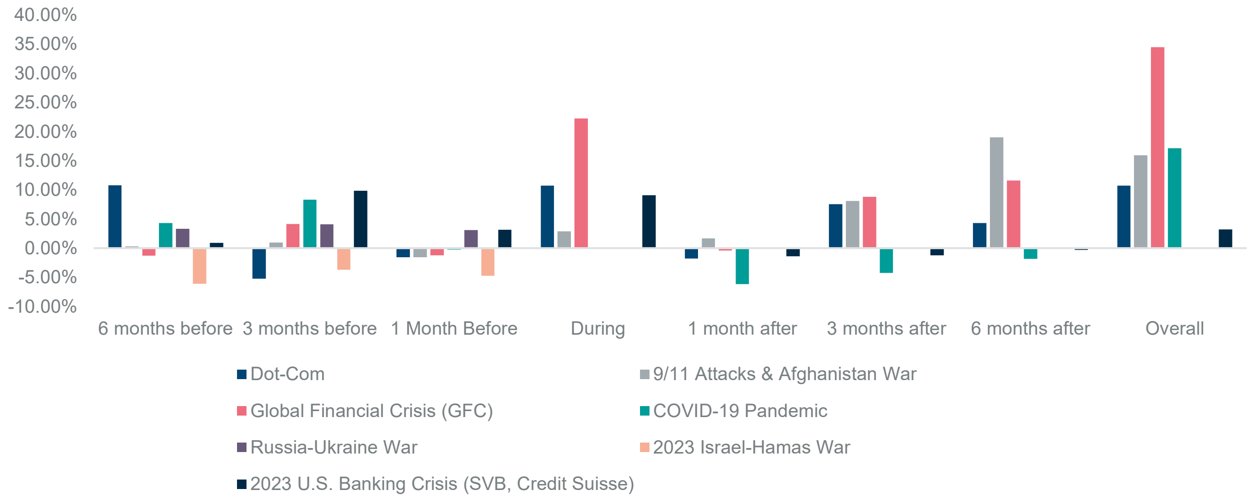
As shown in Figure 2, China has been steadily diversifying away from U.S. Treasuries since 2011. In recent years, countries like Singapore, Qatar, and Poland have followed suit, significantly increasing their gold reserves (relative to their respective total gold reserves) over the past three to four years. These moves reflect a growing trend among central banks and investors to hedge geopolitical risks and rebalance their portfolios.

Figure 3: Reserve in gold holdings (Million fine troy oz)



Source: Bloomberg, IMF

Figure 4: Gold performance prior, during and after geopolitical and market events



Source: Bloomberg

As some countries diversify their reserve holdings away from U.S. Treasuries, investors have similarly been seeking safe-haven assets due to heightened post-COVID U.S. equity and bond volatility. This uncertainty has been further fuelled by unpredictable economic and trade policies under Trump's second term. In recent years, volatility in both asset classes has rarely fallen below levels typically associated with calm market conditions, as shown in Figure 5 and 6. Instead, we've observed recurring spikes that signal a more stressed environment. Against this backdrop, gold has gained renewed appeal, with prices continuing to strengthen as investors seek stability and diversification outside of US bonds and the US dollar.

Figure 5: US equity market volatility (VIX Index)

