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ECO / GTH

A Golden Age for Uncertainty

Government shutdowns aren't good for much beyond political point scoring. Unless, that is, you own gold.

Then, the ensuing disruptions can be uplifting. Not that markets have been lacking for political drama this year. And gold, which hit fresh records Wednesday, has already made plenty of it.

Over the first three quarters, gold was up about 47%, trouncing the S&P 500's rise of nearly 14%. A weak dollar and the start of a new easing cycle by the Federal Reserve have helped drive the gains. Silver has done even better, rising 60% over the period.

The shutdown, depending on its length and severity, could add additional luster to this run. For investors, the precious metal has tended to act as a hedge against a range of undesirable things, including inflation and debasement of the dollar or other currencies, but also political turmoil and general uncertainty.

This is partly due to its nonpolitical nature: Unlike Treasury debt, gold's value isn't tied to any sovereign power. So, particularly at times when the U.S.'s pre-eminent position in global finance has looked vulnerable, gold has done well.

Even before the shutdown became reality, the possibility of one had helped push the gold price higher. Gold reached a previous cyclical peak in September 2011. That happened after Standard & Poor's downgraded the U.S. credit rating following the long debt-ceiling conflict between Congressional Republicans and then-President Obama.

The case for silver—or indeed platinum, which is up around 75% this year—is slightly different. These precious metals share many of the special attributes of gold, but also have real-world industrial uses. This means they tend to perform best when monetary policy is being loosened but the underlying economic situation still isn't terrible. That seems to be the case now. But as a bulwark against serious downturns and catastrophic risks, they don't perform as well as gold.

In April, when tariff fears were at their peak, the ratio of gold to silver prices reached high levels that have historically served as a strong buying signal for silver. Since then silver has gained around 40%, closing much of that gap.

The case for gold, meanwhile, remains intact. True, as an inert substance it will almost certainly underperform stakes in productive, growing companies over a long time horizon.

Still, it has a solid record of handily beating stocks when things seem to be going sideways, including in the 1970s and the first decade of this century. This is why many advocate a meaningful allocation to gold in investor portfolios, perhaps 5% to 10%, as a hedge.

Whatever one thinks of the second Trump administration's record so far, it seems a fair bet that uncertainty of all kinds is likely to remain high. That, in turn, makes the argument for holding gold hard to ignore.

47 %

Increase in the price of gold during the first three quarters of the year

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Thursday, 10/02/2025 Page .B011

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