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Portfolio Perspectives

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Key Messages for Investors

- The macroeconomic environment muddles on.
- Gold can play a valuable role in a multi-asset portfolio given its distinct risk/return drivers and its ability to provide protection against geopolitical, inflation and growth risks.
- Gold's meteoric rise has been predominantly supported by central bank buying, and more recently retail investors in the form of physical gold and ETF investments.
- We identify five demand drivers for gold which on balance are supportive for gold: central bank demand in particular is unlikely to be exhausted, especially among emerging markets with low gold reserve ratios.
- Despite exponential price gains, structural drivers such as US fiscal concerns, dollar status, and geopolitical risk remain, warranting a cautiously positive long-term view.

Macro and labour conditions continue to plod along

The delayed release of the September US employment data held a positive surprise, silencing critics that labour conditions are crumbling. Granted the official data is stale, alternative data sets like the US Federal Reserve Bank of San Francisco weekly labour market stress indicator and ADP National Employment Report paint a more benign picture of US labour conditions that are subdued at worst. Labour market stress remains low and according to ADP, the US added 42,000 workers in October 2025.

Our focus on the Big 4 (US, China, Europe and Japan) show that the services sector (the dominant portion of their respective economies) remains healthy as seen through the Services Purchasing Manager's Index (PMI) which remains well above 50. Similarly, retail sales remain broadly positive as a sign that household consumption continues to hold up. Even the recent "weak" US retail sales figure still represented 4.3% YoY nominal growth or 1.3% in real terms which is hardly alarming. Overall, our broad set of indicators paints a benign macro picture with the potential for upside surprise as we move into the new year. We make no changes to current portfolio positioning this month.

A special look at Gold

Gold has delivered extraordinary returns since the start of 2020, rising over 170% at the time of writing and more than doubling since February 2024. This is in stark contrast to the modest 28% rise in the preceding five years. This surge has outpaced major asset classes and reflects a mix of cyclical and structural forces. While inflation, monetary policy expectations, and shifts in investor sentiment continue to shape short-term dynamics, deeper factors – such as persistent geopolitical uncertainty, the strategic accumulation of gold by central banks, and questions surrounding US fiscal sustainability have increasingly underpinned demand.

In this month's Portfolio Perspective, we consider a structural allocation to gold within a multi-asset portfolio, highlighting its value as a diversifier that offers defensive characteristics while enhancing risk-adjusted returns. We also present a supply/demand framework as a way to assess the outlook for the metal. We explore how evolving behaviour across key buyer segments – particularly central banks, ETFs, and retail investors – interacts with a supply base constrained by years of underinvestment, and the extent to which these forces are likely to persist over the medium term.

Gold can have a role in a multi-asset portfolio

Gold offers distinct risk and return characteristics compared with traditional asset classes. Although gold's long-term returns are modest – around 5% per year over the past century – there are moments in history when its contribution to a well-built portfolio far outshines its literal weight in gold. The shiny metal has historically exhibited negative correlation with equities and real assets, particularly in times of stress, and is only moderately correlated to fixed income. With equity–bond correlations turning sharply positive in 2022, gold's role as a portfolio diversifier became apparent. Gold's role as a portfolio diversifier has grown even more important in a world where inflation risks have become far more balanced – driven by the energy transition, supply chain re-organisation and geopolitical fragmentation.

Gold demonstrates important defensive characteristics, typically performing well during recessions, with an average gain of 9% in the six months following the start of a recession (average across all recessions from 1969 to 2020). Beyond economic downturns, gold acts as a safe-haven asset, providing reliable protection during geopolitical crises. Over the last 25 years, when the geopolitical risk index spiked by 100% or more during the week, gold returned over 1.5% on average, far exceeding bonds, equities, and a broad basket of commodities. Gold has also historically performed well in periods of high inflation and stagflation environment. It has preserved its purchasing power over the very long term, making it a robust store of value. However, gold is a volatile asset, with similar volatility to equities, underscoring the importance of prudent position sizing and ensuring alignment with an investor's risk tolerance.

