

Gold Bubble? – Market Commentary

We start this month's commentary by providing a brief summary of equity returns for 2025.

The US produced quite strong positive returns at +17.4% for the S&P 500 and +21.0% for the Nasdaq. The Mag 7 outperformed for most of the year but ended 4.5% below the S&P 500. The large Tech companies had underperformed since the beginning of October.

While the US performed well, markets outside the US performed still better and so the financial media focusses on US "underperformance".

Developed Markets outside the US returned +31.9%, while Emerging Markets were marginally better at +33.6%. South Africa, courtesy of strong Gold and Platinum prices, returned nearly double the EM return at +62.2% in USD terms.

There was not much difference between Growth and Value at +21.1% and +20.8% respectively. We suspect the Mag 7 masked Value outperformance in the US however, while the same Value outperformance was much more readily visible outside the US.

The various market returns are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for December 2025*

	Dec-25	YTD 2025
FTSE/JSE ALSI (ZAR)	4.6%	42.4%
FTSE/JSE ALSI (USD)	8.1%	62.2%
MSCI World	0.8%	21.1%
MSCI World ex-US	3.0%	31.9%
MSCI EM	3.0%	33.6%
MSCI Value	1.7%	20.8%
MSCI Growth	-0.1%	21.1%
S&P 500	0.0%	17.4%
Nasdaq 100	-0.7%	21.0%

*Total return indices, Source: Factset

The Gold price ended 2025, or started 2026, just four short weeks ago at USD 4323. At the time of writing on 29 January Gold stands at USD 5347 after passing USD 5500 earlier in the day, a +23.7% increase for the month.

Famed investor Ray Dalio not long ago placed a target of USD 5000, while Goldman Sachs recently upgraded its December 2026 estimate to USD 5400. Needless to say the latter target was reached within the first month of the new year.

Last month we wrote that the Gold price presents a particular challenge to investors in our market with its large Gold and Platinum exposure. Investors / funds with no exposure to Gold at all underperformed significantly last year. Those with overweight positions outperformed though not by much. And the same held for this year.

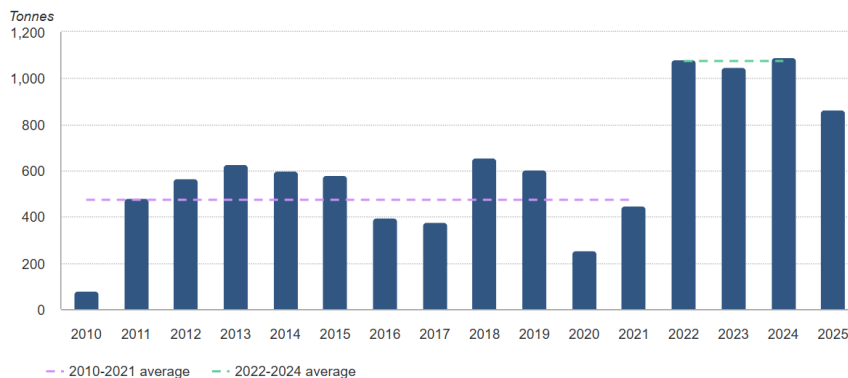
Following January's performance we are of the view that the Gold market is increasingly displaying signs of a (possibly major) bubble.

What makes us say this?

1. Sharp upward moves - increasingly sharp upward moves as marginal buyers come in, seemingly ready to deal at any price – we see this as a primary signal, common to all other bubbles, and also a signal that price increases might be leading to a reversal
2. The Gold price rises but Gold share prices decline – we saw this on 29 January – Gold rose above USD 5 500 yet Gold share prices declined through the day. This is not necessarily definitive because it does occur occasionally during a rally. It is nevertheless still notable, and also a sign that the price might reverse course
3. Central bank buying – we have commented on this before and believe this to be the primary initial driver of the bull market. World Gold Council Data, presented in Chart 1 below, suggests central bank buying moderated in 2025, yet upward price momentum increased. We find Chart 1 below interesting because it confirms that although central bank buying is a policy decision it is not necessarily price-insensitive

One needs to keep in mind though the possibility of central bank transactions which might not enter official data i.e. buying through third parties – not an impossibility.

