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Macro
Memo

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What's Up with Gold?

Gold has quietly outperformed the stock market¹ even while artificial intelligence (AI) stocks have been stealing the media spotlight. Gold is a different asset; it has no earnings and pays no dividends. So, what is behind gold's recent run to record prices? The financial press regularly cites "economic uncertainty" but fails to specify the cause of that uncertainty. In this memo we discuss factors that move the price of gold, including geopolitical tensions, inflation concerns, US Dollar weakness, and Central Bank demand. In the end, it's all about being a reliable store of value.

Geopolitical Tensions:

Global instability, whether rooted in trade disputes, border conflicts, or internal political unrest, has the potential of escalating into military confrontation. Going back as far as the Roman Empire, war has often been financed via the debasement of currency to the detriment of those who hold it. The United States' recent 20-year war on terror is an excellent example. Rather than paying for the war effort out of income, it was financed through low-interest rate debt. Investors who are alert to this tactic seek protection for the purchasing power of their wealth through safe haven assets, and for millennia gold has offered perceived value to investors with no counterparty² risk. Currency, unlike gold, requires a counterparty to honor its value. The U.S. Civil War offers an extreme example. At the start of the conflict, \$1 in Confederate currency was nearly equal to \$1 in U.S. dollars. By 1864, it had collapsed to less than 5 cents, and by the end of the war, Confederate money was virtually worthless. Gold, however, retained its value, underscoring its role as a safe haven when governments falter and paper money fails.

Inflation Concerns:

There is a general misunderstanding of the nature of inflation. It is almost always described as rising prices. More accurately, it is a decline in the value of the local currency, which is driven by the law of supply and demand. When the supply of any good or service rises faster than demand for it, the price of that good or service falls. In the case of a currency, when the amount of it increases faster than the things for which it can be traded, the currency falls in value.

Money (currency) is a good which delivers three core functions. It serves as a medium of exchange, a unit of account, and a store of value. When the supply of money increases faster than the supply of goods and services on which it can be spent, an imbalance occurs. To bring things back into balance, the prices of goods and services must increase to absorb the increased supply of money. This is inflation, the price adjustment required to compensate for the reduced value of the currency. Said another way, money is failing in its core function as a store of value. In this situation investors look for other assets that hold their value better than the local currency. Historically, gold has served as a reliable store of value during inflationary times³.



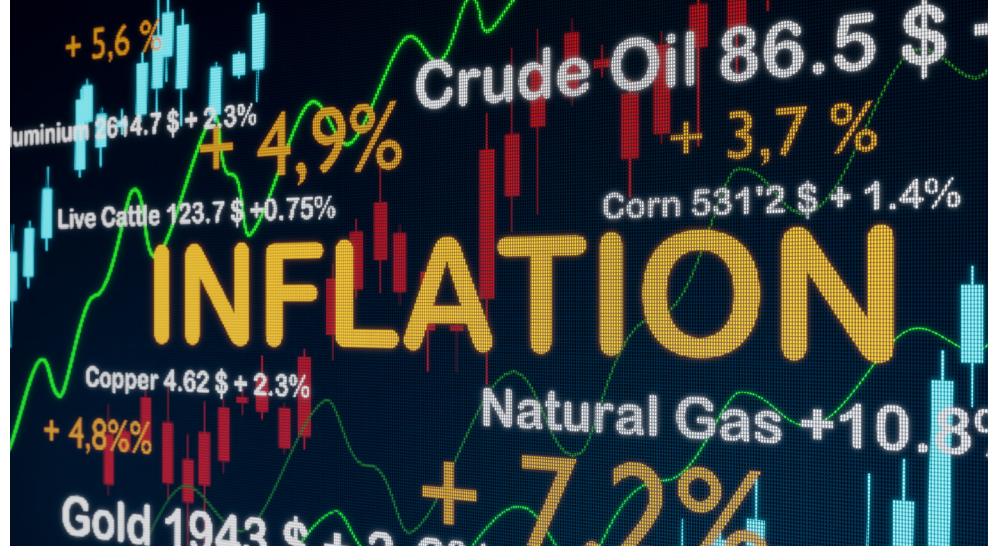
US Dollar Weakness:

Since the end of World War II, the US Dollar has served as the primary reserve currency for global trade. That means the majority of global trade has occurred in US dollars, even when the US wasn't a party in the trade. For instance, if Ecuador purchased flat screen TVs from South Korea, that trade would be denominated in US Dollars. South Korea could then use those dollars to purchase goods it needs from any country in the world. This is how the dollar works as the reserve currency.

However, in addition to facilitating transactions, the reserve currency has another role to play, that of the reserve asset.

When a country acquires excess US Dollars, it saves them in the form of US Treasury obligations (either bills, notes, or bonds). Treasuries are simply dollars that pay an interest rate. However, if the value of the US Dollar drops at a rate greater than what Treasuries are paying in interest, the holder of the Treasuries loses purchasing power; the reserve asset is failing in its role as a store of value. Currently Treasuries are paying interest rates between 4% and 5%, but the U.S. government is running annual budget deficits of 6% to 7% of GDP. To finance this, the government must continually issue new Treasuries. The challenge is that printing more debt weakens the dollar over time, which makes Treasuries less attractive to foreign buyers. Countries like China and Japan, once the largest holders of U.S. debt, have scaled back. China has reduced its Treasury holdings from over \$1.2 trillion in 2013 to under \$800 billion today, reallocating some reserves into gold and other currencies. Japan, historically the single largest foreign holder, has also slowed purchases to support its own currency during periods of weakness. This pullback highlights why many nations are diversifying away from U.S. debt, adding to gold's appeal as a neutral store of value.

