



Market Commentary
August 1th, 2025

English Version

Insigneo Weekly Dispatch

Summer (Intern) Report

Get guidance on investments, and the major structural factors behind your clients' portfolios.

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As Summer draws to a close, we wanted to wrap up our internship program by showcasing the work of our two interns, Marcela Maldonado and Ryan Vucenovic, students at Columbia University and College of Charleston respectively, developed under the supervision of Insigneo’s research team. With their help and insights, on this occasion, we are bringing you a fresh perspective on timely topics, which reflect our commitment to fostering young talent as part of the Insigneo Way.



Marcela Maldonado
Insigneo Intern

The Money Market Boom

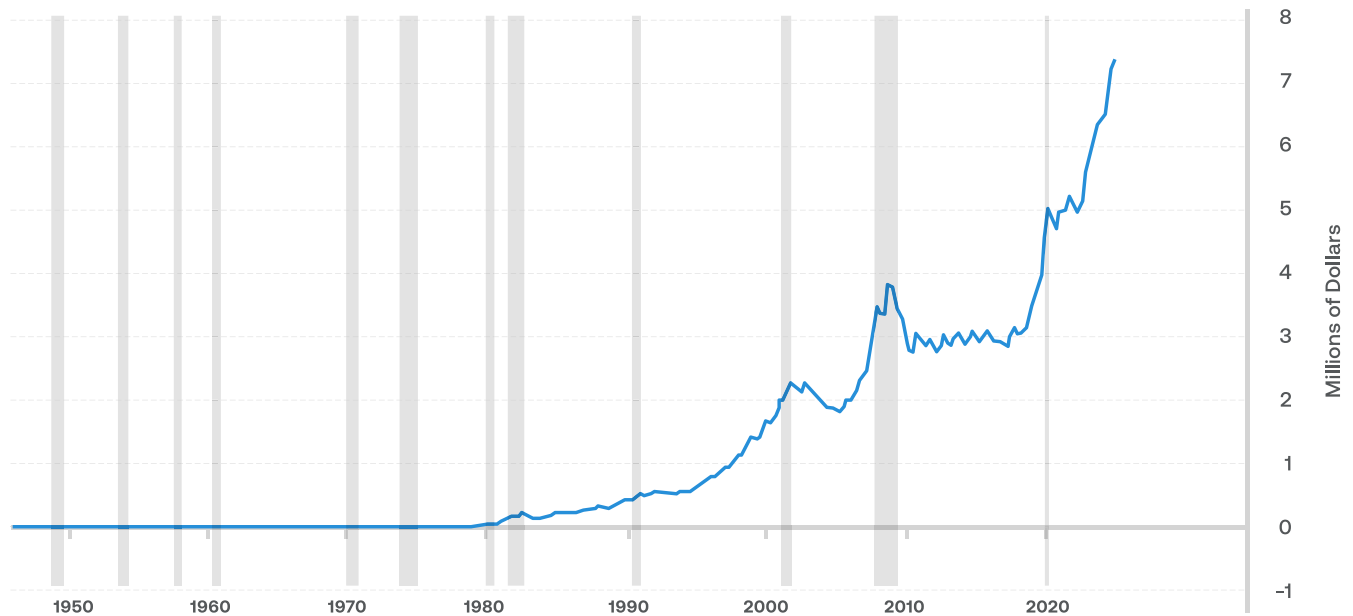
Money market funds have surged to a record \$7.4 trillion, driven by Fed rate hikes since early 2022 and investor preference for safety amid market uncertainty—surpassing previous peaks and now accounting for nearly 32% of U.S. GDP.

Despite a strong equity market, investor skepticism remains high, as reflected in record cash holdings, elevated hedging activity, and bearish sentiment—setting the stage for a potential “pain trade” rally if rate cuts materialize and cash begins rotating back into risk assets.

