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Cross-Asset Dispatches

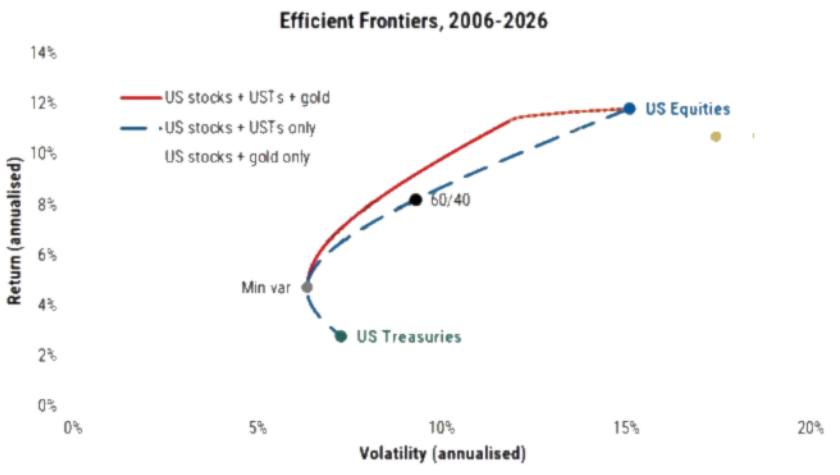
Gold: Same Haven, Different Storm

Gold hasn't diversified equity risk since 2020, but it has blunted the worst bond sell-offs – increasingly valuable as fiscal and inflation concerns rise. With central bank and ETF demand holding prices above $4,000/oz despite Fed hikes, gold remains our top metals pick, targeting $5,000/oz by 2Q27.

Key Takeaways

- Gold is down only 10% from its August high despite the Fed's first hike since 2023 and 10Y yields at early-2000s highs.
- Central bank buying (1,155t annualised in 2Q26) and record 3Q ETF inflows ($31bn) explain the gap with real yields.
- That demand reflects gold as a fiscal and sovereign-risk hedge: it has dampened the worst UST sell-offs since 2020.
- As an equity hedge, gold has failed since 2020 while bonds have stayed a safe haven; the metal's portfolio gains since 2006 came from beating bonds, not lower risk.
- Gold remains a top metals pick, $5,000/oz target for 2Q27. Catalysts: fewer Fed hikes than priced, lower yields. Risks: Fed tightening, strong dollar.

Exhibit 1: Adding gold to a traditional stock-bond portfolio has made a difference in boosting risk-adjusted returns over the last decade, shifting the efficient frontier upwards



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Rethinking Gold as a Safe Haven

Serena Tang, Yimin Huang

Parts of the last few weeks have evoked memories of 2022–2023, when correlations between stock and bond returns surged and both markets declined in tandem, leaving investors with supposedly well-diversified portfolios that offered little protection. While we've had interesting debates with investors on why stock-bond correlations are "breaking" once again, one question we've been fielding with increasing frequency has been whether this is gold's time to shine again as *the* safe haven in portfolios.

Our analysis suggests the answer is yes – but with an important caveat: it depends on what investors are trying to keep their portfolios safe from:

- **Historically, gold has been a less effective diversifier of equity risk,** given its volatility is comparable to that of stocks. In fact, prior to 2006, adding gold to a traditional stock-bond portfolio did little to improve its efficient frontier.
- **But since 2006, gold *has* helped portfolios, it's just that it's been via strong returns, not risk reduction.** It didn't lower the floor on portfolio risk, and gold only made a difference by pushing out the efficient frontiers in years in which it beat bonds by more than 8.5%.
- **Pre-2020, gold *was* a good enough equity hedge:** It was a strong safe haven in extreme weekly sell-offs, and also a safe haven from USTs in their worst months.
- **Since 2020, gold has amplified equity drawdowns rather than cushioning them.** USTs on the other hand have remained the better equity hedge for daily moves.
- **Where gold 'works' as a ballast is against *bonds*,** dampening losses in the worst weekly UST sell-offs.