To illustrate the value of gold as a structural allocation in a multi-asset portfolio, we compared a 60/40 equity–bond portfolio with a 50/10/40 equity–gold–bond portfolio¹. To

be clear, the 10% allocation is purely illustrative and does not represent a recommendation or target allocation. Over the period measured (1998 to 2025), the portfolio with gold outperformed while exhibiting lower volatility, resulting in a higher median Sharpe ratio of 0.42 versus 0.38 for the traditional portfolio. It also experienced shallower drawdowns and superior performance in down markets, although the gold allocation modestly detracted during up markets.

It is worth reiterating that gold has proven its worth most acutely during periods of crisis. The corollary to this is that periods of stability, whether geopolitical or market-related, are headwinds for gold. An extended period of underperformance for gold from the early 1990s to the 2000s marked the most recent peace dividend following the end of the Cold War, for example.

Exploring Gold through a supply and demand lens

Demand Drivers

Gold demand can be divided into five main sources: technology, bar and coin investment, jewellery fabrication, exchange-traded funds (ETFs), and central banks.

Technology

Technology-related uses, including industrial, electronic, and dental applications, account for a low percentage of total demand, typically around 8%. This segment is relatively insensitive to price movements and has remained constant over time, though AI-chip-related demand has been a small positive.

Bar and coin demand

Bar and coin demand accounts for roughly one-quarter of total gold demand and has remained relatively stable. It is concentrated in markets like China and India, where gold ownership has deep cultural and historical

¹ The asset allocation is illustrative in nature and does not represent an actual, target or recommended allocation.

significance. This segment is primarily driven by retail investors seeking a store of value during periods of economic uncertainty, currency weakness, or high inflation. Notably, China has emerged as the dominant driver, accounting for about 40% of global bar and coin purchases in the first half of 2025, a 44% year-on-year increase. This surge, in part, reflects a rotation of household wealth away from the troubled property sector, supported by elevated excess savings and a preference for safe, tangible assets. Looking ahead, resilient Chinese retail investment demand may continue to provide a modest tailwind for global gold consumption.

Jewellery fabrication

Jewellery fabrication remains the largest component, comprising around half of total gold demand. China and India together account for roughly 60% of global jewellery consumption. Jewellery volume demand is typically inversely related to price, as consumers tend to buy within a fixed budget rather than by weight. Historically, periods of sharp price increases – such as in the 1970s and 2000s – have coincided with weaker jewellery demand, while softer price periods in the 1980s and 1990s supported steady growth. In the current environment, elevated prices have weighed on demand; as of September 2025, global jewellery demand has fallen 23% year-on-year, with volumes reaching its lowest level since 2020. While seasonal factors such as the Chinese New Year and Deepavali may provide a temporary lift, jewellery demand is likely to remain subdued given the prevailing high price environment.

ETF

The category that has absorbed much of this decline has been ETF investment². ETF driven flows are highly volatile and can have an

outsized influence on prices. After heavy inflows in early 2020 amid peak Covid uncertainty, ETFs recorded steady outflows of 788 tonnes from late 2020 to mid-2024, reflecting profit-taking, a rotation into growth equities, and rising rates. Sentiment has since reversed, with 732 tonnes of inflows in the year to September 2025, supported by expectations of policy easing and elevated geopolitical risk.

If this momentum persists, ETF demand could represent a swing of roughly 20% of total demand from 2023 levels – transforming ETFs from a source of net supply into a major contributor to demand growth. Despite its strong rally, ETF holdings of gold (in tonnes) remain below their April 2022 peak, indicating that ongoing restocking could continue to support prices.

A decline in real yields could also support gold inflows, given its historically inverse relationship. Although this link weakened in 2022 due to elevated safe-haven demand, inflation uncertainty and strong central bank buying, the correlation has recently improved. **We expect falling real rates to provide support to prices, as lower yields reduce the opportunity cost of holding a non-yielding asset.**

Gold's traditional negative correlation with the US dollar has also softened in recent years. Both assets benefited from safe-haven flows and persistent inflation which spurred demand for gold as protection against inflation-driven currency debasement. More recently however, increases in gold prices and ETF gold volume have coincided with a weaker dollar, suggesting firmer investment demand to hedge against US-specific downside risks. The US labour market has shown signs of cooling, while concerns around US fiscal sustainability, the Federal Reserve independence and tariff uncertainty have also emerged. **Conversely, a key risk to gold's performance is a pickup in US**

² This segment also captures similar products such as closed-end funds and mutual funds

growth and a rebound in sentiment, which would diminish gold's appeal as a downside hedge.

