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Chief Investment Office GWM
Investment Research

Not the end

CIO View: Gold

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- Gold fell by as much as 12% on Friday but ultimately closed about 8.5% lower, after President Donald Trump announced Kevin Warsh as his nominee for Federal Reserve chair.
- Despite gold experiencing its steepest decline in 13 years, it's still up 13% this year. And with two more rate cuts expected this year, the Fed's policy direction is unlikely to change—which has historically triggered the end of bull markets for gold—in the near term.
- We recently raised our price forecasts following strong demand reported by the World Gold Council. So, while we anticipate consolidation between USD 4,500 and 4,800/oz in the coming days due to volatility from margin calls, we believe gold will rise thereafter toward our mid-year forecast of USD 6,200 and continue to rate it as an Attractive hedge.

Gold (USD/oz)

	Forecasts	Spot
30 Jan 26		4,894
Mar 26	6,200	
Jun 26	6,200	
Sep 26	6,200	
Dec 26	5,900	

Bloomberg, UBS; Note: Forecasts refer to end of period.

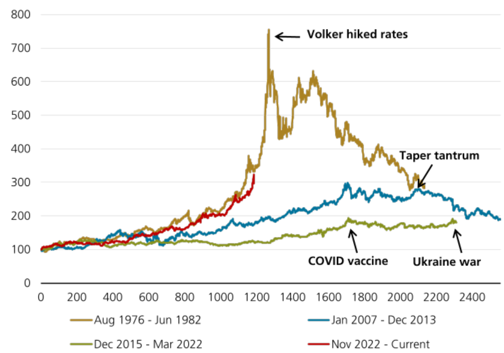
On 30 January, gold dropped sharply from the record highs achieved the day before. At its lowest point, the price was down nearly 12%—but it later recovered a bit to close with an 8.5% loss. This marked the most substantial one-day decrease in 13 years—a level of volatility commonly observed following shifts in Federal Reserve policy.
Multiple factors contributed to the sell-off, including investor profit-taking after recent gains, reduced liquidity in futures markets, and emerging risks associated with interest rates and the strength of the US dollar. Concerns regarding interest rates intensified after President Donald Trump nominated Kevin Warsh—an advocate for strict monetary policy, restrained growth of the Federal Reserve's balance sheet, and institutional reform—as Fed chair.

Consequently, investors are considering whether this event marks the end of gold's bull market or signals a move into a more unpredictable period. According to the analysis below, gold bull markets typically don't conclude simply because fears diminish or prices become too high—they end when central banks establish their credibility and pivot to a new monetary policy regime. Since Warsh hasn't demonstrated the same credibility as Volker, we don't believe this is the end of gold's bull market.

Framing historical gold cycles
Historically, notable single-day declines—such as those seen on Friday—and the conclusion of a gold bull market have often corresponded with periods of policy regime change.

Gold bull cycles almost always ended by the Federal Reserve

In index terms, 100=start of bull cycle



Source: Bloomberg, UBS as of January 2026

Bull markets that ended:

- **1980:** The bull market concluded unexpectedly following the implementation of stringent monetary policies by Paul Volker, which effectively restored Fed credibility. Consequently, real interest rates in the United States increased significantly, inflation expectations declined sharply, and the US dollar experienced an extended period of appreciation.
- **2013:** The bull market ended after the Fed assured markets it could roll back quantitative easing without causing financial instability—characterized as a taper tantrum. Inflation did not rise as expected, and real yields bottomed out before starting to increase. Essentially, gold fell as investors grew more confident that emergency policies were going to be quickly reversed.

Mid-cycle corrections:

- **1974:** Gold prices experienced a brief decline as real interest rates rose, but those higher rates did not last; with renewed inflation and declining confidence in central bank policies, the bull market returned, and prices surged sharply from 1976 to 1980.
- **2020:** Marked by crisis conditions, the gold rally paused then prices fell as initial concerns regarding COVID subsided. The bull market resumed in 2024 as the underlying causes—debt worries, policy constraints, and fragile central bank credibility—remained unresolved.

