New York Life Investments'
Global Market Strategy team
Lauren Goodwin · Julia Hermann · Sarah Hirsch · Michael LoGalbo

Macro Pulse for December 7

- The data drought from the U.S. government shutdown is ongoing, clouding investors' perceptions of economic health. October/November jobs and inflation data will be released next week; in the interim, non-official data sources on the labor market are giving choppy, inconsistent readings. Initial jobless claims are at a three-year low, but annualized Challenger layoffs figures compare to Global Financial Crisis levels.
- In the midst of this data drought, the Fed faces its final opportunity to cut in 2025. We – and, we believe, the Fed – are focused on the trajectory more so than the timing of rate cuts over the coming 6-12 months. We remain slightly hawkish relative to consensus based on our view that the neutral rate – and therefore the terminal rate for today's easing cycle – is closer to 3.5% than 3.0%.

Macro Pulse update!!! The latest Macro Pulse – our 2026 outlook – is now out and all charts have been refreshed with the latest December data.

Will the gold rush extend into 2026?

Gold's latest surge has turned a classic risk-off diversifier into a fear-of-missing-out (FOMO!) trade. Prices are running ahead of traditional drivers, forcing investors to decide whether to chase the rally or rebalance. This week's note walks through the cyclical and structural forces behind the current gold rush and what that means for positioning into 2026.

What's behind today's gold rush?

- **Central bank demand**
  Since the early 2010s, after the global financial and euro-area crises, central banks have been persistent net purchasers. Central banks value gold because it is politically neutral, sanction-resistant, and free of credit risk. Emerging market central banks – including China, India, Turkey, and Russia – have led the charge. Many still hold a smaller share of reserves in gold than their peers in developed markets, leaving room for further accumulation. That slow-moving, structural demand has been an important tailwind for prices.

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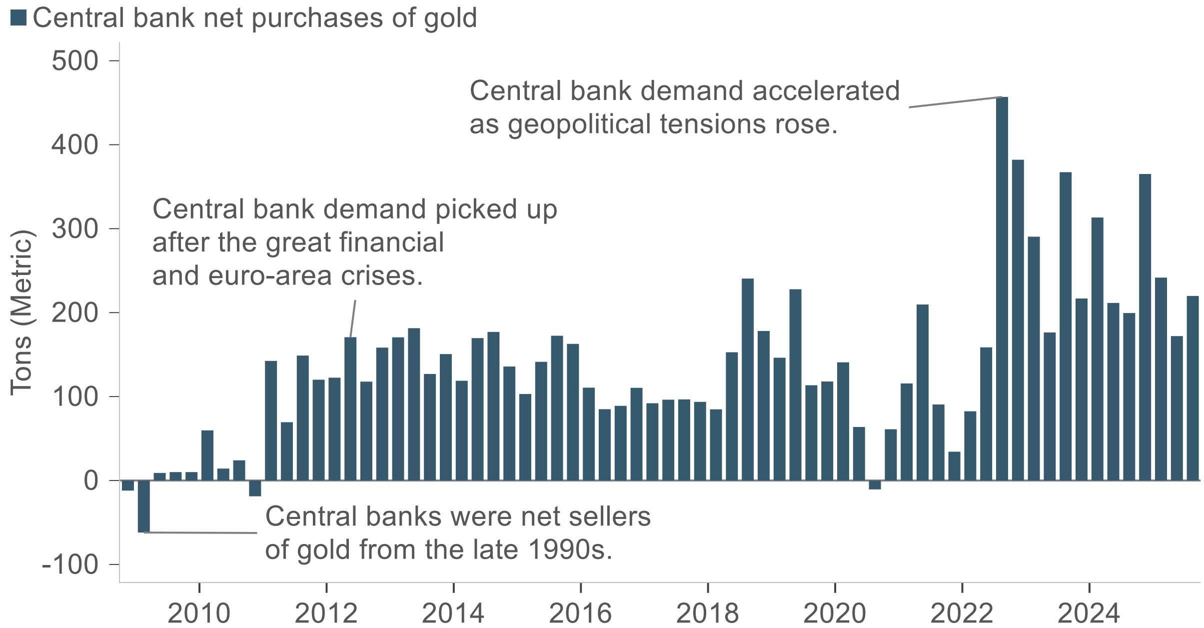
Central bank demand is a new structural force behind gold's rise



Sources: New York Life Investments Global Market Strategy, World Gold Council, Macrobond, December 2025.