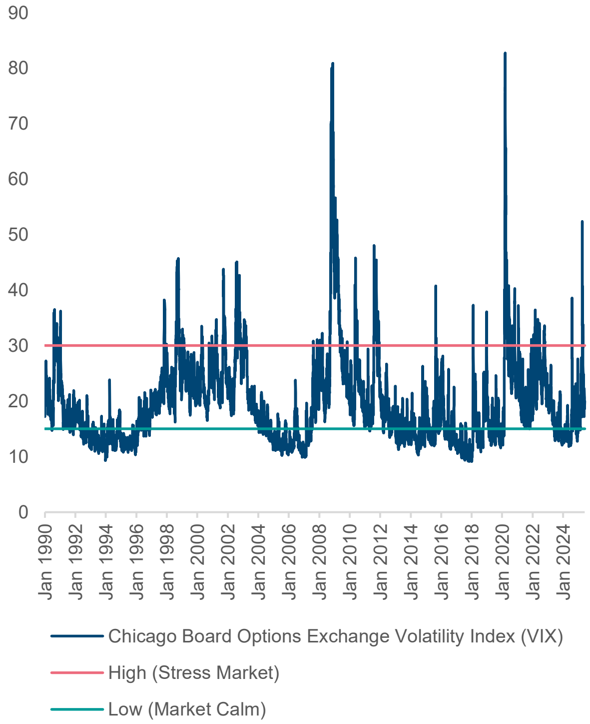
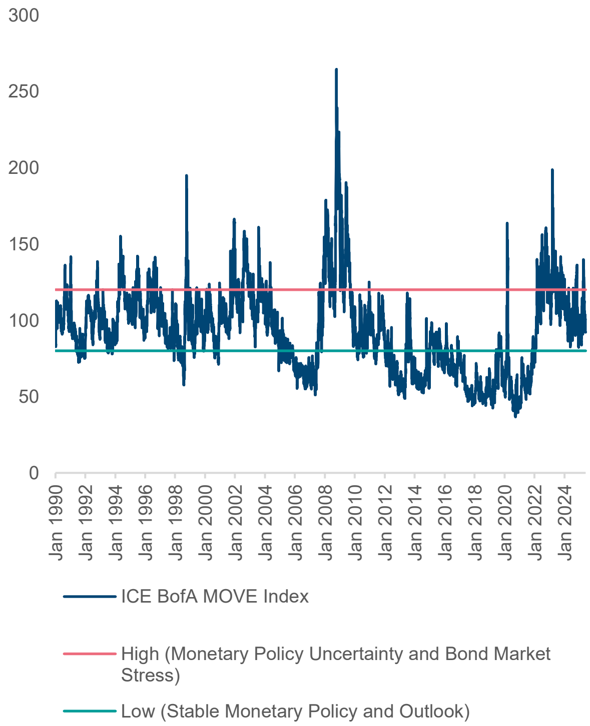
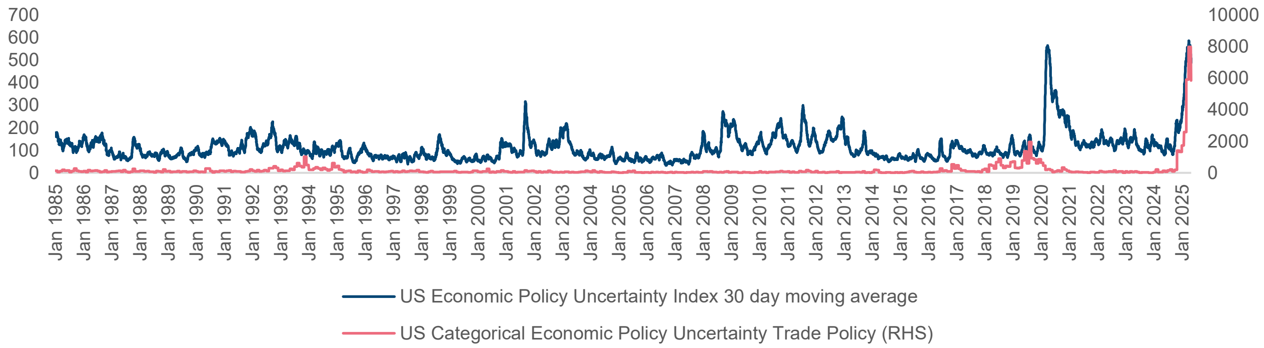


Figure 6: US treasury market volatility (MOVE Index)



