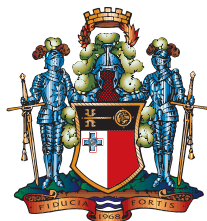




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GOLD PRICES AND SOVEREIGN BOND YIELDS IN 2025-Q1 2026: EVIDENCE FROM THE UNITED STATES AND GERMANY

Maria Micallef and Alessandro Vallin

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GOLD PRICES AND SOVEREIGN BOND YIELDS IN 2025-Q1 2026: EVIDENCE FROM THE UNITED STATES AND GERMANY¹

Introduction

Gold prices have traditionally exhibited an inverse relationship with sovereign bond yields, as rising yields increase the opportunity cost of holding non-interest-bearing assets such as gold. However, recent developments seem to have challenged this long-standing dynamic.

Since 2025, global financial markets have been shaped by an increasingly complex macroeconomic environment characterised by divergent inflation trends, persistent (and elevated) policy uncertainty, and rising geopolitical fragmentation. While inflation in the euro area moved closer to target in 2025, the United States has continued to experience more persistent price pressures. Against this backdrop, gold experienced an exceptional rally in 2025, rising by more than 60%, and surpassing USD 4,300, marking the strongest annual increase since 1979. This upward trend extended into early 2026, when gold reached an all-time high of USD 5,417 on 28 January, before retreating below USD 5,000 amid an escalation of tensions in the Middle East, rising concerns about inflation and interest rates, US dollar strength and episodes of profit-taking.

Last year's exceptional rise in gold prices unfolded alongside significant developments in euro area and US sovereign bond markets. In 2025, German Bund yields climbed sharply, largely due to Germany's €500 billion programme of defence and infrastructure spending and relaxed borrowing rules, which pointed to higher debt issuance and pushed up the term premium. In addition, ongoing trade tensions and broader concerns about the fiscal sustainability across major advanced economies added further upward pressure on sovereign bond yields. Although the European Central Bank (ECB) implemented four rate cuts, its meeting-by-meeting and data-driven approach, within the broader context of persistent inflation uncertainty and expansionary fiscal policy, kept real yields relatively elevated. In the United States, short-term yields declined as expectations of Federal Reserve (Fed) easing anchored the front end of the curve, while longer-term yields stayed elevated due to persistent inflation concerns and fiscal uncertainties. This divergence led to a marked steepening of the US yield curve.

In Q1 2026 long-term sovereign bond yields rose in both the United States and the euro area, driven by an escalation of tensions in the Middle East, higher energy prices and a cautious stance from the Fed that prompted markets to reassess and scale back expectations of near-term rate cuts. This co-movement challenges the conventional inverse relationship between gold and bond yields, pointing to a potential shift in the underlying macro-financial regime.

This report examines the evolving relationship between gold prices and government bond yields over 2025 and Q1 2026, exploring the macroeconomic, monetary, and geopolitical factors driving both variables. Through correlation analysis, Ordinary Least Squares (OLS) regression, and Quantile Regression (QR), it investigates whether traditional variables can explain gold's returns in the current environment as well as the breakdown of the classic inverse relationship between gold price and yields.

