

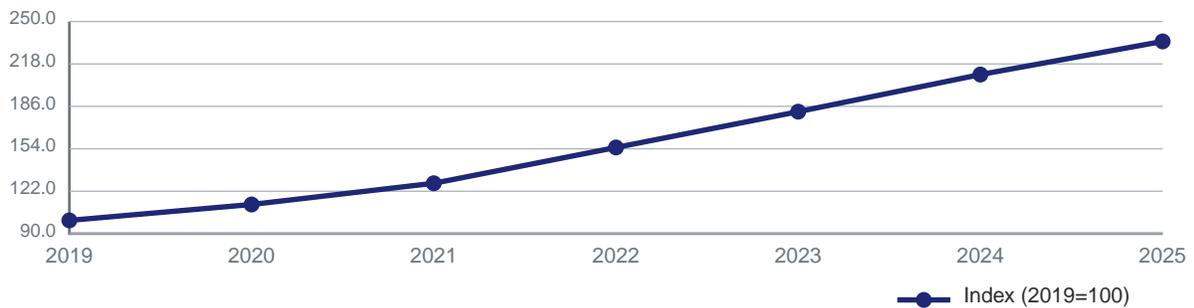
# Gold vs. Real Rates: The New Regime Trade

Research Team

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Gold has reasserted its role as a strategic hedge, but the classic "real rates" playbook now operates in a more complex regime. While higher real yields typically weigh on gold, persistent fiscal deficits, elevated geopolitical risk, and record central bank buying are reshaping the sensitivity of gold to rates alone.

**Gold Price Index (2019=100)**



Source: World Gold Council, Bloomberg

## Executive Summary

Gold's inverse relationship with real rates still matters, but it is no longer the only driver. The new regime blends higher-for-longer policy uncertainty with structural demand from central banks and a slow but visible diversification of reserve assets. This creates a more resilient gold floor even when real yields are not falling.

Key Takeaways:

- Real rates remain the primary cyclical driver, but fiscal and geopolitical premiums now carry greater weight.
- Central bank purchases remain historically elevated, supporting structural demand.
- Gold behaves as both a hedge against inflation surprises and an insurance asset in risk off shocks.

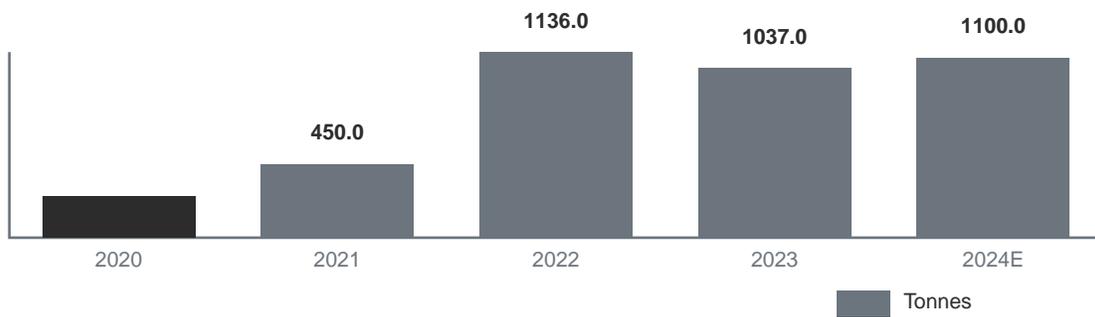
## Why Real Rates Matter

**Gold is a non yielding asset, so its opportunity cost rises when real yields increase. Historically, this relationship has been reliable:** higher real yields pressure gold, while falling real yields support it. The regime shift comes from the growing influence of non rate drivers that reduce the sensitivity of gold to a single macro variable.

## The Regime Shift: Fiscal, Geopolitics, and Central Banks

Large fiscal deficits and elevated debt levels raise long term inflation and currency credibility concerns. At the same time, geopolitical fragmentation has increased the incentive for central banks to diversify reserve assets. World Gold Council surveys show a rising share of central banks expecting to add gold in the next 12 months, reinforcing structural demand.

**Central Bank Gold Purchases (Tonnes)**



Source: World Gold Council

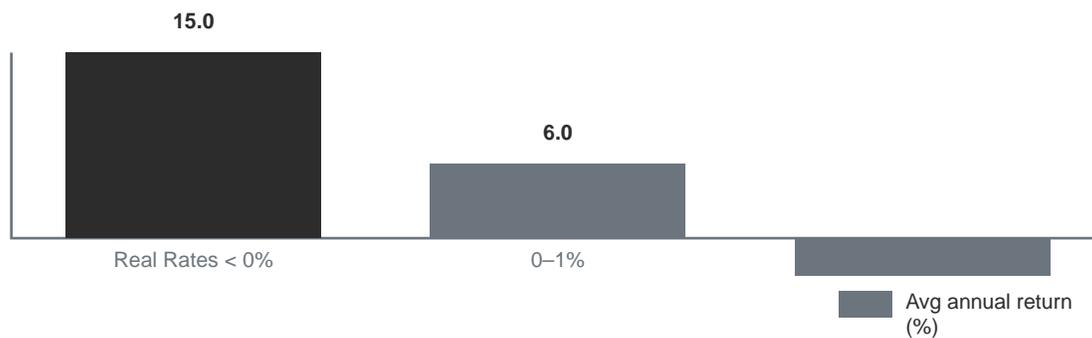
## Real Rates vs. the Dollar

Gold often trades inversely to the dollar, but periods of stress can see both rise together. When systemic risk increases, gold can benefit even if the dollar is strong. This dual hedge profile makes gold less dependent on the "one factor" real rate narrative.

