GLOBAL Insight WEEKLY

Perspectives from the Global Portfolio Advisory Committee

June 26, 2025

Gold's regime change?

Joseph Wu, CFA – Toronto

The longstanding inverse relationship between gold and real interest rates appears to have broken down, pointing to new forces—central bank buying, geopolitical uncertainty, and portfolio diversification—playing a larger role in driving demand for bullion.

Disconnected from interest rates

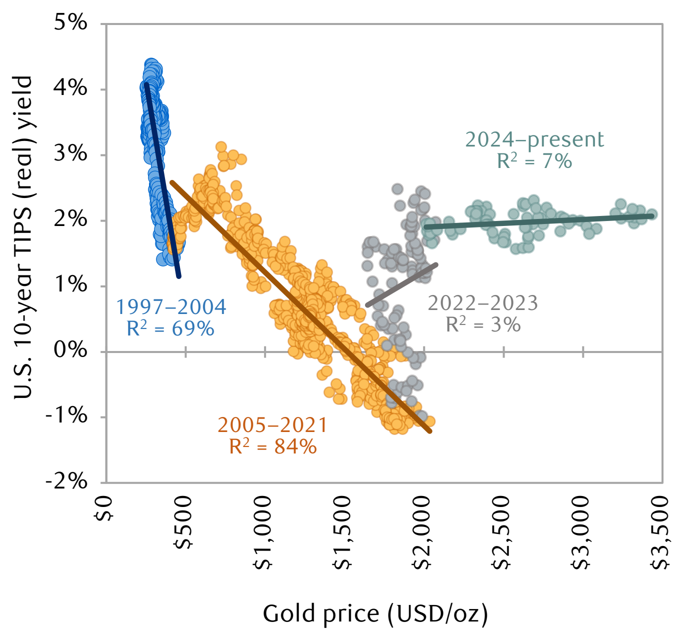
Identifying what exactly drives the price of gold has always been a challenge. Yet one relationship that has held up reasonably well over the past 25 years is gold's inverse correlation with real interest rates.

Gold generates no cash flow. Given that holding gold involves costs—storage and insurance—gold's "income yield" is arguably negative. This makes gold sensitive to changes in real (inflation-adjusted) interest rates. When real rates rise, the opportunity cost of holding gold increases, reducing its appeal relative to income-generating assets. When real rates fall, the reverse is true.

From the late 1990s until 2021, this dynamic underpinned a relatively stable relationship (see chart at right). Periods of low or falling real interest rates—proxied by the yield on U.S. 10-year Treasury Inflation-Protected Securities (TIPS)—have typically been conducive to a favourable environment for gold.

Since 2022, however, the pattern has weakened substantially. Despite a sharp rise in real interest rates during 2022 and 2023—as central banks hiked rates rapidly to rein in post-pandemic inflation—gold prices remained resilient. More recently, gold has rallied further, even as real yields have remained flat (as seen in the time period covering 2024 to the present in the chart at right).

The relationship between gold and real interest rates



Note: R^2 denotes the coefficient of determination, a statistical measure of the extent to which changes in gold prices can be accounted for by changes in real interest rates in this analysis.

Source - RBC Wealth Management, Bloomberg; weekly data through 6/20/25

For perspectives on the week from our regional analysts, please see pages 3–4.

New drivers for a new regime?

Gold, like any asset, is influenced by supply and demand. However, the relatively inelastic nature of gold supply—global mine production has grown at just two percent annually since 2010—tends to put the focus squarely on demand-related variables.

Gold's appeal spans several functions. It is viewed variously as a store of value, a central bank reserve asset, and a portfolio diversifier. This wide range of roles has long set gold apart, requiring a different analytical framework. The forces driving demand often vary depending on the broader macro backdrop.

With the inverse correlation between gold and real rates, which has held for much of the past two decades, no longer intact, a shift in the underlying factors shaping gold's trajectory may be underway. Understanding who the marginal buyer is—and why they are buying—has become increasingly important.

In recent years, central banks have emerged as a sizeable, and relatively price-insensitive, source of demand. Their renewed interest stems in part from geopolitical considerations, notably the freezing of Russia's foreign-currency assets in 2022, which underscored the vulnerability of holding U.S. dollar-based assets as central bank reserves. Since then, central banks—especially in emerging markets—have sought to gradually diversify their reserve assets by building their allocations to gold.

