Gold

This paper sets out what gold is, what actually moves its price, and what follows from both for how a family should hold it. We begin with the monetary history, because the demonetisation of gold in 1971 is what gave it a market price at all. We then show why gold is not priced the way other metals are, who holds the world's stock of it, and the two forces that set its price, which work on very different timescales and are constantly mistaken for one another. Those forces are tested against the historical record and against the behaviour of the institutions that manage the world's reserves. The second half turns to what a family should do about all of it, which is a question about form and cost far more than about size.

Two claims underpin the whole paper. The first is that gold answers to two separate forces, the real interest rate over cyclical horizons and confidence in money over secular ones, and that most of what goes wrong with gold comes from mistaking one for the other. The second is that the form in which it is held decides whether the insurance can be claimed at all.

From money to asset

For most of recorded history gold was money rather than an investment, and the difference matters more than it first appears. Under the classical gold standard and later under Bretton Woods the price of gold was not discovered by a market but fixed by governments, and currencies were defined in terms of it. An ounce cost thirty-five dollars because the United States had undertaken to make it so. That arrangement ended on 15 August 1971, when the United States suspended convertibility, and within two years the system built around it had gone. Gold was formally demonetised, the International Monetary Fund removed it from the centre of the system, a number of central banks sold reserves over the following decades, and official thinking reclassified the metal as a commodity like any other.

Two consequences followed and they pull against one another. Gold acquired a market price for the first time in modern history, and since it produces no income the only candidate available to set that price was the opportunity cost of holding it. Yet no central bank ever quite finished selling. The official sector reduced its holdings without abandoning them, began adding again after 2008, and has added decisively since 2022. Gold was demonetised in theory and retained in practice, and a good deal of its more interesting behaviour lives in the gap between those two facts.

Why families own it

Before turning to what moves the price, it is worth being clear about why families hold gold at all, because the reason given at the point of sale determines whether the holding goes on to do its job.

In our experience gold is sold to do one of four things. The first is to hedge inflation. The second is to protect against frightening headlines, whether war, banking trouble or political upheaval. The third is to compensate for a world of negative real interest rates, in which cash and government bonds lose purchasing power simply by sitting still. The fourth is to insure against a loss of confidence in a currency, a government, or the arrangements that make one government's paper an acceptable store of another government's reserves.

Confidence needs defining before we go any further, because it does a great deal of work in this paper and it is the kind of word that can be made to mean almost anything. What is meant here is the belief, held by

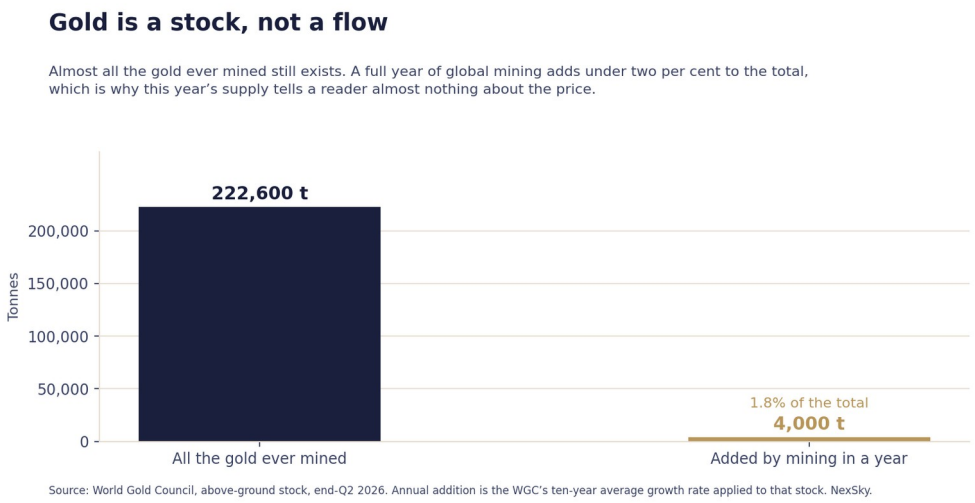
the people who own a government's paper, that they will be repaid in money worth having and that the paper will still be theirs when they come to spend it. That belief rests on three things. Whether the debt is on a path that can be serviced without being inflated away. Whether the institution that sets the interest rate is genuinely independent of the government doing the borrowing. And whether the asset can simply be taken, which is a question almost nobody asked before 2022 and every reserve manager asks now.

