

Portfolio Insights

February 2026

The Role of Gold in a Portfolio



Introduction

The past few years have reminded investors that diversification is not a static formula. It evolves with market structure, inflation dynamics, and shifting monetary regimes. The once-reliable 60/40 equity to bond mix has experienced multiple stress tests since 2022, exposing its vulnerability when both stocks and bonds suffer from rising inflation and higher real yields.

Gold, by contrast, has continued to demonstrate an ability to behave differently — sometimes defensive, sometimes opportunistic, but almost always *distinctly*. It remains one of the few assets that consistently draws strength from investors' desire for stability when traditional hedges weaken.

At WisdomTree, we view gold not as a tactical trade, but as a strategic anchor. We believe it to be an asset that helps portfolios absorb shocks across economic cycles, policy regimes, and geopolitical turns.

In this paper, we:

1. Examine the core attributes of gold that have historically made it a powerful portfolio diversifier.
2. Discuss how those traits may continue to shape its role in a world defined by fiscal expansion, deglobalization, and renewed inflation uncertainty.
3. Frame how investors can think about gold's role, without prescribing a single “optimal” weight — focusing instead on principles of resilience and balance.

Key ideas:

1. True diversification comes from combining assets that respond differently to economic and policy conditions.
2. Gold's behavior is fundamentally distinct from equities and bonds — it often gains relevance when other assets become correlated.
3. Gold has acted as both a *hedge* (against inflation, financial stress, and currency debasement) and a *store of purchasing power* over long horizons.
4. In periods of strong growth and rising inflation, gold can still perform well — not only as protection, but as participation in the broader reflationary cycle.
5. The question for investors today is not “how much gold?” but “how should gold *function* within the broader architecture of a modern portfolio?”

Executive Summary

Gold's Enduring Role in Modern Portfolios

Gold remains one of the few assets that consistently delivers resilience through economic cycles and crises. For over half a century, it has acted as both a stabilizer when confidence erodes and a store of value amid inflation, fiscal strain, or policy uncertainty. Its enduring power lies not in yield, but in independence — existing outside the credit and monetary systems that govern nearly all other assets.

A Proven Hedge in Times of Uncertainty

Across market disruptions — from the 1970s oil shocks to the Global Financial Crisis and today's geopolitical tensions — gold has outperformed equities by roughly 16 percentage points on average. It repeatedly serves as a refuge when policy or systemic confidence breaks down. That defensive appeal is evident in today's buyers: investors are increasing allocations through gold ETPs, while central banks have become structural accumulators, purchasing over 1,000 tonnes annually since 2022 — the strongest demand in modern history. Together, they reaffirm gold's growing role as both a private and sovereign hedge against systemic risk.

Resilience Across Economic Cycles

Gold's strength extends beyond crises. Viewed through the OECD's Composite Leading Indicators, which track the global business cycle, gold performs well in both deep recessions and strong expansions. It mirrors macro extremes — rising when growth collapses and again when inflation pressures surge late in the cycle. This behavior fills the diversification gap that equities and bonds leave uncovered, providing balance precisely when other assets converge.

Inflation, Real Rates, and Currency Confidence

Gold's reputation as an inflation hedge stems from its scarcity and insulation from policy decisions. Historically, it has amplified inflationary moves during monetary stress, from the 1970s to the early 2020s. More recently, its strength despite higher real yields signals deeper concerns — persistent fiscal deficits, growing debt costs, and waning confidence in the dollar system. Its inverse relationship with the U.S. dollar remains one of markets' most enduring patterns: when monetary credibility erodes, capital gravitates toward assets that exist outside the system. Gold's neutrality — it cannot be printed, defaulted on, or sanctioned — anchors that dynamic.

Executive Summary (continued)

Portfolio Independence and Geopolitical Relevance

Gold's low correlation with equities and bonds makes it a rare, genuine diversifier. Its price drivers — real rates, inflation expectations, and geopolitical stress — differ sharply from those driving traditional assets. That independence proved invaluable when stock–bond correlations turned positive in 2022. Geopolitically, gold tends to rise during conflict or systemic shocks — periods few assets can hedge effectively. In an increasingly multipolar world, it serves as strategic insurance against regime-level instability.

A Dynamic Role for a Changing Era

The question isn't whether gold belongs in portfolios, but how much and why. Looking at the historical distribution of returns and using that for a foundation of analysis across decades show that measured allocations — often in the mid-teens — tended to enhance risk-adjusted returns and reduce drawdowns, especially when equity performance weakens. Gold's role is less about maximizing returns and more about fortifying resilience. As fiscal and geopolitical uncertainty intensify, its independence remains one of the few constants — an anchor of trust in an evolving financial system.

1. Gold as a Defensive Asset in an Uncertain World

When equity markets have stumbled, gold has often found its footing. That's not coincidence—it's a reflection of how investors have behaved under stress. In moments of market turmoil or macro uncertainty, capital has often sought refuge in assets that are outside the financial system, that carry no credit risk, and that have stood the test of time. Gold fits that description better than almost anything else.

Equities represent claims on future earnings, which depend on confidence in growth, liquidity, and stability. When those assumptions break down—through recession fears, policy shocks, or geopolitical conflict—equities can reprice sharply. Gold, in contrast, tends to respond to those same pressures with resilience. It's one of the few assets whose appeal increases when confidence decreases.

Across the past half-century of market shocks—from wars and political crises to crashes and bubbles—gold has repeatedly shown its value as a crisis hedge. The following table illustrates that while equities often struggle during such dislocations (averaging -2% across these events), gold has tended to hold or gain value (+14% on average), outperforming stocks by roughly 16 percentage points. The standout episodes—such as the Yom Kippur War, the Global Financial Crisis, and the 2023 Israel– Hamas War—underscore gold's tendency to surge when uncertainty peaks. While there are exceptions, such as Black Monday or Desert Storm, the broader pattern is clear: during moments of fear or instability, gold often serves as the market's psychological and portfolio ballast.

Figure 1: A 50-Year Record of Performance During Market Stress

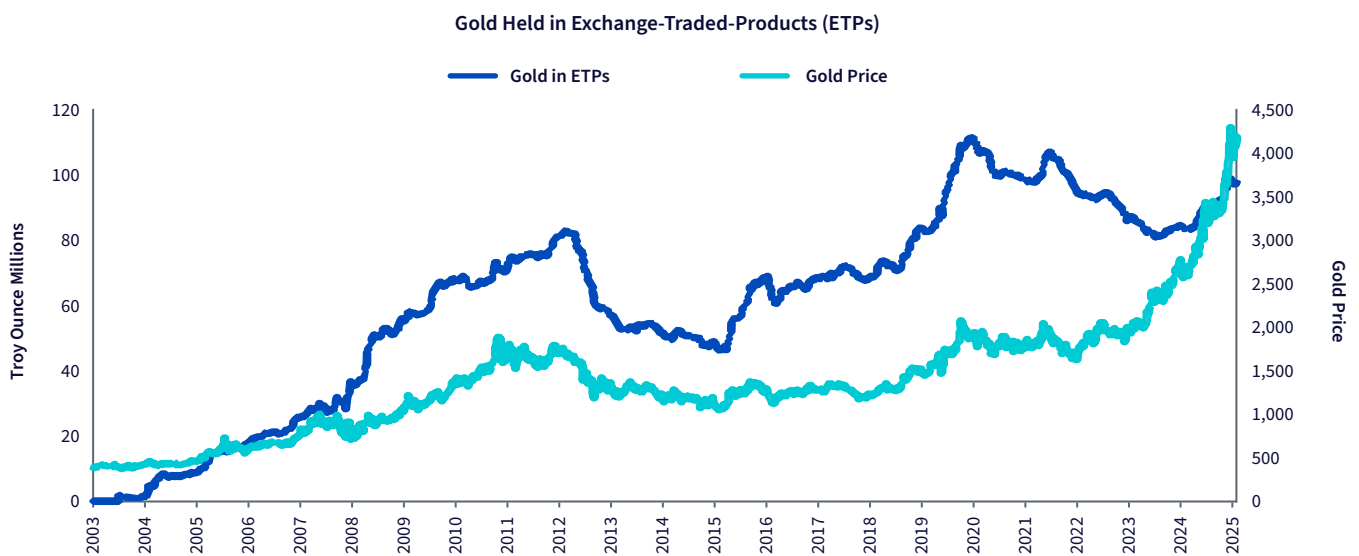
	Event Date	Gold	Equities	Relative
Yom Kippur War	10/6/73	61%	-43%	105%
Nixon's Resignation	8/9/74	7%	6%	0%
Black Monday	10/19/87	-15%	23%	-38%
Junk Bond Crash	10/13/89	7%	-10%	17%
Desert Storm (First Gulf War)	8/2/90	-6%	10%	-16%
Dot-Com Bubble	3/11/00	-7%	-12%	5%
9/11 Terrorist Attack	9/11/01	10%	-17%	27%
Global Financial Crisis	9/15/08	29%	-12%	40%
Greece Government Deficit Announcement	10/20/09	26%	8%	18%
Russia Invasion of Ukraine	2/24/22	-6%	-7%	1%
Israel-Hamas War	10/7/23	45%	32%	13%
Average		14%	-2%	16%