- **Dollar-debasement narrative**

  A second force is the dollar-debasement narrative. Large fiscal deficits, questions around Fed independence, and elevated geopolitical risk have all raised concerns about the long-run credibility of developed-market reserve currencies, and especially the dollar. In that environment, gold serves as a hedge against fiat currency debasement.

  That said, this story alone does not fully explain the recent acceleration in gold purchases. Central bank diversification away from fiat currencies (i.e. U.S. dollar and euro) has been underway for nearly a decade, and demand for Treasuries remains robust. Dollar debasement concerns matter, but they are not the whole story.

- **Investor flows**

  The third source of support is investor flows. Retail and institutional investors have increased exposure to gold through physically backed ETFs and other vehicles. Gold tends to be a Veblen good, meaning as the price rises, some people want it more because the high price itself is a feature. This is a factor of gold demand in both financial and luxury goods markets. When inflows accelerate, they can move the gold market quickly because mine supply grows so slowly. This is also where bubble concerns start to show up – more on that in the next section.

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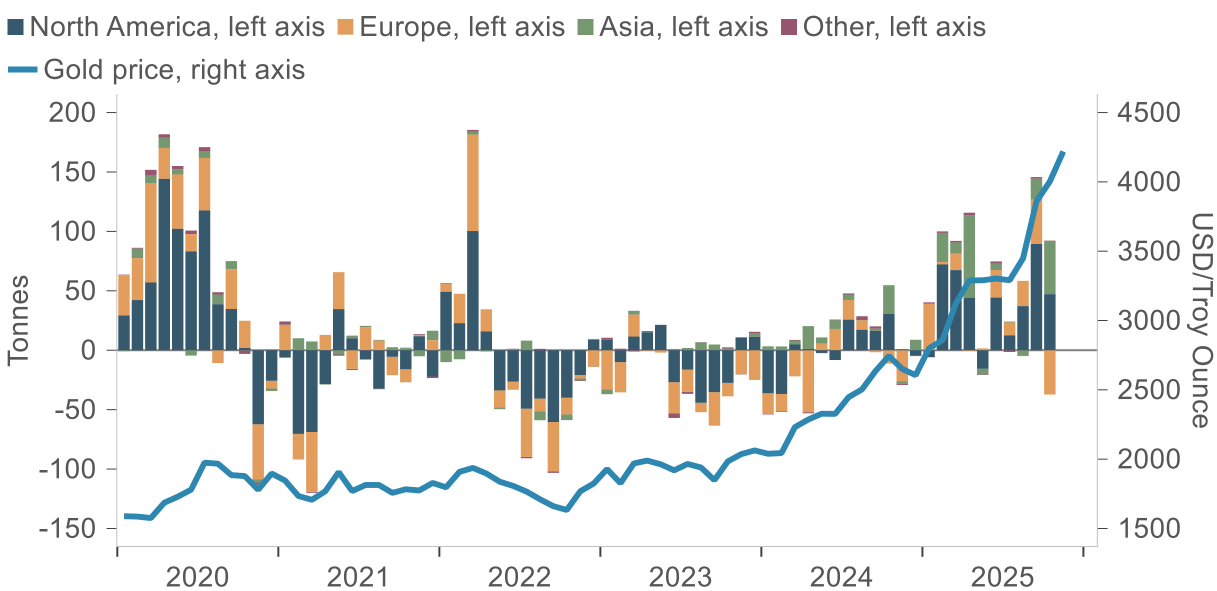
Flows into gold ETFs are nearing pandemic levels, suggesting rising investor concerns

Gold ETF flows by region



Sources: New York Life Investments Global Market Strategy, World Gold Council, Macrobond, December 2025.

A golden bubble?