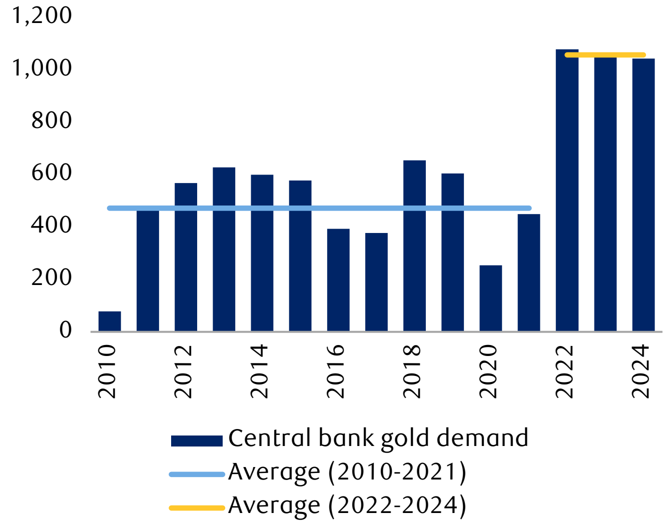
Central bank net purchases of gold have exceeded 1,000 tons for three consecutive years (see chart at right), double the average between 2010 and 2021, and have helped offset relatively softer investment demand. This trend seems likely to persist: a recent survey of 72 monetary authorities conducted by the World Gold Council found that virtually all (95 percent) of the respondents expect "official sector" gold holdings to increase over the next year, suggesting central banks will continue to accumulate bullion in the years ahead.

Two other structural factors could further support demand: portfolio diversification and a store-of-value alternative. The retreat of U.S. global leadership—evident in the Trump administration's desire to prioritize domestic issues—has coincided with a more fragmented geopolitical landscape. A more splintered world marked by more frequent conflict, combined with growing concerns over elevated government debt levels and questions about the long-term role of the U.S. dollar in the international system, could strengthen the case for gold as a diversifier against persistently elevated levels of uncertainty.

The fading explanatory power of real interest rates suggests to us that these alternative drivers are now playing a larger role in shaping the gold market.

Central banks have increased their gold allocations

Tons of gold purchased annually by central banks



Source - RBC Wealth Management, World Gold Council

Investment takeaways

Few financial assets divide opinions as sharply as gold. The absence of cash flows makes it difficult to value using conventional methods, leaving the precious metal without a fundamental valuation anchor. Even so, gold has long drawn support from its role as a hedge against crisis risk and as an alternative to other currencies.

Gold's appeal also stems from its diversification benefits. It tends to have low correlation with equities, and this characteristic becomes particularly valuable in two scenarios: first, during periods of acute economic or financial market stress; and second, when stocks and bonds move in tandem. The latter condition—rare over the past two decades—has become more common in the current environment of more volatile inflation.

In our view, gold is better suited as a strategic allocation than a tactical one. Attempting to time price rallies—or anticipate which global events might trigger them—is inherently difficult. A long-term, strategic approach is more likely to capture gold's full potential benefits. That means accepting periods of underperformance in exchange for the potential protection and diversification that gold may offer when they are needed most.

Please note that the Global Insight Weekly will not be published on July 3 due to the Independence Day holiday in the U.S.

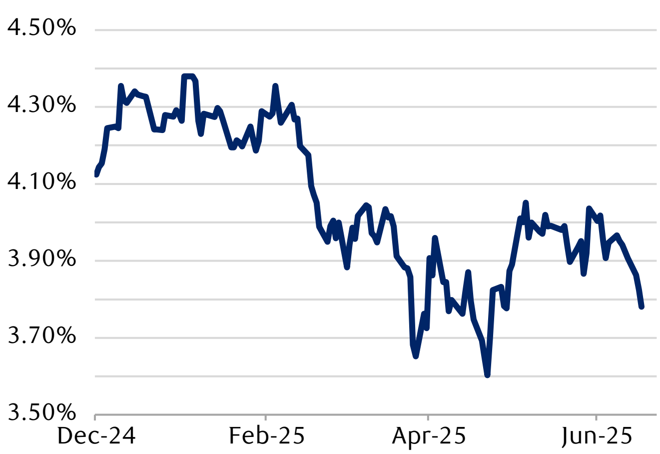
UNITED STATES

Michael Roedl – Minneapolis

- **Treasury yields continue to move lower in June with markets increasing their Fed rate cut expectations through the remainder of the year.** The monetary-policy-sensitive 2-year Treasury yield is down nearly 20 basis points from a week ago, causing the slope of the Treasury curve to steepen as concerns about the federal budget deficit keep pressure on long-term Treasury prices. Despite Federal Reserve Chair Jerome Powell's caution about lowering borrowing costs, expectations for a July rate cut gained momentum this week after Fed governors Christopher Waller and Michelle Bowman signaled they would be open to cutting rates next month if inflation remains contained. While federal fund futures are still pricing in two quarter-point rate cuts by the end of the year, rate cut expectations for July have risen to 28%, up from 8% just a week ago.

