

Is All That Glitters Still Gold?

As gold and stocks both shine in today's market, their surprising dual rally tells a complex story about today's economy.

Gold is a provocative topic these days. First, there's the incredible 52% run-up in the price of gold through the first 10 months of the year.¹ Second, there's the unusual coincidence of stocks and gold performing well at the same time. After all, while the recent strong returns of US stocks would seem to reflect a positive outlook for risk, doesn't the rise in gold, usually considered a hedge against risk, suggest the opposite?

I think the gains in US stocks and gold are indeed saying different things, but I also think that holding them both may make sense in the current environment. Even if stocks continue to do well, I see three reasons that gold can still play a potentially helpful role in portfolios over the next few years:

1. Gold and stocks have different drivers in today's market environment:

In the past, gold's performance has generally been tied to one of several drivers, including demand for a safe-haven asset amid economic or geopolitical volatility, its role as a store of value given worries about currency debasement, or its appeal during periods of inflation. But today, I would argue that gains in gold have been tied to a range of drivers, including concerns about stagflation,² soaring US government debt as a percentage of GDP, US dollar (USD) debasement, and central-bank independence—and I expect these drivers to be with us for some time to come.

Meanwhile, the rise in US stocks has been driven largely by exceptional gains in the mega-cap tech companies dominating the US market (as of the end of October, the Magnificent Seven³ stocks accounted for almost 37% of the market capitalization of the S&P 500 Index).⁴ Along with these strong earnings, US stocks are benefiting from easy monetary and fiscal conditions and a decent growth backdrop. In short, the rally in stocks and gold isn't the same trade.

2. Structural demand for gold is expanding:

Central-bank demand for gold has been well-documented. After the US government placed sanctions on Russian USD assets, central banks, especially in emerging markets, sought to diversify their currency reserves away from the USD. China's retail demand has also been a factor following the country's real-estate bubble. More recently, we've seen a surge in US and European retail demand for gold reflected in the surge in ETF holdings this year.

3. A gold allocation could move the efficient frontier⁵ in a positive direction:

In other words, including gold in the mix may help improve a portfolio's overall risk/reward profile. That's because gold has tended to have a low correlation⁶ to risk assets⁷ and lower volatility. **FIGURE 1** shows that gold has had a near-zero correlation to US stocks, a negative correlation to the USD and bond yields, and a positive correlation to policy uncertainty over the past 10 years.

Insight from sub-adviser Wellington Management



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Key Points

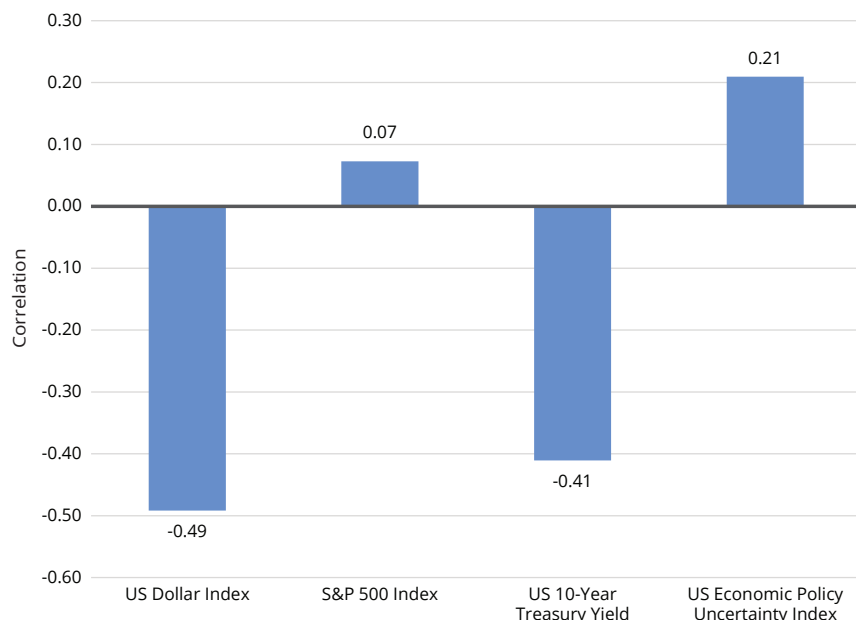
- The simultaneous surge in both gold and stocks is a rare occurrence, challenging traditional market expectations.
- Central banks and retail investors are fueling structural demand for gold, while US stocks are riding the wave of mega-cap tech gains and supportive policies.
- Including gold in a portfolio may enhance diversification,^{*} but its high price and lack of yield are important risks to consider.