Chart 1. Annual central bank purchases in tonnes to 31 December 2025

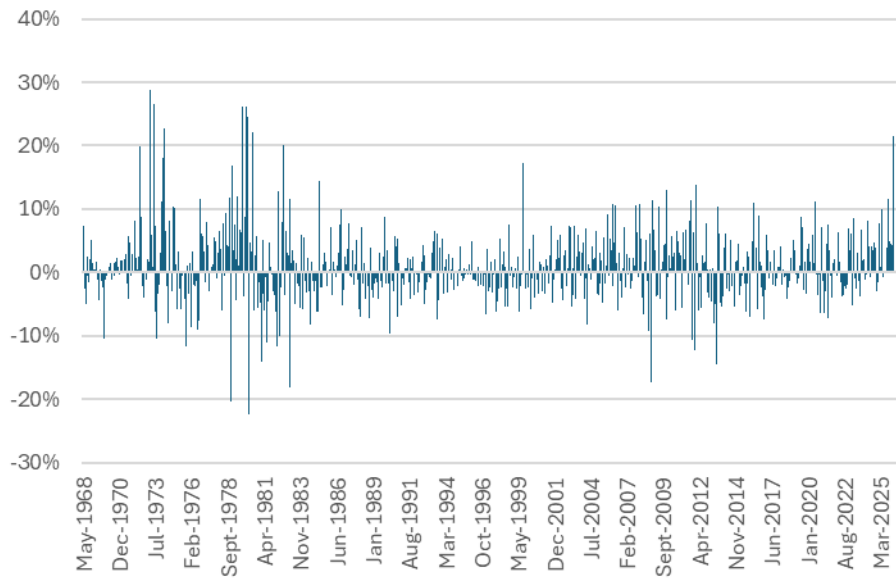


sources: Metals Focus, Refinitiv GFMS, World Gold Council; Disclaimer
Data to 31 December 2025.

4. The size of the move in January – +23.7% in a month is historically unusual – another signal prices might be in a bubble and might reverse course. We present in Chart 2 below monthly Gold price returns from May 1968. While January has not quite passed we can nevertheless compare the month-to-date for perspective.

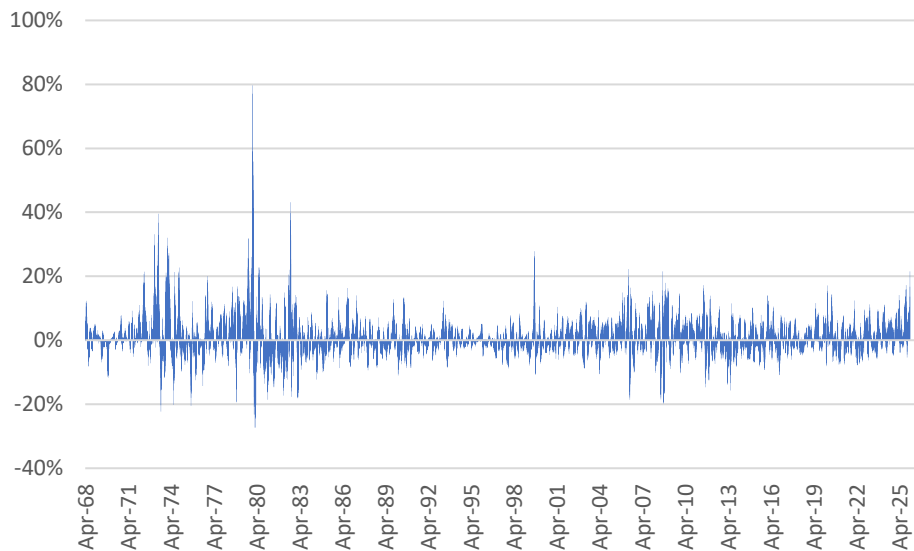
Per Chart 2, we note that the last time monthly returns exceeded +20% was in 1979 when the Soviet Union invaded Afghanistan, and prior to that in the early 1970s when the Gold Standard was abolished.