Central Banks

Official sector³ purchases have become a major driver of gold prices. Since 2022, central banks have bought more than 1,000 tonnes annually – roughly US\$12 trillion at today's prices – lifting their share of total demand from around 12% to 24%.

These inflows reflect a strategic diversification away from the US dollar, alongside mounting concerns about the US' fiscal trajectory, political stability, and interest rate volatility. This trend forms part of a broader "de-dollarisation" movement, as central banks seek to reduce exposure to potential sanctions or asset freezes – a risk underscored by the freezing of Russian reserves in 2022. Gold offers unique advantages in this context: it carries no default risk, is independent of any single government (no counterparty risk) and tends to preserve real purchasing power over time.

Persistent buying has raised gold's share of global central banks reserves from 13% to 21% over the five years to September 2025, driven by emerging market economies such as China, Turkey, Poland, and India. These four countries accounted for 83% of global purchases during this period, with China leading the way at nearly 30% of the total. Developed markets like Singapore and Japan have also substantially increased their holdings in this period. Gold's share of total reserves has more than doubled in many countries over the past five years but remains modest compared with US and the Eurozone which hold 60-80% of reserves in gold. In China, for example, gold holdings have increased from 2% to 8% of total reserve, funded largely through the maturing of US Treasuries. Nonetheless, foreign currency assets continue to dominate its reserves.

³ Official sector demand includes central banks and other institution such as supranational entities and sovereign wealth funds

Central Banks Demand Outlook

Central bank purchases have eased slightly this year, though remain elevated by historical standards. JP Morgan predicts annual central bank purchases to amount to 760 tonnes in 2025 and 2026, lower than the 1,000+ tonnes over the past three years, but still materially greater than the pre-2022 averages at around 400-500 tonnes. The moderation likely reflects higher prices, which has naturally lifted gold's value share within reserve portfolios. Nevertheless, this is unlikely to deter central banks, which tend to be strategic and largely price-insensitive buyers (i.e. their demand function is price inelastic). **Continued reallocation from US Treasuries should sustain robust demand.**

While it is difficult to precisely predict the outlook for central bank's appetite for gold, several factors indicate they will remain a structural source of demand. First, there is still considerable scope for further accumulation, especially among emerging markets aiming to diversify and strengthen their reserve composition. Research by the Bank for International Settlements⁴ (BIS) highlights gold's diversification benefits for reserves significantly exposed to foreign exchange risk. The analysis suggests that when a country's reference currency is a commodity or emerging market currency, an optimal gold allocation could exceed 20% of total reserves, underscoring the potential for sustained demand growth. If all central banks increased their gold holdings to a modest 10% of reserves, it would amount to an estimated 2,650 tonnes of additional gold demand, or around 50% of annual mine supply.

Second, gold purchases have made up a small fraction of central banks' expanding balance sheet since 2022. Across the 22 countries and regions that together account for around 90% of global reserves – led by China, the Euro Area, Japan, Switzerland, and India – total reserves increased by USD 1.5 trillion over the five years to 2024, while gold

⁴ [BIS Working Papers No 906 – What share for gold? On the interaction of gold and foreign exchange reserve systems – November 2020](#)

holdings rose by only USD 81.5 billion, or just 5.6% of the increase in reserves. This suggests ample dry powder that central banks hold which can be used to fund further gold purchases.

Third, the latest World Gold Council survey provides an optimistic read on central bank sentiment. Central banks cite gold's ability to outperform in crisis, act as a store of value and as an effective diversifier as reasons for strategically allocating to gold. Of the 73 central banks surveyed, 95% expect global gold reserves to increase over the next 12 months, with no indication of de-stocking by any of the respondents. They also anticipate lower US dollar shares in global reserves and increased allocations to gold, the euro and the renminbi over the next five years.

Altogether, this supports the view that **central bank demand is not yet exhausted, with elevated buying (compared to pre-2022) likely to persist in the medium term.**

Supply Drivers

On the supply side of the equation, gold is sourced from mine production and recycled scrap.