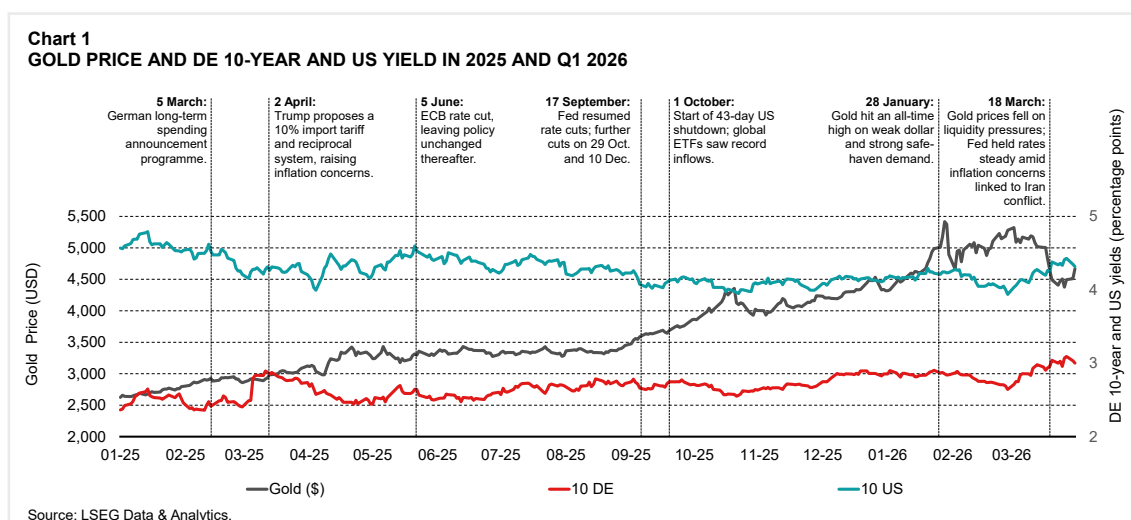
¹ Maria Micallef and Alessandro Vallin are, respectively, Senior Research Analyst and Senior Research Analyst and Trader at the Central Bank of Malta's, Monetary Operations and Government Securities Office. The authors would like to thank Ms Josette Grech, Head Monetary Operations & Government Securities Department, for her guidance and support throughout the research and preparation of this report. The authors are also grateful to Mr Andre Psaila, Chief Officer, Financial Markets Division; Ms Rita Schembri, Deputy Governor; and Mr Alexander Demarco, Governor, for their valuable comments and review of the report. The views expressed in this paper are those of the authors and do not necessarily reflect those of the Central Bank of Malta or the Eurosystem. Corresponding authors' email address: micallefma@centralbankmalta.org, vallina@centralbankmalta.org.

Factors driving gold performance in 2025 and Q1 2026

Chart 1 shows the developments in the price of gold, US and Bund yields during the period under review, set against key fiscal and monetary policy events. In the United States, the 10-year Treasury yield remained broadly stable despite volatility, declining slightly from 4.56% at the start of 2025 to around 4.32% by end of Q1 2026. In contrast, the 10-year German Bund yield rose from approximately 2.36% to 3.00%, reflecting fiscal expansion expectations and potential effects of trade policy and geopolitical uncertainties on inflation. Volatility persisted into early 2026, with yields rising further following unfavourable geopolitical developments, including the escalation of the conflict in Iran.

The rise in gold prices in recent years can be linked to developments since 2022, after the Russia-Ukraine conflict began. During this time, central banks became major buyers of gold, purchasing over 1,000 tonnes each year.² China remained the single largest buyer, adding 365 tonnes to its reserve since 2022. In 2025, most of the purchases came from a small group of countries, including Poland, Kazakhstan and Brazil. According to the Central Bank Gold Reserves Survey (2026),³ central banks have increased their gold reserves primarily because gold remains stable during times of crisis, provides diversification for their assets, and serves as a dependable store of value over the long term. The cumulative effect of this demand is now visible at a global level. The ECB's International role of the euro (2026)⁴ report found that gold's share in total official foreign reserves reached 27% by end-2025, overtaking both the euro (15%) and US Treasuries (22%). However, this largely reflects valuation effects from rising gold prices rather than a fundamental shift in reserve strategy.

According to the World Bank (2025),⁵ gold prices increased due to strong global demand, continued buying by central banks, supportive monetary policies, and heightened geopolitical risks. Data from the World Gold Council⁶ shows that total gold demand exceeded 5,000 tonnes for the first time in 2025. Investment/Investors demand made up about 44%, jewellery about 33%, and central bank purchases around 17%, with the remaining 6% attributed to the technology sector.



² [Central Banks | World Gold Council](#)

³ [Central Bank Gold Reserve Survey 2026](#)

⁴ [International role of the euro 2026](#)

⁵ [Commodity Markets Outlook - October 2025](#)

⁶ [Gold Demand Trends: Q4 and Full Year 2025 | World Gold Council](#)

Monetary conditions also played an important role in 2025. Inflation trends differed across major economies. In the euro area, inflation reached the 2% target in mid-2025, while the inflation projections pointed at the time to some risks of undershooting the inflation target, allowing the ECB to lower interest rates. In contrast, US inflation remained higher at around 2.7-2.9%. During the year, the Fed lowered the funds rate for a total of 75 basis points (bps), with the yield spread between the 10-year US and EU government bonds narrowing by approximately 89bps, decreasing from 221bps at the beginning of the year to 131 by year-end. These differences created favourable conditions for gold. When the Fed eventually began lowering rates, the US dollar weakened and real yields fell, making gold more attractive. At the same time, as gold is typically priced in US dollars, a weaker dollar made gold cheaper for international buyers. As a result, more investors moved into gold, pushing prices higher.