Source: Bloomberg

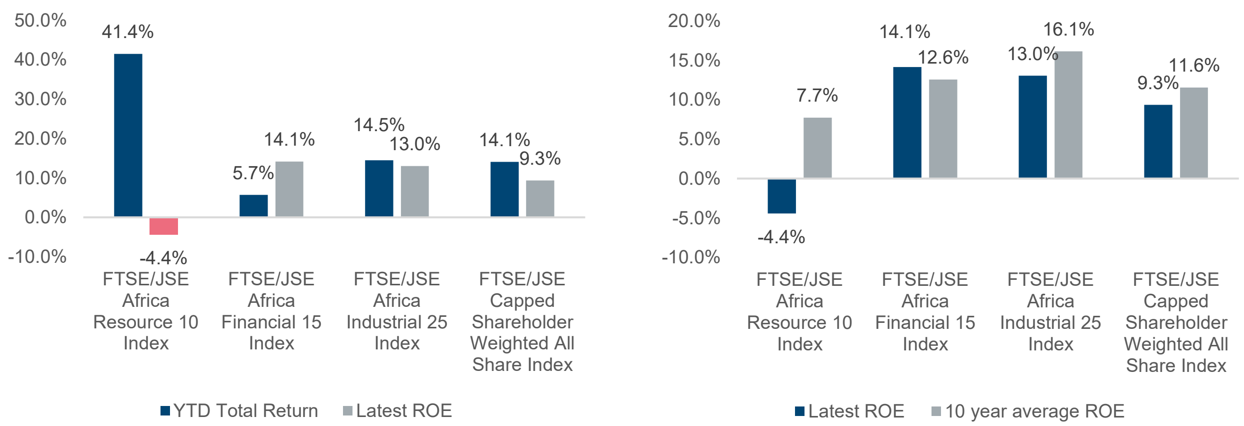
Figure 7: US economic policy and trade policy uncertainty indicators



Source: Bloomberg

Clearly, the SA resources sector delivered the highest returns for the YTD on the back of a strong gold price, despite the index average ROE of -4.4%. At the same time, the SA equity market rally YTD was also a concentrated one, with 12% of the 14% total return coming from just 10 counters.

Figure 8: SA equity indices performance and return on equity



Source: Bloomberg

Figure 9: Satrix Capped All Shares ETF return contribution YTD – top 10 and bottom 10

Source: Bloomberg

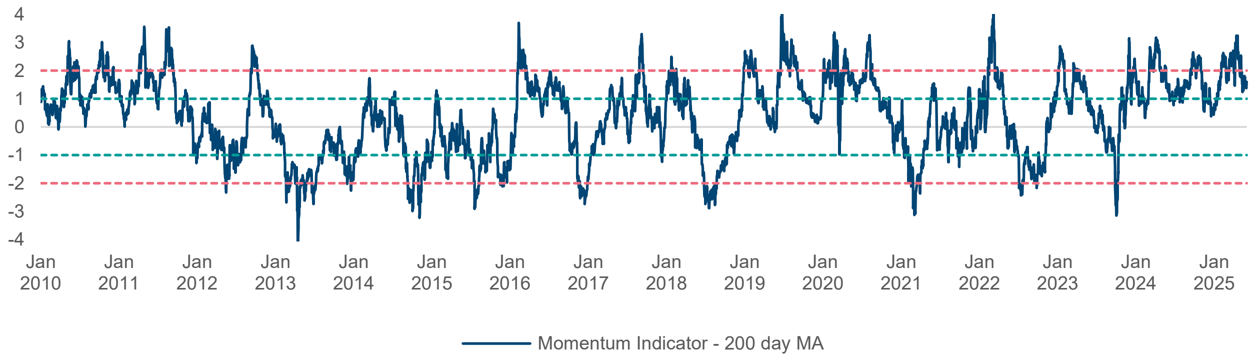
As investors assess the current market environment, two critical questions emerge:

1. How much further upside or potential downside remains for gold from its current level of $3,300?
2. What are the prospects, both positive and negative, for South African equity?

The market environment remains highly fluid, driven by Trump’s unpredictable policy shifts, which continue to generate significant noise and uncertainty. While tangible economic damage has yet to surface in hard data, both consumer and business sentiment have notably declined.