- **U.S. new home sales dropped in May by the most in nearly three years as higher mortgage rates weighed on affordability,** according to a report from the U.S. Commerce Department's Census Bureau. Sales of new single-family homes plunged 13.7% month over month to an annualized rate of 623,000, coming in below all estimates from a Bloomberg survey. Despite widespread sales incentives from homebuilders, many prospective homebuyers are staying on the sidelines due to concerns about mounting economic headwinds and mortgage rates stuck near 7%. Confidence among homebuilders dropped last month to the lowest level since December 2022, while a growing supply of previously owned homes poses an additional threat to the industry, according to the National Association of Home Builders. Although the median sales price for housing increased 3% from a year ago, we think rising inventories and stubbornly elevated mortgage rates could create headwinds for housing prices in the coming quarters.

Two-year U.S. Treasury yield pulls back in June as Fed rate cut expectations gain momentum



Source - RBC Wealth Management, Bloomberg; data through 6/25/25

CANADA

Nguyen Dang, CFA & Lindsay Puls – Toronto

- **Canada's Consumer Price Index (CPI) grew at a steady 1.7% y/y in May, matching the prior month's growth.** However, this figure is skewed by the elimination of the consumer carbon tax, which contributed an 11% y/y decline in energy prices, according to RBC Economics. The Bank of Canada's (BoC) preferred inflation indicators, which exclude typically volatile food and energy prices, edged down to 3% y/y, above the BoC's 2% target. The "supercore" metric, a measure of CPI inflation for services excluding shelter, dropped to 3.3% from 4.4% on a three-month rolling average basis. Inflation of vehicle prices grew further in May, which could reflect an early impact of tariffs. The rise in home rental prices cooled to 4.5% y/y in May, down from 5.2% y/y in April, in line with levels last seen in mid-2022. According to Statistics Canada, increased availability of rental units and slower population growth contributed to this moderation. The softening inflation data is encouraging, but the BoC would likely need to see clearer signs of economic weakness alongside softer inflation to continue further easing, in our view.

- **Canadian retail sales rose by 0.3% m/m in April, suggesting to us that consumers remained resilient to tariffs at the start of the second quarter.** The auto sector helped to support headline growth for the second consecutive month, with purchases of new and used vehicles rising 2.9% and 2.1%, respectively. Core retail sales, which exclude gas stations and car dealers, edged up 0.1% m/m, helped by higher sales in the sporting goods, furniture & home furnishings, and food & beverage categories. Meanwhile, the largest detractors to core sales came from clothing & accessories, shoes, jewelry, and luggage & leather goods retailers, implying more cautious discretionary spending by consumers. Looking ahead, Statistics Canada's advance estimate points to a 1.1% m/m contraction in sales for May, likely reflecting increasing consumer hesitancy in the face of uncertain U.S. trade policy. The soft advance estimate for May retail sales suggests to us a weaker growth outlook that, in combination with a continued deterioration in the labour market, would imply further monetary accommodation by the BoC. However, as indicated above, softer inflation data remains a likely precondition to future rate cuts.

EUROPE

Frédérique Carrier – London

- **The NATO summit held in the Netherlands confirmed that EU member states will increase their defense spending to 5% of GDP by 2035,** except for Spain, which requested some flexibility. This is more than double the current spending target.

- The European Commission expects this additional spending could boost GDP growth by 0.3–0.6 percentage points in the next three years, though much depends on domestic versus foreign spending. A high share of foreign purchases, such as the three-quarters of military equipment imported by Ukraine for its defense efforts, would limit the economic impact to the lower end of the expected range. **We do not anticipate the share of imports to be that high, and expect domestic defense production capacity to be actively increased over time.**

- **To finance the additional defense spending, we believe debt will be issued initially, but higher taxes and/or budget cuts will eventually be required,** capping the long-term growth impact. Still, additional defense spending provides some support to the economy even as U.S. tariffs act as a headwind.