In 2022, as a response to Russia's invasion of Ukraine, the West froze and then confiscated Russia's foreign exchange reserves⁴. It was intended to be a disincentive to Russia and any other country that might consider a similar move on their neighbors. However, this move had the unintended consequence of highlighting the counterparty risk of holding another country's currency as a reserve asset. Several countries



around the world saw this risk and now choose to avoid it by limiting the amount of foreign exchange reserves they hold in US Treasuries.

To avoid the risk of saving in US Dollars, the BRICS⁵ countries are working to establish a system of global trade which operates outside of the US Dollar system. This is often referred to as de-dollarization. As the value of global trade in the BRICS system increases it will reduce demand for the dollar and put further downward pressure on its value. Currently the proposed BRICS system will settle net trade imbalances in physical gold. If their system is successful and gains traction⁶, it will increase demand for gold and put upward pressure on its price.

Central Bank Demand:

Central banks around the world hold gold reserves. Some of their reasons for doing so are the same as those for individual investors. Central banks are attracted to gold's stable value in times of geopolitical tensions and its role as an inflation hedge.

However, there are reasons for central banks holding gold that are unique to their nature.

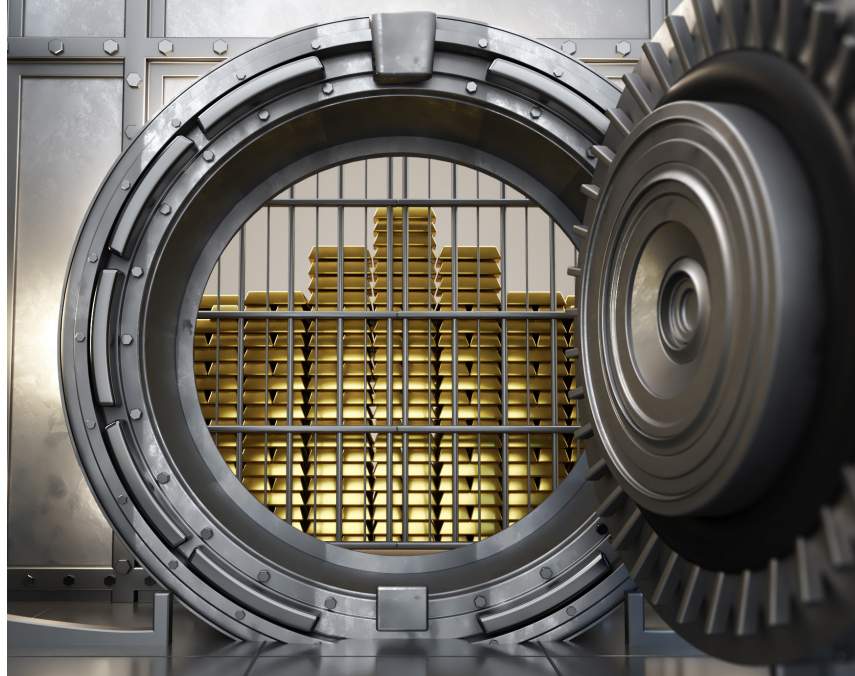
- Gold allows diversification of their foreign exchange reserves away from the counterparty risk built into fiat currency-based assets, like that recently demonstrated via the US Dollar.
- Having a diverse basket of reserves aids central banks in supporting their monetary policy and managing the value of their own currency.
- Gold will also become increasingly important to central banks for settling net trade imbalances if the BRICS counties are successful in expanding the reach of their global trading networks.

The World Gold Council is an international trade association for the gold mining industry based in London. Part of their mission includes in-depth research into various facets of the gold value chain. One of those research projects is an annual survey

of global central banks regarding the role of gold in their reserves. In their 2025 survey, 76% of respondents expect gold holdings as a portion of their reserves to increase over the next five years. Interestingly, 73% of respondents expect US Dollar reserve holdings to decrease over that same time⁷. These responses support the idea that de-dollarization will continue going forward as central banks maintain their robust pace of adding gold to their reserves.

Summary:

Reasons why gold has withstood the test of time include its rarity, durability, and universal recognition. Unlike paper money, it cannot be printed at will, and unlike industrial commodities, it does not corrode or decay. In the end it's all about being a reliable store of value. The four factors we've discussed contributing to gold's recent strong performance point to continued support of gold prices. For that view to change we would



need to see an overall reduction in geopolitical tensions, responsible fiscal policy, and a normalization of monetary policy. None of those changes appear to be on the horizon and therefore gold continues to look like a sound allocation for investment

portfolios. The size of that allocation will differ according to investment objectives and timeframes. If you would like to discuss how gold may fit into your investment portfolio, please feel free to reach out.

¹ January 1, 2020 to present.

² The sovereign government which issued it.

³ The price of gold moves up and down every day and over shorter periods of time can move lower. There are years where gold goes down in price. Over longer periods of time gold has been a reliable store of value.

⁴ Their excess savings from foreign trade.

⁵ An acronym for Brazil, Russia, India, China, and South Africa. Six other countries have joined with the BRICS and several more have expressed interest.

⁶ There is no guarantee the BRICS system of de-dollarization will succeed. President Trump has already stated the US will aggressively resist any move away from the dollar's role in global trade with punitive tariffs.

⁷ <https://www.gold.org/goldhub/research/central-bank-gold-reserves-survey-2025>

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