ECONOMIC VIEWPOINT

What's Behind Gold's Meteoric Rise?

By Marc-Antoine Dumont, Senior Economist

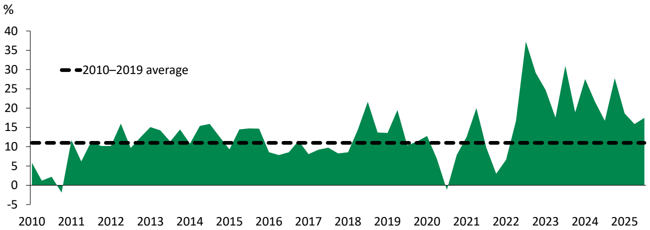
- The price of gold has risen nearly 30% year to date. It even surpassed the US$5,500 mark for the first time in history, before falling by more than 15%. At the time of writing, the price of gold was US$5,000 per ounce. However, beyond this recent spike and correction, it's fair to question why gold is trading at such exceptionally high levels. The two key reasons are massive purchases by central banks and the economic and political climate in the United States, both of which are driving up gold prices.
- When episodes of severe tensions are added to the mix, such as those related to reciprocal tariffs, Iran, Venezuela, or even Greenland, we see sharp, temporary spikes. Finally, gold's impressive performance is also attracting more speculative investors, pushing prices even higher and exposing gold to a greater risk of a sharp correction.

Central Bank Purchases Are Creating a Floor Under Gold Prices

Central banks accumulating gold in their reserves is nothing new. It's a common practice to diversify assets and balance the risk profile of their balance sheets. But the pace at which they have been buying gold in recent years has far outstripped the levels we've generally seen over the past decade. The central bank share of total demand for gold rose from around 11% between 2010 and 2019 to 17% in the third quarter of 2025 (graph 1). Demand from central banks peaked in the summer of 2022 at 37% of global demand. Although central banks ramped up their purchases again in the second half of 2025, portfolio investment now accounts for a larger share of demand for gold. We'll address this in the next section.

The catalyst for this shift in central bank dynamics was the war in Ukraine, which revealed two major findings for the global economy. First, a large-scale conflict in Europe can still happen. Second, the United States demonstrated the scope and power of the dollar as a political and economic weapon, excluding Russia from the global financial system. It's not surprising that the central banks that have added to their gold reserves the most since 2022 are those that fear conflict or potential US sanctions (graph 2). China is leading the way and has increased its gold reserves by 357 tonnes. Given January's surge in prices, this trend seems unlikely to reverse. Sustained demand from central banks is expected to continue to support gold and keep its price high.

Graph 1
The Central Bank Share of Total Gold Demand Has Jumped Sharply Since War Broke Out in Ukraine
Central bank share of total gold demand



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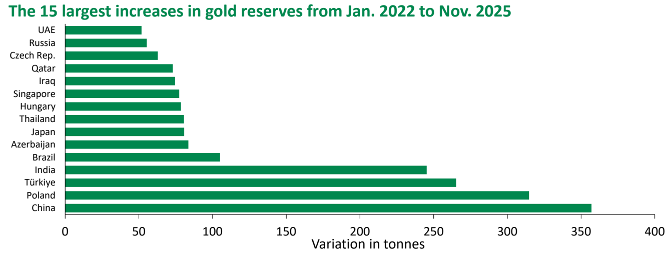
Graph 2
The Central Banks That Have Added to Their Gold Reserves the Most Since 2022 Are Those That Fear Conflict or Potential US Sanctions
The 15 largest increases in gold reserves from Jan. 2022 to Nov. 2025



UAE: United Arab Emirates
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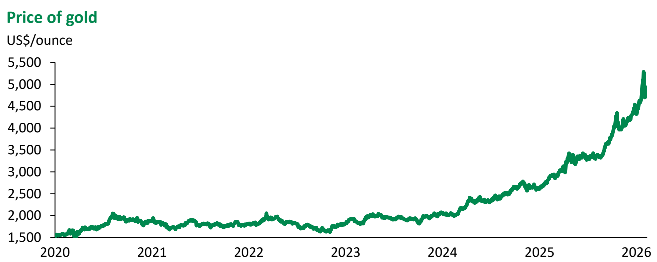
The Unpredictability of the United States

Several factors were already underpinning the rise in the price of gold, including interest rate cuts before Donald Trump returned to the White House. But prices skyrocketed in 2025, from US$2,625 per ounce on January 1 to US$4,322 on December 31 alone, an increase of US$1,697 or 65% (graph 3).