Exhibit 2: What diversifies what? Gold vs. Treasuries across market regimes, 1998–present

Diversifier → risk asset	1998–2019			2020 onwards		
	Daily	Weekly	Monthly	Daily	Weekly	Monthly
Gold → S&P 500	Weak hedge + weak SH	SH in tails	–	–	–	–
USTs → S&P 500	Hedge + SH	Hedge; weak SH	Hedge; SH in high vol	Hedge + SH	SH in tails	–
Gold → USTs	–	–	SH in worst 5%	–	SH in tails	–
USTs → Gold	SH in tails	SH in high vol + tails	–	SH in tails	–	–

Strong ($\rho < 0$, CS > 0) Weak only ($\rho < 0$, CS ≤ 0) – = neither

Gold on the frontier… or not

It may be a controversial assertion, but gold has historically bee traditional portfolio diversifier than many investors assume. We how the most important characteristic of a good diversifier is havin the asset/portfolio it is diversifying against, while low or negative c matter less (see Cross-Asset Dispatches: The Future of the 60/40 P



On these diversifier metrics, gold has fallen well short of expectations : **the asset has higher volatility (in some years *higher* than S&P 500) than stocks** (Exhibit 3). **Stock-gold correlations have also been less stable and less negative than most investors may have assumed** (Exhibit 4).

Exhibit 3: Gold's annualized volatility is comparable to that of stocks

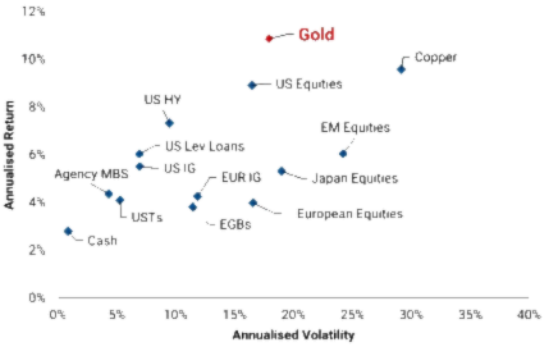
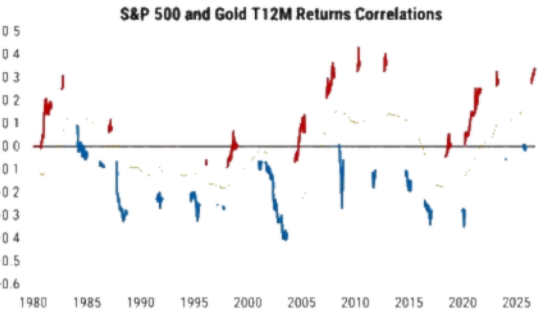
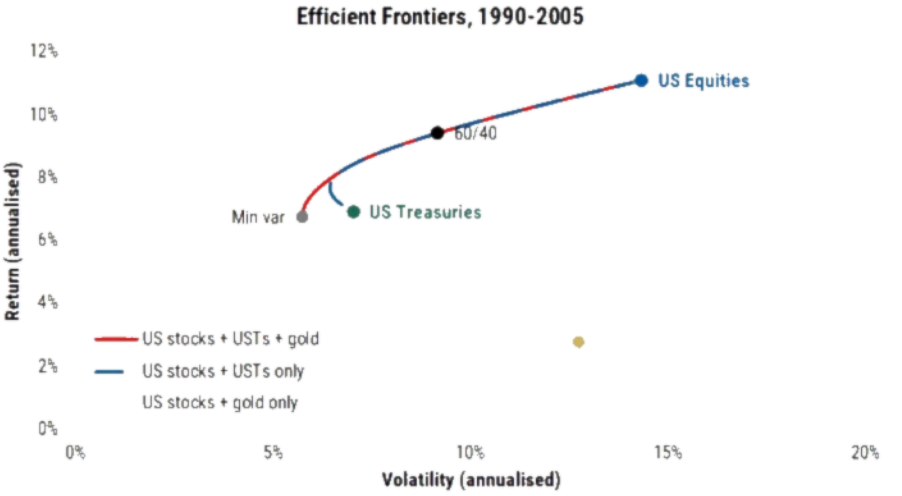


Exhibit 4: Stock-gold correlations have also been less stable and less negative than most investors may have assumed



However, even when gold's correlations with equities were negative – as they were from 1990-2005 – this did little to boost a portfolio's risk/reward. Exhibit 5 compares the efficient frontiers of three portfolios – stocks, USTs and gold; stocks and USTs; and stocks and gold – using historical returns, volatility, and correlations over this period. The exhibit shows the asset combinations that would have delivered the highest returns at each level of portfolio volatility. What's clear is that, over this 15-year period – even when gold was negatively correlated with equities – adding gold to a stock-bond portfolio offered no benefit. The efficient frontier was virtually unchanged with or without gold.