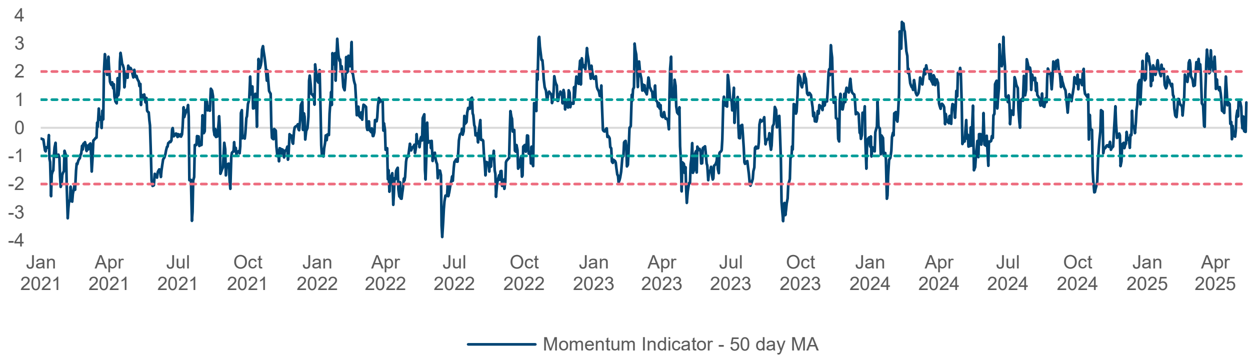
Technically, the longer-term momentum indicator (200-day moving average) remains in overbought territory. However, both the 200-day and 50-day moving averages have started to trend downward, signalling a loss of upward momentum. The 50-day moving average, previously in neutral territory, has seen a slight uplift as of late in response to renewed trade tensions and geopolitical developments over the past week. Historical analysis suggests that when both indicators rise above +2 or fall below -2, they tend to signal strong buying or selling conditions, respectively. At present, momentum signals for the gold price are closer to neutral. Furthermore, speculative positioning, as shown in Figure 12, has eased but remains above the 100,000 contracts level, indicating that near-term support for the gold price remains intact.

Figure 10: Gold momentum indicator – 200-day moving average



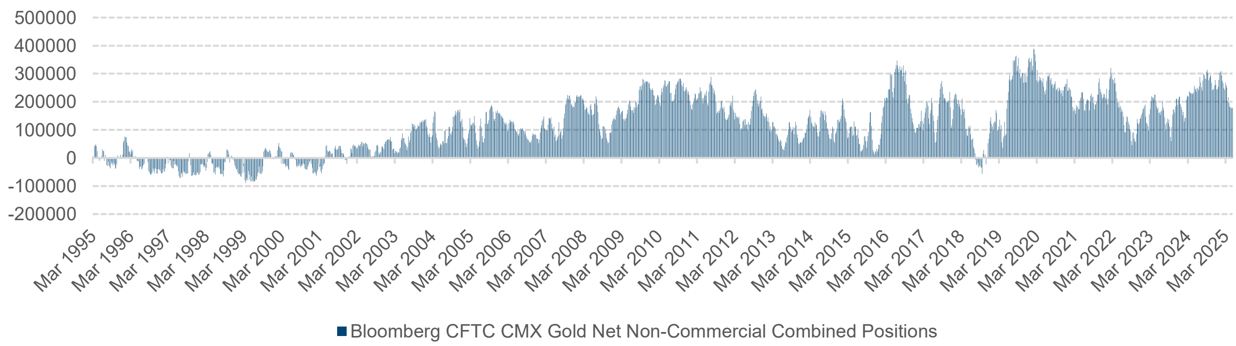
Source: Bloomberg

Figure 11: Gold momentum indicator – 50-day moving average



Source: Bloomberg

Figure 12: Bloomberg CFTC CMX Gold Net Non-Commercial Combined Positions



Source: Bloomberg

From a fundamental perspective, gold continues to find support from the structural weakening of the US dollar, as investors increasingly seek safe-haven assets outside the US amid slowing domestic growth, rising fiscal deficits, uncertain economic policies, and persistent global trade instability. Historically, gold has shown a strong inverse relationship with the US dollar, its 1-month and 3-month performance correlations with the dollar stand at -0.40 and -0.45, respectively.