Throughout past price cycles—the 1970s, the 2000s, and after 2020—the gold price tended to increase whenever investors doubted Fed policymakers' ability to maintain the dollar's real value. Prices fell back when trust was partially regained, but bull cycles only ended once full confidence returned.

Where are we in this cycle?

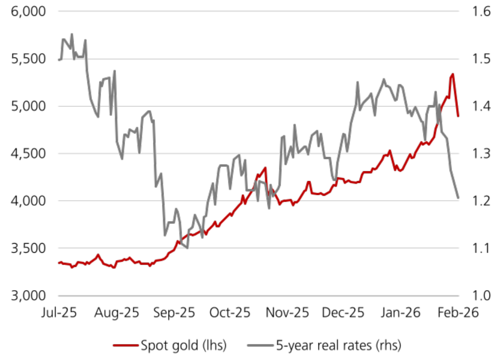
Our analysis indicates that gold is currently in the mid-to-late stage of its present bull market, moving from a consistent upward trajectory to one reaching new peaks but with intermittent drawdowns of 5-8%. Importantly, the typical factors historically associated with the conclusion of gold's bull market—sustained elevated real interest rates, a structurally stronger US dollar, improved geopolitical conditions, and fully re-established central bank credibility—have not yet materialized, in our view.

The initial market response to Kevin Warsh's nomination has generally been viewed as hawkish, particularly regarding his approach to the Fed's balance sheet. This sentiment has manifested in lower gold and bitcoin prices, alongside a modest appreciation of the USD. However, Warsh's historical record and evolving policy perspectives suggest a more complex outlook. As such, we believe a significant shift away from accommodative monetary policy—such as a Volcker-style tightening—is unlikely.

Fed funds pricing further reflects this view, with an additional approximately 5 basis points of easing factored in following President Trump's announcement; the 53 basis points of cuts expected by the end of 2026 are aligned with our view for two more cuts. It is also important to note that achieving consensus within the Fed will be essential for any potential regime change, especially with the official cessation of quantitative tightening on 1 December 2025.

US real interest rates expected to decline further

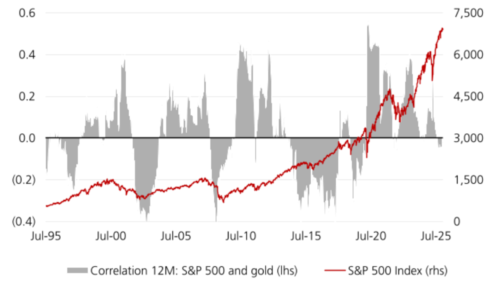
In %, RHS



Source: Bloomberg, UBS as of January 2026

Gold's correlation to equities remains low

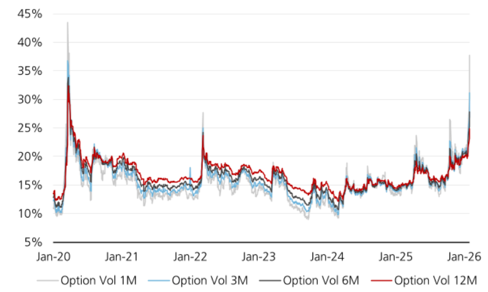
In %



Source: Bloomberg, UBS as of January 2026

Gold volatility spike opens the doors for options strategies

In %



Source: Bloomberg, UBS as of January 2026

What should investors do?

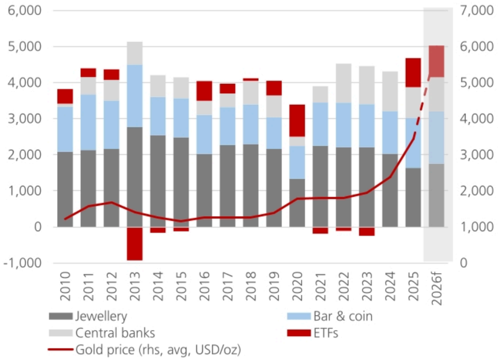
We view this correction as indicative of volatility within a continuing structural uptrend, rather than suggesting the end of the bull market. Barring a sustained increase in projected real yields, greater political stability, improved fiscal conditions, and definitive evidence that US dollar diversification has reached its zenith—all of which we believe are unlikely—the gold price will resume its uptrend, in our view. Consequently, we see gold not as a momentum-driven asset, but rather as a strategic long-term hedge within an investment portfolio. We believe a mid-single-digit portfolio allocation is optimal for those with an infinity for gold.

