Gold Bull Market – Conclusion lists Two Scenarios, both bullish for Gold

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Key concept: Major global World Wars excluded, I contend that Gold "**only**" rises sustainably when "**both**" Equities and Bonds yield Negative Real Returns (**NRRs)** after adjusting for inflation, fees and taxes, **OR** the probability of NRRs. Currently Buffet, Hussman and many others predict NRRs from Equities for the next decade plus.

Most agree: This Generational Gold Bull Market (GGBM) still has a way to go before its $8300+ to $10 000 peak is reached around 2027 / 2028 / (2029?). To more accurately predict the timing of that peak, we need to check if the Bond and Equity markets are likely to "both" be in trouble in the next two years, because of rising rates. Note! If we truly are at the start of a rising rates and inflation Supercycle (see below), we could then see a correction when Gold reaches say $10 000, whereafter the next target "could" be around $25 000 by say 2040?.

Status quo: Currently, Bonds are in trouble, for as long as yields continue rising, and it seems we are at the start of both rising inflation and interest rate super-cycles. Currently, Equities are at historic record levels by most metrics, so the prospect of a major correction or crash in the next year or two is very high. Moreover, when prices are "very" high and rising, the probability of negative returns over the next decade keeps rising, because at some point it becomes impossible to buy high and sell even higher. NB! Equity valuations are in trouble when rates rise, unless profit growth exceeds those higher rates, which is not sustainable for much longer. Therefore, the question is, for how long can earnings keep beating/offsetting rising rates.

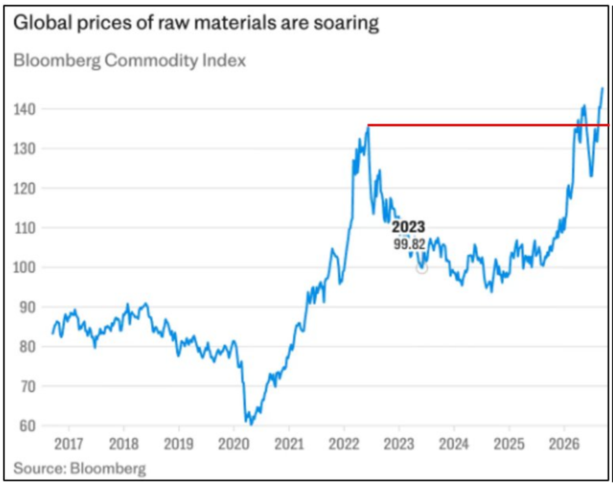
Rising inflation (and rates – the invisible hand of free market forces at work): Therefore, a lot hinges on the probability of persistently higher inflation, as yields typically rise in sympathy to ensure that Bonds deliver positive "real" returns after inflation, fees and taxes. Right now, there are countless inflationary influences, that could put a floor under falling yield values, per the list below:

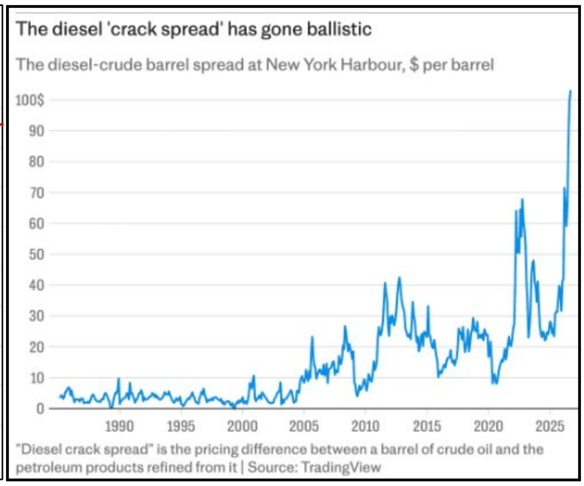
1. In the absence of fiscal discipline, perpetually high and rising "Fiat" deficit spending is definitely inflationary in itself.
2. Deficit spending, at 5.0%-6.0% of GDP p.a., has been double GDP growth (2.5%-3.0%) these past 4-5 years (**when times were/are good**), which is inflationary.
3. Odds are that, deficit spending will rocket higher when markets crash, in the next year or two, and bailouts resume.
4. After US Social Security reserves run out around 2031, an increase in deficit spending will have to make up the growing shortfall as more boomers retire. Markets factor this in.
5. The US Dollar has weakened by 10% these past two years, which is inflationary (for US).
6. The producer price index is rising, and that mostly precedes higher CPI.
7. Protracted Hormuz conflict, exacerbated in both straits by Hezbollah and Houthi radicals with no end in sight, is underpinning higher energy prices.