Geopolitical tensions also supported gold prices during 2025. The return of President Trump, the introduction of tariffs by the US administration and uncertainty about their evolution, as well as ongoing conflicts in the Middle East increased uncertainty. As a result, investor confidence weakened and demand for gold as a safe-haven asset increased. These factors may also help explain why the traditional inverse relationship between gold prices and bond yields did not always hold. Although gold prices typically decline when yields rise due to strong economic growth and tighter monetary policy, gold can appreciate when higher yields are driven by stagflationary pressures or geopolitical risks, as investors continue to seek safe-haven assets despite the increased opportunity cost of holding gold.

More recent data for early 2026 shows some further changes in demand. In the first quarter of 2026, jewellery demand fell by 5%, reaching its lowest level since the COVID-19 period. However, this decline was balanced by stronger demand from the technology sector, investors, and especially central banks. Central bank demand rose by 3% compared to the previous quarter and accounted for about 20% of total demand. Overall, gold prices remained high in early 2026 due to continued geopolitical tensions, conflicts in the Middle East, and uncertainty about global trade and economic policies. These factors kept demand for gold strong as investors continued to seek safety.

Factors driving government bond yields in the 2025-Q1 2026 period

In 2025, expectations that the Fed would cut rates pushed short-term yields lower, but long-term Treasury yields stayed relatively high. This reflected the interaction of continued fiscal expansion and strong issuance, which supported the term premium, alongside persistent inflation concerns. At the same time, resilient economic activity limited the decline in real yields, keeping long-term yields elevated despite expectations of policy easing.

Bund yields, by contrast, rose more decisively in 2025. Germany's stimulus package, including a €500 billion infrastructure fund and relaxed borrowing rules, marked a clear shift away from its traditionally conservative fiscal stance. This implied significantly higher future Bund issuance and contributed to a rise in the term premium.

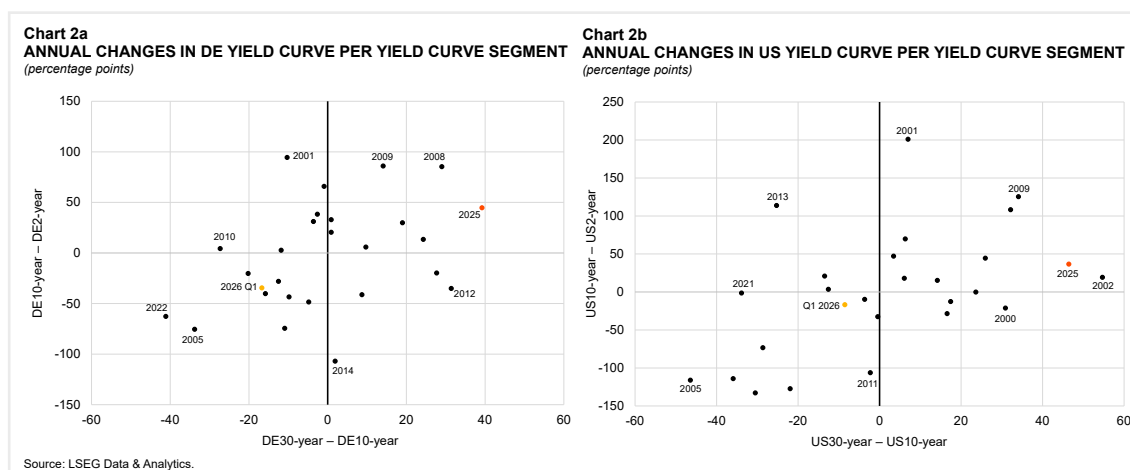
Monetary policy expectations also played a role. Despite four ECB rate cuts in 2025, the lack of a commitment to a specific rate path led markets to expect policy rates in the euro area to remain restrictive for longer, limiting downward pressure on yields. In addition, improving real incomes supported the medium-term growth outlook, contributing to firmer real yields and reinforcing the upward movement in longer-dated Bund yields.