## Positioning and Liquidity

ETF flows and futures positioning remain the most volatile components of demand. Tactical pullbacks driven by positioning shifts can create entry points, but structural demand from central banks provides a persistent bid that reduces downside depth compared to prior cycles.

### Gold Performance by Real-Rate Regime



Source: FRED (10Y TIPS), AVANTAS Research Analysis

## Investment Implications

Gold is best treated as a strategic allocation rather than a pure rate trade. Investors can use pullbacks driven by real yield spikes to scale exposure, while maintaining a core allocation as insurance against tail risks and policy errors.

## Portfolio Allocation Considerations

A balanced approach pairs gold with real asset exposure and selective inflation protected instruments. In multi asset portfolios, gold's role is less about yield capture and more about drawdown control and regime diversification.

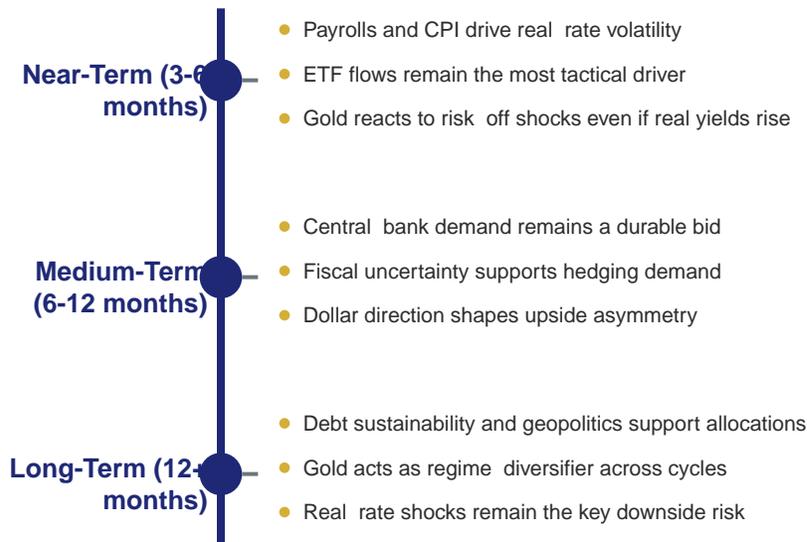
## Timeline and Outlook

**Near-Term Outlook (3-6 months):** Rate volatility and payroll/CPI prints will drive tactical swings in gold.

**Medium-Term Outlook (6-12 months):** Structural demand from central banks and fiscal uncertainty should keep gold supported despite policy noise.

**Long-Term Outlook (12+ months):** The regime favors gold as a strategic hedge against debt sustainability and geopolitical fragmentation.

## Timeline Overview



Source: AVANTAS Research Analysis

## Risk Factors

**Real Rate Shock Risk:** A sharp and sustained rise in real yields would pressure gold and reduce tactical momentum.

**Dollar Surge Risk:** A sustained dollar rally can cap gold upside, especially in risk on environments.

**Policy Stabilization Risk:** If inflation credibility strengthens and fiscal stress abates, the structural premium could fade.

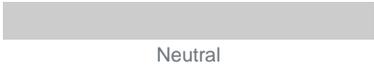
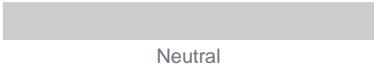
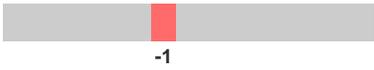
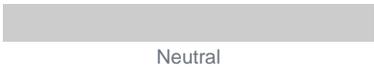
## **Conclusion**

Gold remains sensitive to real rates, but the new regime blends rates with fiscal credibility, geopolitics, and central bank demand. The result is a more durable hedge profile that benefits from volatility rather than requiring a single macro path.

## **Asset Class Impact**

Gold benefits from regime uncertainty and central bank diversification, while real rate sensitive duration assets remain more exposed to policy volatility.

## Asset Class Impact

Asset	View	Commentary
Gold	 +1	Overweight. Structural demand and regime uncertainty support hedging.
TIPS / Real Rate Exposure	 Neutral	Neutral. Rate volatility keeps real yield exposure tactical.
USD	 Neutral	Neutral. Safe haven demand supports the dollar but can coexist with gold.
Long Duration Bonds	 -1	Underweight. Higher for longer uncertainty pressures duration.
Commodities ex Gold	 Neutral	Neutral. Supply shocks remain the key driver.

*Source: AVANTAS Research Analysis*