Puts a floor under lower rates? Will we see even higher oil when strategic oil reserves and the inventory pipeline run out?

8. Land, container and bulk shipping prices have doubled and trebled these past 6 months.
9. Fuel, Energy, Mineral and Food prices have been "trending" rapidly higher of late.
10. The AI data centre buildout is fuelling demand for many strategic minerals like Copper, building materials, equipment, skills, etc.
11. Commodity mine/source dominance wars are underpinning those higher prices.
12. Demand is exceeding supply as many old mines run out and regulatory/eco compliance walls delay new mines.
13. If offshoring was deflationary, is onshoring inflationary? Can AI/Automation offset this?
14. Higher Trump tariffs are inflationary (for US).

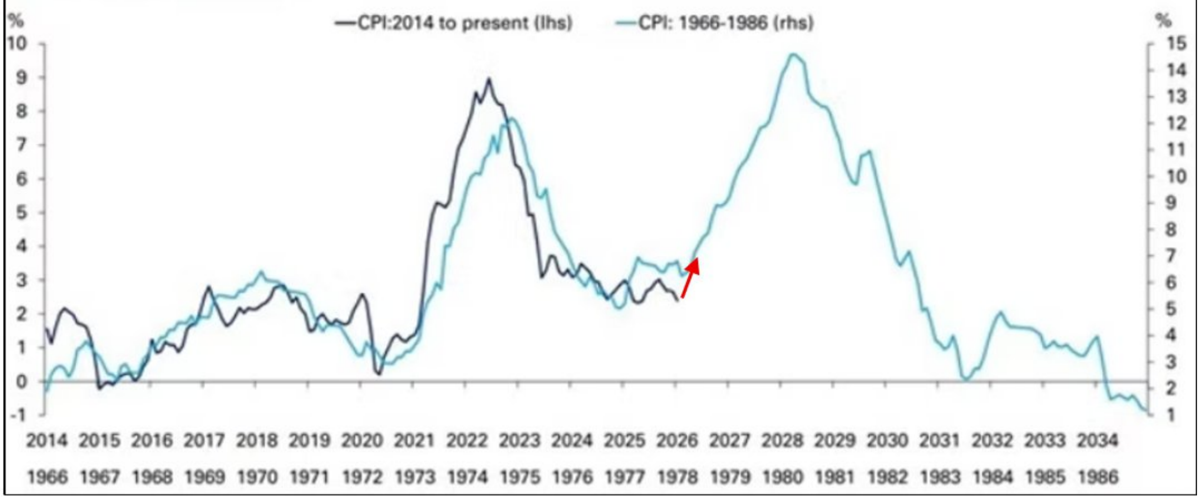
These considerations give rise to the need for some evidence that inflation and rates are rising. Since inflation currently seems to be supply (not demand) driven, we look to commodity price inflation, as that is often the supply side driver of inflation. The commodity chart below (from Focal Points) shows that price has broken up from a cup-and-handle formation, which suggests with 80+% probability that the index will rise to 1.8x the depth of the cup above the red rim. i.e., A target of 95+1.8x(135-95) = 167, which clearly suggests higher inflation ahead into say 2028. The second chart reflects the increase in Diesel prices, which affects shipping/delivery costs, which eventually filter through into higher retail prices.





Below is an illustration that superimposes the current inflation trends (black line) on that of the 1970s (blue line). Note how the blue inflation did not go up in a straight line from 1966-1980, but in an ever-increasing wave trend. Note how the current black inflation cycle seems to be following a similar trend, particularly if you factor in the jump in inflation these past six months (red arrow below). Obviously, that correlation can continue, or not, but the above bullets/ analysis suggest that it will. If it continues, the target seems to be around 10+% (LH scale).

Figure 1: US Inflation: 1970s vs Today (Different Scales). The chart often gets derided but eerie that Iran now links the second shock in both cycles.



Rising Rates: Next, let us look at a few charts to give us an indication of what rates may be up to, because rising inflation begets rising rates, as investors seek positive “Real” returns after adjusting for inflation, fees and taxes.