In Q1 2026, yields rose on both sides of the Atlantic. In the United States, Treasury yields rose amid geopolitical shocks, rising energy prices, and a cautious Fed stance that led markets to scale back rate cut expectations. In the euro zone, the escalation of Middle East tensions triggered an energy-driven inflation shock, reinforcing a “higher-for-longer” ECB outlook and prompting a broad bond sell-off across the curve.

Chart 2a illustrates the historical relationship between annual changes in the German yield curve’s maturity segments from 2000 to Q1 2026. The vertical axis measures the yearly change in the 10-year–2-year yield spread, while the horizontal axis tracks the yearly change in the 30-year–10-year yield spread, with both metrics expressed in bps. The 2025 data point, highlighted in red, represents an unprecedented shift in the German term structure. The 30-year–10-year segment experienced its largest annual steepening on record, with the spread widening by nearly 40bps. This movement was surpassed in magnitude by that in the 10-year–2-year segment, which steepened by 45bps. The only periods showing similar steepening across both segments were 2008 and 2009, during the height of the Global Financial Crisis. Taken together, these outsized movements underscore a remarkable and historically rare surge in the overall steepening of the German yield curve. For Q1 2026, the data point shows a reduction in both segments of the curve, moving the market away from the steepening experienced in 2025.

In the US, Treasury yields trended downward in 2025, fuelled by market anticipation of a Fed pivot. This expectation materialized in the final quarter of the year, as the Fed implemented three consecutive 25bps rate cuts. Yet the long end remained persistently elevated, as mounting fiscal pressures pushed the term premium to its highest level since 2011. Meanwhile, frequent tariff announcements increased volatility in the Treasury market, with trade policy uncertainty and mounting concerns over the credibility of US finances leading investors to demand higher compensation for holding long-dated debt. These dynamics did not remain contained within US borders: the abrupt shifts in American trade policy and the associated rise in US term premia spilled over into euro zone bond markets, acting as a further driver of upward pressure on Bund yields.

Chart 2b depicts the same relationship for the US yield curve. The 2025 data point shows the second largest steepening in the 30-year–10-year segment since 2000, amounting to over 45bps, surpassed only by 2002. Even for the United States, the change in slope for the 10-year–2-year segment was largest in magnitude, slightly below 50bps, but largely below the peaks recorded in 2001 and 2009. Compared to 2025, the Q1 2026 data point for the United States show a reduction in the slope of the yield curve across both segments.



The gold-Bund yield relationship: a regime shift?

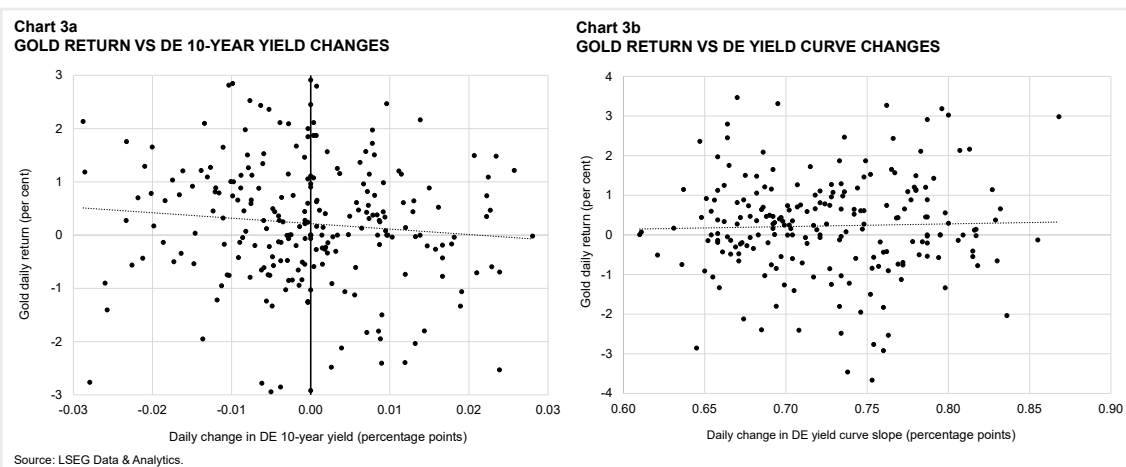
In 2022, the correlation between gold price and the DE 10-year yield in levels was strongly negative at -0.74 . By 2025, this had sharply reversed to a positive $+0.51$, and $+0.66$ when also including Q1 2026. Such unusual positive alignment indicates gold demand may have been driven by broader systemic factors rather than interest-rate sensitivity, redefining traditional market relationships. In contrast, the US equivalent maintained a strongly negative correlation of -0.79 in 2025,⁷ as US Treasury yields declined while gold price surged, extending the traditional negative relationship between the two. Given this breakdown, the analyses that follows focuses exclusively on Bund yields.