Sources: WisdomTree, Bloomberg. **Past performance is not indicative of future results.**

Today, this defensive role feels newly relevant. Persistent fiscal deficits, elevated debt levels, and a less predictable geopolitical environment have changed how investors perceive risk. Bonds are no longer the same shock absorber they once were; real yields can rise sharply in periods of inflation stress. Against that backdrop, gold's independence from both earnings cycles and interest-rate policy makes it an increasingly important complement to traditional holdings.

Figure 2 captures one of the most telling dynamics in the gold market: investors aren't just talking about gold—they're acting on it. The total ounces of gold held in exchange-traded products (ETPs) have surged again, signaling that global investors are voting with their portfolios. Since the early 2000s, gold ETPs have become the most direct expression of sentiment toward the metal, and their collective holdings tend to swell when conviction in traditional financial assets wavers. The recent rise shows renewed demand even as prices push to record highs—evidence that gold's appeal is broadening beyond tactical hedging to strategic allocation. In other words, investors aren't just seeking to explain why gold matters—they're positioning accordingly.

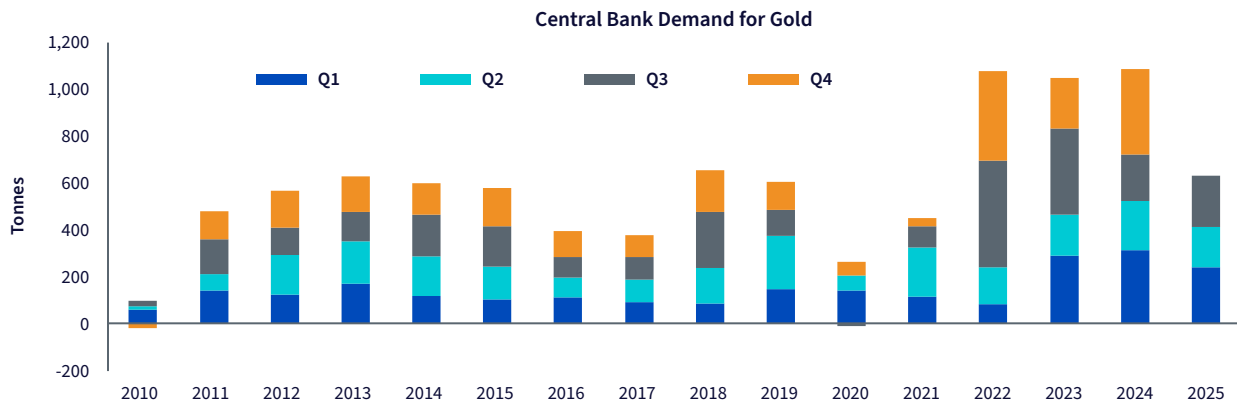
Figure 2: Rising Conviction as Global ETP Investors Are Accumulating Gold Again



Sources: WisdomTree, Bloomberg. Data is from October 31, 2003 to November 30, 2025. **Historical performance is not an indication of future performance and investments may go down in value.**

Figure 3 tells the story of a profound structural shift in the gold market: central banks have become some of its most consistent and powerful buyers. After years of modest accumulation, gold demand from central banks has surged since 2022, with annual purchases exceeding 1,000 tonnes for multiple consecutive years—levels not seen in modern history. This renewed appetite reflects a broader realignment in global reserves management: diversifying away from the U.S. dollar, hedging against geopolitical risk, and reinforcing monetary sovereignty. While ETP investors express individual conviction, central bank buying represents state-level endorsement of gold’s enduring role in the financial system. Together, they signal that gold’s strategic importance is not fading—it’s accelerating.

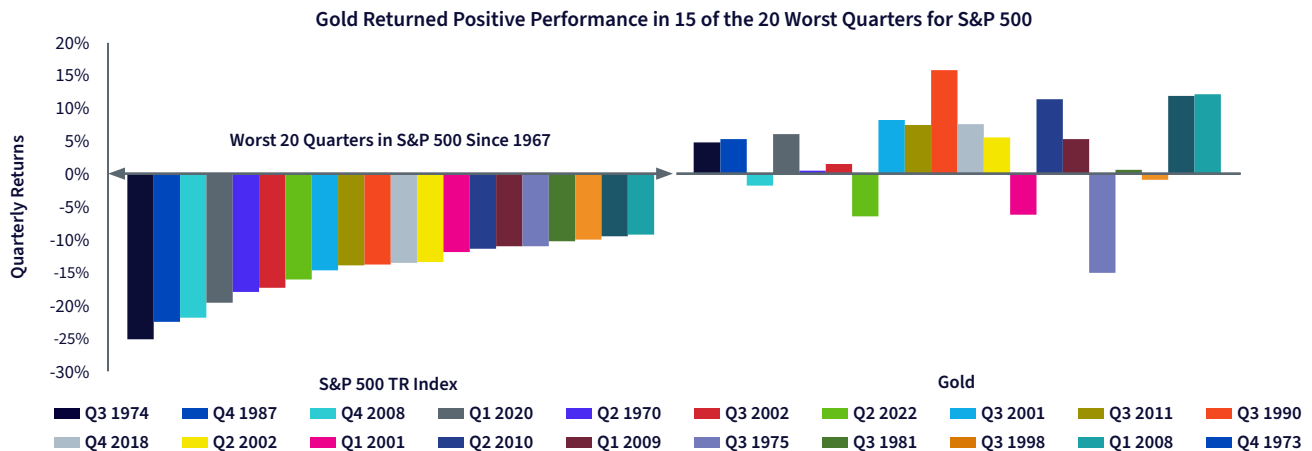
Figure 3: Over 1,000 Tonnes a Year, Multiple Years in Row as Central Banks Reinforce Gold’s Strategic Role in Global Reserves



Sources: WisdomTree, World Gold Council, from Q1 2010 to Q3 2025. **Historical performance is not an indication of future performance and investments may go down in value.**

Every crisis tests what investors really own. As this chart shows, during the worst quarters for U.S. equities in more than five decades, gold often stood on the other side of the trade—rising when equities fell. When correlations compress and “diversification” disappears, gold’s independence has shown through. That independence is the essence of resilience.

Figure 4: Gold’s Capability to Behave Different in Rough Equity Periods



Source: WisdomTree, Bloomberg. From December 1967 to September 2025 using quarterly data. Asset descriptions at the end of this report. **Historical performance is not an indication of future performance and any investments may go down in value.**

2. Gold Performs Well in Deep Recessions and Strong Expansions

Gold's resilience is not confined to crisis periods — it often performs well at both extremes of the economic cycle. That duality is what makes gold so distinctive: it's not only a *defensive* asset, but also one that can thrive when growth and inflation accelerate. Understanding why requires a framework that links market performance to the broader rhythm of the economy.

The Role of Composite Leading Indicators (CLIs)

Composite Leading Indicators — produced by institutions such as the OECD — are systematic measures designed to anticipate turning points in the business cycle. They combine a range of forward-looking data, such as manufacturing orders, consumer confidence, building permits, and financial conditions, into a single index that signals whether the economy is *expanding, slowing, contracting, or recovering*.