Gold is exposed to none of the three. It has no issuer who can inflate it, no central bank that can be captured, and no register from which a holder can be struck off. That is the whole of its claim, and whether the claim is worth anything is what the rest of this first part tests.

Whether gold delivers any of the four depends on what sets its price, and that is a stranger question than it looks, because gold is not priced the way almost anything else is. The next two sections deal with that before we come to the mechanism. We return to all four once there is evidence to judge them by.

Why supply barely matters

Most assets are priced on the balance between what is produced and what is consumed. Gold is priced differently, and this is where its behaviour stops being mysterious.



Almost all the gold ever mined still exists. A year of mining barely moves the total.

Almost all the gold ever mined still exists, around 222,600 tonnes of it on the World Gold Council's latest estimate, sitting in vaults, jewellery boxes and central bank reserves. Newly mined metal adds roughly 1.8 per cent to that total each year. Gold is a stock rather than a flow, and its price is therefore not set by this year's mine output or this year's jewellery demand at the margin. It is set by whether the holders of that enormous existing stock wish to go on holding it, or would rather hold something that pays a return.

This makes gold different in kind from every other metal rather than merely in degree. Copper, aluminium and nickel are consumed into wire, buildings and batteries, and the stock above ground at any moment represents weeks or months of demand, so their prices are set by the flow and supply tables work well for them. The stock of gold represents closer to sixty years of production, because it does not corrode, is not consumed, and is recovered whenever recovery is worth the trouble. A supply table for gold tells the reader very little.

The same point disposes of a question we are asked often, which is whether industrial demand matters. Technology and industry run at a single-digit percentage of annual demand, a rounding error against a stock of 222,600 tonnes, and the reason is more interesting than the fact. The industrial uselessness of gold is precisely what makes it monetary, because an asset that is not consumed at scale never depletes its stock,

and an asset whose stock never depletes can hold value across generations. Silver is the counter-example. Roughly half its demand is industrial, its stock is drawn down, and it behaves as a hybrid of monetary metal and cyclical commodity, with materially higher volatility as the price of the ambiguity.

That reframes the question the rest of this paper has to answer. What matters is not how much gold is produced but what the existing holders think of the alternatives, so the next thing worth knowing is who those holders actually are.

Who owns the stock

Because the stock is what matters, it is worth knowing who holds it. The World Gold Council divides the 222,600 tonnes as follows, on its estimate for the middle of this year.

Holder	Tonnes	Share of the stock
Jewellery	~99,700	45%
Bars and coins	~47,800	21%
Central banks and official institutions	~39,000	18%
Over-the-counter holdings	~10,000	4%
Gold-backed exchange-traded funds	~4,000	2%
Technology, industry and unallocated	~22,100	10%

Jewellery leading by some distance surprises most readers, and it is worth understanding rather than dismissing. A great deal of the world's gold jewellery is not ornament in the Western sense. It is household savings in wearable form, concentrated in India, China, Turkey and the Gulf, in economies where bank deposits have at some point been devalued, frozen or inflated away. That is the third test failing in ordinary life rather than in a reserve-management committee, and bought on that basis jewellery is the retail expression of this paper's argument.

Grouped differently, central banks, bars, coins, funds and over-the-counter holdings come to roughly 100,800 tonnes, also about forty-five per cent. Gold held deliberately as a store of value is as large as gold held as adornment, and the line between the two is blurrier than the table suggests.