Money market funds have quietly surged to an all-time high of \$7.4 trillion, surpassing levels seen during the 2008 financial crisis (\$3.7 trillion), the

— Money Market Funds; Total Financial Assets, Level

Shaded areas indicate U.S. recessions



Source: Board of Governors of the Federal Reserve System (US) via FRED®

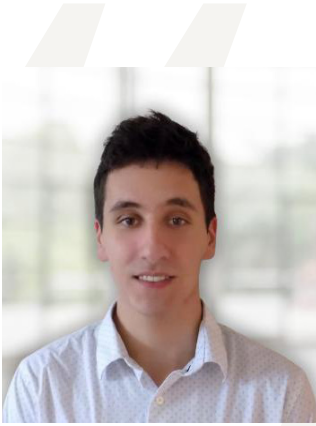
COVID-19 pandemic (\$4.5 trillion), and even the dot-com bubble, marking a historic moment of investors heading for the sideline. To put this into perspective, MMF assets today represent almost 32% of US GDP. The Federal Reserve’s data show that this rise in money market fund assets began in early 2022, when the Fed started hiking rates aggressively. Historically, MMFs have spiked during periods of market stress or tightening monetary policy. In addition, perceived risk in other asset classes is pushing investors towards short-term instruments that offer safety and liquidity.

As of July 24th, money market funds are yielding approximately 4.30% while the S&P 500 now posting a total return of 8.98% for the year, including dividends. How do we close the circle of a robust equity market alongside record cash holdings? Perhaps, it reflects a deeper insecurity? Investors

may not fully trust this unloved rally. Supporting that view, we observe elevated volatility in options markets and hedging flows, especially in credit, betraying investor trepidation.

What does this mean for the outlook? As the Fed prepares for potential rate cuts (currently about 2 cuts are priced into forward markets) and MMF yields fall in tandem the opportunity cost of cash instead of risk assets may shift. We are noticing paradigmatic conditions of a “pain trade” higher – an unloved market (sentiment is bearish), cash at record levels, and economists still cautious as their inflationary/recessionary models appear to fall short of depicting reality yet again.

The fuse is set—and the powder keg is ready. If there is a rally, this is the \$7.4 trillion fuel to ignite it. ■



Ryan Vucenovic
Insigneo Intern

Shining Through Volatility

Gold is a historically trusted store of value and safe haven, valued for its limited supply, industrial utility, and role in jewelry. It holds up well during economic instability and offers long-term investors an option for diversification.

As a portfolio diversifier, gold performs well during market downturns and economic shocks, often moving differently from equities, bonds, and Bitcoin. Even a small allocation can potentially enhance portfolio stability, with studies showing improved risk-adjusted returns over time.

Global dynamics are boosting gold demand, with central banks increasing reserves to hedge against geopolitical risk and reduce reliance on the U.S. dollar. Amid rising inflation, volatile markets, and concentrated equity exposures, analysts remain bullish on gold.

Gold has served as a durable asset and a primary store of wealth for centuries. Unlike regular currency, which governments can simply print more of, gold is a naturally limited yet perpetual asset, allowing it to

hold its value over very long periods. Its dual nature as both an investment vehicle and a consumer good, as is the case in the jewelry and industrial end markets, ensures a wide and flexible demand base. Interestingly, its industrial demand is significantly driven by the technology sector, which relies on gold's superior electrical conductivity and corrosion resistance for essential components in devices such as smartphones, computers, and data centers. Gold's tangible properties, liquidity, and universal acceptance contribute to its reliability, regardless of political or economic conditions. Additionally, for long-term investors, government-issued Sovereign Gold Bonds (SGBs) offer a relatively safer, interest-bearing option to own gold without the need for physical storage.

Gold has repeatedly shown its value in the 21st century by acting as a reliable safe haven in turbulent times. A safe haven is an investment that typically holds or increases in value during periods of market volatility, economic uncertainty, or geopolitical instability. As an example, gold's price spiked 26.11% during the 2008 financial crisis, as economic uncertainty and global instability drove investors away from traditional investments. Gold's likelihood to move differently from major assets such as equities and bonds, gives it the ability to effectively diversify a portfolio. In essence, gold helps reduce overall portfolio risk and volatility. Studies show that even a relatively small investment in gold can significantly improve a portfolio's stability and returns over time. According to the World Gold Council (WGC), research shows that investing 2% to 10% of a portfolio in gold could enhance overall portfolio performance over the long term. A study done by the WGC also found that adding a 2.5% allocation to gold in a portfolio improved its 10-year risk adjusted return, increasing its Sharpe Ratio from 0.88 to 0.96, while a 5% allocation advanced it further to 1.04.