This framework is powerful because it doesn't rely on backward-looking GDP data. Instead, it helps investors see the *inflection points* — when momentum is shifting, and when the mix of inflation, growth, and policy risk is likely to change. Over time, CLIs have proven credible in highlighting these turning points across both developed and emerging economies, making them a useful macro lens for asset allocation.

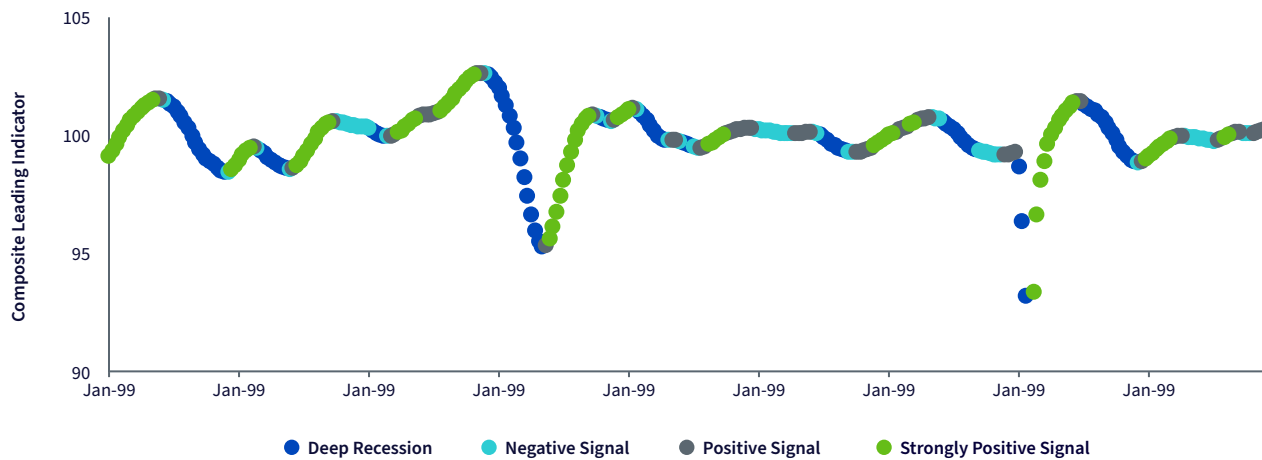
What the Macro Picture Tells Us

When we map gold's performance against these phases of the economic cycle, a pattern emerges. During contractions and recessions — periods when equities and risk assets typically falter — gold often holds value or appreciates as investors seek stability. But what's more interesting is that gold also tends to perform well in *late-stage expansions*, when inflation runs hot, real yields are volatile, and the system begins to show strain.

This dual strength — defensive in downturns, opportunistic in expansions — reflects gold's independence from traditional economic drivers. It's not tied to corporate profits or bond coupons; it's tied to confidence in the system itself. When that confidence is either *too high* (leading to overheating and inflation) or *too low* (leading to financial stress), gold often benefits.

Thus, by viewing gold through the CLI framework, investors gain a more complete understanding of its behavior: gold is not simply an “insurance” asset — it’s a cyclical mirror that performs when the balance between growth, inflation, and policy credibility begins to shift.

Figure 5: Composite Leading Indicator of Economic Conditions



Source: WisdomTree, OECD, Bloomberg. OECD calculates the index so that the long-term average is 100. The index is designed to correlate and provide timely leads on economic output gaps (economic performance relative to potential). Deep recession equates to the lowest quartile of data. Strong expansion relates to highest quartile of data. December 1989 to September 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

Understanding Asset Performance Across the Economic Cycle

With the Composite Leading Indicator (CLI) framework established, we can use it to observe how different asset classes behave through distinct phases of the economic cycle — from deep recessions to strong expansions. The value of this approach lies in its ability to *systematically* identify turning points rather than relying on hindsight or subjective interpretation.

The CLI series allows us to delineate economic environments into four broad regimes:

- **Deep Recession**, when growth momentum is contracting sharply and confidence is low.
- **Mild Recession**, where growth remains weak but stabilizing forces begin to emerge.
- **Mild Expansion**, as leading data signals a rebound in activity and improving sentiment.
- **Strong Expansion**, when growth is robust, inflation pressures build, and policy conditions tighten.

By mapping asset performance across these regimes, we begin to see the economic logic of diversification more clearly.

What the Patterns Reveal

Equities tend to dominate in mild and strong expansions — periods of optimism, liquidity, and earnings growth. Bonds typically outperform during mild recessions, when yields fall and monetary policy turns accommodative. Yet, in the most severe downturns — when both corporate profits and policy confidence are under stress — gold often stands apart.

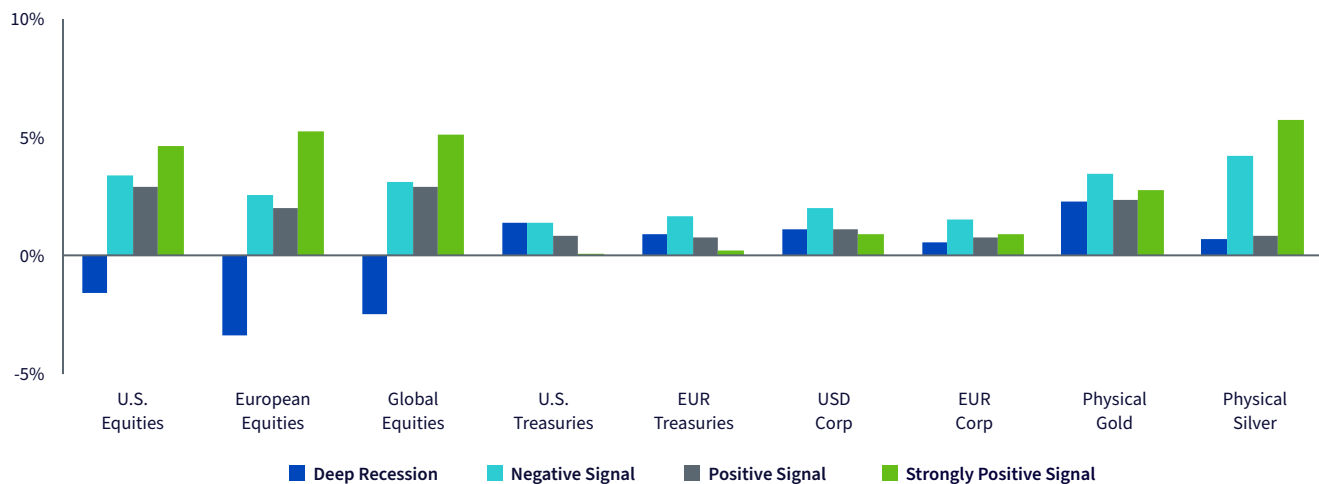
Gold’s outperformance in deep recessions reflects its role as a store of *stability* when risk assets lose their anchor. But the same analysis shows that gold also performs well in strong expansions, when inflation risks rise and real yields struggle to keep pace. This symmetry — strength at both extremes — is unique among major asset classes.

Implications for Portfolio Construction

This behavior has important implications for how investors think about resilience. Most portfolios are built around assets that perform well in the *middle* of the cycle — steady growth and moderate inflation. Gold fills the gaps at the edges of the cycle, when those assumptions break down.

By using the CLI framework to understand where we are in the cycle, investors can better appreciate *why* gold’s role matters — not as a constant outperformer, but as a stabilizer that adds balance precisely when other assets converge in behavior. Over long periods, that asymmetry can improve both portfolio robustness and psychological endurance through volatile markets.

Figure 6: Average Monthly Performance of Different Assets in Different Phases of Economic Cycle



Source: WisdomTree, Bloomberg, Organisation for Economic Cooperation and Development. Period December 1998 to September 2025. US equity is represented by the S&P 500 Index. European Equity is represented by the EURO STOXX 50 Index. Global equity is represented by the MSCI World Index. US Corporate is represented by Bloomberg U.S. Corporate Investment Grade Index. EU Corporate is represented by Bloomberg Euro-Aggregate Corporates Index. US Gov is represented by Bloomberg US Government Bond Index. EU Gov is represented by Bloomberg Euro Government Bond Index. Global HY is represented by Bloomberg Global High Yield Index. Broad Commodities is represented by Bloomberg Commodity Index. Gold is represented by LBMA Gold Price PM USD. Silver is represented by LBMA Silver Price PM USD. **Historical performance is not an indication of future performance and any investments may go down in value.**

3. Gold as an Inflation Hedge

The connection between gold and inflation is one of the most enduring themes in markets — and for good reason. Gold is not a claim on future cash flows, and its supply cannot be expanded by policy decision or corporate action. That scarcity, combined with global acceptance, makes it a natural store of purchasing power when the value of paper money erodes.