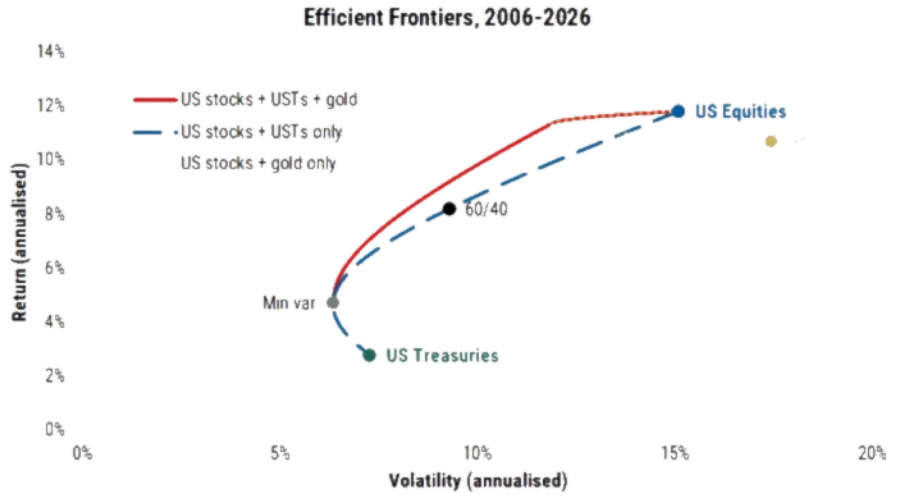
Exhibit 5: From 1990 to 2005, adding gold to a stock-bond portfolio offered little improvement in risk-adjusted returns, leaving the efficient frontier virtually unchanged



Over the last 20 years: better returns, not better diversification

Since 2006, however, adding gold to a traditional stock-bond portfolio has made a difference in boosting risk-adjusted returns. This is a function of bond returns falling over the last 20 years or so while returns for the precious metal went in the other direction. Exhibit 6 shows efficient frontiers of various combinations of stocks, USTs, and gold, but this time only using performance data since 2006. The results tell a very different story: across all achievable levels of portfolio volatility, including gold would have delivered higher returns than a portfolio without it. Put another way, at any given level of expected return, adding gold would have allowed investors to achieve that return with less risk.

Exhibit 6: Since 2006, adding gold to a traditional stock bond portfolio has made a difference in boosting risk-adjusted returns, shifting the efficient frontier upwards



That said, the significant pickup in portfolio risk-adjusted returns has more to do with gold's strong performance over the past 20 years and less to do with it having a better risk-reward profile per se. Going back to Exhibit 6, gold did not lower the *floor* on portfolio risk. And in years when the precious metal made a significant difference to portfolio returns/vol profile, gold beat bond returns by more than 8.5%. In the years that it didn't (2012, 2013, 2021), the efficient frontier looked more like Exhibit 5 than Exhibit 6. Put another way, the case for gold deserving a place in portfolios on returns alone rests on the conviction that the asset will keep beating bonds by a considerable margin.

We're not here to make the claim that gold deserves a place in portfolios because it can significantly outperform bonds as it has done these last two decades. **Instead, we want to lay out a case for holding gold based on how its relationships with bonds and stocks have changed.**

Safety in (correlations and coskewness) numbers

Let's take a step back and define what investors actually may mean when they talk about "safe haven" assets. Ideally, it should be an asset that is negatively correlated to a risk asset. But perhaps more crucially, **it should be an asset that can help investors *weather a storm* – i.e., in the most extreme risk sell-offs, the safe haven asset should either see**

positive returns or not fall as much. In more technical terms, a safe haven should have positive coskewness with the risk asset (Exhibit 7), making the right tail of a portfolio's return distribution longer and fatter compared to a portfolio where the diversifier has negative coskewness with the risk asset (Exhibit 8). The extremes matter more than the everyday relationship.

Exhibit 7: Adding a safe haven asset with positive coskewness to the risk asset results in a more positively skewed return distribution

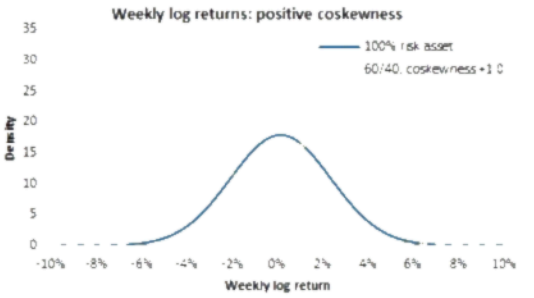


Exhibit 8: Adding a safe haven asset with negative coskewness to the risk asset results in a more negatively skewed return distribution

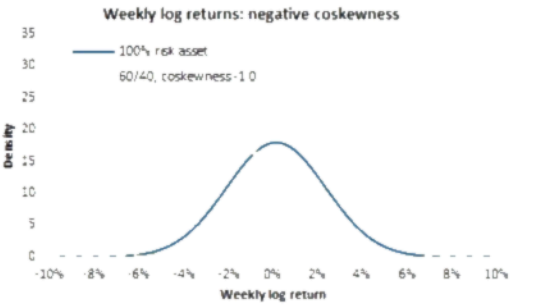


Exhibit 9: An asset with positive coskewness with a risk asset leads to a portfolio with a fatter right tail than an asset with negative coskewness .

