



# Safe-haven shock: gold falters as oil surge, rate fears reset markets

Despite the West Asia war, the yellow metal fell nearly 16% from its late-February peak as inflation fears rose

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As 2026 began, the case for gold seemed almost scripted. The probability of a global recession appeared slim, the US Federal Reserve was expected to cut interest rates—the debate was only about timing—and inflation globally and in India appeared manageable.

In that environment, gold became the consensus “crowded trade”: the hedge against tariff wars, global uncertainty and the structural weakening of the US dollar.

Then the rising tensions between US-Israel and Iran escalated into a full-blown war in West Asia—and gold, instead of rallying, stumbled.

Nippon India ETF Gold BeES, India’s largest gold exchange-traded fund (ETF), fell from ₹131.60 on 27 February 2026—the day before the conflict began—to ₹110.72 by 23 March, shedding nearly 16% in under a month. The ETF has since recovered, gaining 11.5% from that low. But it still remains 15.7% below its recent peak (as of 10 April 2026).

Here’s why gold is struggling to play its traditional role as a hedge in this crisis—and what investors should expect next.

## Oil shock reset

The West Asia war disrupted the script by driving Brent crude sharply higher, stoking inflation fears and triggering an “about-turn” in interest rate expectations, said Vishal Dhawan, founder and chief executive of Plan Ahead Wealth Advisors, a Sebi-registered investment advisory firm.

Rising rate expectations pushed up US Treasury yields—and higher bond yields increase the opportunity cost of holding gold, which pays no interest or dividend. Higher yields also strengthened demand for the dollar as investors sought dollar-denominated US assets offering high returns.

“As crude prices rally and support the dollar, gold tends to come under pressure given its inverse relationship with the dollar,” said Tapan Patel, fund manager-commodities at Tata Asset Management.

“At the start of the year, markets were expecting two rate cuts from the US Fed in 2026. By mid-March, that view had fully reversed—the conversation had shifted to a prolonged pause, and even to the possibility of a rate hike,” said Manav Modi, analyst, precious metals research at Motilal Oswal Financial Services.

## Central bank shift

Higher inflation driven by rising crude oil prices is also prompting some central banks to sell their gold reserves. Higher crude prices—being dollar-denominated— not only stoke inflation but also increase demand for dollars, strengthening

## Gold fails to rally amid the West Asia war

Nippon India ETF Gold BeES, which tracks gold prices, fell as much as 16% after the war started, before seeing some recovery. Key macro forces worked against gold's safe-haven role.

**GOLDBEES closing price (in ₹):**  
16 February–10 April 2026

Source: NSE

**US 10-year treasury yield (%)—**  
from West Asia war escalation

Source: Investing.com

### Factors working against gold

| Factor                          | Impact on gold                          |
|---------------------------------|---|
| US Treasury yields rose sharply | Raised opportunity cost of holding gold |
| US dollar strengthened          | Gold has inverse relationship with USD  |
| Brent crude surged (war-driven) | Stoked inflation fears, boosted dollar  |

Some central banks sold gold to defend their currencies against crude oil-led inflation risks

### Gold's safe-haven role—what still holds, what broke down

- ▶ Gold's low correlation with equities is likely to hold over the long run—but breaks down during simultaneous inflation fear, currency stress, and liquidity crunches.
- ▶ After a sharp multi-year rally (from \$3,000 to above \$5,500/oz), some profit-booking was expected—the war triggered it.
- ▶ Gold was gaining from a weakening dollar and loss of dollar credibility—de-dollarisation has been a structural factor as central banks worldwide diversified reserves away from the dollar.
- ▶ Gold retains its role as a long-term portfolio diversifier; experts recommend allocation of 10–15% of overall portfolio.

the greenback and tightening global liquidity. That, in turn, pressures central banks to draw down gold reserves to defend currencies and meet external obligations.

“Central bank demand, which had been very strong last year, dialled back in February and March. They are still net buyers, but the pace of buying has reduced. Large buyers such as Russia and Turkey either moderated or turned sellers—partly to support their own currencies amid the war,” added Modi.

“Major energy-importing economies faced a sharp rise in crude import bills, which placed pressure on foreign exchange reserves and contributed to a temporary moderation in demand. The broader structural appetite for gold diversification remains intact—net purchases are continuing, albeit at a more measured rate,” explained Chirag Mehta, chief investment officer at Quantum AMC.

## Safe-haven paradox

Gold’s low correlation with equities is likely to hold over the long run. But in episodes where inflation fears, currency moves and liquidity crunches compound simultaneously, gold can behave differently. “On one hand, you are seeing safe-haven buying. But on the other hand, the pressure from inflation and interest rates is greater—and that is what is keeping gold subdued right now,” said Modi.

“Gold liquidation is often triggered when systemic liquidity comes under stress. During the 2008 financial crisis, a similar crunch forced gold to retreat nearly 30%—even as it was riding a multi-year bull run. But recovery followed shortly afterwards,” said Mehta.

Modi also draws a parallel with the Russia-Ukraine war, where gold initially rallied on geopolitical fear but later came under pressure as the energy shock fed into inflation.

**Experts expect gold to stay range-bound in near term and are positive for long term, advising a 10-15% allocation**

The key difference now, he points out, is that this is not a border-specific territorial conflict—it is a resource war centred on oil, amplifying the inflationary impact.

## What next?

In the near term, a period of consolidation looks likely. “We will have to wait and watch. Gold may remain in a consolidation phase for the short-term,” said Patel of Tata Asset Management.

If continued central bank buying, the prospect of eventual US Fed rate cuts and the uncertainty in the run-up to US mid-term elections in November 2026 materialise as expected, gold may come out of this consolidation phase in the second half of the year, Patel said.

Experts remain positive on gold’s long-term prospects.

“The broader structural appetite for gold diversification remains intact. According to World Gold Council, recent trends indicate a broadening of the institutional buyer base, with new central banks entering the market even as some large buyers

moderate the pace of accumulation. The trajectory into 2026 still points towards continued net purchases, albeit at a more measured rate. Importantly, the recent correction does not signal a structural reversal. The fundamental drivers that lifted gold from around \$3,000 to above \$5,500 per ounce over the past cycle remain largely unchanged,” said Mehta.

Gold is likely to retain its long-run property of low correlation with equities. A 10-15% allocation to gold within an overall portfolio remains sound, said Dhawan. Those who are overexposed should reduce gradually; those who are underweight should build positions in a staggered manner rather than chasing a single entry point.



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