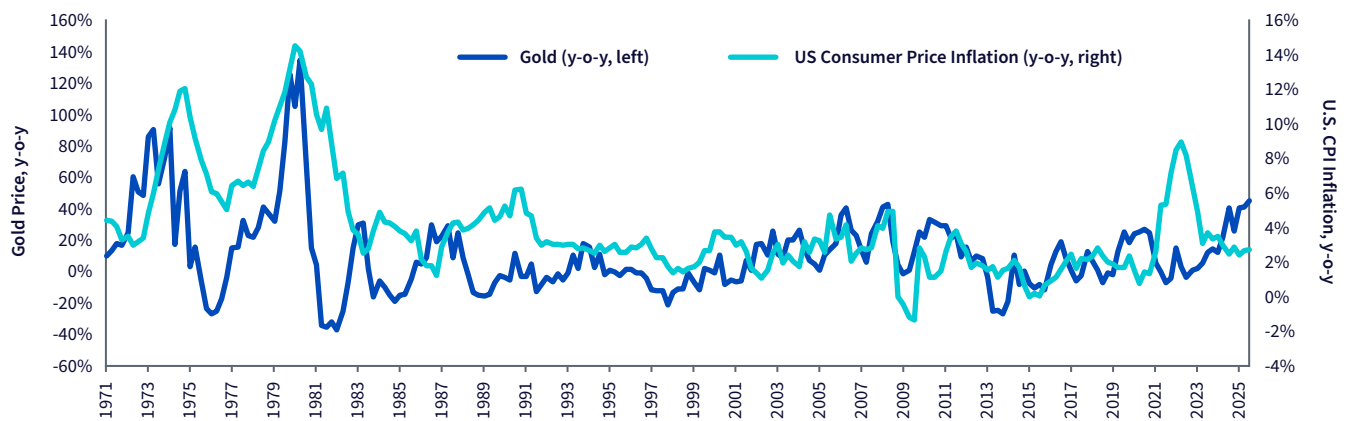
In Figure 7, we plot the year-over-year change in gold prices alongside the *year-over-year change in the U.S. Consumer Price Index (CPI)* — a direct visual of how the two tend to move in the same direction. While inflation captures the rate at which prices for goods and services rise, gold often amplifies those moves. Historically, when inflation has surged into high single digits or beyond, gold's annual price changes have often multiplied that move several times over.

This pattern is especially visible during periods like the 1970s, when inflation surged into double digits. As consumer prices climbed by tens of percentage points, gold prices advanced by hundreds, reflecting the market's adjustment to declining confidence in the U.S. dollar and the broader monetary system. The same dynamic — though at smaller scale — reappeared during the inflation spike of the early 2020s.

However, it's important to understand that gold's inflation-hedging ability is not mechanical or instantaneous. In short bursts of disinflation or tightening monetary policy, gold can lag even as prices remain elevated. But over multi-year periods, gold's value has tended to realign with cumulative inflation — acting less like a daily hedge and more like a monetary shock absorber that preserves purchasing power through long, uneven cycles.

From a portfolio perspective, this quality reinforces gold's strategic role: not simply as a reaction to inflation surprises, but as an ongoing hedge against the broader erosion of real value — whether through currency depreciation, negative real yields, or loss of policy credibility.

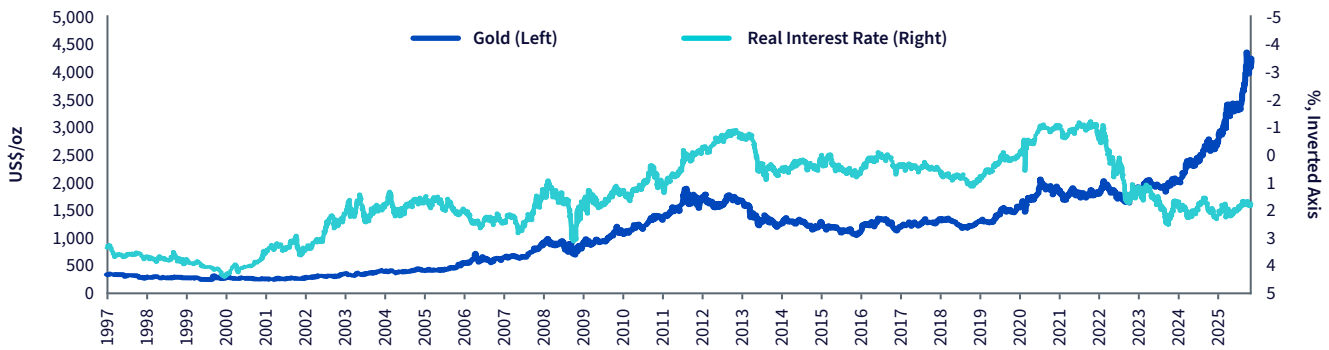
Figure 7: Gold Price vs. Inflation



Sources: WisdomTree, Bloomberg, from Q1 1972 to Q3 2025. Calculations are based on year-on-year returns in USD based on quarterly data. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 8 captures one of the most enduring relationships in global markets—the inverse link between gold prices and real interest rates. When real yields, as measured by U.S. 10-Year TIPS, fall deeper into negative territory, the opportunity cost of holding gold declines, and the metal tends to rise in value. Conversely, when real rates climb, gold often retreats. What makes the recent period remarkable is that gold has surged even as real yields remain elevated, suggesting that its appeal has broadened beyond a simple inflation hedge. Investors appear to be responding not just to monetary policy signals but also to deeper forces: fiscal expansion, geopolitical fragmentation, and a growing search for stores of value independent of the dollar-based system.

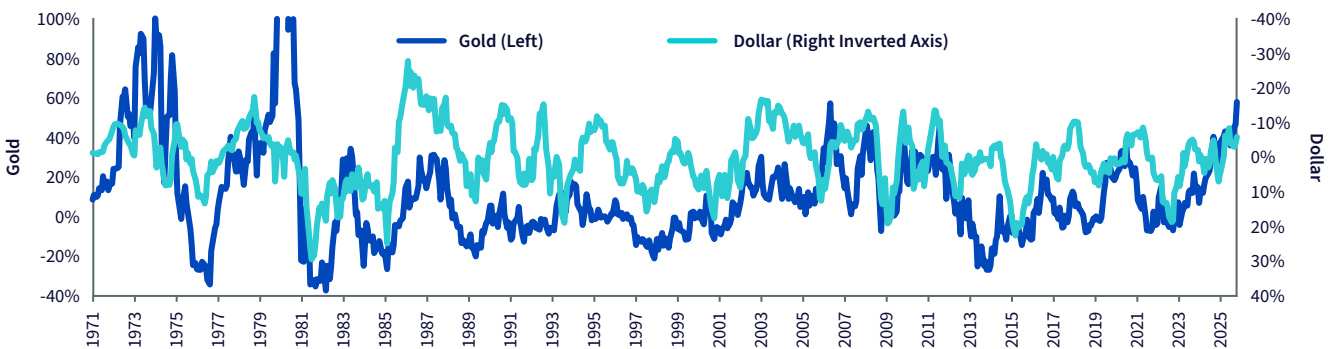
Figure 8: Gold vs. Real Rates, Specifically 10-Year Treasury Inflation-Protected Securities Yield



Sources: WisdomTree, Bloomberg. July 1997 to October 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

Figure 9 brings the discussion full circle—from inflation and real rates to the ultimate expression of global monetary confidence: the U.S. dollar. Historically, gold and the dollar have moved in opposite directions, a reflection of their competing roles as stores of value. When real interest rates fall or deficits rise, confidence in paper assets erodes, and investors often look beyond the dollar’s reach. What’s emerging now is a more structural story: persistent fiscal deficits, rising debt-servicing costs, and a growing global desire to diversify away from dollar exposure. In that environment, gold isn’t just reacting to monetary policy—it’s attracting incremental demand as an alternative reserve asset. The more investors and central banks question the sustainability of the dollar-based system, the more those marginal flows seem to vote for gold instead.