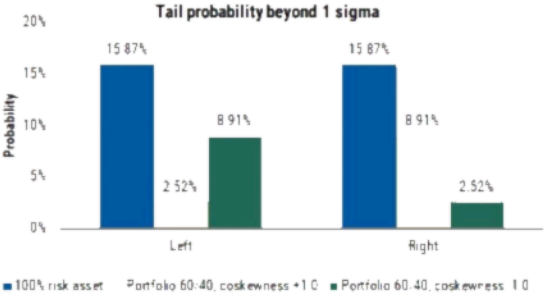
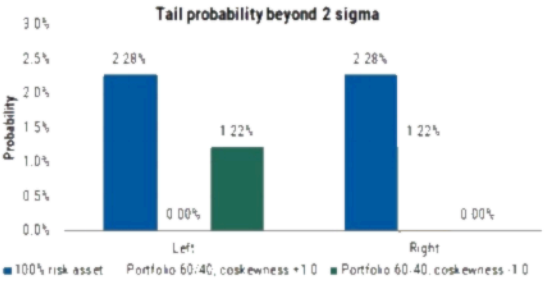


Exhibit 10: ... and this is true in extreme tails too



In Exhibit 11 and Exhibit 12 , we show how gold and USTs behave i) when S&P 500's trailing vol is in the top 10% within the period's history, ii) during the worst 10% of equity sell-offs, and iii) during the worst 5% of equity sell-offs. For each of these, we show the correlations ( ) and coskewness (CS) between the series. Loosely adapting academic research on this topic[1] , we define an asset as a hedge when it has a negative correlation to the risk asset *across the whole period* – i.e,. it generally offsets up/down moves of the risk asset. If this condition is met, anything that has coskewness >0 is a strong hedge, i.e., it can blunt the sharpest risk asset sell-offs; anything that's not is a weak hedge. We then apply the same logic to safe haven classifications, except these criteria are only applied to performance during large stock sell-offs.

We split the data into two periods – 1998 to 2020, and 2021 onwards – because these relationships have shifted materially since the pandemic.

1 Baur, Dirk G., and Brian M. Lucey. "Is Gold a Hedge and a Safe Haven? An Analysis of Stocks, Bonds and Gold." The Financial Review, vol. 45, no. 2, 2010, pp. 217–229.

Gold as a diversifier before 2021

The time period matters. We look at Exhibit 11 for performance *only up to 2020*:

- **Under this timeframe, gold was a good-enough hedge against stocks.** It's a weak safe haven against daily equity losses, but...
- **USTs were a good diversifier against equity risk *and* gold** when it came to daily returns, but they were arguably a stronger hedge against gold than they were against stocks when it came to weekly performance. USTs can also offset poor monthly equity performance somewhat, but only in environments where stock market volatility is high, and not necessarily in months where the S&P 500 saw the most extreme losses.

Exhibit 11: Looking at data up to 2020, USTs were a good diversifier against equity risk and gold, while gold was a good enough hedge against stocks

Y vs X	Full		High vol ρ		Worst 10%		Worst 5%		Hedge	Safe haven?		
	ρ	CS	ρ	CS	ρ	CS	ρ	CS		High Vol	Worst 10%	Worst 5%
Daily												
Gold vs SPX	-0.03	-0.01	-0.09	-0.04	-0.05	-0.06	-0.07	-0.16	W	W	W	W
Gold vs UST	0.12*	-0.02	0.05	-0.08	0.09†	-0.22	0.06	-0.30	–	-	-	-
UST vs SPX	**-0.32***	**0.19***	**-0.43***	**0.14**	**-0.32***	**0.61***	**-0.25***	**0.46**	S	S	S	S
UST vs Gold	0.12*	0.07	0.08	0.07	**-0.06**	**0.17**	**-0.06**	**0.13**	–	-	S	S
Weekly												
Gold vs SPX	0.00	0.09	0.02	0.18	**-0.03**	**0.35**	**-0.08**	**0.43**	–	-	S	S
Gold vs UST	0.15*	-0.04	0.11	0.03	0.15†	-0.25†	0.22†	-0.15	–	-	-	-
UST vs SPX	**-0.31***	**0.06**	-0.23*	-0.05	-0.01	-0.98	0.20	-1.44†	S	W	W	-
UST vs Gold	0.15*	0.08	**-0.07**	**0.08**	**-0.31***	**0.49***	**-0.27†**	**0.53***	–	S	S	S
Monthly												
Gold vs SPX	0.02	-0.12	0.20	-0.75	0.47†	-1.33†	0.81*	-1.54†	–	-	-	-
Gold vs UST	0.28*	0.25	0.35†	0.56†	0.16	0.10	**-0.07**	**0.29**	–	-	-	S
UST vs SPX	**-0.31***	**0.20**	**-0.29**	**0.03**	0.18	-0.28	0.21	-0.17	S	S	-	-
UST vs Gold	0.28*	0.20	0.20	0.38	0.04	0.00	0.00	0.00	–	-	-	-