Still, in the short term, market positioning and liquidity will likely be more influential than underlying fundamentals. Major exchanges are tightening their margin requirements—such as CME Group, which has increased gold futures margins on COMEX from 6% to 8% after recent price fluctuations—and this creates technical challenges by limiting leverage and raising the cost of holding positions. We anticipate that prices will consolidate in the coming days at USD 4,500-4,800/oz until fundamentals start to play a larger role again. We recently raised our demand forecasts for 2026, reflecting expectations for robust central bank purchases, increased ETF inflows, and greater demand for bars and coins, all spurred by lower US real interest rates and persistent geopolitical uncertainty.

We continue to rate gold as Attractive and remain long the metal in our global asset allocation. We also believe the drop raises opportunities for income-seeking investors to consider monetizing the relatively high price volatility.

Gold demand forecasts have been raised

In metric tons



Source: WGC, UBS as of January 2026

Historical sell-off

CIO View: Silver

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- Silver sold off by an unprecedented magnitude of 26% on 30 December, with intraday pullbacks from the highs reaching nearly 38%. Such daily price shifts have not been seen in almost half a century.
- We see scope for a reduction in silver futures positions at key exchanges amid the extreme surge in volatility. On Monday, the key factor to watch will be Asia, particularly China, to gauge whether prices can stabilize.
- Silver prices are currently at our long-term forecast of USD 85/ oz. In our view, an asset exhibiting 60-120% volatility requires an expected return of 30-60% to go long, which is not yet the case. Lower prices are therefore needed to make the metal attractive to us.

Silver (USD/oz)

	Forecasts	Spot
30 Jan 26		85.2
Mar 26	105.00	
Jun 26	100.00	
Sep 26	95.0	
Dec 26	85.0	

Source: Bloomberg Finance, UBS; Note: Forecasts refer to end of period.

In the days leading up to Friday's sell-off, the silver market was already experiencing extreme price fluctuations. Prices were moving by high-single-digit to low- to mid-teen percentages, and intraday high-low ranges were even greater. With volatility surging, CME Group raised margin requirements for trading silver futures last Tuesday. To put this into perspective, one- and three-month historical volatility stood at around 55% prior to the sell-off—these figures have now jumped to 115% and 78%, respectively.

What caused the market to reprice silver so violently? In our view, the starting point is critical: Silver prices were up 250% y/y prior to the correction. Moreover, traditional drivers of higher prices—such as ETF silver purchases and net speculative positions in the US futures market—were already in retreat. Silver prices in China began trading at a significant premium to those in the US and London. Meanwhile, silver swap rates turned positive, indicating that demand for the metal became more narrowly concentrated.

Notably, the nomination of Kevin Wash as the new Federal Reserve chair to replace Powell has eased the tail risk concerns that had previously supported the market, in our view. In recent quarters, gold—and by extension, the entire precious metals sector—has served as a preferred asset for investors worried about Fed independence. We generally expect the FOMC's consensus-driven approach to remain intact. However, we also anticipate that pressure from President Trump on the Fed to cut rates will persist, and it remains to be seen how this dynamic will evolve after Powell's departure. Additionally, the US continues to run substantial twin deficits. As a result, concerns about debt sustainability in major economies and the strategies to address them are unlikely to dissipate.

