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PHILEQUITY CORNER

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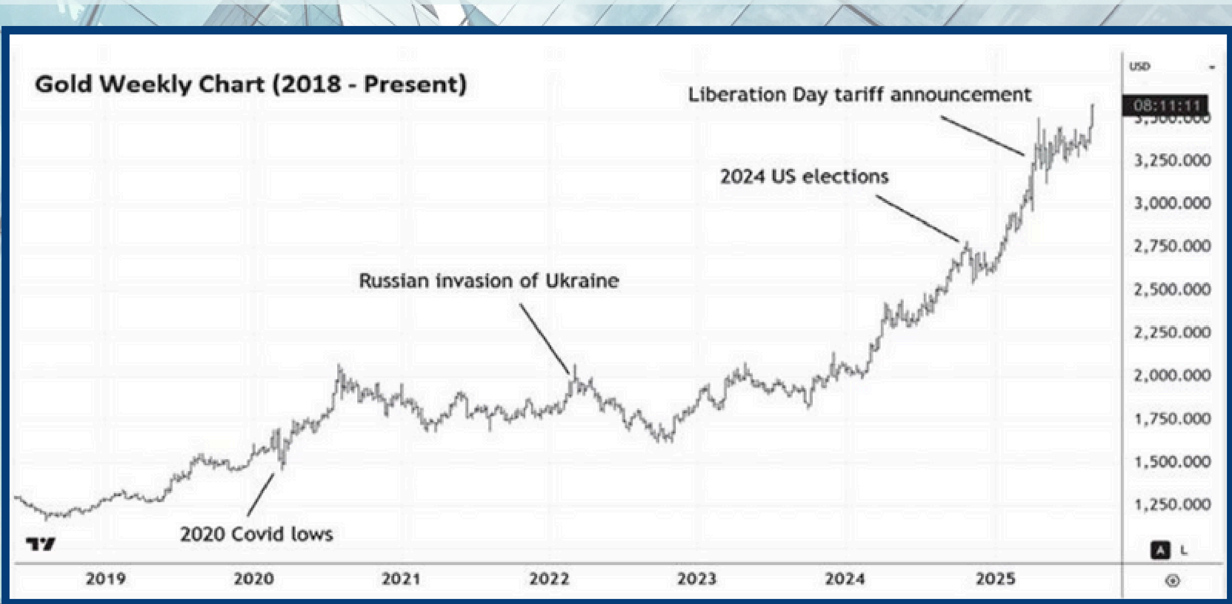
Open Defiance

Gold prices soared to a new all-time high of $3,586 per ounce last week. The precious metal has surged by 36.6 percent this year, fueled by mounting US debt concerns, threats to the independence of the Federal Reserve and other US institutions, record central bank accumulation and fears that Trump's tariffs could reignite inflationary pressures and hedge against further US dollar weakness.



Open defiance against the US

Adding to gold's appeal, China, Russia and India took a defiant stand against Washington at the recent Shanghai Cooperation Organization (SCO) Summit in Tianjin. A widely circulated photo showed Xi Jinping, Vladimir Putin and Narendra Modi smiling, holding hands and laughing together – a symbolic display of unity. Beyond the optics, the leaders discussed deeper energy cooperation, including the proposed "Power of Siberia 2" pipeline. It also shows that China, Russia, India, Brazil and other BRICS members are willing to chart their own course in open defiance of the US and an affront to Trump.

And indeed, Trump was watching. Trump posted a sarcastic comment on his Truth Social platform last Friday, "Looks like we've lost India and Russia to deepest, darkest China. May they have a long and prosperous future together!" This growing defiance against US influence raises the specter of an armed conflict or a more vicious damaging trade war.

Dalio's debt warning

In an interview with the Financial Times, Bridgewater founder Ray Dalio voiced concerns over America's perilous fiscal trajectory. "The great excesses that are now projected as a result of the new budget will likely cause a debt-induced heart attack in the relatively near future," he said. "I'd say three years, give or take a year or two."

America's $37 trillion debt now equals 124 percent of GDP. That's the highest level since World War II. The Congressional Budget Office projects the ratio climbing to 156 percent by 2055.