What's interesting here though is how gold reacted to UST moves. This may seem like an odd point to make, but pre-pandemic – i.e., before the rise in rates volatility – **gold had already been a "safe haven" *from* USTs, in that it was negatively correlated with monthly government bond returns during bonds' most extreme sell-offs, helping to blunt sharp losses.**

Gold as a diversifier since 2020

The pattern has changed since 2020, likely reflecting the shift in the inflation environment amid the succession of supply shocks we've seen. (Exhibit 12):

- **While gold had at least served as a weak hedge/safe haven, it hasn't even been that since 2020.** If anything, it's the *opposite* of a safe haven – it's positively correlated to equities generally, it becomes more correlated when stocks sell off, and amplifies the portfolio downside in the most extreme drawdown episodes.
- **USTs continue to be a strong hedge and safe haven against daily S&P 500 moves since the pandemic, even if it often hasn't seemed like it.** USTs also arguably have become a stronger safe haven for weekly equity drawdowns,

although, like for the monthly data, there aren't that many observations. What's notable here though is that USTs are no longer a consistent hedge against high equity volatility. One way to loosely reconcile these is that since 2020, while what's moving equities (AI) may not necessarily be what's also driving rates, what's driving rates (er...rates) is also what's driving equity volatility.

Exhibit 12: Looking at data since 2020, USTs continue to be a strong hedge against daily S&P 500 moves, while gold amplifies the portfolio downside in the most extreme drawdown episodes

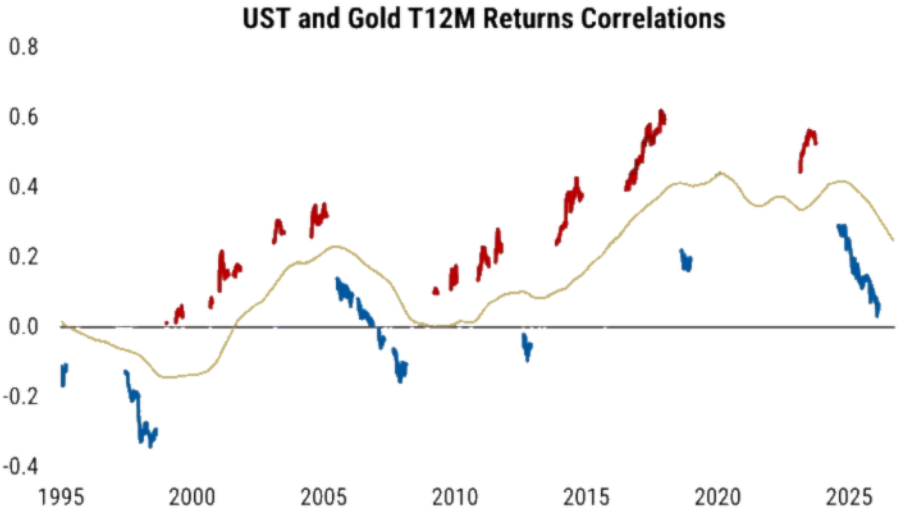
	Full		High vol ρ		Worst 10%		Worst 5%			Safe haven?		
Y vs X	ρ	CS	ρ	CS	ρ	CS	ρ	CS	Hedge	High Vol	Worst 10%	Worst 5%
Daily												
Gold vs SPX	0.12*	-0.04	0.21†	0.02	0.17†	-0.86*	0.28*	-0.93*	–	-	-	-
Gold vs UST	0.22*	-0.07	0.30*	0.11	0.17	-0.09	0.06	0.10	–	-	-	-
UST vs SPX	**-0.06**	**0.17**	**-0.23***	**0.13**	**-0.18**	**0.91**	**-0.22**	**1.00**	S	S	S	S
UST vs Gold	0.22*	-0.04	0.07	-0.11	**-0.02**	**0.11**	**-0.05**	**0.13**	–	-	S	S
Weekly												
Gold vs SPX	0.27*	-0.04	0.41†	0.14	0.44*	-0.84*	0.53*	-0.49	–	-	-	-
Gold vs UST	0.25*	0.18†	0.26	-0.06	**-0.26**	**0.91**	**-0.42**	**1.07†**	–	-	S	S
UST vs SPX	0.03	0.20	0.08	-0.16	**-0.26**	**0.56**	**-0.25**	**0.32**	–	-	S	S
UST vs Gold	0.25*	0.07	0.54*	-0.11	0.15	-0.67	0.15	-0.67†	–	-	-	-
Monthly												
Gold vs SPX	0.16†	-0.25†							–			
Gold vs UST	0.37*	-0.12							–			
UST vs SPX	0.30†	-0.01							–			
UST vs Gold	0.37*	-0.05							–			