One asymmetry matters more than any of the proportions. Central banks hold under a fifth of the stock and have nonetheless become the marginal buyer, which is to say the participant whose decisions set the price at the edge. That is a change from the position that held for most of the period since 1971, and we return to it once the mechanism is established.

What sets the price: the first force

The starting point is that gold produces nothing, and a great deal follows from it. A bond pays interest, a share pays a dividend and grows its earnings, a property earns rent. A bar of gold bought today will be the same bar, earning the same nothing, in twenty years' time.

Because it yields nothing, the cost of holding gold is entirely the return given up elsewhere, and that return, measured after inflation on cash and high-quality government bonds, is what is meant by the real interest rate. When the real rate is high, holding gold is expensive in a way that shows up in the price. When it is negative, and cash loses purchasing power simply by sitting still, the zero yield on gold becomes competitive.



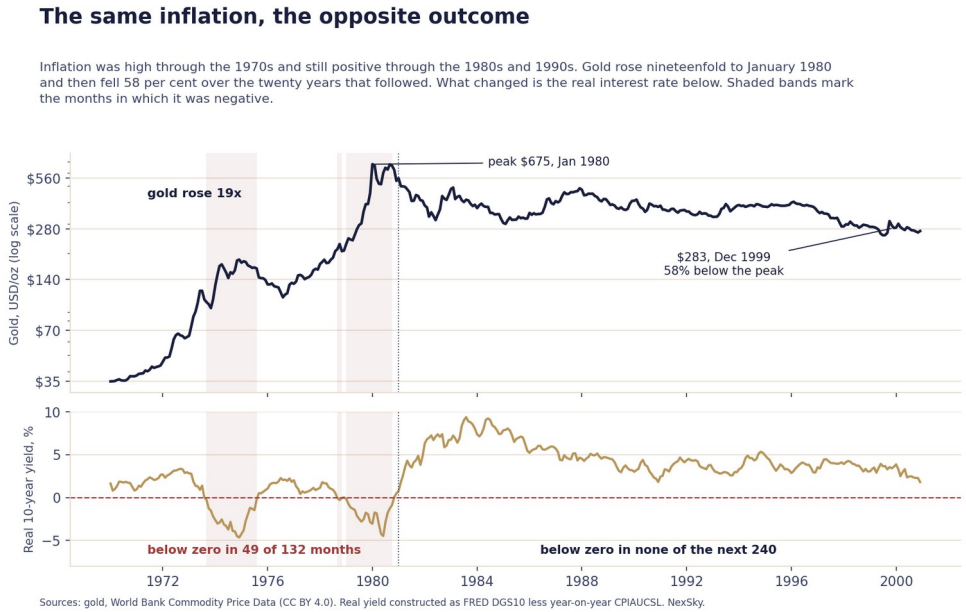
Gold against the ten-year US inflation-indexed yield, plotted on an inverted scale.

The relationship is visible directly. Gold has followed the real rate closely for most of the period since inflation-linked bonds began trading, through the advance from 2008 to 2012 as real yields collapsed, the long decline as they recovered, and the surge in 2020 when they fell below zero.

The reader will also see that the two lines have pulled apart over the last two years, with gold rising sharply while real yields rose alongside it. I would not explain that away. It is the second force asserting itself over the first. When confidence in the issuer of the safe asset is itself in question, the opportunity cost of holding something that yields nothing stops being the only consideration, and a rising real yield can be overwhelmed by a falling level of trust. The next two sections establish the first force properly and then measure the second against it.

What the record shows

Inflation is not what makes gold work, and the clearest demonstration of that is the decade most often cited to prove the opposite.



Gold above, on a log scale. The real ten-year yield below. Shaded bands mark the months the real yield was negative.

Gold rose nineteenfold through the 1970s and then fell by fifty-eight per cent over the twenty years that followed. Inflation was positive throughout both. One decade made fortunes on the metal and the next two lost them, on what is supposed to be the same driver, and if inflation were really the mechanism that could not happen.