Graph 3
The Price of Gold Skyrocketed in 2025



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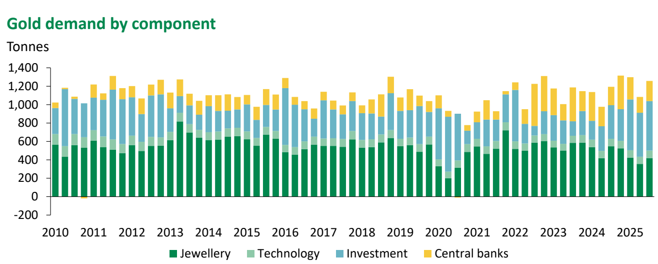
We can analyze the situation in the United States from any angle, but investors are rethinking their portfolios amid financial market volatility, the Trump administration's unpredictability with respect to trade policy, domestic policy and military intervention, and the reshaping of the global order and supply chains. Demand for gold as an investment rose from 26% of total demand in the fourth quarter of 2024 to 42% in the third quarter of 2025 (graph 4). Gold inflows into exchange-traded funds (ETFs) also surged in the last quarter, particularly in Europe.

Graph 4
Investment Made Up a Larger Share of Demand in 2025



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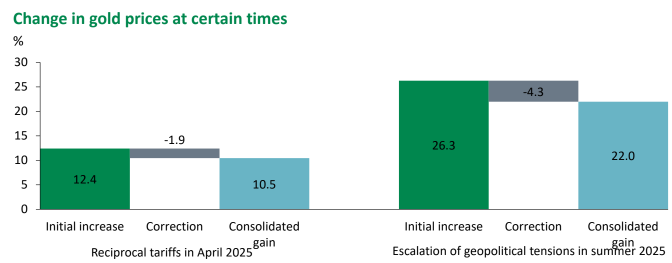
Prime Minister Mark Carney spoke in Davos about a rupture in the world order as we've known it. If this proves true, the old order is unlikely to return. In this scenario, the US administration's actions would have triggered a sustained shift in investor behaviour, as they seek better protection against these risks. Added to this are the depreciation of the US dollar and the weakening of its traditional role as a safe-haven asset. As a result, gold would emerge as one of the last reliable assets. Only time will tell us how much of the past year's geopolitical damage proves irreversible.

For now, we expect the tense geopolitical environment to persist in early 2026, which suggests that gold prices are likely to remain high over the coming months. Nonetheless, the nomination of Kevin Warsh as the next chair of the Federal Reserve appears to have alleviated market concerns and caused the price of gold to plummet.

When Tensions Peak, the Price of Gold Explodes and Generally Holds On to Its Gains

Although the price of gold surged several times in 2025, two specific episodes stood out. The first came on the heels of the reciprocal tariffs announced in April, when the price of gold spiked 12.4% between April 7 and 23, 2025 (graph 5). This was followed by a short correction before the price stabilized and consolidated a 10.5% gain.

Graph 5
After a Spike, the Price of Gold Tends to Retain Most of Its Gain



Reciprocal tariffs: increase (April 7 to 23), correction (April 23 to 28) and consolidated gain (April 28)
Escalation of geopolitical tensions in summer 2025: increase (August 18 to Nov. 13), correction (Nov. 13 to 21) and consolidated gain (Nov. 21)

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The second episode began in August, when tensions between China and the United States suddenly escalated, despite the two countries reaching a trade agreement. The point of contention involved rare earths, with China considering restricting its exports and the United States threatening to impose new 100% tariffs. On top of that, the US federal government experienced its longest shutdown in history. Gold ultimately consolidated an 22.0% price gain between August 18 and November 21, 2025.