To decompose the relationship further, two distinct dimensions of the German yield structure are examined. First, the level of the 10-year yield, which reflects the broad interest rate environment and opportunity cost of holding gold. Second, the slope of the yield curve, defined as the spread between 10 and 2-year yields, reflecting broader macroeconomic expectations. Analysing both dimensions allows for a fuller understanding of how different aspects of Bund dynamics interact with gold returns.

When looking at the relationship between the daily gold return and the DE-10 yield change, the correlation, however, turns negative (see Chart 3a). The two statistics are not contradictory because they answer different questions. The level correlation mainly reflects whether the two series trended in the same direction over the year. The daily correlation, by contrast, captures whether gold and German yields moved in the same or opposite direction on individual days.

Over the course of 2025, both German yields and gold prices were simultaneously pushed upward by the same underlying structural forces, namely growing euro area debt sustainability concerns, persistent inflationary pressures, and escalating global trade and geopolitical risks. This common trend is what produces the positive correlation in levels. At the same time, investors demanded higher yields to compensate for elevated risk, while simultaneously increasing their allocation to gold as a safe haven, so that on a day-to-day basis a rise in yields tended to coincide with a fall in gold prices, and vice versa. This is what produces the negative correlation in daily changes. This dynamic was particular to the euro area, as US Treasury yields fell over the same period, with gold price and yields following the traditional inverse relationship.

Chart 3b shows that the correlation between gold's daily return and the daily change in the spread between 10 and 2-year government yields, is positive. This suggests that when the yield curve



⁷ However, the correlation turned positive in certain subsamples, namely in February, June, and the period from mid-March to mid-April, which followed Trump's "Liberation Day".

steepened, the gold return increased. This dynamic was driven by two concurrent factors. First, short-term rates rising more moderately than long-term rates limited the increase in the opportunity cost of holding gold relative to cash. Second, rising long-term yields can reflect heightened inflation expectations and fiscal risk premia. Together, these forces enhanced the appeal of gold as a structural hedge against both monetary easing and long-term economic instability.

A simple econometric model and results

Building upon the previously discussed factors driving the price of gold, this section investigates the specific variables explaining the trend in gold returns observed in four periods: the pre-Great Financial Crisis expansion (2003-2008), the post-Great Financial Crisis recovery (2009-2015), the late-cycle expansion (2016-2019), and the current post-pandemic era (2020-Q1 2026).

To achieve this, simple OLS is employed, regressing gold returns against changes in selected key macroeconomic and financial variables at daily frequency. These include a Dollar Index (DXY),⁸ Brent crude oil prices as a proxy for inflation, the S&P500, the MOVE and VIX volatility indices, the yield on US Treasury Inflation-Protected Securities (TIPS), as well as a geopolitical risk (GPR) index (Caldara and Iacoviello, 2022). This index quantifies the intensity of global tensions by tracking the frequency of newspaper articles related to adverse geopolitical events.

To ensure stationarity, all series were transformed using the first difference of their natural logarithm. This choice is a common practice in time series econometrics, as it approximates percentage changes in the underlying variables, stabilizes variance across the sample, and allows the resulting coefficients to be interpreted as elasticities. The only exception is the TIPS series. For this variable, the simple first difference was taken, without applying the logarithmic transformation. Stationarity of the resulting series was assessed using the Augmented Dickey-Fuller test, which rejected the null hypothesis of a unit root for all series at the 1% significance level, confirming stationarity.