Figure 9: When the Dollar Weakens, Gold Strengthens, as we see A Long History of Inverse Momentum



Sources: WisdomTree, Bloomberg. March 1971 to September 2025. **Historical performance is not an indication of future performance and any investments may go down in value.**

4. Gold Has a Low Correlation with Traditional Assets

In portfolio construction, **correlation** is one of the most powerful — yet often misunderstood — concepts. In simple terms, correlation measures how two assets tend to move relative to one another. A correlation close to **+1** means they often rise and fall together. A correlation close to **-1** means they move in opposite directions. A correlation near **zero** means their returns are largely independent.

Why does this matter? Because diversification works best when the assets you hold *don't behave the same way* at the same time. If all parts of a portfolio rise and fall together, the benefits of holding multiple assets vanish when they're needed most — during periods of stress. Low correlation is what allows different assets to “take turns” protecting the portfolio as economic conditions evolve.

Gold's Unique Place in the Correlation Map

Looking across the performance of major asset classes in Figure 10, one pattern stands out: gold's behavior is distinct. While equities, bonds, real estate, and cash rotate through leadership depending on the economic cycle, gold appears to follow its own rhythm—sometimes surging when others stumble, sometimes resting when risk assets rally. This independence is not accidental. Although gold is technically classified as a commodity, its price drivers—real interest rates, inflation expectations, currency trends, and financial stress—align it more closely with the monetary system than with raw materials like oil or copper.

Seen through the lens of correlation, this independence becomes gold's greatest strength. Over the long term, gold's relationship with equities, bonds, and even other commodities has hovered near zero, meaning it tends to move to its own beat. That's precisely what investors seek when correlations between traditional assets converge, as they did during the inflation shock of 2022.

The Portfolio Implication

Low correlation isn't about timing gold's next rally—it's about constructing portfolios that endure across regimes. Gold's role is structural, not cyclical: a source of balance that helps portfolios remain resilient when the usual diversifiers stop working.

Figure 10: How Gold has Performed Relative to Other Asset Classes over the Years

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	20 Yrs	2025 YTD
1	Gold 17.8%	Real Estate 42.4%	Gold 31.9%	Gold 4.3%	Real Estate 38.3%	Gold 29.2%	Gold 8.9%	Real Estate 28.7%	Equities 26.7%	Real Estate 15.9%	Cash 0.2%	Gold 8.1%	Equities 22.4%	Cash 1.7%	Equities 27.7%	Gold 24.6%	Real Estate 27.2%	Cash 1.7%	Equities 23.8%	Gold 25.5%	Gold 19.6%	Gold 60.6%
2	Real Estate 15.4%	Gold 23.2%	Bonds 9.6%	Cash 2.1%	Equities 30.0%	Real Estate 20.4%	Bonds 4.5%	Equities 15.8%	Real Estate 4.4%	Bonds 5.6%	Real Estate 0.1%	Equities 7.5%	Gold 12.7%	Gold -0.9%	Real Estate 23.1%	Equities 15.9%	Equities 21.8%	Gold 0.4%	Gold 14.6%	Equities 18.7%	Equities 16.6%	Equities 20.1%
3	Equities 9.5%	Equities 20.1%	Equities 9.0%	Bonds -1.9%	Gold 25.0%	Equities 11.8%	Cash 0.2%	Bonds 13.4%	Cash 0.2%	Equities 4.9%	Equities -0.9%	Real Estate 5.0%	Real Estate 11.4%	Bonds -2.4%	Gold 18.4%	Bonds 10.3%	Cash 0.1%	Equities -18.1%	Real Estate 10.9%	Cash 3.9%	Real Estate 10.3%	Bonds 12.2%
4	Cash 2.6%	Bonds 6.8%	Cash 3.9%	Equities -40.7%	Bonds 13.5%	Bonds 4.9%	Equities -5.5%	Gold 8.3%	Bonds -4.0%	Cash 0.2%	Bonds -2.8%	Bonds 3.6%	Bonds 10.3%	Real Estate -4.7%	Bonds 13.6%	Cash 0.5%	Bonds -3.5%	Bonds -21.0%	Bonds 7.9%	Real Estate 2.0%	Bonds 6.1%	Real Estate 11.8%
5	Bonds -0.4%	Cash 3.8%	Real Estate -7.0%	Real Estate -47.7%	Cash 0.5%	Cash 0.2%	Real Estate -5.8%	Cash 0.3%	Gold -27.3%	Gold 0.1%	Gold -12.1%	Cash 0.5%	Cash 0.9%	Equities -8.7%	Cash 1.7%	Real Estate -8.2%	Gold -4.3%	Real Estate -24.4%	Cash 3.9%	Bonds -0.9%	Cash 2.9%	Cash 3.2%

Source: WisdomTree, Bloomberg. Data until November 30, 2025; All returns are in USD; 10 Yrs returns are annualised from 31 Dec 04 to 31 Dec 24. Data: Equity - MSCI World, Bond - Bloomberg Barclays Agg Sovereign TR Unhedged, Real Estate - EPRA/NAREIT Global, Bloomberg Commodity Total Return Index, Cash - US T-Bill 3 Mth. **Historical performance is not an indication of future performance, and any investments may go down in value.**

The correlation matrix in Figure 11 makes gold's uniqueness clear in numerical form. Most major asset classes—equities, credit, real estate, and even broad commodities—tend to move together, especially during inflationary shocks or major policy transitions. Gold stands apart. Its correlations with both stocks and bonds hover near zero, meaning its price is often driven by a completely different set of forces: real interest rates, currency dynamics, and investor sentiment around financial stability. That independence is what makes gold so strategically valuable—not because it promises higher returns, but because it helps preserve the balance and optionality of a portfolio when traditional diversifiers stop working.

Figure 10: How Gold has Performed Relative to Other Asset Classes over the Years

	US Equity	Global Equity	European Equity	Global HY	US Corporate	EU Corporate	EU Gov	US Gov	Broad Commodities	Gold
US equity	1.00	0.93	0.81	0.69	0.39	0.37	0.06	-0.01	0.28	-0.01
Global equity	0.93	1.00	0.89	0.75	0.40	0.40	0.05	-0.02	0.34	0.07
European equity	0.81	0.89	1.00	0.67	0.36	0.34	0.03	-0.09	0.40	0.10
Global HY	0.69	0.75	0.67	1.00	0.63	0.60	0.16	0.01	0.43	0.18
US Corporate	0.39	0.40	0.36	0.63	1.00	0.80	0.62	0.73	0.15	0.23
EU Corporate	0.37	0.40	0.34	0.60	0.80	1.00	0.75	0.42	0.16	0.15
EU Gov	0.06	0.05	0.03	0.16	0.62	0.75	1.00	0.69	-0.13	0.12
US Gov	-0.01	-0.02	-0.09	0.01	0.73	0.42	0.69	1.00	-0.11	0.19
Broad Commodities	0.28	0.34	0.40	0.43	0.15	0.16	-0.13	-0.11	1.00	0.36
Gold	-0.01	0.07	0.10	0.18	0.23	0.15	0.12	0.19	0.36	1.00

Source: WisdomTree, Bloomberg. Date: from January 1990 to October 2025. European equity and Global HY start from January 1999, EU Corporate and EU Gov start from June 1998. **Historical performance is not an indication of future performance and any investments may go down in value.**

