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What Is Gold Telling Us?

Companies and fortunes come and go, but gold we always have with us. At times it's a speculative asset, or a safe haven, or a diversification play, but it's certainly worth watching when the gold price surges to $4,000 an ounce for the first time Tuesday.

The precious metal is a traditional haven in times of economic uncertainty or inflation, and you can see that attraction now. The U.S. government is closed amid partisan gridlock, and fears are growing that President Trump will cave on a permanent expansion of healthcare subsidies that would cost $450 billion the government doesn't have. The Federal Reserve may abandon its battle against inflation before that battle is won.

Note

Further afield, France is ungovernable, other parts of Europe nearly so. China's economy is faltering, and no one knows if Japan's likely new Prime Minister has a plan to revive what used to be a vibrant industrial powerhouse. Global supply chains are in limbo amid various and sundry trade-and-tariff wars. Geopolitical risks are rising.

Note

Investors awash in cash are looking for safety as they also look to maximize returns. Despite, or because of, Fed short-term interest cuts past and future, long bond rates stay high—possibly a sign markets are wary of inflation risks or uncertain economic-growth prospects or both.

Note

But there's a boom in other credit markets, especially for exotic forms of debt such as subprime auto loan-backed securities. Equities are at record valuations,

thanks to the artificial intelligence mania and expectations of higher corporate earnings after the recent tax bill.

It's hard to know how much of this constitutes a bubble, as markets do their work of funneling capital into promising but risky new technologies such as AI. It would help if investors could weigh such risks against a backdrop of monetary stability, but both President Trump and Federal Reserve Chair Jerome Powell seem to have different ideas. However much they disagree with each other in word, in deed they both seem willing to tolerate inflation above the Fed's stated 2% target. So why not buy gold?

Note

A useful way of understanding this, as our friends at the New York Sun might say, is that the dollar's value now has dropped to 1/4000th of an ounce of gold. Whatever the specific reasons for a given price move, this drop in purchasing power isn't consistent with victory in the war on inflation that voters elected Mr. Trump to prosecute.

Don't interpret this as a prediction of a panic or crisis. Inflation may yet fall, and AI may well make good on the promise investors think they see. Rather, the gold price is a word of advice to Mr. Trump and the Fed: Investors are seeking reassurance on inflation, the dollar, and less manic economic policy.