Gold also maintains a negative correlation with US 10-year real yields (-0.42). While near-term concerns about higher tariffs and sticky inflation may keep yields elevated, term premia have risen largely due to market pricing in the implications of worsening US fiscal conditions. Looking beyond the short-term noise, real yields are expected to decline as the drag on growth becomes more apparent, prompting the Fed to consider rate cuts. With inflationary pressures relatively muted, lower real yields would again provide a favourable backdrop for gold.

Figure 13: Cumulative performance of Gold and The Dollar Index (in USD since 2021)

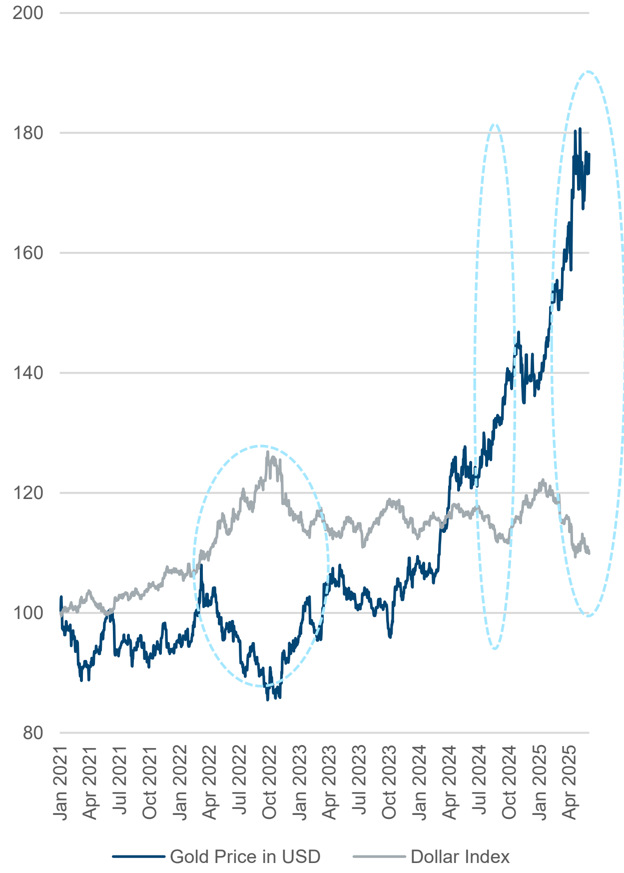
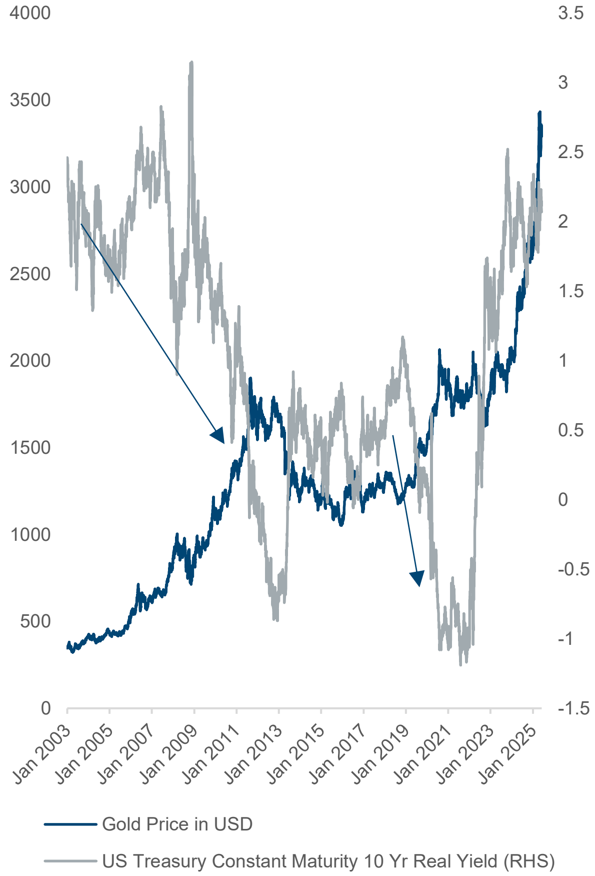


