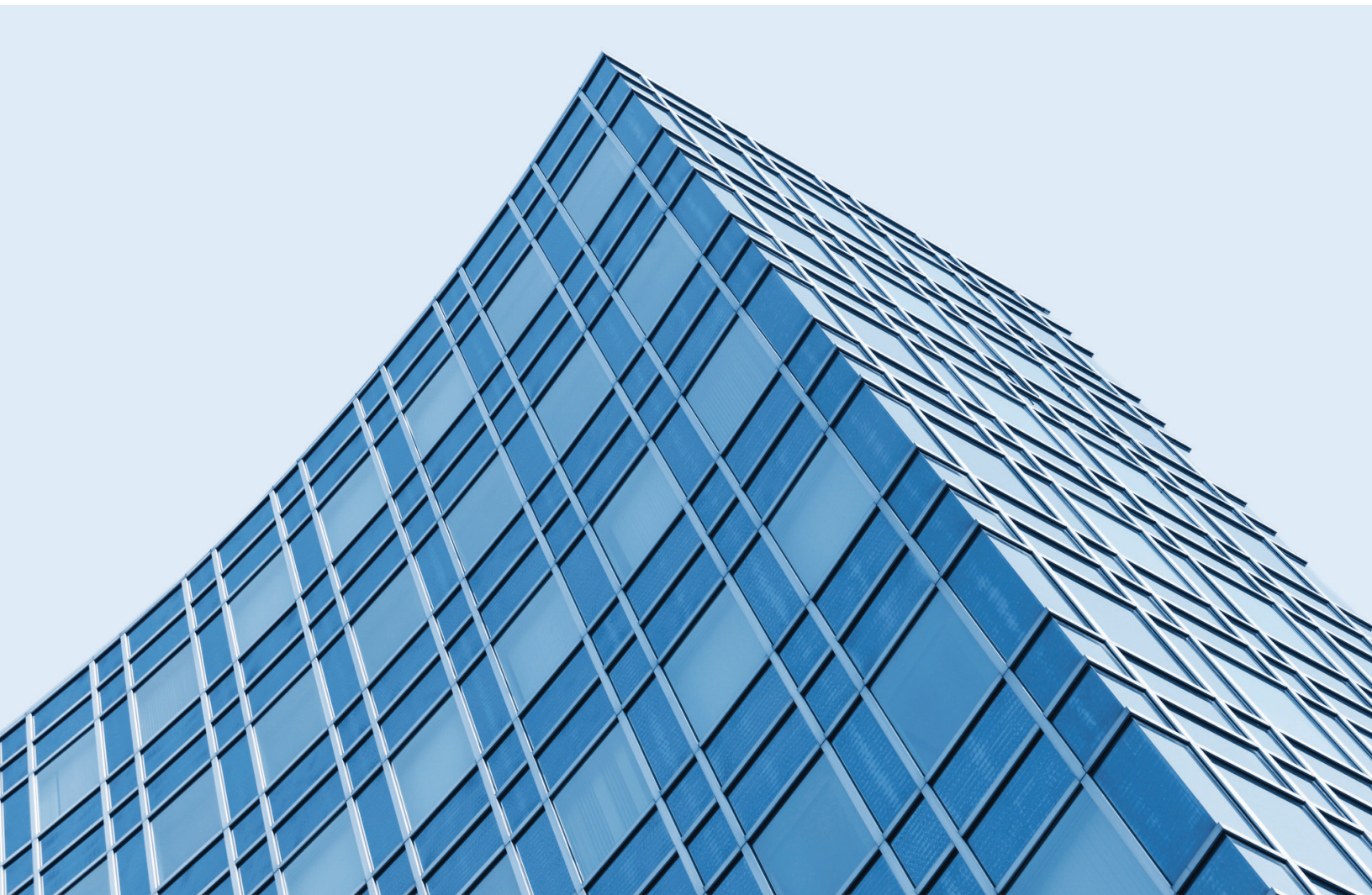


# Portfolio Solutions Research Forum Commentary

December 2025



## Key takeaways

- Recent market anxiety and equity volatility may tempt investors to de-risk, but the current macro outlook supports maintaining investment positions. The probability of a synchronized global recession is relatively low, and easing policy environments tend to be constructive for risk assets.
- Gold is increasingly viewed as a hedge against macroeconomic instability, policy uncertainty, and dollar risks. Central bank diversification, especially in emerging markets, is strengthening gold's role as a portfolio diversifier. However, its strong recent performance warrants a measured approach given potential downside risks.
- Staying invested, rather than attempting to time the market, is recommended given the current macro base case.

## Over recent months, we've seen a noticeable rise in anxiety about markets, which is reflected in equity market volatility. Should investors reposition to take less risk?

In an environment that feels uncertain and noisy, it can be tempting to de-risk portfolios or step to the sidelines altogether. Our view, however, is that this is a moment to stay invested, anchored in a clear and research-driven macro base case, while thinking carefully about how to build resilience into portfolios rather than trying to time every twist and turn.

Recently, our Global Macro & Strategy team revised the probability of recession lower. With the US slowing (but not contracting), Canada recovering, Europe showing signs of recovery but not yet at trend, Japan near trend, China supported by policy measures, and Emerging Markets benefiting from easier global financial conditions, the probability of a synchronized global recession in the near term remains relatively low. Historically, non-recessionary environments with easing policy tend to be constructive for risk assets. This provides support for remaining invested instead of positioning for a severe downturn.