^{*} Diversification does not ensure a profit or protect against a loss in a declining market.

FIGURE 1

Gold Can Play a Diversifying Role in Portfolios

Gold Historical Correlations (2015-2025)



As of 10/31/25. **Past performance does not guarantee future results.** Indices are unmanaged and not available for direct investment. Correlations computed using month-over-month percent changes over the period October 2015 through October 2025. Gold price reflects London Bullion Market Association spot price (USD per troy ounce). Economic Policy Uncertainty Index smoothed using a 3-month moving average. Please see page 3 for index definitions. For illustrative purposes only. Data Sources: Wellington Management and Refinitiv.

What are the potential risks? Given its meteoric rise this year, I believe gold is expensive based on several metrics, including marginal cost, the real (inflation-adjusted) price of gold, and the ratio of gold's market cap to global GDP, among others. Also, gold generates no cash flow or yield, so relative to cash, holding it creates a negative carry⁸ position.

What happens to gold if stocks go down? It depends on the cause. If stocks sell off because inflation induces the Federal Reserve to hike rates, then I would expect gold to decline. If, however, stocks fall because of recession fears, then I think gold could outperform stocks.

Investment Implications

- **Gold may be an effective hedge in multiple downside scenarios** — While I still believe fundamentals are generally favorable for US stocks, I think allocators with substantial exposure may want to consider diversifying—and gold can play an important role in that effort. As noted, US stocks are benefiting from the AI boom, but there are potential economic risks to consider, from stagflation to issues around US debt and central-bank independence. In addition to potentially offsetting downside risk in stocks, gold can potentially help hedge against other risks, including inflation and currency devaluation.
- **Allocators may want to consider broader exposure to diversified commodities** — Since gold currently looks expensive on various metrics, a broader portfolio of commodities that includes precious metals, industrial metals, energy, and agriculture could be an alternative. Beyond the benefits of gold, I see signs of a broader commodities “super cycle” potentially emerging, driven by rising power demand and a lack of supply in a host of commodities critical to the AI expansion.

**To learn more about the potential benefits of gold,
please talk to your financial professional.**

The **Economic Policy Uncertainty Index** measures the level of uncertainty about economic policy by analyzing news coverage, tax code provisions, and disagreement among economic forecasters, serving as a gauge of how unclear or unpredictable policy conditions are.

S&P 500 Index is a market capitalization-weighted price index composed of 500 widely held common stocks.

The **US Dollar Index** measures the value of the USD against a basket of major foreign currencies, providing a benchmark for the dollar's strength in global markets.

¹ As of 10/31/25. Data Source: Refinitiv. Gold price reflects London Bullion Market Association spot price (USD per troy ounce).

² Stagflation is an economic cycle characterized by slow growth, inflation, and signs of labor market weakness.

³ The Magnificent Seven stocks are a group of high-performing and influential companies in the US stock market: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, and Tesla.

⁴ As of 10/31/25. Data Source: Refinitiv.

⁵ The efficient frontier is a curve that shows the set of portfolios offering the highest expected return for a given level of risk, helping investors visualize the most efficient risk/reward combinations.

⁶ Correlation is a statistical measure of how two investments move in relation to each other. A correlation of 1.0 indicates the investments have historically moved in the same direction; a correlation of -1.0 means the investments have historically moved in opposite directions; and a correlation of 0 indicates no historical relationship in the movement of the investments.

⁷ Risk assets refer to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate, and currencies.

⁸ Carry is the return an investor earns from holding an asset, typically from interest or yield, after accounting for financing or holding costs. Negative carry occurs when the cost of holding an asset exceeds the income it generates.

Important Risks: Investing involves risk, including the possible loss of principal. • Investments in the commodities market may increase liquidity risk, volatility and risk of loss if adverse developments occur. • Investments linked to prices of commodities may be considered speculative. Significant exposure to commodities may subject the investors to greater volatility than traditional investments. • Different investment styles may go in and out of favor, which may cause underperformance to the broader stock market.

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