One explanation for recent price action is that gold has become a hedge against an AI-centric equity bubble. Equity indices are arguably expensive and top-heavy, dominated by a small group of mega-cap tech names that, in some ways, echo the late-1990s dynamic. Some investors appear to be hedging a potential AI-driven equity bubble by building "insurance" positions in gold. But as those positions have become larger and more momentum-driven, they risk creating a mini-bubble in gold itself. The speed of the rally, and its growing disconnect from real rates and traditional risk measures, are what make valuations look stretched.

Gold's hidden levers: scarcity, regulation, and digital rivals

Could an increase in supply hurt the value of gold?

In the real world, gold supply grows slowly. Mining adds only about 1.5% to the above-ground stock per year, and bringing new projects online is getting more difficult due to geology, permitting, and cost pressures. By contrast, the supply of fiat money and government bonds can expand rapidly. That structural scarcity is part of what supports gold's long-term role as a store of value.

Could regulation become a tailwind or headwind for gold?

One potential "mega-catalyst" is a regulatory change in the banking system. Under current Basel III rules, gold is not treated as a High-Quality Liquid Asset (HQLA) for liquidity coverage purposes. If regulators were to reclassify gold as a HQLA it could encourage banks to hold more physical gold as part of their liquidity buffers. Analyses suggest that even a modest allocation could generate a demand impulse comparable to the early years of gold ETF adoption which drove the price of gold 5x higher over the following decade.

Could digital assets crowd out gold as a store of value?

Digital assets, especially bitcoin, are often pitched as "digital gold." In practice, the correlation with gold is still limited. Crypto assets trade more like high-beta risk assets: they are far more volatile than gold, tightly linked to liquidity conditions, and lack the track record of functioning as a defensive asset in broad market sell-offs. Central banks, which have been the most important marginal buyers of gold, hold almost no crypto, and regulatory treatment of digital assets is still evolving.

Portfolio strategy

Tactical view: near-term headwinds

Tactically, gold may struggle in the near term. Early-2026 rebalancing of major commodity indexes is likely to involve meaningful gold selling as funds move positions back toward target weights. That mechanical flow could cap upside or even create short-term downdrafts.

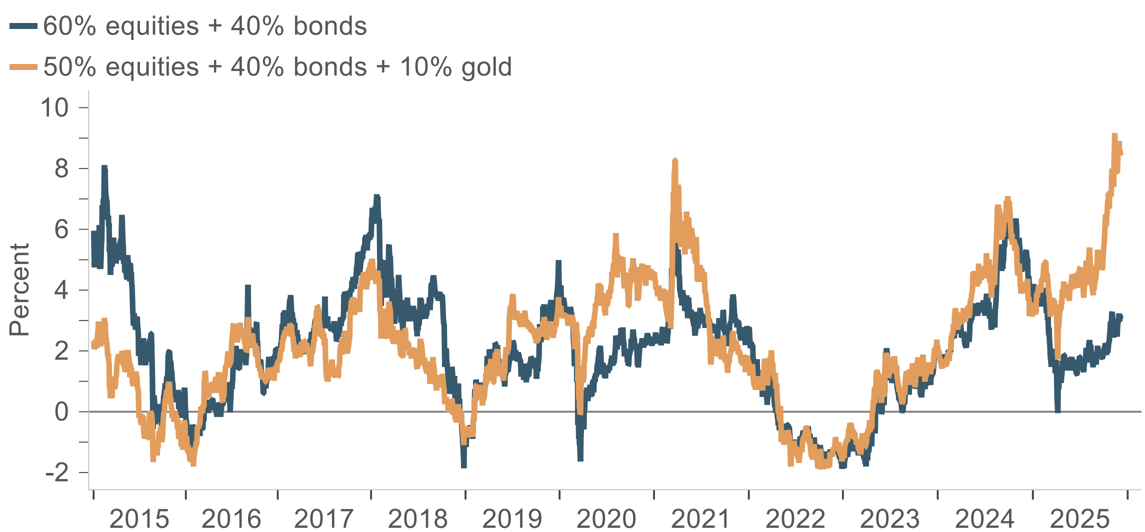
Gold's high volatility and imperfect short- to medium-term correlation with inflation add to the risk. Gold tends to rise when inflation is high and surprising to the upside, or when real yields collapse, rather than hedging small, predictable upticks in inflation. There is also a clear opportunity cost to holding a zero-yielding asset, especially in a higher-rate environment where cash and bonds offer attractive income.

