

WEALTH & INVESTING



INSIGHTS FROM
CFA SOCIETY SINGAPORE

By Kanan Mammadov

Gold's volatility and the limits of safety

The precious metal's swing from simple hedge to strategic asset is being tested amid ongoing geopolitical and macroeconomic shifts

GOLD'S spectacular rally in 2025 has entered a more volatile phase. After topping US\$4,380 an ounce and gaining more than 50 per cent for the year, the metal's price fell sharply in late October, but recently steadied near the US\$4,050 level. The correction underscores what many investors suspected: even a structural bull market can stumble when sentiment overshoots.

The question is no longer simply why gold has risen, but whether its new-found prominence as a portfolio cornerstone can withstand stress.

For investors, this latest swing is a reminder that gold's evolution from hedge to strategic signal is a story still being written.

Safe-haven reflex

Conflict and political dysfunction remain powerful motivators for gold demand. Wars and tensions in Ukraine and Gaza, persistent regional instability and US fiscal uncertainty have reinforced the impulse to seek protection in real assets.

As Nigel Green, founder of financial consultancy deVere Group, noted: "Political promises do not equate to financial security." When faith in institutions wavers, gold's lack of counterparty risk becomes its greatest asset.

But the recent pullback in gold prices highlights that even fear has limits. As short-term risks ebb or markets regain confidence, the safe-haven trade can unwind quickly. Professional investors increasingly view gold as a strategic holding rather than a panic hedge, a nuanced shift that explains both the strength of the rally and the speed of its correction.

Central banks: still the quiet accumulators

Behind the headlines, central banks continue to anchor demand. Since 2022, they have collectively purchased about 1,000 tonnes of gold annually, the fastest pace in decades.

The freezing of Russia's reserves was a turning point, prompting emerging-market central banks to diversify away from the US dollar and into politically neutral reserves. A World Gold Council survey found that 95 per cent of central banks expect global gold holdings to rise further over the next year.

These official purchases remain a stabilising force even amid market volatility. For private investors, they signal that diversification into tangible stores of value is not a short-term fad, but part of a longer-term realignment of monetary strategy.



Compared with digital assets and many commodities, gold's liquidity and perceived stability continue to attract strategic reallocations, particularly from institutions reassessing long-term diversification.

PHOTO: REUTERS

Policy shifts and the US dollar dynamic

The macro backdrop also continues to matter. Earlier in the year, expectations of US rate cuts had propelled gold higher by lowering the opportunity cost of holding non-yielding assets. But as the US dollar rebounded and traders pared back bets on further easing, gold's tailwind briefly turned into a headwind.

For portfolio managers, this reinforces the lesson that gold's sensitivity to policy and currency expectations can be as important as its role as an inflation or crisis hedge. The same flows that lift prices can retreat just as quickly when macro narratives change.

Investor flows and momentum reversal

Exchange-traded fund (ETF) inflows were a major accelerant of the rally, with record-setting September inflows supporting the strongest quarter on record.

Yet, those same flows may now be amplifying the downside. As the price dropped, profit-taking by speculative positions cascaded through futures and ETF markets, illustrating how liquidity can magnify both directions of movement.

Still, the underlying investor interest remains intact. Compared with digital assets and many commodities, gold's liquidity and perceived stability continue to attract strategic reallocations,

particularly from institutions reassessing long-term diversification.

A test of conviction

The correction does not negate gold's structural appeal – it tests it.

The same drivers that propelled the rally – geopolitical tensions, central bank diversification and fiscal strain – are still in place. But the pace of gains outstripped fundamentals, and the pullback is a reminder that no safe haven is immune to volatility.

For professional investors, the key takeaway is balance. Gold's new role is not to outperform equities or replace bonds, but to signal shifts in trust, liquidity and policy credibility. Its latest slide shows that the market is still calibrating how much of that signal belongs in portfolios, and at what price.

The writer is a Master of Science in finance candidate at The George Washington University School of Business, with an academic and professional foundation in investment analysis, risk management and corporate finance.

This is an edited version of an article that first appeared on CFA Institute Enterprising Investor (<https://blogs.cfainstitute.org/investor/>)