In the context of risks of macroeconomic instability, policy uncertainty, deglobalization, fiscal and dollar risks, and central bank diversification, gold has emerged as a topic of increasing interest in our internal discussions. Gold can serve both as a potential hedge against scenarios involving these risks and as a means to diversify traditional equity and bond exposures. However, given strong performance in the asset class over the year, upside potential must be weighed against downside risks.

This month's PSRF commentary explores the potential role of gold in portfolios and the key uncertainties and trade-offs.

## Many of our Managed Portfolios have exposure to gold through miners. Is the case for a direct position in the commodity evolving?

The macro outlook for gold remains constructive. There are several forces at work:

- **Deglobalization and tariffs.** Since the shift toward more aggressive tariff policies and a broader deglobalization push from the US, the medium-term backdrop for the US dollar has become more challenging. Set alongside deteriorating US fiscal dynamics and limited signs of fiscal restraint, the perceived quality of US Treasuries could be undermined. Gold is often viewed as a hedge to the US dollar.
- **Dollar dilution and risk of rising term premia.** In this setting, markets may demand higher term premia to hold longer-dated US debt, and investors, including central banks, have greater incentive to diversify away from the dollar. Gold naturally benefits as an alternative store of value.
- **Central bank diversification.** Central banks, especially in Emerging Markets, are a key part of the story. China has been buying gold at elevated levels in recent years. Even allowing for periods where that pace has eased, many central banks still hold less gold relative to reserves than some developed-market peers, leaving considerable room for gold to grow as a share of global FX reserves and creating a structural demand tailwind.
- **Fed and policy credibility.** Historically, gold has tended to perform best in periods when the US Federal Reserve's (the Fed) focus on its inflation mandate is questioned. Looking ahead, policy credibility risks and political developments may reshape the Fed's leadership, including the appointment of a new chair and potential board changes. That uncertainty can further support the investment case for gold.

However, we note that gold has outperformed earlier long-term assumptions, with a sharp move higher over the past year. To the extent gold's role as a macro and policy hedge has driven recent gains, any easing of geopolitical or inflation risks could reduce demand for protection and pressure prices. On the other hand, while some valuation measures suggest gold is at the higher end of its historical range, there have been past instances of even greater moves.

Looking ahead, our base case anticipates moderate further appreciation from current levels into a somewhat higher trading band, but with gains that are likely to be more measured than the sharp step-change seen recently. Downside risks remain: if global growth is solid but not excessive – a "Goldilocks" outcome – and bond yields rise, gold may give back some of its recent gains.

## There appear to be secular tailwinds beyond traditional demand drivers. Could you share your views?

In addition to traditional demand drivers (central banks, jewelry, investment demand), the discussion highlighted several emerging structural channels that reinforce gold's role in portfolios:

- **Digital assets and stablecoins.** Some stablecoin issuers are beginning to back their coins with gold and are even taking equity stakes in gold-related companies. While still relatively small, these developments introduce an additional avenue for gold demand that did not exist in earlier cycles. However, these channels are nascent and may take time to scale. Also, demand growth could be uneven.
- **Chinese ETFs and retail participation.** China has recently launched a renminbi-based gold ETF, opening a new route for domestic investors to access physical gold within local currency markets. Given the scale and activity of Chinese retail investors, this could become a significant source of incremental liquidity over time.
- **Insurance and regulatory treatment.** Chinese regulators have started to allow some insurers to back liabilities with gold, which broadens institutional participation. Separately, market observers are monitoring discussions about whether gold might ultimately be recognized as part of high-quality liquid assets (HQLA) under Basel III for commercial banks, a development that, if it materializes, would further support institutional demand.

Each of these channels is modest on its own, but collectively they point to a world in which gold is increasingly integrated into financial infrastructure strengthening its role as a strategic diversifier. While we view these as sources of upside potential, their ultimate impact remains uncertain and may not materialize as expected.

## How do you position portfolios to navigate the evolving environment and risks of regime changes?

In this period of elevated market nervousness, we reiterate the importance of staying invested, maintaining thoughtful diversification and ensuring portfolios are aligned with long-term objectives. Stepping back from markets altogether is rarely the best response to uncertainty. Our macroeconomic base case, with the probability of a severe recession lower than recent periods, supports a stance of staying invested, rather than trying to call the exact turning point.

We take a Total Portfolio Approach within our Managed Solutions. This means we manage the portfolio as an integrated entity rather than a collection of individually labelled asset classes. This approach allows us to dynamically adjust exposures in response to evolving risks and opportunities, as well as changes in asset class characteristics such as expected return, risk, and correlations. Within this framework, we continually seek new investments that offer unique benefits and help us achieve our long-term portfolio objectives.

While gold may play a role in this context, recent strong performance, an elevated entry-point relative to last year, and the possibility that gold price drivers are already priced-in argue for a measured stance. While we remain constructive on gold, position sizing, timing, and vehicle selection are key considerations. As with any investment, it is important to weigh the trade-offs and uncertainty around the evolving environment. We believe gold can have a place within portfolios, but remain aware of factors that could potentially lead to a downturn in gold prices. Importantly, investors must consider their individual portfolio objectives before determining if and how gold fits amongst existing exposures.

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## Portfolio Solutions Research Forum (PSRF)

The views of our Portfolio Solutions Research Forum help guide CIBC Asset Management and our partners by providing strategic asset allocation recommendations, as well as strategic and tactical investment oversight for CIBC managed solutions

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