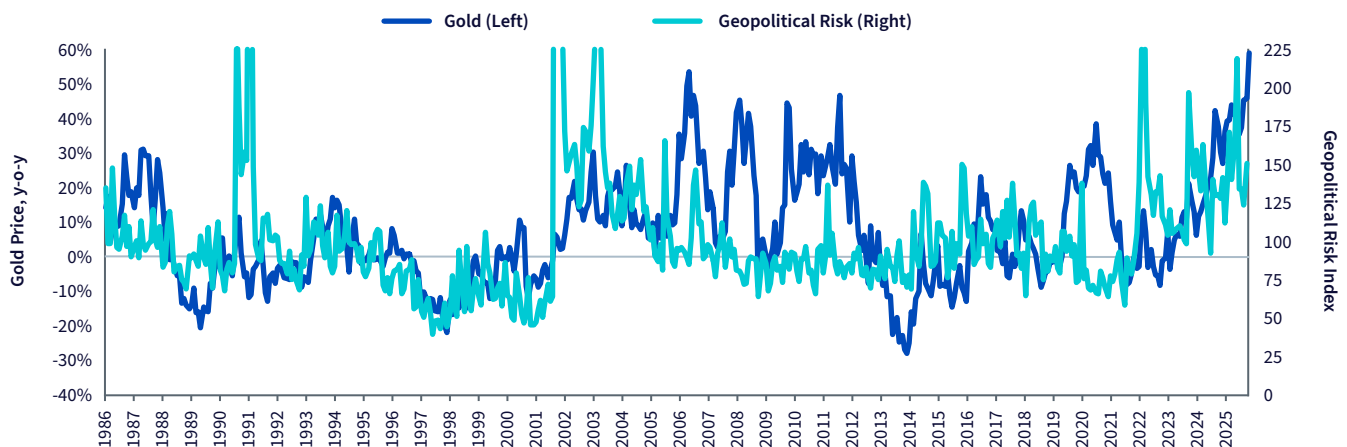
5. Gold as a Geopolitical Hedge

How Gold Responds to Geopolitical Stress

Empirically, gold tends to rise during periods of elevated geopolitical tension. The response is not always large or long-lived, but it is consistent in direction. This reflects its dual role: part safe haven, part alternative currency. The more uncertainty surrounds the integrity of financial systems or the ability of governments to meet their obligations, the stronger gold's perceived value becomes.

From an asset allocation perspective, gold's geopolitical sensitivity complements its macroeconomic traits. It helps portfolios withstand the non-economic shocks that are difficult to hedge otherwise — regime change, sanctions, or systemic conflict. These are the moments when traditional risk models fail, but gold's simple physical and monetary identity continues to matter.

Figure 7: Gold Price vs. Inflation



Sources: WisdomTree, Bloomberg, from Q1 1972 to Q3 2025. Calculations are based on year-on-year returns in USD based on quarterly data. **Historical performance is not an indication of future performance and any investments may go down in value.**

Part 2: Thinking About How Much Gold Might Make Sense

After understanding why gold can add value to a portfolio, the natural next question is how much exposure might make sense? The answer depends on an investor's objectives, risk tolerance, and view of the macro environment — so there's no single "right" number. Instead, what we can do is explore a framework that helps investors think through the possible range of outcomes under different market conditions.

Why We Use Statistical Simulation

Markets are inherently uncertain. Historical averages tell part of the story, but they don't capture the full variety of ways that returns, inflation, or policy can interact over time. To explore that uncertainty, we can use a technique called bootstrapping, which allows us to test how a portfolio might behave across thousands of alternative market histories — without assuming we know the future.

What Bootstrapping Means — in Plain Language

Bootstrapping is a type of simulation that takes actual historical data (for example, monthly returns on equities, bonds, and gold) and reorders it in many different ways to create a wide set of hypothetical scenarios. Think of it as shuffling a deck of historical outcomes 20,000 times to see how different combinations might play out.

Each "reshuffled" 10-year period uses real market data, but in a new sequence — capturing the reality that investors never experience history in exactly the same order twice. This approach helps us explore not just average performance, but also the range of potential outcomes — both strong and weak.

Strengths and Limitations

Bootstrapping has two key strengths:

- 1. Realism** – It uses actual historical relationships rather than theoretical models, keeping results grounded in real-world behavior.
- 2. Breadth** – It allows us to explore thousands of possible future paths, showing how gold might behave across different inflation, rate, or growth conditions.

However, there are also limitations:

- It assumes the future will resemble the past in terms of how assets interact — which may not always hold true in a changing macro regime.
- It captures variability in outcomes, but not the full scope of new structural shifts (such as the rise of AI-driven productivity or unprecedented fiscal expansion).

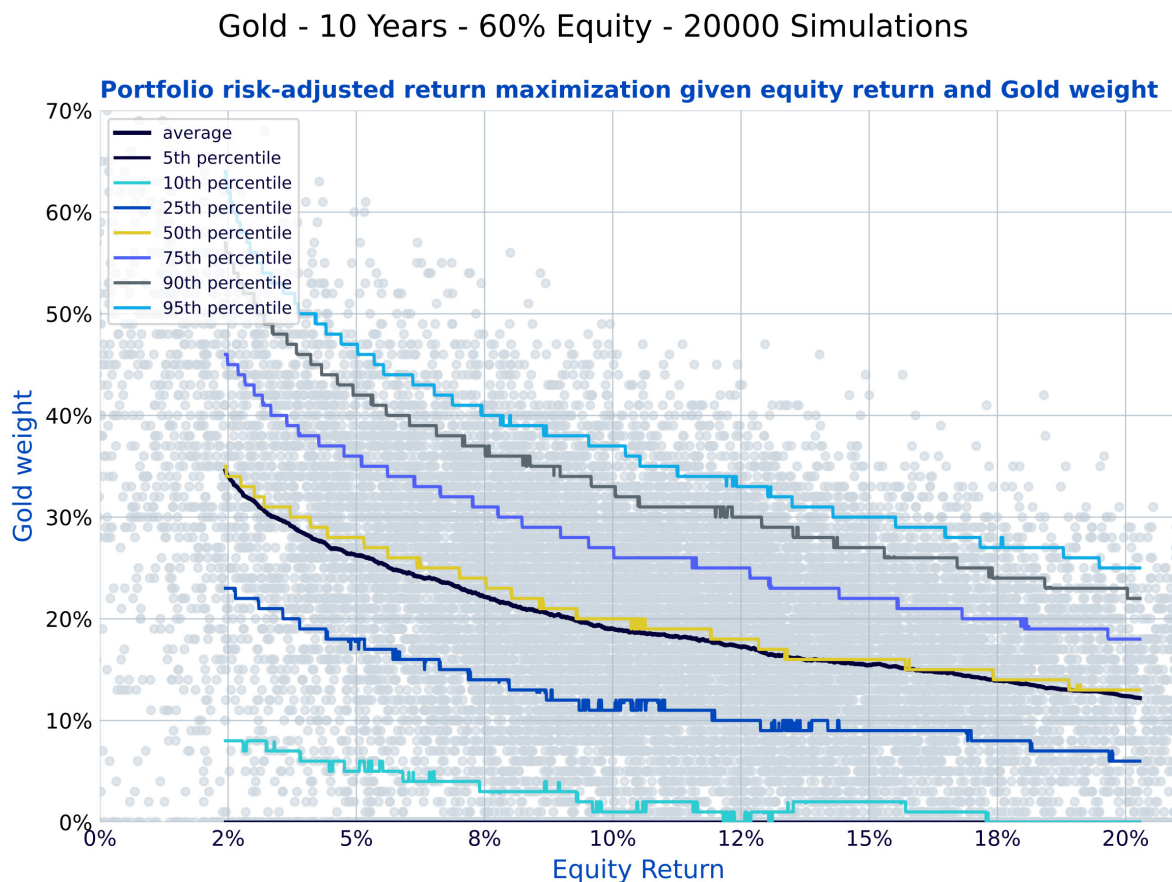
What the Framework Can Tell Us

By running these simulations, we can observe how gold’s presence affected portfolio resilience in a variety of historical combinations. In many simulated outcomes, portfolios that included gold experienced smaller drawdowns and smoother returns, particularly during periods when both equities and bonds struggled. In other scenarios — particularly during long bull markets for stocks — gold added less benefit or even modestly reduced performance.

The key insight is not that gold should occupy a specific percentage of a portfolio, but that it can play a flexible role depending on the economic backdrop. When inflation risk, currency instability, or geopolitical tension rise, gold’s value as a diversifier becomes more pronounced. When real yields are high and confidence in policy is strong, its relative appeal may diminish.