The US 10 year yield chart below shows the 40+ year declining rates trend from 1980-2020 and clearly shows that rates have broken out to the upside (hit 5.18% on 24/09/2026). This is, almost certainly, the start of a rising rates Super Cycle that should last 10-15 years.

Technical analysis suggests that the rise into the peak (magnified blue insert) should be duplicated by an equal rise once price breaks up out of the pennant, which it has, (upper arrow left chart), with over 80% probability. This suggests that 10 year US Bonds yields are going to get to at least 7.5%-8.0% over the next year or two.

Bullets below list rising rate influences, over and above those driven by rising inflation.

1. Countries with huge US Bond holdings, like China and Japan have been selling to reduce Dollar/US exposure, which exerts upward pressure on US rates.
2. The pension, bond and investment funds’ bond vigilantes, who represent the market, are selling bonds (raising rates), whereas governments are buying bonds to keep rates low. That is because Countries with high debt, like the US and most of the rest of the world cannot afford higher rates as those raise debt service cost and deficit spending.

3. Higher rates (bond yields), are the market's way of reflecting higher market risks, which are currently rising, as discussed under headings below.

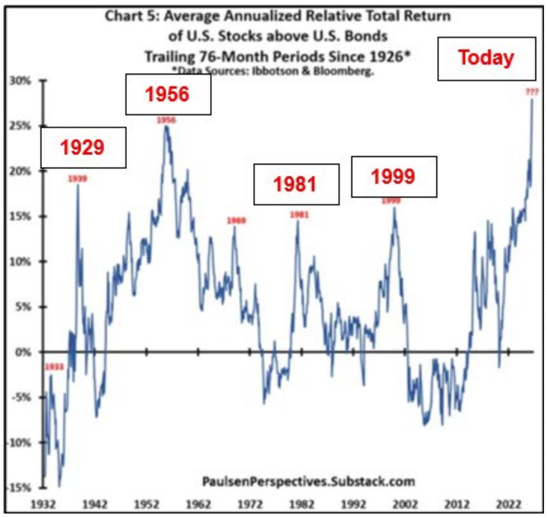
BONDS TANKING AS RATES RISE: Currently not a haven asset, so 60:40 portfolio in trouble?

As interest rates rise, existing Bond values fall, which is why Bonds are losing their haven appeal in the 60:40 portfolio (Rising rates also kill property). As investment companies rotate out of Bonds into Equities to sustain their returns, more Bonds are sold which again increases the market's yields. This can become a self reinforcing cycle. A key question is, where is the money going when it is leaving the 40% bond market allocation? It can go into Equities, because they are currently providing positive returns, but overexposure to Equities is currently risky since Equity markets are at peaky/record levels by most metrics. It can go into Corporate Bonds/Private Credit in search of higher yields, but those will also become less attractive if rates keep rising and the risk of a market crash and corporate defaults rises. More importantly, of late, Private Credit mostly falls in the unregulated unsecured off balance sheet Shadow Banking preserve. Next, it can go into cash and money markets, which provide increasingly attractive safer returns. Finally, it can move into the ultimate haven assets comprising Gold, Silver and PGMs. Physical Gold is the ultimate haven asset, as that eliminates third party risk.

Confirmation that the 60:40 portfolio's 40% allocation in Bonds is in trouble !! ??

Jim Paulsen notes, "during the last 76 months, the U.S. stock market has outperformed U.S. bonds by an almost 28% average annualized pace – the biggest outperformance of stocks above bonds in 100 years!"

Author comment:
Looking back at prior peaks, it seems clear that this market peak suggests that this market is near its tipping point.

