

Gold | Theme Update

Q3 2026

In a Nutshell

Positive quarterly return masks significant monthly volatility

Gold rose 3.6% in Q3, but only after moving from -1.4% in July to +12.4% in August and -6.6% in September. Our long-term case is unchanged; in the near term, higher Treasury yields and a firmer dollar are the main risks.

Summary

Gold returned +3.6% in sterling (+3.7% in US dollars) in Q3 and ended the quarter at \$4,157 an ounce. Monthly returns in sterling (US dollars) were: July -1.4% (0.0%), August +12.4% (+13.3%) and September -6.6% (-8.5%). Year to date, gold is down 3.4% (down 4.6%), but it is up 10.4% (up 8.9%) over the last twelve months.

Short-term moves in gold are noisy and, on their own, tell us little. What matters for our allocation is the longer-term record, which has been strong, particularly in 2024 and 2025 but also in the 3 and 5-year periods shown:

Q3	YTD	2025	2024	2023	2022	3 yrs (pa)	5 yrs (pa)
+3.6%	-3.4%	+55.5%	+27.5%	+7.9%	+12.8%	+27%	+19%

Returns in sterling to 30 September 2026; 3 and 5-year figures are annualised. Source: Bloomberg, Bentley Reid

Our allocation to gold (typically 2.5% in Balanced mandates, within the alternatives bucket) is strategic rather than tactical. We accept that it will be volatile in the short term, in both directions, and that its returns will differ materially from those of the FTSE All World Index (a high tracking error). That difference is the point. In the three years to 31 August 2026 gold had a correlation of just 0.07 with global equities, but it was also much more volatile (18.3% a year against 10.8%). Correlations are not constant, and gold fell by around 12% in US dollars in each of March and June this year, so it can itself be a source of risk.

Risk (3yrs)							
Time Period: 01/09/2023 to 31/08/2026 Currency: Pound Sterling							
	Return	Std Dev	Beta	Alpha	Sharpe	Max DD	Correl
Royal Mint Rspnsbly Srcd Physcl Gld ETC	29.65	18.32	0.12	21.73	1.27	-23.05	0.07
FTSE All World TR USD	18.28	10.83	1.00	0.00	1.19	-9.94	1.00