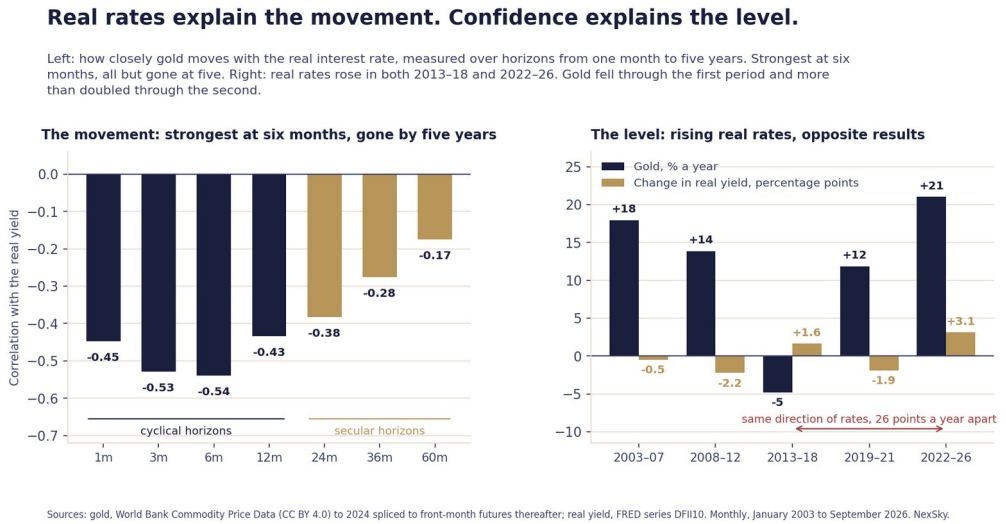
What separated the two periods is in the lower panel of the chart. Real interest rates spent much of the 1970s below zero, so holding an asset that paid nothing cost the holder nothing. From 1981 they did not go below zero once in twenty years and averaged well above four per cent, which meant that every year of owning gold involved handing back a certain real return in exchange for none at all. The price did what that arithmetic says it should.

The same mechanism is visible at much shorter range. Gold fell roughly three per cent on each of three days this summer: on 13 July when the closure of the Strait of Hormuz was declared, on 20 July with Brent at eighty-eight dollars and a rate rise better than seventy per cent priced, and on 28 August after the first Jackson Hole speech of the new Federal Reserve chair. Two of the three were energy and conflict shocks, the events for which most people believe they own the metal. Each time the shock raised inflation in a form the central bank tightens into rather than looks through, real rates rose, and gold fell at the moment it was expected to protect.

The 1970s are not a clean test and it is worth saying so plainly. Confidence in the dollar was under genuine strain in that decade, after the closure of the gold window and two devaluations, so both of the forces in this paper were pushing gold the same way. The twenty years after 1980 are the better evidence, because confidence in money was being restored rather than lost and gold fell by more than half regardless.

Two forces, two clocks

Real rates tell a family what gold is likely to do next year. Confidence tells them whether to own any at all. Those are two different questions, and the record separates them cleanly.



Left, how closely gold moves with the real interest rate at each horizon. Right, gold and the real yield across five periods since 2003.

Start with the relationship everybody cites, between gold and real interest rates, and measure it over different lengths of time. Over three to six months it is strong. Stretch the window out to five years and it very nearly disappears. Something that shows up clearly over a quarter and fades to almost nothing over half a decade is a cyclical force, and a cyclical force cannot be what justifies a permanent holding.

Then look at what that force has failed to explain. Real rates have risen substantially in two separate periods since 2003. The first time gold fell by a quarter. The second time, with rates rising twice as far, gold more

than doubled. The same direction of rates and the opposite result, twenty-six percentage points a year apart.