Where gold has held up is against bonds. Since the pandemic, there's evidence gold's safe haven role against USTs has continued. When USTs have a bad week – particularly during the worst of the worst sell-offs – gold helps dampen overall portfolio losses. That said, this result is based on very few data points. Part of this reflects UST-gold correlations trending down since the pandemic to levels closer to the mid-2000s (Exhibit 13).

Gold's role in portfolios – still a ballast, just against a different kind of risk

We think that gold has a place in portfolios going forward, even if its correlations to equities have risen over the last decade. Over a number of different horizons, gold has at one time or another been a hedge and/or safe haven against stocks, and there's also evidence that gold displays safe haven properties against severe rates sell-offs, partly driven by declines in UST-gold correlations. With markets increasingly concerned about government bonds amid rising inflation expectations and fiscal sustainability concerns, even as demand for USTs will still exist given how they *have* continued to offset equity downmoves - we expect more investors will look to gold as a ballast against all kinds of storms, not just those in the equity markets.

Exhibit 13: Correlations between USTs and gold have trended lower since the pandemic, returning to levels closer to those seen in the mid-2000s, a potential reason for why investors may want to allocate to gold – not just as a buffer against equity risks, but also government bond volatility



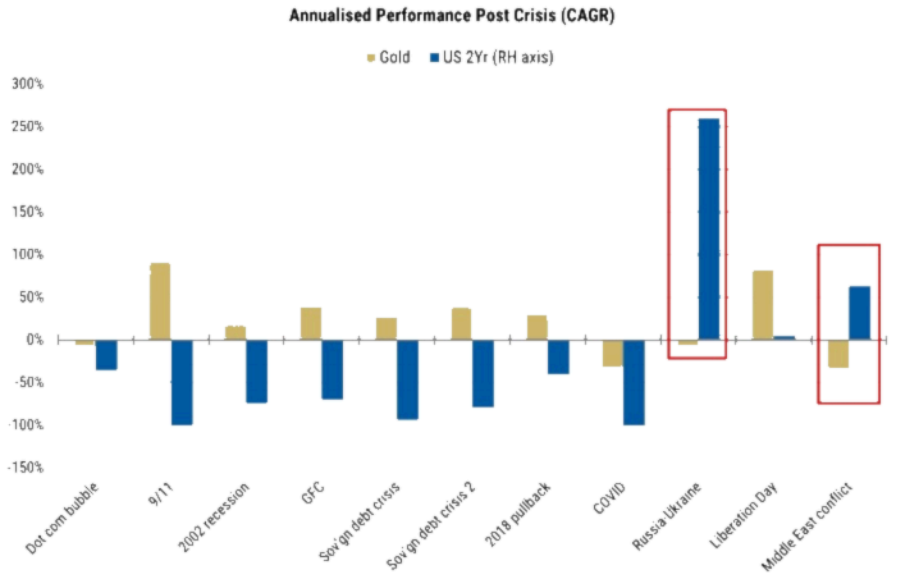
Gold: More Than a Rates Trade

Amy Gower, Ben Kelson

Gold's status as a safe haven has come into question this year: Gold has fallen since the start of the Middle East conflict, leaving investors questioning whether it still works as a safe haven. Exhibit 14 shows historical examples of where gold has rallied during shock events. However, most of these are demand shocks, which often provide a supportive backdrop for gold. Equities sell off, bond yields fall and monetary policy is often eased to combat growth concerns. In this situation, gold benefits as the opportunity cost of holding a non-yielding asset declines.

