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Chief Investment Office GWM
Investment Research

Bullion breaks USD 3,000/oz: Can gold shine brighter still?

UBS House View - Daily US

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From the studio:

Video: **CIO's Wayne Gordon on why the gold rally isn't done yet** (1:40)
Podcast: **Paul Donovan on whether Germany's chancellor-in-waiting is the comeback kid** (25:00)

Thought of the day

Gold prices have again reached a new all-time high, rallying to as high as USD 3,031 per ounce on 18 March, after a fragile ceasefire in Gaza appeared to collapse following renewed Israeli military strikes. The rise in tensions in the Middle East comes alongside heightened tariff uncertainty, worries over the outlook for the US economy, and rising Federal Reserve rate cut expectations. After this latest rally, gold has gained around 15% year-to-date, building on its 27% advance in 2024.

The last time bullion crossed a "thousand-dollar" threshold was when it broke through the USD 2,000/oz mark in August 2020 amid uncertainty surrounding the COVID-19 pandemic. With the USD 3,000/oz milestone reached, investors may be uncertain if gold's appeal can extend further.

But we see several reasons why gold looks likely to remain well-supported:

Geopolitical flashpoints remain fraught. Tariff concerns have intensified among US trade allies in the weeks since the White House rolled out "fentanyl-related" import duties on China, Canada, and Mexico. US President Donald Trump on Sunday again vowed to impose new reciprocal and sector-specific trade tariffs on 2 April.

The US president is expected to speak with Russia's Vladimir Putin on Tuesday in search of a ceasefire in Ukraine, with Putin likely demanding conditions that will be difficult for Ukraine and its European allies to accept. In the Middle East, the US military has stepped up strikes on the Houthis in Yemen. Israel on Tuesday launched military strikes against Hamas across Gaza amid failed talks to extend the initial phase of the ceasefire agreed in January.

Markets have moved to price in a faster pace of rate cuts from the Fed, providing extra support for gold. Data from the Chicago Fed suggests

What to watch: 19 March 2025

- The Federal Reserve's policy meeting
- Bank of Japan policy meeting

national financial conditions are hovering near their tightest levels since October 2021. Souring US sentiment indicators have caused markets to move from pricing around two quarter-point rate cuts from the Fed this year to a higher probability of three. While the threat of tariffs is contributing to consumer inflation expectations, the underlying inflation picture continues to moderate. We think this will allow the Fed to look through one-off price rises on tariffs, setting up two 25-basis-point (bps) rate cuts this year. Rate cuts typically help push gold prices higher by reducing the opportunity cost of holding non-interest-bearing assets.

Gold inflows into exchange-traded funds (ETFs) are materializing. ETF inflows have accelerated in recent weeks, fulfilling a key requirement we previously flagged to unlock higher gold prices. The world's largest gold ETF (SPDR Gold Trust) reported its holdings at around 908 metric tons in February, which would be the highest level since February 2023. Gold holdings in European exchange-traded funds have continued to rise, hitting a record 1,334 tons since the start of 2025, according to World Gold Council data. US gold ETFs have also seen rising demand, increasing more than 4% this year to near 1,650 tons.

So we retain our bullish stance on gold, and having met our previous target of USD 3,000/oz, we have revised up our target to USD 3,200/oz by June and through March 2026. While the market has drifted into technical overbought territory, we think the prevailing mood among investors remains cautious, which is likely to support appetite for gold. Gold remains a key portfolio hedge against near-term uncertainty, but also against episodic bouts of risk aversion further out. We also like silver, which has lagged the gold rally, and see volatility-selling opportunities in Brent crude oil to boost portfolio income. Some investors may prefer an active commodity strategy that can capture broad price trends on the asset class level as well as sector-specific developments from a demand-supply perspective.

Diversification remains key for portfolio management, and we recommend investors also consider highly rated government debt to enhance diversification in periods of equity volatility. We also see scope for investors to hedge equity exposures through the use of structured strategies with capital preservation features or those that can potentially generate income from higher volatility while systematically buying stocks on dips.

Caught our attention

US retail sales report indicates moderate recovery in February. US retail sales edged up 0.2% in February, falling short of consensus estimates of 0.6%, while January’s decline was revised lower to a 1.2% drop. Excluding autos, sales rose 0.3%, in line with market expectations. Weakness was broad-based, with seven of the 13 retail categories posting declines. Notably, restaurant and bar sales fell by the most in a year, signaling softer discretionary spending. Meanwhile, the control group sales, which flows directly into GDP consumption estimates, rose 1%, well above the 0.4% forecast, signaling a bright spot in an otherwise weak report.

Our view: While February’s retail sales gain suggests a rebound from January's sharp decline, the overall trend remains subdued. Consumer spending is facing potential headwinds from higher prices due to tariffs, stock market volatility, and lingering uncertainty around economic policy. However, the strength in the control group provides a more encouraging signal, suggesting that underlying consumer demand may be stronger than the headline figures indicate. Steady consumer spending, supported by a solid labor market entailing rising wages and a historically low unemployment rate, should help support overall growth. In our view, the economy should grow close to its 2% trend this year, but tariffs are a risk to the economic outlook. Assuming our base case for tariffs, we still expect 50 basis points of easing in 2025 from the Fed. This should support a move higher in US equities, while falling returns on cash underline the importance of being invested.

Market update

18.03.2025

Percent change. For volatility indices, net change in points. For valuation, change in price to earnings per share. For yields, net change in bps

	Current (*)	1D	5D	1M	YTD
VIX Index	20.5	+0	-6	+5	+3
MOVE Index	100	-1	-15	+15	+1
S&P 500	5675	+0.6%	+1.1%	-7.4%	-3.5%
S&P 500 trailing P/E (**)	22.2x		-0.9x	-2.7x	-2.4x
S&P 500 forward P/E (**)	19.9x		-0.8x	-2.3x	-1.6x
S&P 500 forward P/E ex-Mag 7 (**)	18.3x		-0.7x	-1.6x	-0.6x
Russell 2000	2068	+1.2%	+2.4%	-9.7%	-7.3%
Euro Stoxx 600	555	+0.8%	+3.4%	-0.4%	+9.4%
Shanghai Composite	3430	+0.1%	+1.5%	+3.2%	+2.3%
US 10-year Treasury	4.31	+2	+3	-24	-26
US 2-year Treasury	4.04	-0	+10	-26	-20
Germany's 10-year Bund	2.85	+3	-5	+36	+48
Germany's 2-year Bund	2.20	+1	+0	+7	+12
EURUSD	1.094	+0.2%	+0.2%	+4.7%	+5.7%
EURCHF	0.96	-0.0%	-0.1%	+2.0%	+3.6%
USDCHF	0.88	-0.1%	-0.3%	-2.6%	-3.1%
USDJPY	150	+0.4%	+1.4%	-1.5%	-4.7%
Brent crude, USD/bbl	72	+1.2%	+3.4%	-5.2%	-3.6%
Gold, USD/oz	3032	+0.9%	+3.8%	+3.4%	+14.8%

(*) or last close if not available, (**) weekly update

Source: Bloomberg, Factset, UBS

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