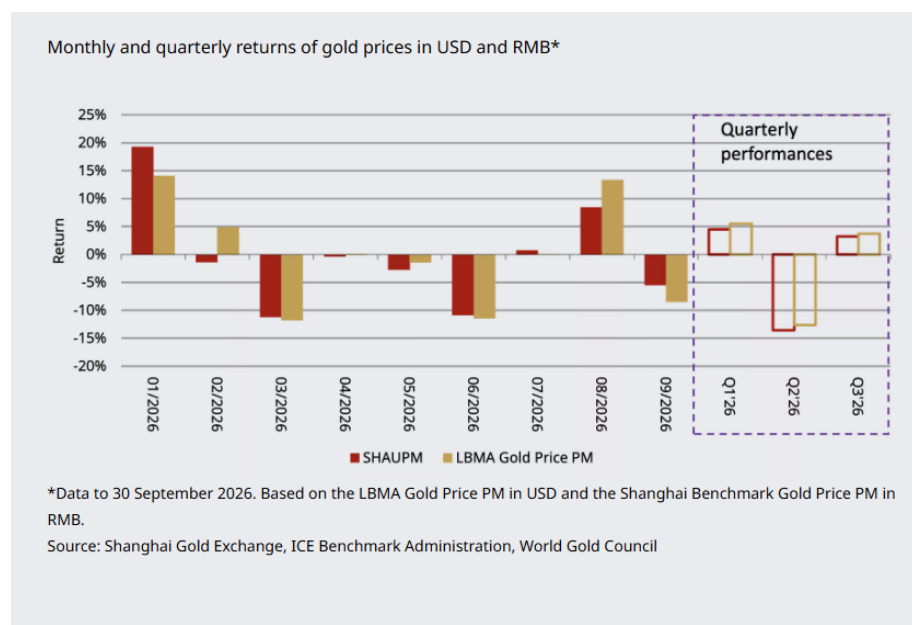
Source: Morningstar

Gold is a volatile asset but a strategic allocation

Our thesis rests on four structural drivers: rising government debt and the risk of “fiscal dominance” (where central banks come under pressure to keep interest rates low so that governments can finance their borrowing); deglobalisation; geopolitical uncertainty; and the greater use of the dollar system as a tool of foreign policy, for example through sanctions on central-bank reserves. We believe these will lead more institutions and governments to seek assets that sit outside any single country’s currency or banking system, as many central banks have already begun to do.

Developments

After a volatile first half, in which gold reached around \$5,000 in January and then fell by about 13% in US dollars in the second quarter, Q3 saw a period of base-building followed by a partial recovery. July was largely a consolidation phase around the psychologically important \$4,000 level, with central-bank purchases and improving ETF demand helping to stabilise the market. August was the strongest month: softer US jobs, CPI and PPI data lowered expectations of further Fed tightening, while continued official-sector buying, including a second consecutive 20-tonne purchase by the People's Bank of China, supported prices. In September gold gave back most of August's gain as Treasury yields and the dollar rose sharply. It finished the quarter at \$4,157/oz, still roughly 17% below its January high.



Up-Down-Up has been the quarterly story in 2026

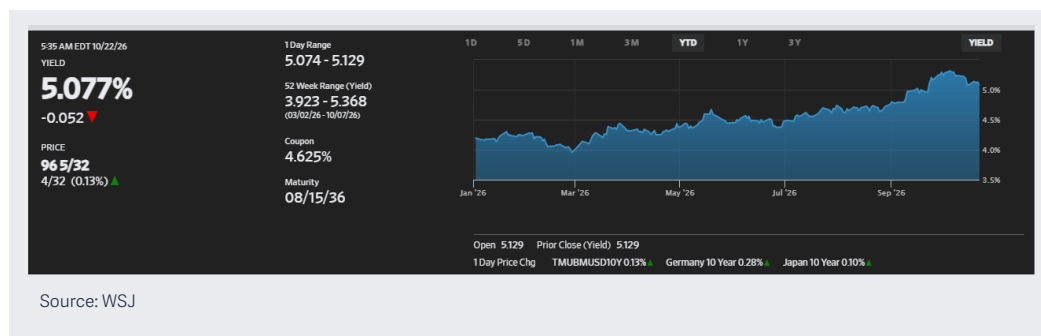
In October so far, gold has traded in a range of roughly \$4,000-\$4,200/oz. \$4,200 has repeatedly acted as resistance on the upside and \$4,000 as support on the downside. Buyers defended \$4,000 after the latest inflation data, but a sustained move higher probably needs lower bond yields.

Overall, gold behaved less like a momentum trade this quarter and more like a hedge on real yields and policy expectations. It rallied when weak growth or inflation data reduced the likelihood of higher interest rates, and it struggled when bond yields rose and oil-driven inflation concerns reappeared. In the short term, gold may not be a reliable hedge against inflation because the policy response (higher rates) works against it. Our case is that fiscal pressures will limit how far policymakers can allow real yields to rise, and in the longer-term gold does offer insurance against continued fiscal profligacy.

The near-term balance of risks is finely poised. Supportive factors are falling real yields, growth concerns, equity volatility, geopolitical tension and central-bank demand. Negative factors are higher oil prices, hawkish expectations for the Fed, the pull of AI-driven equity growth and further rises in Treasury yields.