Chart 2. Gold price monthly returns



There is the possibility of higher intra-month returns however so we also considered monthly returns rolled daily since 1968, in Chart 3 below. These present a slightly different picture.

Chart 3. Rolling monthly Gold price returns since 1968



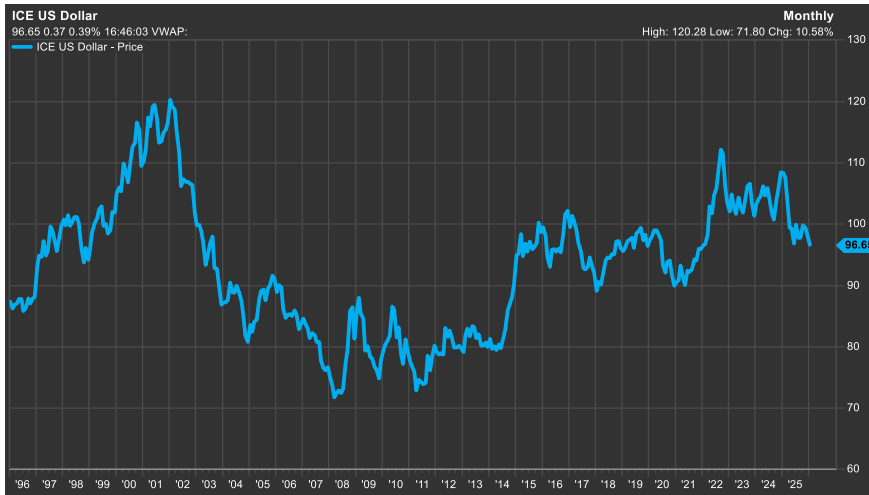
Considered this way January's movement is not nearly as extreme but still very clearly an outlier.

Note also the near +80% monthly return achieved in January 1980.

Could other factors explain the rally?

We mentioned we believe central bank buying to be the initial underlying driver. But if it wasn't central banks in 2025 and it isn't an ETF-bubble what else might it be? We hear a lot about debasement and de-dollarisation but we do not believe these to be significant factors. For all the recent talk of USD-weakening, the most recent move hasn't been nearly as large as that seen at the start of 2025. We present the USD index in Chart 4 below for perspective.

Chart 4. USD Index



Source: Factset

We also doubt it to be fear of inflation since bond/Treasury yields, both nominal and real, have been steady.

If it is a bubble how big is it?

This depends on when one starts counting. Chart 5 below presents the Nasdaq in the 1999/2000 overvaluation. Counting from October 1999 to the peak reached in March 2000, the Nasdaq's return over the period was +99.2%.

Chart 5. Nasdaq Index



Source: Factset

If we similarly consider the current Gold price, presented in Chart 6 below, and start counting at the beginning of 2025, the return is +106.9% i.e. of comparable size, indeed slightly larger, than that seen during the Dotcom boom.

Chart 6. Gold price



Source: Factset

If it is a bubble what to do about it?

A simplistic answer would be to sell Gold and go away (if one really believes in a bubble scenario one could even short Gold).

We think simplistic answers are rarely good however. For one, for a fund manager, selling might turn out to be the easy decision. A more difficult challenge might be when to buy in again, assuming one is initially correct and the price does decline. And how does the price develop for the rest of the year? How successful might one be attempting to trade through a commodity market extreme?

There is also of course the underlying issue of central bank policy buying which we think is not about to end and which will likely provide support to the market. This is one reason why we think a reversal might be a short term development to reverse the effects of speculative buying but might not bring the price back to prior to the bull market as has happened before. This time might indeed be somewhat different to the past even if it lasts only as long as central bank buying lasts.

Conventional security analysis tools are of limited value when it comes to commodity shares, we think. Estimates and projections of company revenues and profits are easily rendered meaningless by a sharp commodity price move, up or down.

Finally, Alan Greenspan famously noted that bubbles are difficult to spot ahead of time. One can only truly be sure a bubble occurred after the fact.

We think either one is confident of successfully trading through or a good risk management strategy is required.