In other words, thinking about gold’s “optimal weight” isn’t about precision — it’s about understanding how the metal behaves across different environments, and how that behavior can complement other assets over time.

Figure 13: Portfolio Risk-Adjusted Return Maximization Given Equity Return and Gold Weight



Source: WisdomTree, Bloomberg, S&P. From January 1973 to September 2025. Calculations are based on monthly returns in USD. Asset descriptions at the end of this report. Each grey point represents the equity return and the gold allocation for which every realisation is maximised. The coloured lines represent various rolling percentiles, where the rolling window is made of 2000 simulations, that is, 10% of the total simulations. **Historical performance is not an indication of future performance and any investments may go down in value.**

Interpreting the Framework: When and Why Gold Matters More (or Less)

Each point in our analysis represents one possible version of the past — a 10-year stretch of historical data that we “reshuffled” using the bootstrapping method. For every one of those scenarios, we asked a simple question: “If this particular sequence of returns had been your investment experience, what mix of assets would have produced the smoothest, most balanced outcome?”

The result is a cloud of data points, each showing how much gold might have improved the risk-adjusted return (a way of describing how much return investors received for the amount of volatility they took on). The chart shows how these simulated experiences cluster — and where gold appears to make a bigger or smaller difference.

Making Sense of the Visual

- The horizontal axis represents how well equities did in that particular 10-year period. Far to the right are strong equity markets; to the left, weaker ones.
- The vertical axis shows how much gold, within that simulation, would have helped optimize the portfolio’s risk-adjusted outcome.

When we trace across the middle of the chart — the median line — we see a clear pattern:

- When equity returns are lower, the scenarios that performed best tended to include more gold.
- When equity returns are higher, gold still played a role, but a smaller one.

This pattern is intuitive. In periods when stocks deliver exceptional growth, investors already have strong tailwinds from risk assets. In those environments, gold’s defensive and diversifying traits are less critical. But in times when equity markets struggle or when volatility rises, gold’s independence from corporate earnings, policy expectations, and real yields becomes more valuable.

Thinking in Scenarios, Not Numbers

It’s important to emphasize that this framework is not designed to pinpoint an “optimal” gold weight — that’s not how real-world portfolio construction works. Instead, it offers a way to visualize conditions under which gold becomes more or less impactful.

You might think about it this way:

- If you expect strong global growth and low inflation, gold may play a smaller role — perhaps serving mainly as a modest diversifier.
- If you expect slower growth, persistent inflation, or policy uncertainty, gold’s importance as a stabilizer grows.
- If you believe the future will include more frequent shocks — geopolitical, fiscal, or monetary — gold’s structural independence can act as a portfolio shock absorber.

Why This Framework Matters

Most investors cannot predict what the next decade will look like. But by viewing portfolios through many possible pasts, we can understand how diversification works when it's most needed. Gold's impact tends to rise as other assets become more correlated or when the traditional stock–bond balance breaks down — conditions that have reappeared more frequently in recent years.

So rather than asking, “What percentage of gold should I own?”, the more practical question becomes: “Given how I expect the world to behave — economically, politically, and financially — how might gold behave for me?”

That framing moves gold from being a static number in a portfolio to a dynamic component of resilience.

Interpreting the Distribution of Risk-Adjusted Returns by Gold Allocation

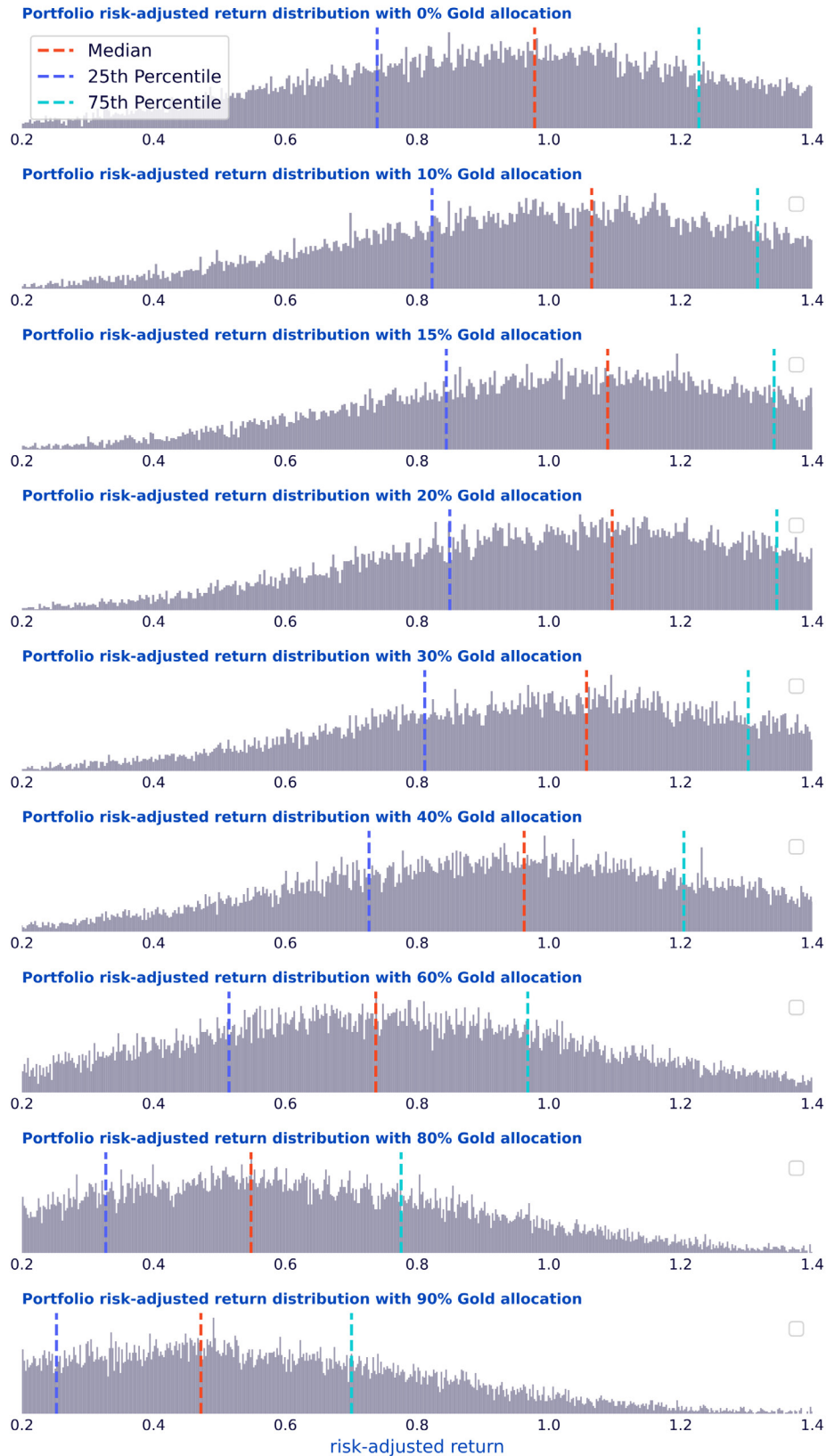
Figure 14 illustrates how the distribution of portfolio risk-adjusted returns shifts as the allocation to gold increases from 0% to 90%. The 0% gold allocation serves as the baseline — the reference point for how a traditional portfolio performs without gold.

Each histogram represents thousands of simulated 10-year periods, with the median (red dashed line) showing the typical outcome, and the 25th and 75th percentiles (blue lines) marking the middle range of experience. What matters most is how the median position moves relative to the baseline.

When the median line shifts to the right versus the 0% gold case, gold is additive, improving the typical risk-adjusted return. A leftward shift suggests that gold was not additive under those simulated conditions. Because we focus on the median rather than the extremes, this comparison reflects what tends to happen most often rather than the best or worst possible outcome.

The allocation where the median sits farthest to the right relative to the 0% baseline represents the portfolio mix that historically achieved the most balanced improvement in efficiency — higher return per unit of risk. In this analysis, that typically occurs around a mid-teens allocation to gold, where diversification benefits are maximized before concentration effects begin to dilute overall performance.