- **A U.S.-EU trade deal hangs in the balance, though news flow on negotiations has been encouraging.** EU Economy and Productivity Commissioner Valdis Dombrovskis suggested some progress had been made on a range of non-tariff measures that are irritants for the U.S., such as digital services regulation and carbon taxes.

- **The EU negotiation strategy is two-pronged:** engage in trade talks while simultaneously preparing a tariff retaliation package of some €100 billion to maintain leverage with the Trump administration.

- **Europe may retaliate, in our opinion, if the U.S. imposes tariffs on the pharmaceutical industry or if the July 9 deadline passes without an extension.** If an agreement is not reached by July 9, EU exports could be subject to a 50% tariff, although we view this scenario as less likely than the imposition of pharmaceutical tariffs.

- **In France, Prime Minister François Bayrou is facing mounting pressure** due to the government's failure to reach an agreement with unions on a controversial pension reform that raises the retirement age to 64 from 62. The left and the right have made several threats of no-confidence motions, and the Bayrou government remains fragile ahead of the 2026 budget presentation due mid-July. Should it fall, we believe concerns regarding fiscal sustainability could re-emerge. For now, the difference in yields between French and German sovereign bonds remains stable, suggesting to us that investors are not overly worried.

ASIA-PACIFIC

Jasmine Duan – Hong Kong

- **Asian stocks largely rose during the week, fueled by optimism from an Israel-Iran ceasefire.** Technology stocks received a boost after the Nasdaq 100 Index reached a record high. Investors temporarily set aside trade tensions, with many believing the 90-day "Liberation Day" tariff pause might be extended beyond July 9.

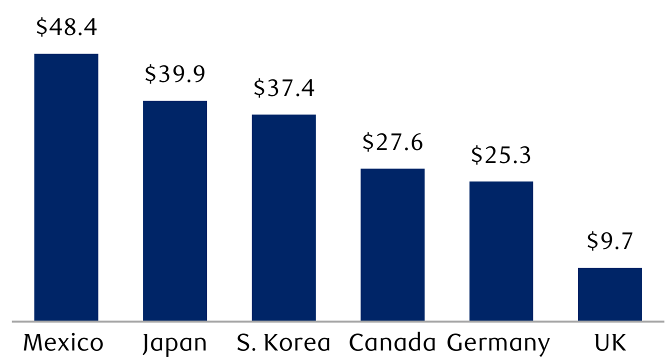
- **News on trade negotiations has been mixed.** China has made it clear it will not sign any agreement unless it gets concessions from the U.S., which could include easing technology export controls and allowing more Chinese investment in the United States. However, we think these demands will raise national security concerns in the U.S., making an agreement unlikely.

- **China has signaled a willingness to further curb fentanyl-related exports in exchange for tariff relief.** But Chinese exports of fentanyl-related medication are already limited (less than 10 kg in 2023), and none went to the United States. China has imposed strict limits on the production and export of precursor chemicals, and while the U.S. claims China ships these chemicals to Mexico, there is no data showing how much, if any, enters the United States. Therefore, we believe fentanyl tariffs are likely viewed as a revenue source by the Trump administration, leaving limited room for China to negotiate reductions.

- **Japan has stated it will not rush into a trade deal with the U.S.,** partly due to the July 20 election for the upper house of its national legislature. Additionally, Japan aims to negotiate a reduction in the 25% tariff on its auto sector, which accounts for around one-third of its total exports to the United States.

- **India has set a target of finalizing a trade deal with the U.S. before July 9.** Agriculture remains one of the most challenging sectors in the negotiations, according to a Bloomberg report. The U.S. is pressing India to open its market to genetically modified crops, a demand India has rejected, citing its consistent policy of keeping the dairy industry out of all free-trade agreements.

Value of new and used passenger cars imported by the U.S. in 2024, by country of origin (USD billions)



