



By: *Jim O'Neill*

What is the gold price telling us about the state of the financial market?



I have held remarkably contradictory views about the staggering rise in gold prices this year, especially following the recent sharp reversal.

On one hand, I would not be surprised if the dip turns out to be the beginning of the end of the rally.

On the other hand, I sympathize with those holding the opposite view: the pullback is merely a brief correction to what remains a powerful trend, with the price of gold reaching historic highs as markets adapt to complex, profound changes in the world's monetary and financial system.

Let's start with the bears' case. Clearly, gold's meteoric rise – outstripping even the Big Tech-driven NASDAQ – is emblematic of bubble behavior, with the momentum feeding on itself.

Once FOMO (“fear of missing out”) sets in, even marginal or irrelevant developments can add to the excitement. The question, then, is whether these justifications can withstand scrutiny.

Storing gold

Historically, the rationale for storing gold (when it offered no monetary return) was its role as a monetary anchor and a hedge against inflation.

But while this might make sense in the long term, it doesn't explain the sudden run-up in 2025.

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Given that much of the **price acceleration** occurred after the US dollar had already registered its **2025 decline**, and after **US bond yields** had fallen noticeably as the outlook for US inflation and inflation expectations

improved, I can see why some commentators have declared it a bubble.

But now consider the bulls' case. I well remember many times during my active career in finance when I felt bullish about gold.

One such episode came in 1995–96, when I was the chief currency strategist at Goldman Sachs.

Back then, many commentators were already raising concerns about high and rapidly rising government debt in the US and other major economies.

Add in the probability that these would be inflated away through monetary policy, and there was a clear case to be made for moving into gold.

I recall buying a call option to express my conviction. But after a few months, the gold price had hardly moved, and I decided to limit my losses before the time decay completely evaporated.

Asset allocation

Another episode came later, when I was chair of Goldman's asset-management division.

I tried to encourage some of our researchers and investors to think more openly about asset allocation, and to be less constrained by conventional benchmarks and the typical 65/35% allocation to equities and bonds.

One of my colleagues, James Wrisdale, responded by creating an interesting unconstrained total return model that considered a wider group of assets from the era of floating-rate foreign-exchange markets.

There has always been an intriguing subjective dimension to finance and investing

Fascinatingly, it suggested a base allocation to

gold far above what anyone but a “goldbug” (conspiratorially minded fanatics) would have considered advisable.

Not surprisingly, when we discussed the model with our experienced investment professionals and asset allocators, they thought it would be very difficult to pursue.

It was simply too risky and too atypical to achieve credibility. Nonetheless, there has always been an intriguing subjective dimension to finance and investing, and this perspective may help us understand where today's gold bulls are coming from.

Creating an alternative

Owing to my background analyzing foreign-exchange markets, I certainly understand why large holders of conventional foreign-exchange reserves – not least China and Russia – have made a strategic decision to allocate more to gold.

I also understand why they would encourage other members of the **BRICS** grouping of major emerging economies to do the same.



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They have made no secret of their intention to create an alternative to the dollar-based international monetary system.

But there also could be a more humdrum explanation. My foreign-exchange days taught me that currencies typically have cyclical price deviations based on relative real interest-rate movements.

Thus, when the US Federal Reserve is easing and inflation expectations have not declined much, the dollar will weaken; and when the Fed tightens, the dollar will strengthen.

Moreover, the same pattern seems to hold not only for other major currencies, but also for the gold price. When real interest rates across all G7 economies are declining, gold benefits.

In today's context, if markets believe that central banks will ease notably more – or at least will not tighten more – despite underlying inflation not improving, a stronger gold price is consistent with the historical pattern.

I have no idea whether the bearish or bullish case will win out, especially for the next 5-10% move, and neither does anyone else. But I will certainly be watching closely – and keeping an open mind about what I see.

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