LGT Private Banking

Gold – diversification in an uncertain environment

Market News

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Gold – diversification in an uncertain environment

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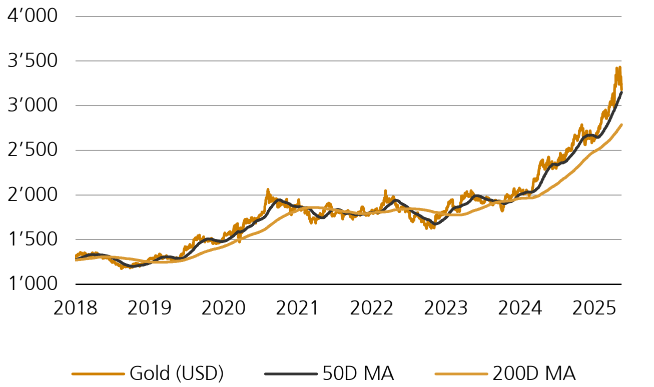
We have reviewed our gold target and reduced the near-term gold price target to USD 3250, while we keep our 12-month target at USD 3600. Gold still stands out as a prime source of diversification in today's uncertain environment, offering resilience amidst global tensions, potential inflationary pressures, and persistent questions about US policy credibility.

Gold price development



Source: LGT, Bloomberg*

Although a somewhat stronger US dollar may curb the gold price in the near term, the precious metal's appeal is supported by sustained central bank demand, jewellery and technology use, and its enduring role as a hedge against systemic risks. While the US dollar has some advantages over the euro, aided by its yield benefits and Europe's still subdued economic growth relative to the US, the spotlight on US exceptionalism, intensified by trade-policy uncertainties and possible challenges to Federal Reserve independence, could ultimately enhance gold's safe-haven status.

Amid ongoing market uncertainties, gold remains a key source of diversification

Although the US dollar continues to enjoy an absolute yield advantage over the euro, buoyed by signs of disinflation in the eurozone and still subdued European growth, a slightly stronger US dollar (6-month target of EUR/USD 1.10) can present a near-term hurdle for the precious metal. Nonetheless, gold's safe-haven appeal, coupled with sustained demand from central banks, technological applications, and jewellery, reinforces its status as a robust asset in periods of geopolitical tension and potential inflationary pressure. On balance, the current environment suggests that the greenback will retain a measure of strength. Disinflation trends in the euro area increase the likelihood of further interest rate cuts by the European Central Bank (ECB), thereby widening the negative yield differential between the eurozone and the US. We expect the ECB to cut interest rates by a further 75 basis points this year, bringing the total cut in 2025 to 150 basis points, before ending the year at 1.50%. Meanwhile, we forecast that the Fed will cut interest rates by 50 basis points in 2025, concluding the year with a rate of 4.00%. The yield gap helps contain any strong rally in the euro, whilst Europe's weaker growth backdrop contrasts with the United States' higher productivity and deeper capital markets, lending the US dollar a structural edge. Consequently, we expect EUR/USD to stabilise over the coming weeks, with only modest US dollar appreciation in our baseline scenario.

However, the notion of US exceptionalism is facing greater scrutiny

Despite the United States' competitive advantages, particularly in technological innovation and dynamic financial markets, ongoing trade-policy uncertainties and elevated tariffs threaten to dampen foreign investment inflows. The Federal Reserve's credibility and the country's geopolitical leadership remain crucial to sustaining the dollar's safe-haven status. Any perceived loss of the Fed's independence, abrupt policy shifts, or missteps on the global stage could erode the US dollar's longstanding appeal.

This backdrop poses multiple risks that could undermine the US dollar. Heightened political interference in the Federal Reserve, for instance, would likely trigger market scepticism and prompt dollar selling. Alternatively, deeper rate cuts during a pronounced economic downturn could depress yields, diminishing the currency's draw. Moreover, if global trust in US trade policies continues to wane, investors may seek alternative assets, including the Swiss franc and especially gold, whose diversification benefits become ever more prominent during periods of market or policy uncertainty.

Conclusion

In this evolving landscape, gold stands out as a compelling hedge and a potential beneficiary of any growing scepticism towards the dollar. While near-term USD firmness may weigh on gold prices, the metal's intrinsic value as a store of wealth, combined with diversified demand drivers, underlines its importance for strategic asset allocation. In summary, a limited appreciation in the US dollar versus the euro remains the base case, supported by its yield advantage. Yet any significant escalation in trade tensions, deterioration in the Federal Reserve's standing, or deeper crisis of confidence in US leadership could undermine US exceptionalism, pressure the dollar, and trigger renewed inflows into gold.

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