Dalio also warned that growing political pressure on the central bank "would undermine the confidence in the Fed defending the value of money and make holding dollar-denominated debt assets less attractive, which would weaken the monetary order as we know it."

Goldman's bold call

Goldman Sachs has doubled down on gold, calling it the firm's highest-conviction long recommendation. The investment bank forecasts $4,000 by mid-2026, rising to $4,500 if Fed independence is damaged – a scenario that would trigger higher inflation and erode the dollar's reserve currency status – and nearly $5,000 if just one percent of privately-owned US Treasuries flow into gold.

From bonds to bullion

Investors are dumping long-dated bonds, spooked by the politicization of monetary policy and rising concerns over fiscal and monetary directions in key economies. Long-term bond yields have surged with the US 30-year Treasury note climbing to five percent last week. Japan's 30-year bond yield hit a record 3.29 percent, while UK's 30-year gilt yield rose to 5.72 percent, the highest since 1998.

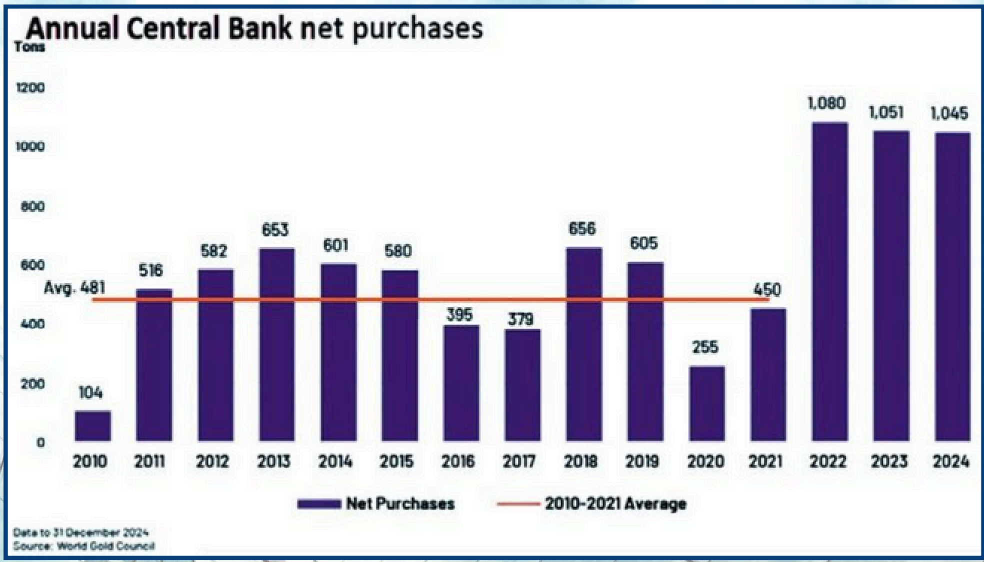
This bond sell-off, coupled with ballooning deficits and debates over debt sustainability, has pushed investors toward gold, amplifying its safe-haven appeal as traditional fixed-income assets face heightened volatility.

Central banks vote with their wallets

Central banks (CBs) have been at the forefront of this flight to precious metals. The 2022 freezing of Russia's $300 billion was a turning point. US Treasuries, once considered the ultimate safe asset, suddenly carried counterparty risk for nations on the wrong side of Western sanctions.

China has been the leading gold buyer since 2022, adding 225 tons in 2023 and adding regularly to cut dollar reliance and support the internationalization of the yuan. Poland, India and Turkey have also been major buyers, with Poland leading 2024 purchases at 90 tons.

CBs now hold 37,755 tons of gold as of 2024. They have increased holdings by over 1,000 tons in each of the last three years, a record pace and double the average annual purchases in the preceding decade.



Bullion beats equities

Amid fiscal strains, monetary uncertainty and geopolitical shocks, precious metals are regaining favor as portfolio insurance. Gold's 36.6 percent year-to-date gain outperforms the S&P 500's 10.2 percent return. Silver surged even higher at 41.8 percent. Over the past three years, gold and silver have more than doubled, easily outpacing the S&P's 80 percent rally since the 2022 bottom. Gold's rally shows it is no longer just crisis insurance – it has become a strategic holding for a well-diversified portfolio.