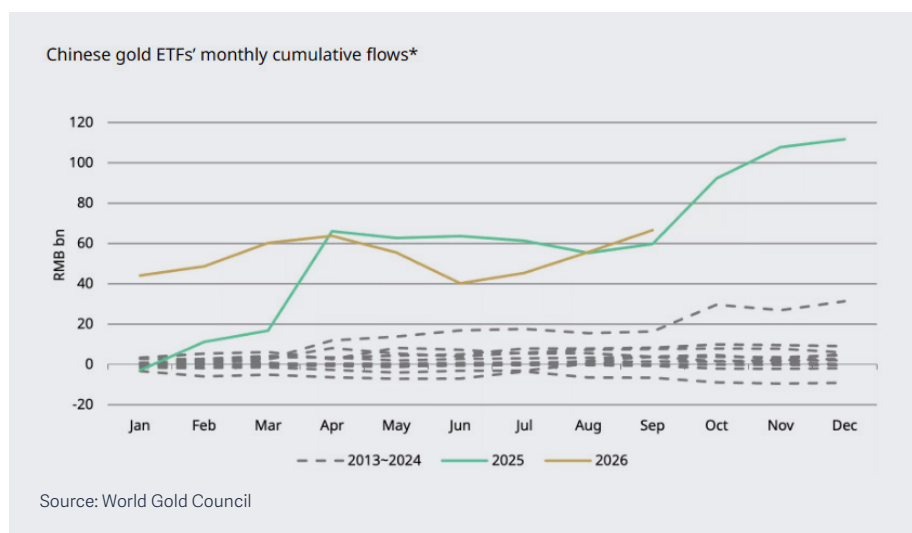
Outlook

Higher yields remain the main near-term headwind. Gold pays no income, so rising yields increase the opportunity cost of holding it. The 10-year Treasury yield has risen from a low of 3.9% in February to a high of 5.37% on 7 October (5.08% on 22 October). A firmer dollar is also a headwind, with DXY around 102 in late October.

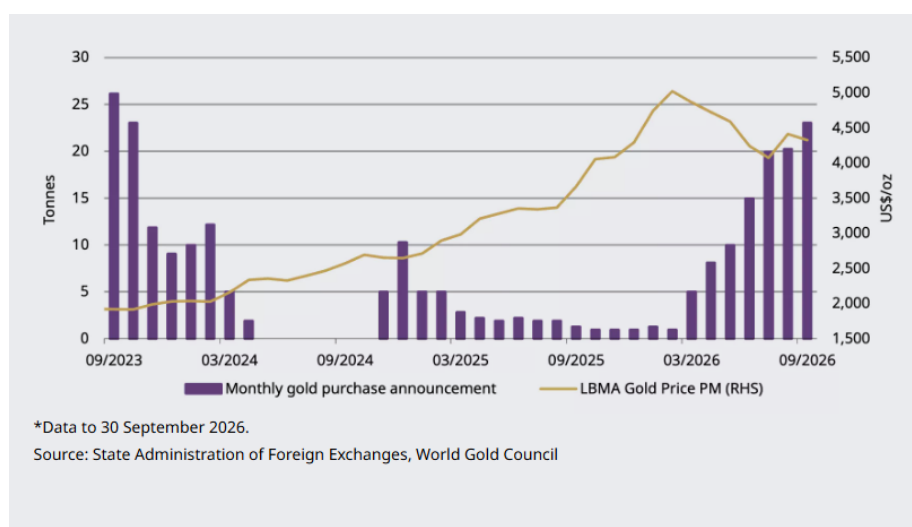


Bond yields rose during Q3. Higher yields are a near-term headwind for gold, a non-yielding asset

Investment demand has been supportive, but it is not unconditional. Chinese gold ETFs added 27t in Q3 and have taken in around RMB 67bn so far this year, slightly ahead of the pace in 2025, which suggests investors are using dips to add to positions. However, the same chart shows outflows of around RMB 24bn during the second-quarter sell-off, so ETF demand has tended to follow the price rather than lead it.