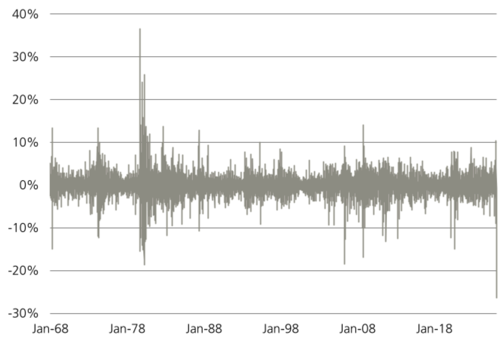
A sharp pullback in the silver price

Value in USD/oz

Source: Bloomberg, UBS, as of February 2026

Tail event in silver

Daily price changes



Source: Bloomberg, UBS, as of February 2026

This should help sustain investor interest in precious metals. Strong investment demand is required to keep silver at elevated levels, both in absolute terms and relative to assets such as gold, copper, or equities. Our market deficit estimate of nearly 300 million ounces is predicated on investment demand exceeding 400 million ounces this year.

The extent to which Asian—particularly Chinese—investors, who played a greater role in the recent price rally, view the pullback as a buying opportunity will be crucial for price discovery next week. Equally important will be the response of existing investors who have accumulated silver and now face a metal exhibiting far greater volatility than most could have anticipated. How investors will react to this volatility shock remains uncertain, as does the extent of any remaining forced selling by leveraged accounts with long silver positions.

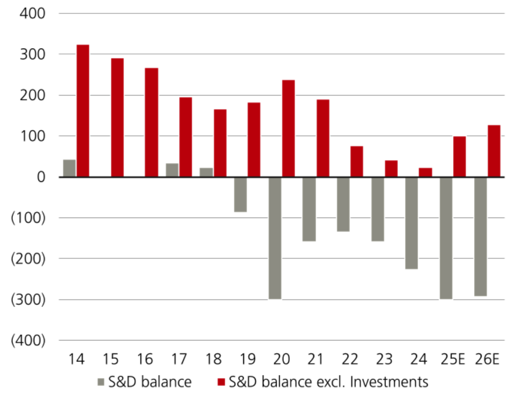
Beyond the investment demand perspective, silver faces additional challenges. With more than 50% of demand linked to industrial applications, we believe current prices—even after a 26% decline—are likely to result in reduced industrial demand over time, as end-users seek to optimize silver usage and lower input costs.

Investment considerations

Given these considerations, we believe it is too early to build long-term exposure to silver. While we maintain our forecasts, we think investors should carefully consider the return required for an asset that has recently exhibited 60-120% volatility. Prudent return expectations suggest that forward-looking returns should be around 0.5 times or higher compared to the underlying volatility. Applying this framework, we believe a further pullback is needed before turning constructive on the metal from a risk-reward perspective. That said, we continue to favor selling silver's downside price risks for a yield pickup. Such strategies can take advantage of the metal's exceptionally high option volatility. Given the extreme price fluctuations, these strategies require a very high risk tolerance and appropriate position sizing within a portfolio context.

Supply and demand balances with and without investment demand

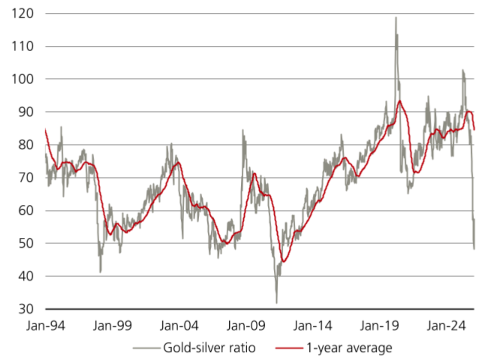
Values in million ounces



Source: Bloomberg, SI, UBS, as of February 2026

The gold-silver ratio has stabilized at low levels

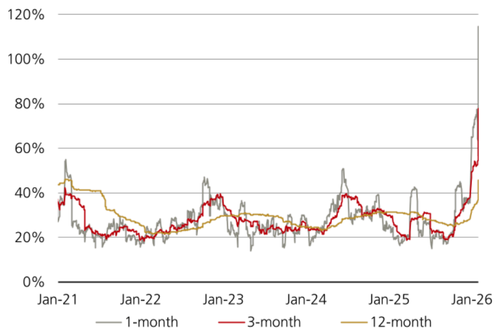
Weekly data



Source: Bloomberg, UBS, as of February 2026

Volatility has skyrocketed

Historical volatility based on daily returns, different trailing windows



Source: Bloomberg, UBS, as of February 2026

Appendix

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