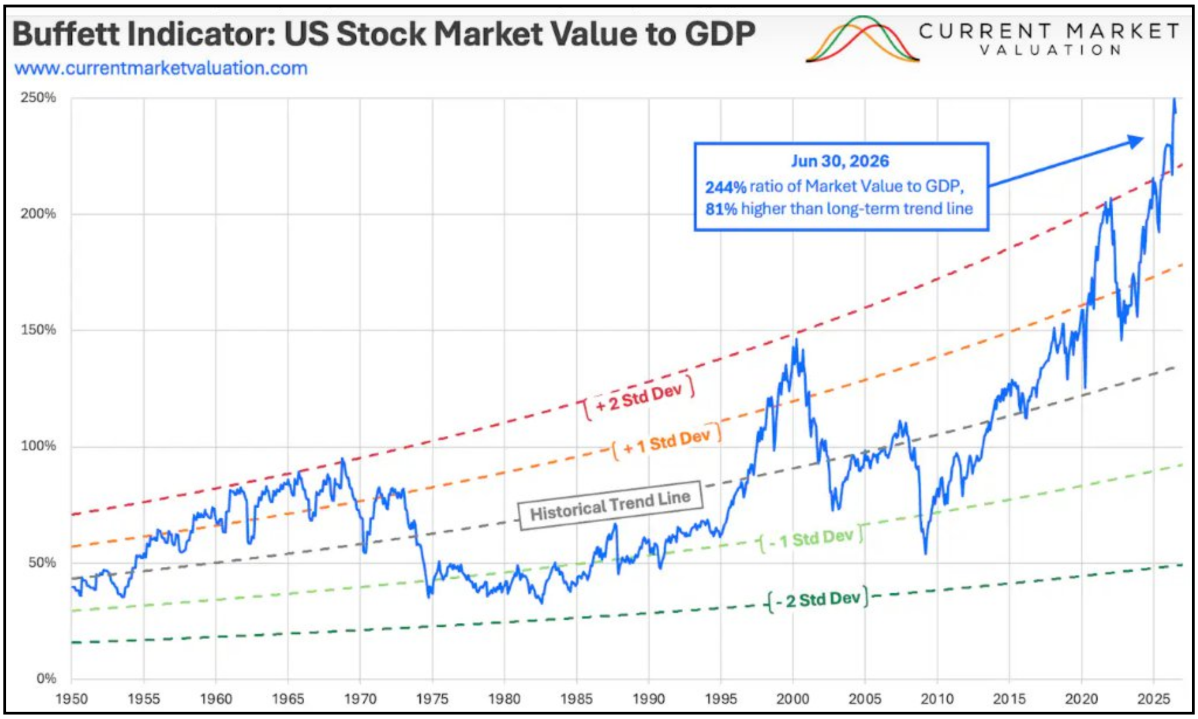


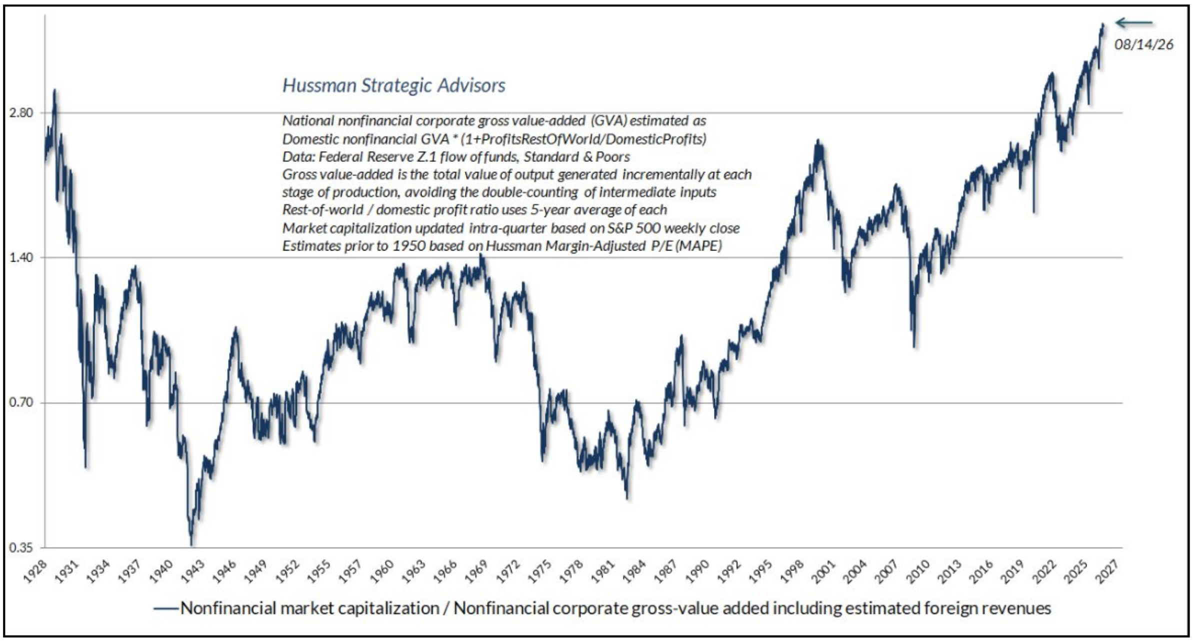
Remember, **low Bonds** are the "**denominator**" that is uber elevating the last super high Equities peak.