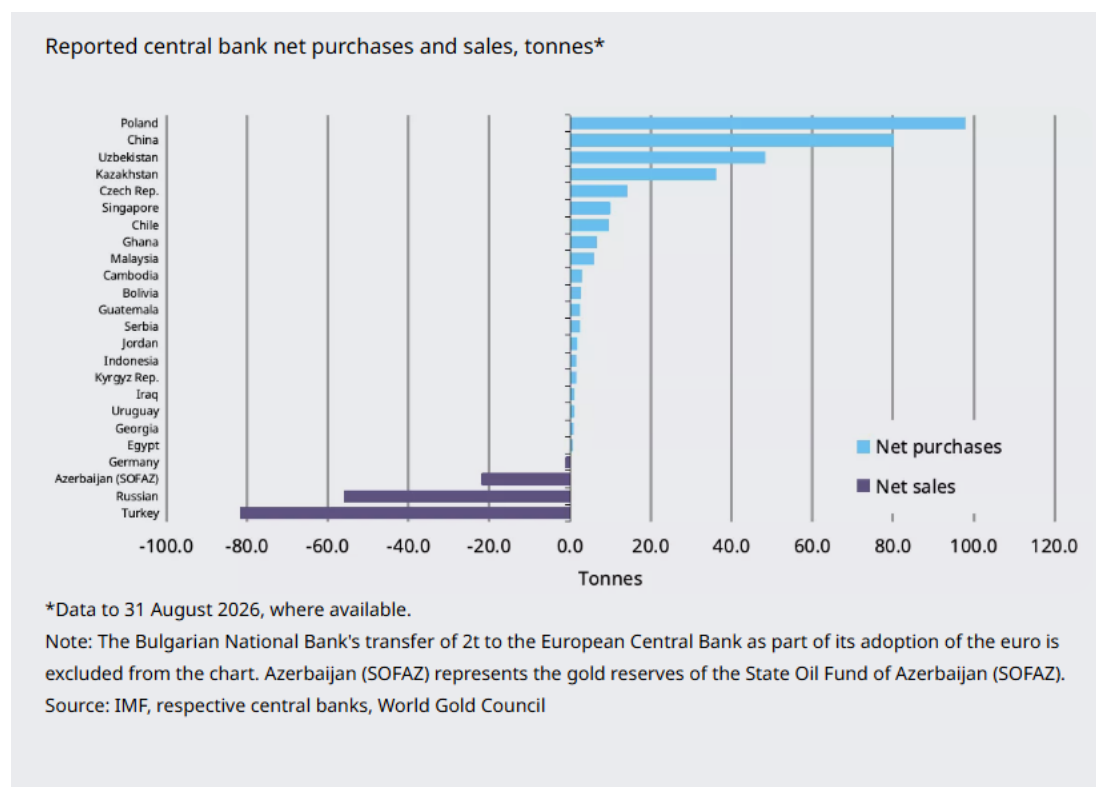


Chinese gold ETFs added 11t in September, the third consecutive monthly rise. A total of 27t were added in Q3



PBoC buying has stepped up sharply since the spring, reaching 23t in September

Central banks remain the most important source of demand. Reported net purchases to the end of August were around 170t, led by Poland (98t) and China (80t), with Uzbekistan and Kazakhstan also significant buyers. Turkey, Russia and Azerbaijan's state oil fund were net sellers, so official buying is not universal. The People's Bank of China announced a purchase of 23t in September, among its largest monthly purchases since 2023. However, its buying was small during the 2025 price surge and stepped up only after prices fell, which suggests official buyers are sensitive to price to some extent.



Poland and China led central-bank buying to end-August; Turkey and Russia were the largest net sellers

