



POWER POINT

VISHAL DHAWAN

We welcome your views and comments at
mintmoney@livemint.com

THREE BEARS THAT KNOCKED GOLD OFF ITS HIGH PEDESTAL

The global landscape has shifted significantly over the past few weeks, triggered by the unfolding geopolitical complexities in West Asia. As we stepped into 2026, the sentiment was one of cautious optimism. The probability of a global recession appeared slim, and investors were pivoting towards growth assets. Global equities were in favour, but the real "crowded trade" was the rising enthusiasm for gold and silver.

The consensus that was

At the start of the year, financial narrative felt almost settled.

The Fed factor: The debate wasn't if the US Fed would cut rates, but rather the timing and magnitude of those cuts.

Benign inflation: Both globally and closer to home in India, inflation appeared manageable, leading to a consensus that interest rates would either plateau or head downwards.

Safe-haven play: Gold was touted as a hedge against the twin threats of tariff wars and traditional geopolitical conflicts.

When the narrative hits reality

Conventional wisdom suggests that during times of high uncertainty, gold acts as a resilient anchor. Indeed, the initial run-up in gold prior to the war was largely attributed to this "flight to safety". However, the first month of the West Asia war has delivered a sharp lesson in market unpredictability.

Despite the heightened tension, these asset classes have behaved contrary to many investors' expectations. Gold, which many expected to be the "hero" of a crisis-ridden portfolio, has instead struggled to find its footing—effectively moving from a market "hit" to a "flop" in the short term.

Which were the "three bears" that made gold flop?

1. Inflationary fears (papa bear)

Papa bear, in my view, has been the resurgence of inflation anxiety globally. Following the severe inflationary pressures seen post-covid, we witnessed a period of relative cooling in prices. However, the recent sharp upturn in Brent crude oil prices caused global concern, triggering a complete "about-turn" in interest rate expectations. The markets now believe the likely direction for rates is upwards and typically, when interest rates rise, gold prices tend to soften somewhat.

The traditional safe-haven asset has struggled to hold on despite rising tensions in West Asia

2. De-dollarization theory put to test (mama bear)

Mama bear has been the challenge to the de-dollarization theory. The prevailing belief was that, unlike in the past when the US dollar was the primary safe haven, this time would be different. Many expected investors to shun the greenback in favour of gold.

Instead, we have seen a dash for cash and a flight back to the dollar, leaving those who over-allocated to gold in anticipation of a weakening dollar disappointed.

3. Opportunity cost and liquidity (baby bear)

Finally, baby bear relates to the immediate need for liquidity in markets. In times of extreme geopolitical stress or uncertainty, speculators often sell their "winners" or most liquid assets—like gold—to cover losses in other parts of their portfolio or simply hold cash, waiting for conditions to improve.

The overexposure to gold in the run-up to the war meant that many of these speculators abandoned their gold positions and took their profits home.

What should you do now as an investor?

For the disciplined investor, this serves as a reminder that gold is not a one-way bet. While it has a place in a diversified portfolio for its low correlation with equities, using it as a tactical tool to time geopolitical events often results in frustration.

It always serves as a stark reminder that asset correlation and safe-haven status are never static. While the instinct to chase "crisis hedges" is strong, market prices often bake in expectations long before the event peaks. For long-term investors, this highlights the danger of over-tilting a portfolio based on narratives.

However, it is equally important that investors do not abandon gold simply because of its short-term movements over the past few weeks. Gold continues to hold its position as an asset that, over long periods of time, has a negative correlation with equities and therefore protects the portfolio from a sharp downturn.

Having a 10% to 15% allocation to gold continues to be a good idea for investors as a part of their overall allocations. In case you are overexposed, you need to reduce exposure and in case not, you need to right-weight your allocations to gold gradually.

Vishal Dhawan is founder and CEO of Plan Ahead Wealth Advisors, a Sebi-registered investment advisory firm