In contrast, supply shocks bring greater inflation risks. The Middle East conflict has created a global energy supply shock. The inflation risk has driven interest hikes with potentially more to come, while long-dated bond yields have also rallied. Gold is a non-yielding asset and so struggles to compete for a place in investor portfolios in this environment. Also see metal&ROCK: Gold: Safe Haven or Risk Asset? (17 Apr 2026).

Exhibit 14: Gold has significantly underperformed other asset classes and its own previous post-shock behaviour since the start of the Middle East conflict



But even in this challenging macro backdrop, Gold has held up well: September brought the Fed's first rate hike since 2023 and a stronger dollar, while US 10-year yields rose to their highest level since the early 2000s, driven almost entirely by real yields. Yet, gold has fallen only 10% from its August high and remains just above $4,000/oz. Had the relationship between gold and real yields seen between March and July persisted, gold would be below $3,000/oz, 28% lower than current levels. We attribute the gap to structural demand, mainly from central bank buying and ETF inflows, making gold less dependent on a supportive rates environment.

Strength in central bank purchases continues: Central bank purchases reached 289t in

2Q26, an annualised 1,155t against 860t in 2025 and our 800t forecast for 2026, while early 3Q indications suggest momentum remained strong in 3Q, which may bring upside risk to our 2026 estimate. China's PBoC has bought 103t YTD, the most since 2023, with 60% of this buying taking place in 3Q. Poland has added 123t YTD and is on course to be the largest buyer again this year. Meanwhile, China's total gold imports reached 1,300t through September, the fastest annualised pace since at least 2017, suggesting strong demand beyond the PBoC.

ETFs have also been adding despite rate hikes: In 2025, 800t of ETF inflows drove much of the rally as the Fed began cutting rates. Inflows have been slower this year at ~250t YTD, consistent with a more difficult macro backdrop, though the recent trend is more encouraging. Global gold ETFs recorded $31bn of inflows in 3Q, their strongest quarter on record in dollar terms, accounting for ~220t of the YTD total. That buying came in the same quarter as the Fed's first hike. ETF holdings have also diverged from the gold price after tracking it closely since mid-2024, which likely reflects growing demand for gold as a hedge against fiscal and sovereign risk.

Exhibit 15: Gold has held up much better than expected given where real yields are

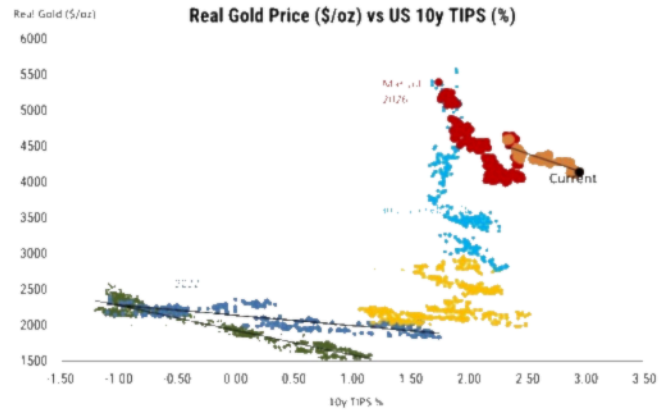
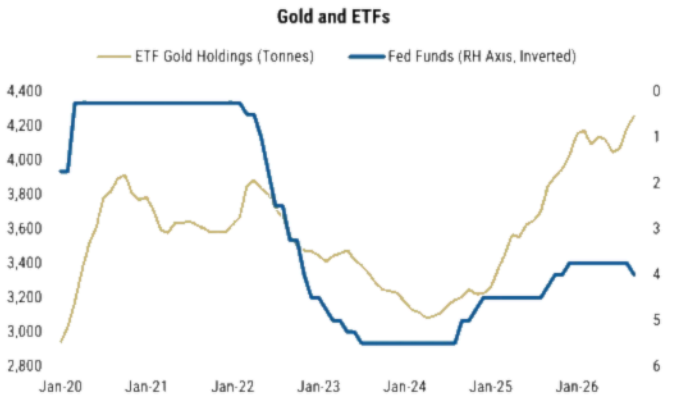


Exhibit 16: ETF holdings have diverged from the gold price after close tracking since mid 2024



Lower yields offer the clearest route higher: Falling bond yields reduce the opportunity cost of holding gold and could bring renewed ETF inflows and speculative buying. Our economists expect two more Fed hikes through end-2027 against ~2.7 priced by the market. If easing inflation pressures allow the Fed to deliver less than priced, this would likely benefit gold. Treasury intervention is another possible catalyst. Buybacks of long-dated bonds in August coincided with a temporary stabilisation in yields and a sharp gold rally, amplified by positioning. Secretary Bessent's recent comments suggest limited appetite for further intervention, making the 4 November refunding announcement an important event.