Table 1 summarizes the results of the regression model across the four distinct time horizons. It is worth noting that the 2009-2015 period yields comparatively weak results. The adoption of unconventional monetary policy tools, including quantitative easing and near-zero interest rates by major central banks during this period may thus have distorted the classical relationship between asset returns and macroeconomic variable. The results for this period are therefore reported for completeness but should be interpreted with caution.

Setting this period aside, a primary takeaway is the role of the DXY, which maintains a statistically significant and negative coefficient in every model. This inverse relationship is in line with the classic economic theory, which postulates that as the US dollar appreciates, gold, which is denominated in dollars, becomes more expensive for international investors, reducing demand and lowering its returns. Oil price serves as another critical driver, showing strong positive significance in all periods except for the second horizon. In this context, oil acts as a leading proxy for broader inflationary pressures. When energy costs rise, investors historically pivot toward gold as a “safe haven” asset to hedge against the eroding purchasing power, thereby driving gold returns higher. TIPS coefficients are significant across the second and fourth horizons, yet they undergo

⁸ This index measures the US dollar's strength against a basket of six key currencies: Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc. Although this report focuses on German yields, the DXY is included because gold is denominated in US dollars. As a result, a stronger US dollar makes gold more expensive for investors.

Table 1
REGRESSION OUTPUT

Variables	(1) 2020-Q12026	(2) 2016-2019	(3) 2009-2015	(4) 2003-2008
S&P500	0.031 (0.330)	-0.141*** (0.000)	-0.118** (0.002)	-0.066 (0.121)
Dollar Index	-0.950*** (0.000)	-0.894*** (0.000)	-0.606*** (0.000)	-1.190*** (0.000)
MOVE	-0.001 (0.882)	0.019** (0.009)	-0.019** (0.008)	-0.004 (0.573)
Oil price	0.037*** (0.000)	0.145 (0.202)	0.099*** (0.000)	0.099*** (0.000)
VIX	0.000 (0.959)	0.000 (0.997)	-0.002 (0.560)	-0.005 (0.217)
TIPS	0.005 (0.110)	-0.006*** (0.000)	-0.002 (0.143)	0.030** (0.006)
GPR index	0.001 (0.332)	0.000 (0.305)	0.000 (0.642)	-0.001 (0.249)
Constant	0.001* (0.056)	0.000 (0.131)	0.000 (0.366)	0.000 (0.321)
Observations	1621	1035	1806	1563
Adjusted R ²	0.149	0.281	0.122	0.314
Significance levels: *p<0.10, **p<0.05, ***p<0.01				

a sign reversal following the Great Financial Crisis. The negative sign in the secular stagnation phase can be explained by the low-return environment of that period, where unconventional monetary policies and negative real interest rates reduced the opportunity cost of holding non-yielding assets like gold. Surprisingly, the GPR index, often addressed as a major driver of gold accumulation, was not found to be a significant factor across all three horizons.

A critical observation is the decline in the adjusted R² over time, which measures the proportion of variance explained by the model. This figure shrank from 31.4% in the period preceding the Great Financial Crisis to 14.9% in the post-pandemic era, suggesting that the traditional macroeconomic and financial playbook for gold is losing its predictive power. This indicates gold is detaching from its historical factors and responding to a new set of drivers that lie outside the scope of standard market variables.

To further investigate this loss of explanatory power, a QR was performed for all four periods. Unlike OLS, which estimates a single average relationship, QR captures, in this context, how the sensitivity of gold returns to key drivers varies across the conditional distribution, revealing asymmetries that OLS does not capture. In this context, QR shows that the post-pandemic era is unique, as it is the only one characterised by quantile heterogeneity, where the impact of key drivers on gold prices shifts significantly between bull and bear market conditions.⁹