Source - RBC Wealth Management, U.S. Census Bureau, Reuters

MARKET
Scorecard

Equities (local currency)	Level	MTD	YTD	1 yr	2 yr
S&P 500	6,092.16	3.1%	3.6%	11.4%	40.1%
Dow Industrials (DJIA)	42,982.43	1.7%	1.0%	9.9%	27.4%
Nasdaq	19,973.55	4.5%	3.4%	12.7%	48.0%
Russell 2000	2,136.19	3.4%	-4.2%	5.6%	17.3%
S&P/TSX Comp	26,566.32	1.5%	7.4%	21.9%	36.8%
FTSE All-Share	4,743.40	-0.3%	6.2%	5.6%	17.0%
STOXX Europe 600	536.98	-2.1%	5.8%	3.7%	18.5%
EURO STOXX 50	5,252.01	-2.1%	7.3%	6.4%	23.0%
Hang Seng	24,474.67	5.1%	22.0%	35.4%	29.6%
Shanghai Comp	3,455.97	3.2%	3.1%	17.2%	8.1%
Nikkei 225	38,942.07	2.6%	-2.4%	-0.6%	18.8%
India Sensex	82,755.51	1.6%	5.9%	6.0%	31.4%
Singapore Straits Times	3,925.98	0.8%	3.7%	18.0%	23.0%
Brazil Ibovespa	135,767.29	-0.9%	12.9%	11.0%	14.1%
Mexican Bolsa IPC	56,921.09	-1.6%	15.0%	8.2%	6.7%
Gov't bonds (bps change)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. 10-Yr Treasury	4.291%	-11.0	-27.8	4.3	55.6
Canada 10-Yr	3.322%	12.2	9.7	-6.0	-3.4
UK 10-Yr	4.481%	-16.6	-8.7	40.2	16.1
Germany 10-Yr	2.565%	6.5	19.8	15.4	21.2
Fixed income (returns)	**Yield**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Aggregate	4.58%	1.1%	3.5%	4.8%	8.1%
U.S. Investment-Grade Corp	5.07%	1.3%	3.6%	5.5%	11.4%
U.S. High-Yield Corp	7.13%	1.3%	4.0%	9.6%	22.1%
Commodities (USD)	**Price**	**MTD**	**YTD**	**1 yr**	**2 yr**
Gold (spot $/oz)	3,333.02	1.3%	27.0%	43.7%	73.5%
Silver (spot $/oz)	36.27	10.0%	25.5%	25.5%	61.7%
Copper ($/metric ton)	9,819.85	2.8%	13.5%	4.2%	16.8%
Oil (WTI spot $/bbl)	65.10	7.1%	-9.2%	-19.5%	-5.9%
Oil (Brent spot $/bbl)	67.82	6.1%	-9.1%	-20.2%	-8.2%
Natural Gas ($/mmBtu)	3.40	-1.4%	-6.4%	23.3%	24.6%
Currencies	**Rate**	**MTD**	**YTD**	**1 yr**	**2 yr**
U.S. Dollar Index	97.7490	-1.6%	-9.9%	-7.4%	-5.0%
CAD/USD	0.7286	0.1%	4.8%	-0.5%	-4.0%
USD/CAD	1.3726	-0.1%	-4.6%	0.5%	4.1%
EUR/USD	1.1653	2.7%	12.5%	8.8%	7.0%
GBP/USD	1.3664	1.5%	9.2%	7.7%	7.5%
AUD/USD	0.6509	1.2%	5.2%	-2.1%	-2.6%
USD/JPY	145.3300	0.9%	-7.6%	-9.0%	1.1%
EUR/JPY	169.3600	3.6%	4.0%	-1.0%	8.1%
EUR/GBP	0.8529	1.2%	3.1%	1.0%	-0.4%
EUR/CHF	0.9380	0.5%	-0.2%	-2.2%	-4.0%
USD/SGD	1.2785	-1.0%	-6.4%	-5.6%	-5.4%
USD/CNY	7.1741	-0.3%	-1.7%	-1.2%	-0.1%
USD/MXN	18.9217	-2.7%	-9.1%	4.5%	10.2%
USD/BRL	5.5608	-2.8%	-10.0%	2.0%	16.2%

Equity returns do not include dividends, except for the Brazilian Ibovespa. Bond yields in local currencies. Copper Index data and U.S. fixed income returns as of Tuesday's close. Dollar Index measures USD vs. six major currencies. Currency rates reflect market convention (CAD/USD is the exception). Currency returns quoted in terms of the first currency in each pairing.

Examples of how to interpret currency data: CAD/USD 0.72 means 1 Canadian dollar will buy 0.72 U.S. dollar. CAD/USD 4.8% return means the Canadian dollar has risen 4.8% vs. the U.S. dollar year to date. USD/JPY 145.33 means 1 U.S. dollar will buy 145.33 yen. USD/JPY -7.6% return means the U.S. dollar has fallen 7.6% vs. the yen year to date.

Source - Bloomberg; data as of 6/25/25

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Rating	Count	Percent	Count	Percent
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