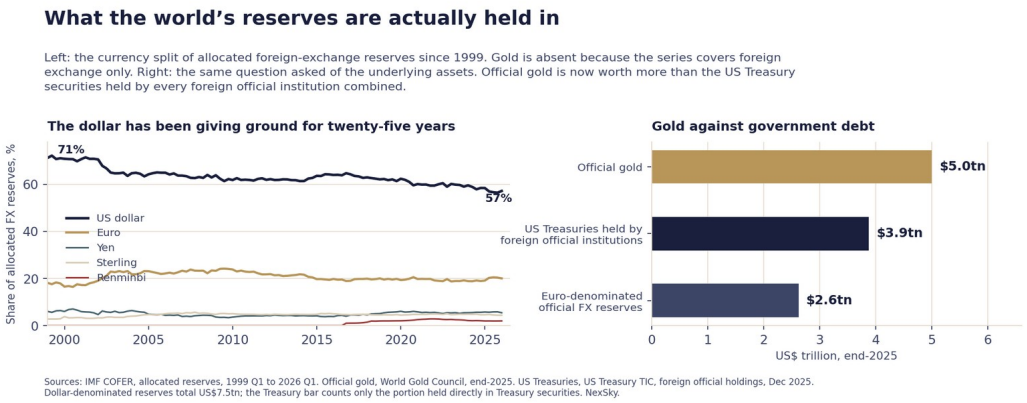
Real rates explain the movement. Confidence explains the level. Gold still moves against real rates month to month, as tightly as it ever has. What has changed is the height it moves from, and that height is set by the three tests, which shift far too slowly to show up in any twelve-month number.

Two honest weaknesses. Confidence has no series, so we reach it by subtraction, as the part of the price real rates cannot explain. And the period since 2022 is four and a half years of a single regime. Neither amounts to proof. What persuades us is that the institutions with the most at stake have reached the same conclusion, and the next section is what they did about it.

The practical point is short. How much to hold is a question about the level, settled over decades. When to buy is a question about the movement, and it lives in months. We answer the first and we do not attempt the second, and most of the disappointment we see comes from families who attempted the second believing they had done the first.

Gold against government debt

If confidence is the force that sets the level, the place to look for it is in the behaviour of the people who manage the largest pools of it. Central banks have begun choosing gold over the debt of other governments, and they are doing it on precisely the three tests set out earlier.



Left, the currency split of allocated FX reserves since 1999. Right, the same question asked of the underlying assets.

The chart tells most of it. The dollar's share of allocated foreign-exchange reserves has fallen from seventy-one per cent in 1999 to fifty-seven today, and the euro has not taken the ground, which has gone instead to a widening tail of smaller currencies and to gold. Put the underlying assets side by side and the position is starker still. Official gold was worth around five trillion dollars at the end of last year against three point nine trillion of US Treasury securities held by every foreign official institution in the world combined. Gold has overtaken the debt of the government that issues the reserve currency, in the hands of the people who manage reserves.

The reasoning has little to do with a view on the price. A Treasury security is somebody else's liability, recorded in somebody else's system, held under somebody else's law and subject to somebody else's political decisions. Gold in a vault is nobody's liability. For most of the post-war period that distinction was theoretical. Since 2022 it has not been, and a reserve manager who watched another country's reserves frozen drew the obvious conclusion.

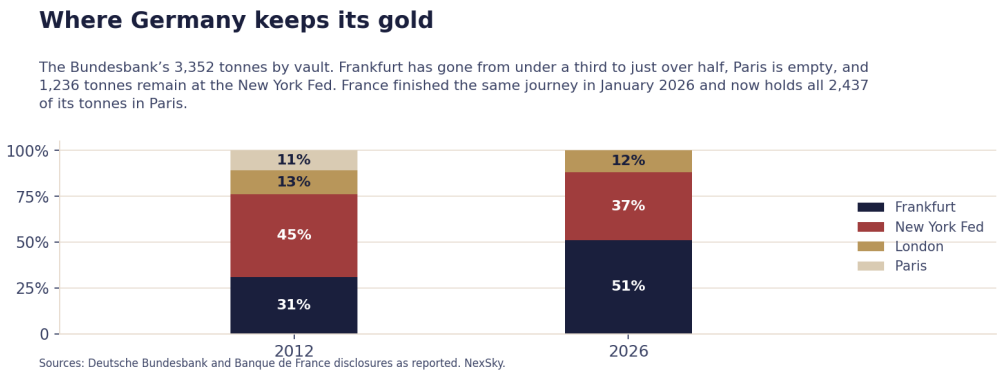
The quarterly flow is noisy, revised heavily, and not something I would build a case on. One detail in it outweighs the numbers. Central banks bought a record 289 tonnes in the second quarter of this year while