Mine production

Mine production tends to respond slowly to price movements. The process of discovering, developing, and bringing a new gold mine into production can take decades, meaning that price signals have only a limited short-term impact on supply. However, higher prices can encourage restarts of previously idled operations, with the timeline varying depending on the condition and location of the asset. In the interim, some producers may reprocess lower-grade waste piles above ground. Global mine output growth has generally remained consistent from year to year, averaging 3-4% from 2010 to 2018. Since 2018, however, production growth has largely stagnated, reflecting a prolonged period of underinvestment and limited new discoveries.

The production outlook is further constrained by rising geopolitical and operational risks, particularly in emerging markets where gold

mining activity is expanding. Political instability, contract renegotiations, and regulatory uncertainty in several African and Latin American producers have created a more fragmented and unpredictable supply base. Meanwhile, artisanal and small-scale mining has grown in parts of Latin America and Asia, but this segment is typically lower in efficiency, environmental standards, and output quality.

At the same time, cost pressures have increased across the sector – driven by higher energy and financing costs, labour shortages, and rising royalty payments linked to elevated gold prices. Overall, global mine production is expected to end the year broadly flat.

Recycled scrap

The other key component of supply is recycling, which is more price responsive. Nearly all mined gold is theoretically accessible due to its virtually indestructible nature, with a portion of supply available to re-enter the market when warranted by price or economic conditions. Recycled gold primarily originates from jewellery (>90%), with the remaining portion derived from technology and industrial recovery.

Over the past five years, recycling has accounted for around 25% of total annual supply. In contrast to jewellery demand, higher gold prices encourage more recycling as households and investors liquidate holdings to capitalise on gains. This effect was most pronounced during the 2010-2012 bull market, when recycling contributed as much as 40% of global supply. Recycling volumes have been modest so far in 2025, up about 6% year-on-year to Q3 but could surge higher given gold's elevated price. Taken together, with **mine output constrained and recycling only partially responsive, gold supply has struggled to keep pace with strong demand, resulting in sustained upward pressure on prices.**

Gold Outlook

Gold has experienced a dramatic rise in 2025, increasing 66% to 17 October, before

a sharp fall of 5.3%, marking the largest single-day decline in 12 years. Since its mid-October peak, gold is down approximately 5%. From a technical perspective, gold appears overextended on some measures and suggest heightened market fragility, making corrections or consolidation both healthy and expected, with the potential for sharp and deep reversals remaining elevated.

ETF inflows, largely from US and Europe but more recently China and India, have been the dominant driver of gold prices in recent months, primarily reflecting momentum-driven investor demand. Recent volatility has been influenced by profit-taking and derisking, alongside buyers stepping in on dips, which could limit the depth of reversals. Citi Research estimates that gold stockholders are holding 26,000 tonnes at present, up from 15,000 tonnes at the end of 2023, meaning even a modest 1% reduction in holdings could flood the market and overwhelm supply⁵. Although gold

stockholders tend to be relatively sticky, large ETF sell-offs have occurred before, notably in 2013, in response to improved US growth sentiment.

Structural drivers of gold demand remain robust. Central bank demand is unlikely to be exhausted, and broader concerns including US debt levels and fiscal deficits, the status of the US dollar, elevated geopolitical risk, and Fed independence are unlikely to subside, providing support to prices. Cyclically, gold continues to offer a hedge against downside risk amid a finely balanced US growth outlook. From a portfolio management perspective, gold maintains a structural role in providing diversification and protection against inflation, geopolitical shocks, and economic slowdowns. In the near term, however, volatility is expected to remain high, with sharp pullbacks likely, suggesting that disciplined rebalancing through both reversals and extensions is prudent.