Strategic view: gold as part of a 60/40 portfolio

Strategically, the case for gold is about diversification rather than return maximization. When stocks and bonds are negatively correlated, a 60/40 portfolio is already partly hedged, and gold's incremental benefit is modest. When stocks and bonds move together – as they often do in inflationary or policy-shock regimes – the 60/40 portfolio can experience simultaneous drawdowns, and this is when gold has historically added the most value. Over longer horizons, a modest allocation to gold (sourced from equities) has improved 60/40 risk-adjusted returns.

Over the past year, gold has significantly enhanced the 60/40 portfolio's risk-adjusted returns

1-year rolling Sharpe ratios



Sources: New York Life Investments Global Market Strategy, S&P Global, Macrobond Financial AB, Macrobond, December 2025.

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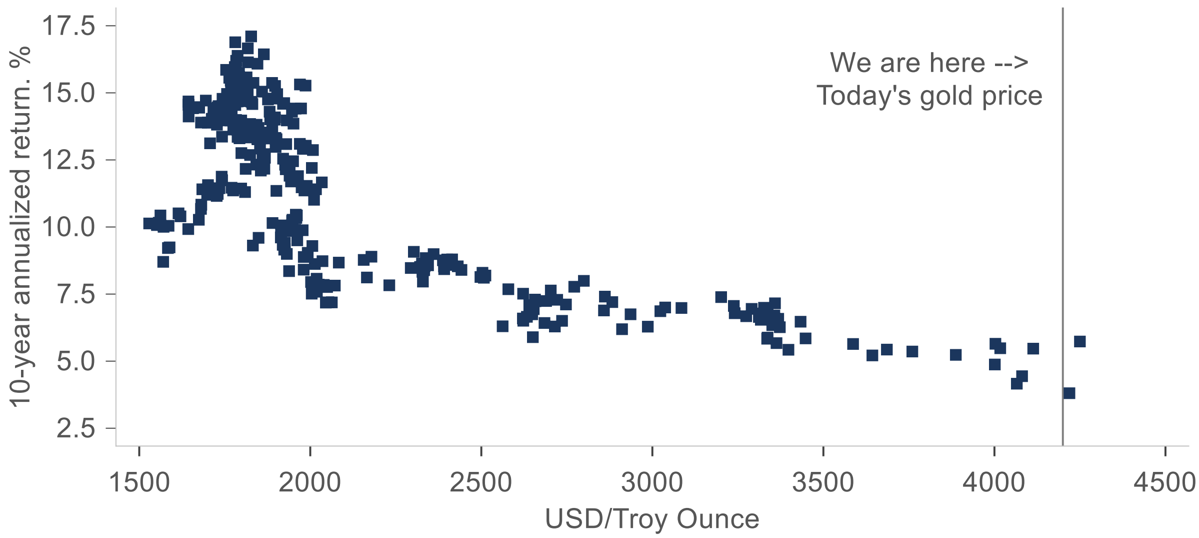
The long-term view

Over long horizons, gold has broadly preserved purchasing power, but its long-run real return is close to zero. That means episodes where gold delivers strong real gains – meaning performance well in excess of inflation – are typically followed by periods of mean reversion, where returns lag inflation as purchasing power reverts toward its long-term trend.

For portfolios, that trade-off is a strategic challenge. Gold can add meaningful diversification around shocks but relying on it as a long-term return engine is unlikely to be rewarded. When prices disconnect from macro fundamentals, it becomes more important to treat gold as a tactical momentum trade rather than a risk management tool.

The golden constant: gold effectively preserves purchasing power over very long periods

The real value of gold and subsequent returns



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, U.S. Bureau of Labor Statistics (BLS), Macrobond, December 2025.

Positioning today

Given stretched valuations and the speed of the recent rally, we see gold as an asset to rebalance, not chase. Investors who have benefited from the run-up may want to use early 2026 as an opportunity to trim positions back toward strategic targets rather than add at elevated levels. For investors with no existing exposure, this is not an obvious entry point for a large allocation, but a small starter position can still improve diversification if stock-bond correlations remain positive.

This material represents an assessment of the market environment as at a specific date; is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or any issuer or security in particular. The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

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