A steeper curve could also help. If long-dated yields stay elevated on fiscal concerns while short-dated yields fall on lower hike expectations, we think gold's appeal as an alternative to sovereign debt would strengthen.

But higher yields are not necessarily bearish either: Rising yields normally weigh on gold, but the cause matters. The US deficit is approaching $2tr, and long-dated AI-related corporate borrowing is adding to supply. Investors may therefore be demanding more

compensation for duration and fiscal risk. If further increases in long-dated yields are driven by sovereign debt concerns, the usual inverse relationship could weaken, since gold carries no issuer or credit risk.

Oil could support gold in either direction: Since the Middle East conflict began, gold has gained 0.2% on average on oil-down days and lost 0.5% on oil-up days, as oil has filtered directly into Fed expectations. A de-escalation that brings oil prices lower would ease the inflation pressure that has kept the Fed tightening. Yields could then moderate, and gold should benefit, especially if falling rate hike expectations are accompanied by a weaker dollar.

Higher oil is a near-term headwind but could become supportive over time. A further jump in oil from here could add pressure to gold, as seen in recent weeks with Brent rising to > $110/bbl while gold fell towards $4,000/oz. This could come through more strongly if investors sell gold to raise liquidity. However, we would treat such gold pullbacks as buying opportunities, especially if oil stays higher for longer and increases stagflation risks. Stagflation tends to weigh on equities and bonds together, and has historically coincided with strong gold performance.

Exhibit 17: Since the start of the Middle East conflict, gold has rallied on average 0.2% on oil down days, and fallen 0.5% on oil up days

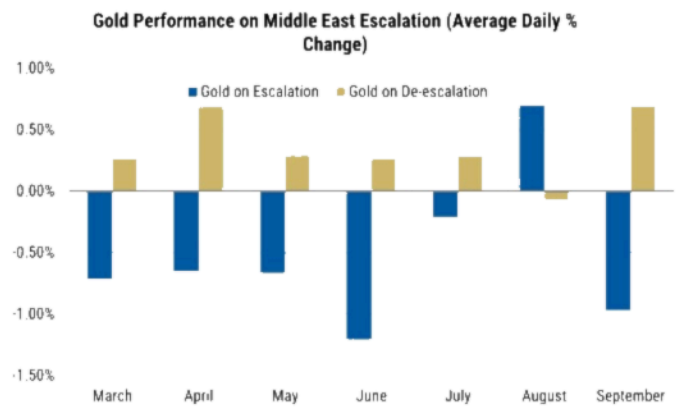
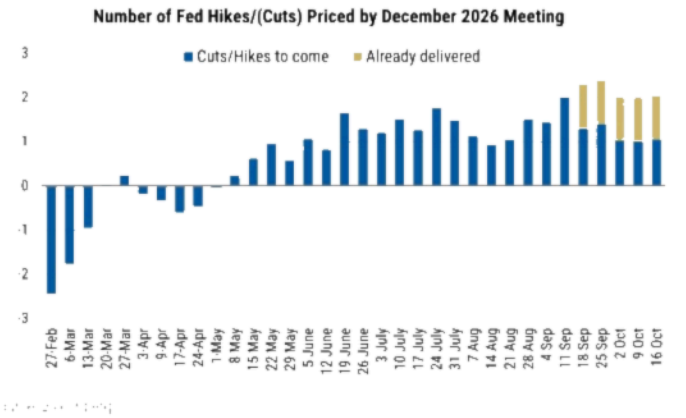


Exhibit 18: The market is pricing one more hike by year end and then 2.5 hikes in 2027



MS Outlook: Gold remains our top pick within the metals complex, with a $5,000/oz target for 2Q27. Strong central bank purchases and 3Q ETF inflows, which came despite the Fed's first hike since 2023, point to growing appetite for gold as a hedge against geopolitical and fiscal risk. The main downside risks are further Fed tightening and dollar strength, which could trigger ETF outflows and weigh on physical demand. Central bank selling is another, with Kazakhstan planning to cut gold's share of its reserves to 75% from 78%. A break below key technical levels could also amplify losses. See: metal&ROCK: Gold: More Than a Rates Trade (13 Oct 2026).

No investment recommendation is made with respect to any of the ETFs or mutual funds referenced herein. Investors should not rely on the information included in making investment decisions with respect to those funds.