Valuation and the long-term case

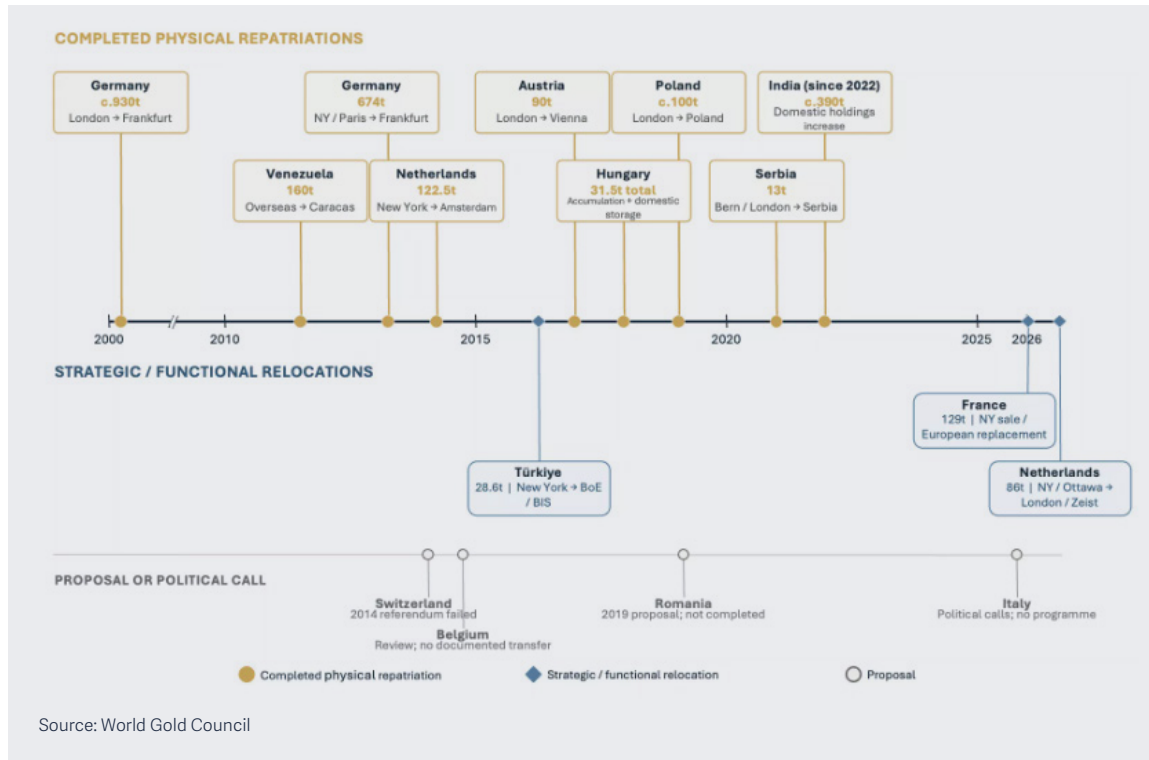
Gold is hard to value because it produces no income, so there is no earnings or dividend yield to anchor to. At \$4,157 it is roughly 17% below its January high but still around 55% above its level two years ago. We do not hold gold because it is cheap. It is a portfolio diversifier and a hedge against fiscal, geopolitical and monetary-regime risk, not a forecast that it must outperform equities over the next year.

We see the current position as a rates-and-dollar correction within a structural uptrend but cannot rule out further falls. Gold has gone through extended periods of weak returns when real interest rates were rising, and that may happen again if policymakers prove able to keep real yields high.

Longer term, however, we think fiscal dominance is the most likely US response to its debt burden. Higher interest rates directly raise the cost of servicing a large stock of debt, much of it short-dated and therefore refinanced frequently, so the authorities have a strong incentive to hold yields down by one means or another.

Gold also offers diversification against an equity market that has risen significantly over the last four years, although it is also vulnerable to higher real yields, and its declines of around 12% in March and June this year show that over shorter periods it can fall sharply at the same time as other assets.

We do not expect the structural drivers (fiscal dominance, geopolitics, inflation risk and the use of the dollar system as a policy tool) to change soon, and the recent moves by France and the Netherlands to relocate gold held in New York (below) are consistent with that view.



French and Dutch gold moved out of New York in 2026

Positioning

We hold the Royal Mint Responsibly Sourced Physical Gold ETC. We chose it for three reasons:

- Custody outside the banking system: The gold is held in a purpose-built, high-security vault in Wales. This removes the custodian-bank risk associated with synthetic or bank-custodied gold products.
- Physical backing: Each security is backed by physical gold bars held in the vault, and the gold is responsibly sourced and verified.
- A physical delivery option: The ETC allows investors to take delivery of gold bars. Most clients will never use this, but it is a useful safeguard in an extreme scenario. Delivery is subject to the issuer's terms, including any minimum size and fees.

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