the price was falling, which is the clearest evidence available that the official sector is not trading the price at all.

It is worth noticing who else is doing this. A household in Istanbul buying a gold chain and a reserve manager in Paris buying London Good Delivery bars are answering the same question with the same asset, at opposite ends of the wealth distribution, and neither of them is trading the price.

Bringing it home

There is a second signal in the official sector and it is the sharper of the two. Buying gold in place of Treasuries says something about the paper. Moving that gold out of a foreign vault says something about the vault, and about whoever controls it.



The Bundesbank's gold by vault, 2012 against 2026.

Germany has taken its Frankfurt holding from under a third of its reserves to just over half and emptied Paris entirely, and still leaves 1,236 tonnes at the New York Fed, which a former senior Bundesbank official said publicly in January had become dangerous. France went further and finished. Between July 2025 and January 2026 the Banque de France moved the last 129 tonnes out of New York, and all 2,437 tonnes of French gold now sit in Paris.

Set against the three tests, this is the third of them applied a second time and one level down. The first asks whether a government's paper can be taken. The second asks whether the metal inside that government's vaults can be. A reserve at the New York Fed sits under American law and American political decisions much as a Treasury security does, and the only material difference is that the asset is metal.

The counter-argument deserves to be put, because neither institution has framed it in those terms. The French bars dated from the 1920s and no longer met modern delivery standards, and gold at a major hub is easier to lend, swap and mobilise than gold at home. The official reasoning is operational throughout. What can be observed is the behaviour, and it has changed after seventy years in which it did not.

The French operation also carries a lesson that applies directly to private holders. The Banque de France did not ship bars across the Atlantic. It sold the old gold in New York and bought modern London Good Delivery bars in Paris, realising close to thirteen billion euros in the process, without a single bar physically moving. A repatriation executed as a paper transaction. If a sophisticated sovereign with every resource available runs its own gold through financial engineering, a family should assume the structure it has been sold is doing something comparable, and should ask what. That question, put to a family's own custodian, is where the rest of this paper begins.

Which of the four survives

The four reasons can now be judged, and the paper has already done most of the work.

The first two do not survive. Gold is not an inflation hedge, because the policy response to inflation is the thing that hurts it, and the twenty years after 1980 are the demonstration. It offers no protection against frightening headlines either, by the same mechanism, which is why it fell three times this summer on exactly the news it is supposed to answer.

The third and fourth both survive, and they do different jobs. Real rates govern the price over months and quarters, which makes them an excellent account of what gold has been doing and a poor basis on which to decide how much of it to own. Confidence governs the level over decades, which makes it nearly invisible in any given year and the only sound reason to hold any at all.

So the third reason tells a holder what the price is likely to do next, and the fourth tells them why they hold it. Owning gold for the first two is how families come to be disappointed at the worst possible moment, and in my experience that disappointment is a problem of purchase rationale rather than of portfolio construction.

The ways a family can own it

The same ounce of gold reaches a family through very different structures, and here the structure matters more than in almost any other asset, because the whole purpose of the holding is to be there in a crisis and the structures differ precisely in whether they will be.