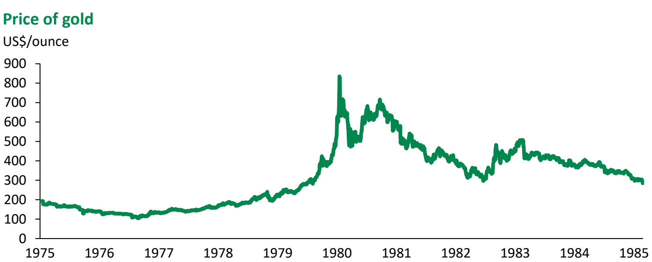
The key takeaway from these episodes is that gold tends to preserve some of its price gains after surging. That said, some post-spike corrections have erased all of the geopolitically induced gains. This was the case during the US strikes on Iran, when gold prices shot up briefly before returning to their previous level. But even in these cases, gold has generally resumed its ascent. These observations suggest that despite last week's backslide following the spectacular increase triggered by the US intervention in Venezuela, the dispute over Greenland, tensions in Iran, concerns about the Fed, and the rhetoric that came out of Davos, gold is likely to hold on to some of its recent gains and continue its advance.

Gold Is Not Immune to Speculation

Gold has long stood out from other financial assets for its tangible nature. Unlike government bonds, you can physically hold gold ingots or coins. However, the basis of gold's status as a safe haven asset is evolving and, to some extent, weakening. Over time, new ways of holding gold have appeared, including gold certificates, exchange-traded fund (ETF) units that hold gold or track its value and, more recently, gold-backed cryptocurrencies. Tether is a key player in this reimagined Bretton Woods system. Its Tether Gold token provides ownership of physical gold, which the company is required to keep as collateral in its vaults.

However, these instruments are contributing to greater gold market financialization and facilitating speculation. Some banks now recommend that individuals include gold in their portfolios. But this speculation is having a damaging effect and increasing the risk of a major correction. And it wouldn't be the first time. High inflation in the 1980s pushed gold to record levels before its price cratered (graph 6).

Graph 6
Gold Prices Experienced a Period of Intense Speculation in the 1980s



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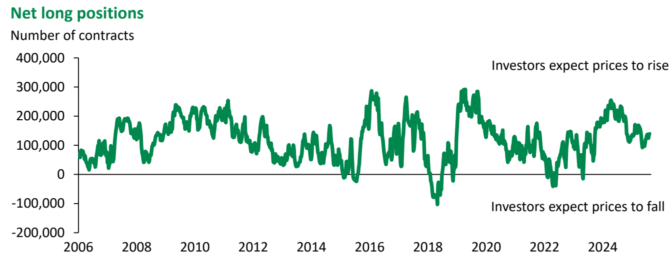
As a result, although the spike in gold prices over recent months has been supported by fundamentals, the speculative aspect has amplified gains. However, investors now appear to be taking their profits, with prices recently falling more than 15% and erasing most of January's advance. Whether this is a major correction or a rebound is forthcoming remains to be seen. Net long positions—the difference between investors who expect gold prices to rise and those who expect prices to fall—remain at historically high levels and continue to grow (graph 7). This suggests that prices may recover.

Graph 7
Investors Remain Positioned for Higher Gold Prices



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Regardless of Current Levels, Gold Prices Should Increase in 2026

Current market volatility makes it difficult to accurately predict where gold will end the year. Nonetheless, central bank purchases and continued unpredictability in the United States are putting constant upward pressure on gold prices. In addition, more periods of acute tension, including armed conflict, a new round of tariffs, and the US mid-term elections, are expected in the coming months. Some of these unpredictable events will likely drive up the price of gold.

While the rampant speculation we're currently seeing could trigger another correction if investors lose confidence in gold for an extended period, other events will likely underpin gold and push prices higher in the short term. As a result, we expect gold to end the year at around US$5,200 per ounce, but it's important to recognize the significant uncertainty around this forecast.

In the medium term, two scenarios are taking shape: Either the international geopolitical environment and the situation in the United States will start to stabilize, or the markets will simply accept this new reality. In both cases, the rise in gold prices will likely slow or even reverse, especially as mining production is expected to increase.