Figure 14: Gold price and US Treasury 10-year real yield



Source: Bloomberg

Turning to SA equity, which continues to offer attractive relative value, particularly when compared to the S&P 500. The current price-to-earnings (P/E) valuation gap stands at 0.59, below our near-term target of 0.65, indicating meaningful re-rating potential. This valuation support is underpinned by a weakening US dollar, which typically favours emerging market assets, and could be further reinforced if domestic policy direction improves and political stability is maintained. Should modest structural reforms gain traction and sentiment continue to recover, the case for narrowing the valuation gap becomes increasingly credible.

As shown in Figure 8, the South African financials sector currently appears to offer more value. While the industrials sector's return on equity (ROE) has not yet recovered to its long-term average, both financials and industrials include higher-quality names, supported by stronger fundamentals. In contrast, parts of the resources sector remain challenged as some companies continue to report negative ROEs, and in others, share prices have run well ahead of actual shareholder value creation.

Over the long term, stock prices are anchored in fundamentals. Sustained shareholder value creation, driven by earnings growth, prudent capital allocation, and robust returns on capital, is what ultimately supports durable performance. As such, despite macroeconomic factors that support a higher floor for the gold price, the strong year-to-date rally in gold miners may face near-term correction, particularly if trade tensions ease and speculative demand subsides.

Figure 15: SA equity vs US equity PE ratio gap

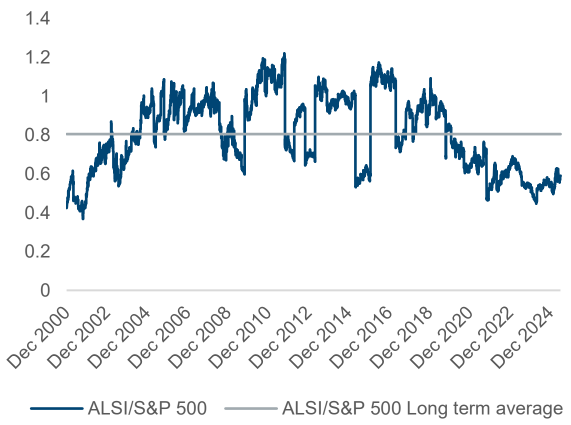
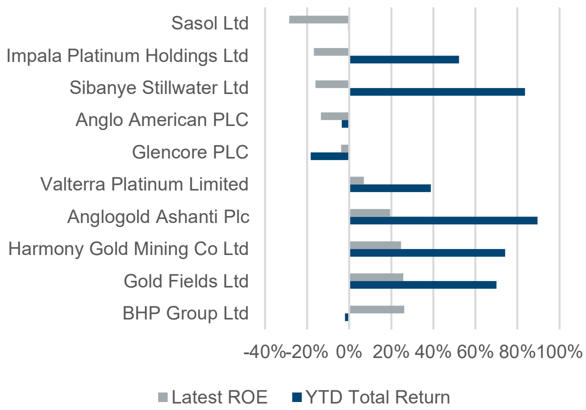


Figure 16: SA resources counters performance and ROE



Source: Bloomberg

In a landscape marked by elevated geopolitical uncertainty, fiscal fragility in the US, and shifting global reserve preferences, gold has re-emerged as a credible safe-haven asset. While near-term price movements may be volatile, particularly if trade tensions ease before the 90-day suspension expires in a month, the structural backdrop of a weaker US dollar and declining real yields continues to support its medium-term outlook. At the same time, South African equities present a compelling valuation case, particularly within financials and select industrials, provided that domestic policy stability and reform momentum are maintained. For investors navigating today's complex environment, a diversified approach that extends beyond gold counters in the South African market is essential to capture broader value and manage risk amid ongoing global uncertainties.

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