Form	What it is	What it costs	What it gives up
Allocated, segregated physical	Specific numbered bars held in the holder's name, ring-fenced from the custodian's balance sheet	Storage and insurance, typically a fraction of a per cent a year	Convenience and ease of dealing
Physical held personally	Coins or small bars in a safe or deposit box	No annual fee, but dealer spreads of several per cent each way	Security, insurance and liquidity
Physically backed ETF	A fund holding allocated bars, trading like a share	An expense ratio of roughly 0.25 to 0.40 per cent a year, in perpetuity	Title to identified metal. Delivery is generally unavailable
Unallocated or pooled account	A claim on a bank's general pool rather than on specific bars	Usually free at the point of sale	Ownership. The holder ranks as an unsecured creditor of the bank
Futures, options, structured notes	Contracts tracking the price, with leverage, roll costs and embedded fees	Frequently undisclosed	The holding itself. These are trading instruments
Mining and royalty equities	Shares in the companies that produce gold	Equity, operational and jurisdiction risk	The correlation, at the worst moment. They trade with equities

The pattern down that list is consistent. Moving from allocated physical toward an unallocated account or a mining share buys convenience and progressively surrenders the one property the gold was bought for, which is that it is unambiguously theirs and unambiguously metal when everything else is in doubt. An unallocated account is the cheapest and most commonly offered form, and it is the one most likely to fail in exactly the crisis that justified the purchase, because the claim ranks alongside every other creditor of an institution that may not hold the metal one for one.

That trade-off is legitimate to make. I would only ask that it be made deliberately rather than by accepting whatever was easiest to buy, because the form in which gold is held is the difference between insurance and a receipt for insurance, and it gets the least attention relative to its importance.

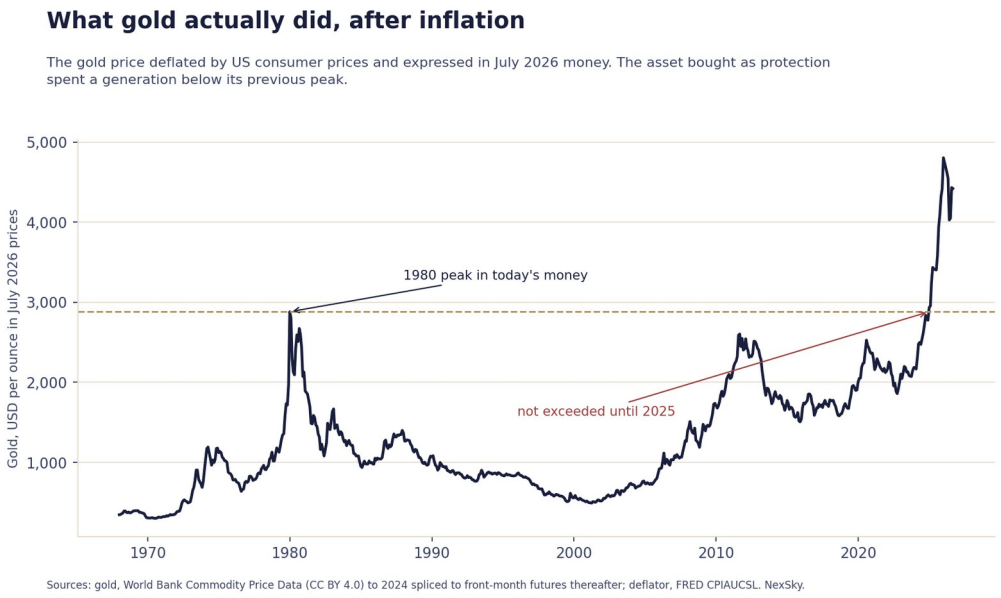
What it costs to own

Because gold produces no income, every cost of holding it is a direct subtraction from the return with nothing to offset it. This is the arithmetic a sales conversation tends to pass over.

An expense ratio of four-tenths of a per cent sounds immaterial. Compounded over twenty years it removes close to a twelfth of the holding, whether gold rose, fell or did nothing, and a custody or platform charge on top roughly doubles the drag. Allocated physical carries a storage and insurance fee, usually smaller than a fund's expense ratio but a real annual cost, and coins carry no annual fee but a wide dealer spread at both ends. None of this argues against owning gold. It argues for knowing the all-in annual cost before buying, and weighing it against a holding that by design earns nothing with which to pay it.