Imagine how far Equities need to fall to make this ratio drop significantly, if Bonds remain low.

Worse still, imagine how far Equities would have to fall to make this ratio drop significantly, if Bonds start rising again.

EQUITIES – nearing a top?: Equities are at never seen record levels by most metrics, exceeding 1928 and 2000. The charts below, that show Buffet's indicator (since 1950) and John Hussman's indicator (1928+), confirm that. For now Equities are rising, driven by strong earnings, but for how long can this continue? Only for as long as Earnings growth can outstrip higher rates? The question is, what is the tipping point for Equities? The risk free 10 year yield at over 5.0%? Therefore, the question is not if Equities will roll over, but how soon a major correction, or a destructive 50%-70% crash will manifest. Imagine the chaos if both Equities and Bonds are crashing simultaneously because of rising rates, which also hurt consumers. Yes, Bonds at the short end of the curve may provide some haven status, but rising inflation could put a high floor under the drop in yields.





Two scenarios/conclusion: If both inflation and rates continue rising for the next few years, Bonds remain underwater and Equities will eventually capitulate, when their earnings fail to stay ahead of rising rates. Given that both inflation and rates seem to be in a rising trend, these are the two most likely scenarios as I see it.

1. Rates keep rising and Bonds keep falling, while Equities keep delivering higher earnings. In that event:
   a. Bond values keep falling and losing their Haven asset appeal, which is good for Gold.
   b. Money markets offer positive returns, which detracts from Gold’s appeal, except that holding physical Gold can eliminate third party risk.
   c. Earnings keep rising and Equities keep climbing, but that is not sustainable as the risk of a major correction/crash rises the higher they go, and then Gold looks increasingly attractive as a Haven Hedge.

2. Rates keep rising and Bonds keep falling, while Equities' earnings fall considerably and markets correct materially or crash. In that event:
   a. Bond values keep falling and lose their Haven asset appeal, which is good for Gold.
   b. Money markets offer positive returns, which detracts from Gold's appeal, except that holding physical Gold can eliminate third party risk.
   c. Equities offer NRRs, which makes Gold the ultimate haven asset, because "both" Bond and Equities offer NRRs.

Question is, which scenario is more likely. I contend that Gold will correct when Equities correct/crash, which suggests the pending Equities correction/crash holds the key. i.e., Either:

1. Gold it is nearly done correcting and the final 1.5-2.0 year bull market run is about to start. That suggests Equities are going to run for another 1.5-2.0 years before correcting, because Earnings are strong, the Jobs market is strong, productivity is rising, and AI seems to be making a positive impact. Gold will then be rising in the face of NRRs in Bonds and a rising expectation of NRRs in Equities. **OR**
2. Equities are going to correct now/soon, because of the collapse of the Hyperscalers?, or because rates are rising too fast, and that will drag Gold down further. That implies Gold will resume its ultimate haven asset role in the face of NRRs in both Equities and Bonds, and will only commence its final 1.5-2.0 year bull market run say 3-4-5 months later, midway through the correction/crash.

So, which is it? Despite the fact that the markets are super overvalued by many historic metrics, I tend to favour the first simultaneous Equity/Gold bull market scenario. i.e., Where the aforementioned positives overwhelm Hyperscaler fears and Equities remain strong, but investors also seek Gold as a haven hedge as Equities climb a rising wall of worry. Time will tell.

Regardless of which scenario, I think we face painful global economic reset, comprising a protracted stagflationary period much like the deflationary depression of the 1930s.

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Eelco Robert Lodewijks was born in South Africa. He has a BSc Civil Engineering from University of Cape Town and a MBA from UCT. Mr. Lodewijks lectured Advanced Excel and Advanced Financial Modelling in Excel on the international circuit (including Hong Kong, Singapore, Brunei, Malaysia, Dubai, Kuwait, RSA, Mauritius, Zambia, Nigeria, Uganda, Tanzania and Zimbabwe). His early career was spent in construction site management on large multi-million Dollar projects, both in South Africa and the Middle East, where-after he did his MBA.