⁵ Citi Research - Gold outlook update - cyclical and structural factors driving a powerful bull market, 19 September 2025

Gold Outlook through a Demand/Supply Framework

	Drivers	As at end 2024 Composition	Outlook			Rationale
			Negative	Stable	Positive	
Demand	Technology	7%		●		Stable and predictable source of demand. AI-chip related demand may be a marginal positive.
	Bars & Coins Investment	26%			●	Robust retail demand, particularly from China, as investors seek security and a reliable store of wealth.
	Jewellery	44%	●			Elevated price periods tend to weigh on jewellery demand.
	ETFs & similar products	17%			●	Strong momentum in ETF inflows across regions supports prices, though flows remain the most volatile demand component.
	Central banks & other institutions	17%			●	Official sector demand is unlikely to be exhausted despite slowing ytd, especially among EMs with low gold reserve ratios.
Supply	Mine Production	72%		●		Output projected to be flat y/y with no significant lift in production growth expected.
	Recycling Scrap	28%			●	Higher prices should raise volumes which has not yet materially picked up.
Overall Outlook	Short-term			●		After strong gains, expect elevated volatility and potential profit-taking, though dips may attract sidelined buyers, limiting depth of reversals. A near-term downside risk is an improvement in US growth sentiment.
	Long-term				●	Despite exponential price gains, structural drivers such as US fiscal concerns, dollar status, and geopolitical risk remain, warranting a cautiously positive view.

Outlook & Positioning

Macroeconomic conditions muddle on. Delayed US data is not helpful but alternate data sources and other current data paint a benign economic backdrop for now.

We make no changes to portfolio positioning this month but note our mild overweight to Growth assets.

Within our Growth allocation, we favour Emerging Market Equities, Global Listed

Property and Global Listed Infrastructure in favour of Australian Equities. Australia represents our least preferred market due to its extreme valuations and limited scope for upside earnings surprise.

Within our Defensive allocation, we continue to prefer Australian Bonds versus Global Bonds due to the relatively higher yield. Australia has also consistently demonstrated better fiscal discipline than its Developed Market peers.

Growth Assets	Underweight		N	Overweight	
Australian Equities - Large Cap					
Australia Equities - Small Caps					
Developed Market Equities - Large Caps					
Developed Market Equities - Small Caps					
Emerging Market Equities					
Global Listed Property					
Global Listed Infrastructure					
Growth Alternatives					

Defensive Assets	Underweight		N	Overweight	
Australian Bonds					
Global Bonds					
Diversified Income					
Defensive Alternatives					
Cash					

Growth Assets

Asset Class	Position	Rationale
Australian Equities - Large Caps	Mild Underweight	Australian equities present unattractive options, with weak profit growth in Banks and Resources or stretched valuations in other sectors. Given limited earnings prospects and better global alternatives,
Australian Equities - Small Caps	Mild Underweight	Unprofitable junior miners make up a large portion of the Small Caps sector vs Large Caps. While they should benefit from an improving outlook for China, we prefer to gain exposure to this dynamic directly. There is also considerable froth in this portion of the market due to the strength in gold.
Developed Market Equities - Large Caps	Neutral	The Trump Administration's tariff policies are a headwind for growth, but the impacts will be manageable. Economic indicators have moderated year to date, but fears of a severe growth slowdown have diminished.
Developed Market Equities - Small Caps	Neutral	Valuations remain somewhat attractive. With US companies forming 63% of the small cap index, tariff policy uncertainty should fade as a headwind.
Emerging Market Equities	Mild Overweight	Emerging market equities are dominated by China, where a policy shift to support consumption and an economy that has recalibrated to be less dependent on the US since 2018 are supported by compelling valuations. The combination of attractive valuations and a stabilised earnings outlook offer an appealing entry point.
Global Listed Property	Mild Overweight	Attractive subsector valuations warrant an active approach to this sector. Office sector remaining structurally challenged but rental growth and healthy fundamentals are appearing in other areas of the sector (age care, data management, supply chains).
Global Listed Infrastructure	Mild Overweight	GLI offers attractive valuations, a healthy dividend yield compared to most growth assets, and is a beneficiary of lower interest rates. We also like its defensive qualities.
Growth Alternatives	Neutral	Some improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions and sentiment.

Defensive Assets

Asset Class	Position	Rationale
Australian Bonds	Mild Overweight	Australian bond yields offer good value and provide safety from overseas volatility. Positive supply/demand dynamics further supported by a budget deficit likely to be less than government forecasts.
Global Bonds	Slight Underweight	US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
Diversified Income	Neutral	Floating rate public credit still offers relatively attractive yields.
Conservative Alternatives	Neutral	Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash	Neutral	Cash provides optionality during this volatile period.

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