When gold has failed, and how badly

Gold is volatile and has had long, deep drawdowns that the phrase safe haven conceals. Measured on monthly averages it fell thirty-nine per cent between its 2011 peak and its 2015 trough, and fifty-eight per cent between January 1980 and the end of 1999. Those are the nominal figures, and they understate what actually happened.



The gold price deflated by US consumer prices, expressed in July 2026 money.

Adjusted for inflation, the January 1980 peak was equivalent to roughly two thousand eight hundred and eighty dollars an ounce in today's money, and that level was not exceeded again until January 2025. An investor who bought at the top of the last great inflation, for precisely the reasons gold is ordinarily recommended, waited forty-five years to break even in real terms.

I do not think that argues against holding gold, and we hold it. It argues firmly against holding it for the wrong reason, and it is the figure I would want any family to have seen before they buy. Those forty-five years are the level moving against a holder while the month-to-month movement carried on obeying the real rate exactly as it should, which is the whole case for holding the two forces apart. It is also why the question of how much to hold cannot be answered in a paper. It depends on what else a family owns, what those holdings do in the same conditions, and how long the family can wait, and none of that is knowable from here.

The NexSky read

Drawing the pieces together, gold is a zero-income asset answering to two forces on two clocks, the real interest rate over months and quarters and confidence in money over decades, rather than to inflation or to alarming headlines. It is a stock rather than a flow, so supply tells the reader very little. It works in a specific and important set of conditions and disappoints outside them, sometimes for decades. The official sector has become the marginal buyer for reasons of counterparty risk rather than price, and several central banks are now applying to their own holdings the same question of custody and title we would put to a family.

So we treat gold as insurance against the one outcome where little else in a portfolio survives, rather than as a bet on the price or as a hedge against inflation. Whatever weight a family settles on, we would want it settled on the confidence axis and deliberately not on the real-rate axis, because anchoring a permanent holding to a force that turns every eighteen months is how people end up buying at the top. We used this summer's pullback to reaffirm our own view rather than change it, because the reason for holding had not moved while the price did. And we care about the form at least as much as the weight, on the straightforward ground that insurance which cannot be claimed is not insurance.

The questions to put to any provider

Whatever a family concludes about size, these are the questions I would want answered in writing before any gold is bought. A provider's willingness to answer the first three plainly reveals most of what there is to know.

1. Is the gold allocated and segregated, or unallocated and pooled? If unallocated, will the provider confirm in writing that the holder ranks as an unsecured creditor of the institution?
2. Can physical delivery be taken, at what cost, and on what notice?
3. Where is the metal vaulted, in whose name, and is it ring-fenced from the provider's own balance sheet in the event of its failure?
4. What is the all-in annual cost, combining expense ratio, storage, insurance, custody and platform charges?
5. For an exchange-traded fund, does it hold allocated bars, does it publish the bar list, and does it permit redemption in kind?
6. What is the dealer spread, buy against sell, on the relevant size, today?
7. What is the tax treatment in the relevant jurisdiction, including whether investment gold is exempt from VAT and how a gain is taxed on disposal?

Sources. Above-ground stock, its composition and the annual rate of addition, World Gold Council, above-ground stock data and Gold Market Primer, end-Q2 2026. Central bank demand, quarterly and half-yearly, and the first-quarter revision, World Gold Council Gold Demand Trends. Reserve currency composition, IMF Currency Composition of Official Foreign Exchange Reserves, 1999 Q1 to 2026 Q1. Official gold valued at US$5.0tn, World Gold Council, end-2025. Repatriation figures, Banque de France and Bundesbank disclosures as reported. Gold price history to 2024, World Bank Commodity Price Data, used under CC BY 4.0, spliced to front-month futures thereafter. Real yields and consumer prices, Federal Reserve Economic Data, series DFII10, DGS10 and CPIAUCSL.

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