Drivers of Gold Price and Global Dynamics

Gold's price is influenced by a complex blend of macroeconomic forces, geopolitical events, and fundamental supply and demand dynamics. For instance, the metal is widely recognized as a strong hedge against inflation. During years with high inflation, measured by a CPI greater than 5%, gold demonstrated an average real-return increase of 14.9%. During the 1970's, a period that saw rising inflation peak at 14.5% by 1980, gold's price experienced several dramatic surges and reached all-time highs during that time. However, it is important to note that gold's effectiveness as an inflation hedge can be inconsistent over shorter time periods. This is because there are several other market factors at play that can also influence gold's price, not just inflation.

The price of gold generally moves in an opposite direction to what investors can earn on other investments after accounting for the effect of inflation, also known as "real returns". An example of this is the real-interest rate. Gold tends to be inversely correlated to real interest rates because gold does not pay any interest, so, if other relatively safe investments offer a better inflation-adjusted return, gold becomes a less attractive holding and vice versa. This dynamic is especially true when the Federal Reserve raises rates. For example, a strong rise in real interest rates, say by 1%, has historically led to a notable percentage drop in gold, as investors favor higher yielding assets. Gold's price also has an inverse relationship with the U.S. Dollar Index, as a stronger dollar tends to make gold more expensive for international buyers, reducing its demand, resulting in lower gold prices. This inverse correlation is often strong, where a multi-percentage point move in the dollar index can coincide with a significant inverse shift in the value of gold.

Geopolitical tensions, economic instability, and high market volatility consistently act as powerful stimulants, leading investors towards gold. Historically, gold prices have often surged by 15-25% within six weeks following major global conflicts or crises. Notable instances include the surge between 1976 and 1979, followed by the Iranian Revolution in 1979, the 1980 spike triggered by the Soviet invasion of Afghanistan, and the 2008 global financial crisis. All these periods saw gold prices increase significantly due to an increased demand for safe-haven assets. During unpredictable global times, investors tend to shy away from the fluctuations of traditional financial markets, leading them to buy gold as an alternative asset class.

To understand the gold market, it's helpful to know how much gold is being mined each year and how much already exists. Annual gold mine production typically contributes approximately 2% to 3% to the existing above-ground gold stock, with global supply forecasted to increase by 1% in 2025. In fact, with the total discovered gold supply estimated at ~ over 260,000 tons, more than 75% of gold in the world has likely already been mined. This could create a problem, as the potential for gold mines to become unsustainable by 2050 could have significant long-term implications for future supply. Additionally, much of the metal's current production is concentrated in a handful of nations, including China, Russia, and Australia.

On the other hand, gold demand is highly diversified, originating from sources such as investment capital, central bank purchases, jewelry consumption, and technological applications. Central banks, particularly those in emerging market economies, have been consistently increasing their gold reserves in attempt to diversify away from the U.S. dollar. According to the World Gold Council, net official sector purchases reached unusual highs of 1,136 metric tons in 2022 and 1,086 tons in 2024, in comparison to an average

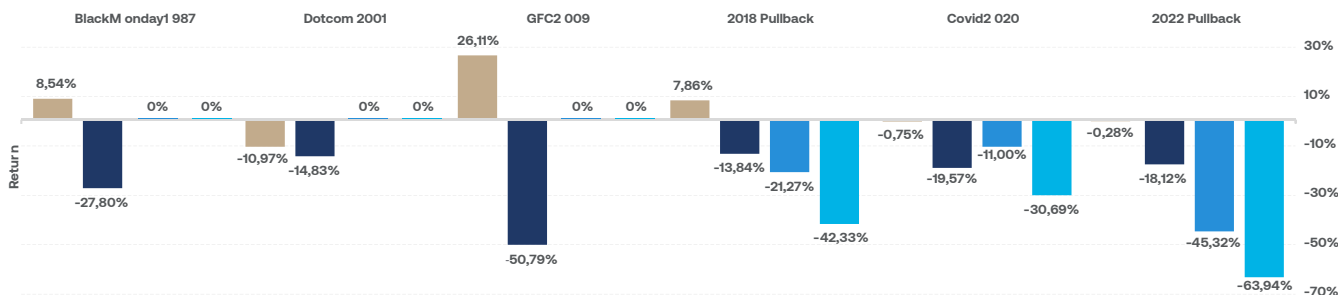
of 473 tons annually from 2010 to 202. Net official sector purchases refer to the total amount of gold that central banks and government institutions worldwide collectively bought, minus any gold that was sold over a given period. According to a WGC survey, 95% of central bank respondents anticipate further increases in their gold holdings over the next year to diversify away from the USD, mitigate geopolitical risks, and hedge against ongoing economic uncertainties. This highlights a fundamental structural shift in global reserve asset management, providing even more underlying support for gold prices.