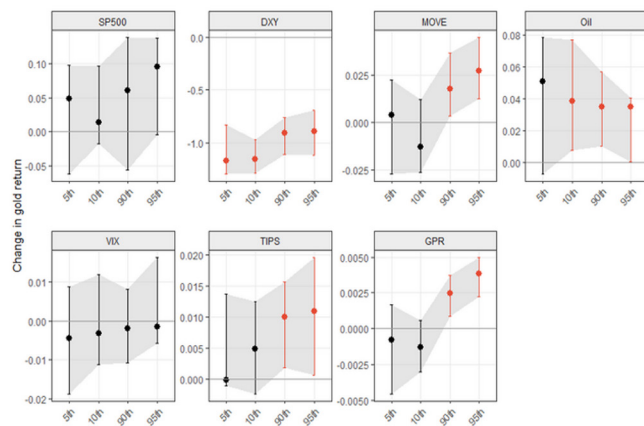
This “regime-shifting” structure helps explain the deterioration in OLS explanatory power: by forcing a single average coefficient, OLS masks the distributional asymmetry that characterises

⁹ We define bear market states as the lower tail of the distribution (5th to 10th percentiles) and bull market states as the upper tail (90th to 95th percentiles).

this period, inflating residual variance and reducing fit. Specifically, the TIPS, MOVE and the DXY, as shown in Chart 4, exhibit statistically different coefficients across these two regimes. This suggests these three drivers of gold return have evolved into tail-risk mechanisms, becoming highly reactive when market conditions deviate significantly from the norm. Notably, while S&P 500 coefficients are positive across all quantiles and increase toward the upper tail of the gold-return distribution, none of

the estimates is statistically significant, meaning equity market movements do not systematically explain gold-price changes in this period. Similarly, oil displays positive and mostly statistically significant coefficients across quantiles. However, the hypothesis that its effect remains stable across regimes cannot be rejected, suggesting it acts as a steady inflation hedge regardless of the prevailing market state. VIX coefficients, by contrast, remain small and statistically insignificant across the entire distribution, indicating that equity market volatility alone does not constitute a meaningful driver of gold returns. The chart also sheds some light on the role of GPR. While GPR maintains a positive and significant influence in the upper tail of the distribution, its magnitude remains marginal, suggesting that geopolitical tension supports gold at the margin, without constituting the primary engine of the current regime shift.

Chart 4
QR FOR 5th, 10th, 90th and 95th PERCENTILES



Note: grey area denotes the 95% confidence interval. Statistically significant estimates are coloured in red, while the other estimates in black.

Conclusion

While the traditional inverse relationship between gold prices and government bond yields generally held in the United States during the period under review, it clearly shifted within the euro area. This divergence set the stage for a year in which gold prices and euro area government yields surged together, signalling a departure from the classic macro-financial framework. Focusing on Bund dynamics, this report examines the trend of gold and German yield over the course of 2025 and the first quarter of 2026. Gold price was driven by multiple factors, including strong demand, a weak US dollar, lower real yields, trade and geopolitical tensions. On the other hand, German yields were pushed up by a mix of euro area specific developments, including the market expecting “higher for longer” interest rates environment and concerns over debt sustainability, as well as the announcement of a German stimulus package.

To evaluate the relationship between these two variables, the analysis first examines their correlation, which underwent a dramatic reversal from a strongly negative -0.74 in 2022 to a positive +0.66 during the period. This transition suggests that gold may be increasingly driven by systemic concerns, such as debt sustainability and fiscal risk, rather than simple interest-rate sensitivity. Interestingly, while traditional narratives often cite geopolitical tension as a primary driver, the model found that GPR had little to no statistically significant impact on gold prices. While daily price fluctuations still show a negative sensitivity to yield changes, these short-term pressures are being overwhelmed by gold’s appeal as a structural hedge. This shift is further evidenced by

gold's positive sensitivity to yield curve steepening, where it benefits simultaneously from lower short-term opportunity costs and rising long-term inflation premiums. Econometric modelling confirms this decoupling, as the predictive power of traditional variables has collapsed from 31.4% in the pre-Great Financial Crisis to 14.9% in the post-pandemic era. Ultimately, gold has transitioned from a mere non-yielding asset into a structural hedge against a new era of macroeconomic instability, a role that traditional models struggle to capture. This shift is further evidenced by a move towards distributional extremes, confirmed by the QR results, where the TIPS, MOVE and US dollar indices exert additional influence during periods of market "bull" returns.