Figure 14: Portfolio Risk-Adjusted Return Distribution



Source: WisdomTree, Bloomberg, S&P. From January 1973 to September 2025. Calculations are based on monthly returns in USD. Each histogram represents the risk-adjusted return distribution for a given gold allocation. The iris, orange and light blue lines represent the 25th, 50th (median) and 75th percentile respectively. **Historical performance is not an indication of future performance and any investments may go down in value.**

What the Simulations Tell Us — and How to Interpret Them

The results of the simulation can look complex at first glance, but the story behind them is intuitive. Each line in Figure 15 represents one layer of experience — a different slice of possible investment outcomes based on thousands of simulated 10-year periods. Each line shows how the risk-adjusted performance of a portfolio changes as we gradually increase the share allocated to gold.

Step by Step: What's Happening in the Chart

- The horizontal axis shows the share of a portfolio that could be invested in gold — from 0% on the left to 100% on the right.
- The vertical axis shows how efficiently that portfolio performed over time, measured by risk-adjusted return (how much return was earned per unit of volatility).
- Each colored line represents a different percentile of possible outcomes — from difficult markets (the lower percentiles) to more favorable ones (the upper percentiles).
- The dots on each line mark the point where that particular scenario achieved its best balance between return and risk.

The Big Picture

As gold is gradually added to the portfolio, the lines rise — meaning portfolios generally became smoother and more resilient — until they reach a peak, after which the benefits begin to fade. What's interesting is not the exact height or shape of each curve, but how consistent the story is across all scenarios.

Across thousands of simulations, portfolios that included some gold — typically in the mid-teens range — tended to achieve better risk-adjusted outcomes than those that had none. Beyond a certain point, however, adding more gold contributed less diversification benefit, because too much concentration in any one asset reduces overall balance.

This pattern makes sense when viewed through real-world experience:

- When markets are volatile and inflation is unpredictable, gold tends to support returns by cushioning declines elsewhere.
- When markets are strong and stable, gold's contribution is smaller — but its presence still helps protect against sudden reversals.

Why This Matters

The results of the simulation can look complex at first glance, but the story behind them is intuitive. Each line in Figure 15 represents one layer of experience — a different slice of possible investment outcomes based on thousands of simulated 10-year periods. Each line shows how the risk-adjusted performance of a portfolio changes as we gradually increase the share allocated to gold.

This analysis isn't about finding a single "best" allocation to gold — markets evolve, and the future rarely repeats the past. The lesson is broader: across very different environments, portfolios that included a measured exposure to gold tended to show greater resilience.

That resilience stems from gold's ability to behave differently — not always better, but differently — from equities and bonds. Its role is to help the portfolio absorb shocks and maintain balance through cycles of inflation, policy tightening, and geopolitical uncertainty.

Bringing It Back to the Investor's Perspective

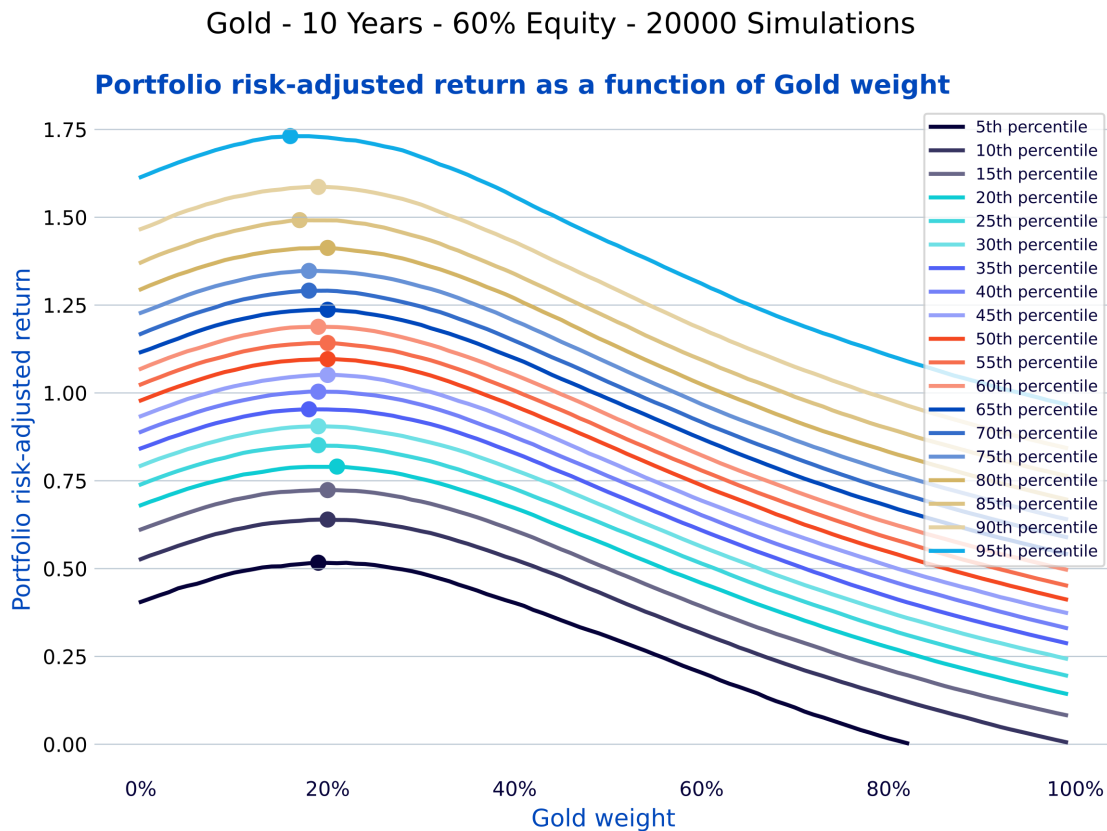
Investors don't live in a world of percentiles or simulations; they live in a world of uncertainty. This framework helps translate that uncertainty into insight. It shows that gold's contribution to a portfolio isn't about chasing higher returns — it's about broadening the range of outcomes in which the investor can remain confident and stay invested.

In that sense, gold's "optimal" weight isn't a number — it's a reflection of one's macro worldview.

- If you believe we are entering a period of sustained fiscal expansion, policy volatility, and inflation persistence, gold becomes more relevant.
- If you believe we're returning to a stable, disinflationary world, gold may play a smaller but still stabilizing role.

Either way, the principle is the same: portfolios that combine assets with genuinely different behaviors stand a better chance of weathering whatever the next decade brings.

Figure 15: 10-Years 60% Equity 20,000 Simulations



Source: WisdomTree, Bloomberg, S&P. From January 1973 to September 2025. Calculations are based on monthly returns in USD. Asset descriptions at the end of this report. Each line depicts the risk-adjusted return percentile as the gold weight varies. The dots on each line represent its maximum. **Historical performance is not an indication of future performance and any investments may go down in value.**

Conclusion: Gold's Enduring Relevance in a Fractured World

Gold endures not because it promises growth, but because it represents permanence in a world defined by flux. Across cycles of inflation and disinflation, expansion and crisis, confidence and doubt, gold's defining feature has been its independence from human assurances. It cannot be printed, defaulted on, or politically redefined. That singular quality — existing outside the frameworks that govern every other financial asset — gives it power precisely when those frameworks come under strain. For investors navigating a world of fiscal experimentation, geopolitical realignment, and evolving inflation dynamics, that power is not theoretical; it's portfolio-level protection that has proven itself across generations.

In the coming decade, successful portfolio design will depend less on chasing precision and more on cultivating resilience. Bonds may not behave as they once did; equities will continue to oscillate between optimism and fear. But gold's role as a counterbalance — a store of value that thrives on asymmetry — is likely to become even more relevant as the boundaries between monetary and fiscal policy blur. The point is not to idolize gold, but to recognize what it represents: optionality in an age when few assets truly diversify. For investors building portfolios to endure the next era of uncertainty, that optionality may prove indispensable.

Please see the [WisdomTree Glossary](#) for definitions of terms and indexes.

IMPORTANT INFORMATION

Using an asset allocation strategy does not assure a profit or protect against loss. Investors should consider their investment time frame, risk tolerance level and investment goals.

Diversification does not eliminate the risk of experiencing investment losses.

You cannot invest directly in an index.