S&P 500 is typically favored for long-term growth, gold has proven to be a valuable diversifier, especially in years when equities stall. However, given that over a third of the index is concentrated in seven stocks, it is worth looking at this subset in more detail. The Magnificent Seven stocks, comprised by Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla, are large, fast-growing tech companies that have heavily influenced the stock market over the past few years. So far in 2025, gold has jumped over 26%, while several Magnificent Seven, specifically Apple and Tesla have seen their

Graph 1: Gold’s Performance in the Modern Investment Landscape Relative to the S&P 500, Magnificent 7 Stocks, and Bitcoin

GOLD’S RESILIENCE IN MARKET CRASHES

■ Gold ■ S&P500 ■ MAG7 ■ Bitcoin



Source: Insigneo/Bloomberg (As of 7/25)

Over the past 54 years, gold and the S&P 500 have played very different roles in investment portfolios. Compounding at approximately 11.5% annually versus gold’s 8.2% return, the S&P 500 has clearly achieved stronger long-term growth. In fact, it has outperformed gold in 31 of those 54 years, particularly during extended bull markets. However, when gold did outperform, it often did so by a wider margin. Interestingly, gold has shown greater overall volatility, although its value tends to rise or hold steady during periods of economic stress. While the

values drop by double-digit percentages. Even within this important subset of companies, gold has proven to be a good diversifier with favorable returns.

When comparing gold with alternative investments like Bitcoin, it is important to keep in mind Bitcoin’s high volatility, exemplified by the 80% plunge it experienced during the ‘crypto winter’ of 2018. Yet, despite this volatility, Bitcoin has fundamentally reshaped the financial landscape, surging in popularity as a digital asset due to its decentralized

nature, technological innovation, and its perceived potential for massive returns. As shown in Graph 1, Bitcoin has significantly outpaced gold in terms of value growth since its inception. However, this impressive growth comes with considerable risks; Bitcoin is primarily viewed as a speculative investment. While it initially showed little correlation with gold, its price movements have increasingly mirrored those of traditional stock markets. This contrasts sharply with the metal, which has a long and consistent history of safeguarding against inflation and financial uncertainty. Ultimately, during times of market stress, Bitcoin tends to behave more like a volatile growth stock, as its value is influenced by future speculation, rather than an established earnings base, leading to periods of high volatility.

Performance During Recessions and Market Downturns

Gold has consistently shown strength during market downturns, often outperforming stocks and cryptocurrencies. As illustrated on Graph 1, gold has historically demonstrated resilience during periods of market stress. For example, during the 2008 Global Financial Crisis, gold significantly appreciated while the S&P 500 and broader equities experienced substantial declines. Similarly, in the COVID-19 crash of 2020, gold largely held its value, far outperforming major stock indices and Bitcoin. This trend continued during the 2022 pullback, when gold remained nearly flat, while the S&P 500, Magnificent Seven, and Bitcoin faced big losses. These instances consistently highlight gold's unique potential to offer stability when commonly held assets face significant headwinds.

Gold continues to be a reliable asset in uncertain times. Its proven ability to perform well during financial shocks, its low correlation with traditional investments, as well as its long-term resilience, make it an asset of choice for the diversification of modern portfolios. Ongoing market dynamics, ranging from diversification away from overconcentrate positions in U.S. Technology stocks, to increasing gold purchases by central banks worldwide, show that gold is once again seen as a trusted safe haven.

In a world facing ongoing inflation, rising global tensions, and changing central bank policies, gold offers a unique and crucial source of long-term stability. As mentioned in our Q3 Quarterly Call, within commodity markets, we maintain our longstanding bullish call for gold. Despite gold's record run, it still has much to catch up with, relative to other assets. Our call is that the bullion hits USD 6,000/Oz by the end of the decade, as it remains the only true alternative to the US dollar for those wanting to diversify. This view is supported by gold's role as a hedge against geopolitical risk, inflation, lower interest rates, and a weaker dollar. Additionally, demand is rising from both investors and central banks, reinforcing the long-term bullish case for gold. Responsibly adding gold to a portfolio, based on individual risk tolerance and investment goals, can significantly improve the portfolio's strength, effectively adding a degree of protection through diversification, and providing peace of mind in a time of unpredictable markets. ■



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