

Why gold in 2026?

Is gold still a strategic asset for Japanese investors?





Contents

Is gold still a strategic asset?	3
Japan's 2026 macro scene	4
Inflationary pressure, higher rates	4
Rising bond-equity correlation as inflationary pressure climbs	5
Geopolitical risks aren't fading soon	5

Does gold still offer Japanese investors a strategic edge?	5
Gold, an efficient contributor to growth	5
Low correlation with risk assets	6
An effective hedge against geopolitical shocks	6
The ideal hedge against inflation	7
Gold, the strategic asset in Japanese portfolios	7
Conclusion	8



Is gold still a strategic asset?

In 2025 gold experienced its strongest annual performance since 1979 (**Chart 1**). Heightened geopolitical risks, escalating global trade uncertainties, and growing demand for portfolio diversification drove sustained buying from both central banks and investors, supporting gold’s historic performance.

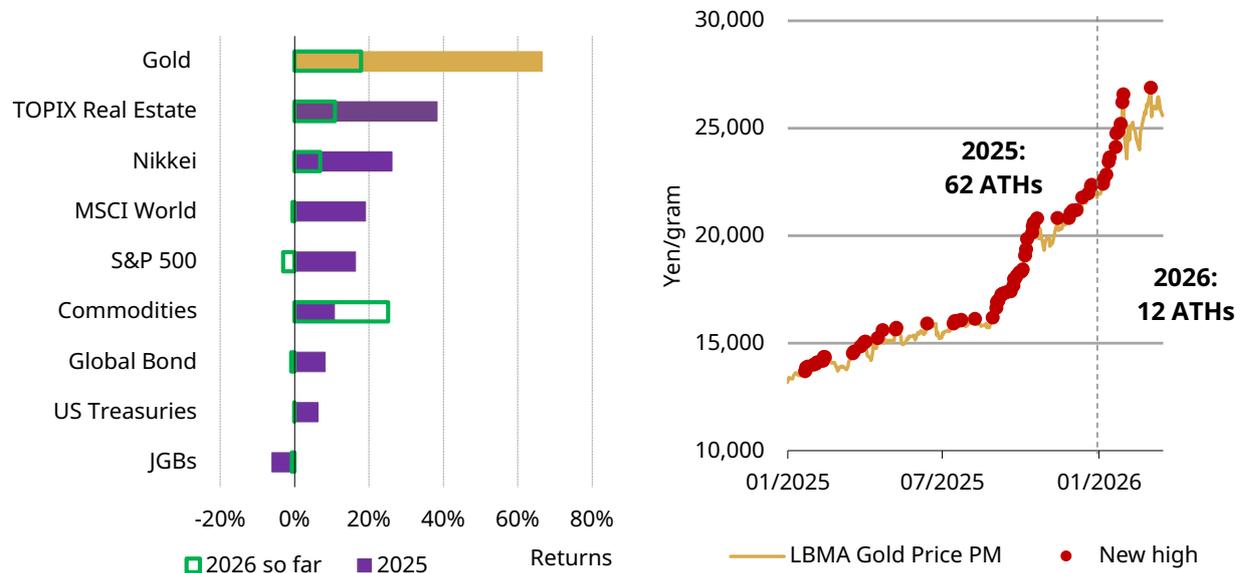
Gold has carried this momentum into 2026. Further spikes in geopolitical and trade risks, among other factors, have provided support for gold.

That said, recent spikes in gold price volatility have prompted a key concern for investors: is gold still a strategic safe-haven asset?

Our analysis shows that with various challenges facing Japanese investors in 2026, such as sticky inflationary pressure, rising bond-equity correlation and geopolitical uncertainties, gold remains a strategic asset and improves local portfolio performance.

Chart 1: A strong 2025 for gold and a decent, though volatile, start to 2026

Various asset returns in yen (left) and gold in yen (right)*



*Indices used: TOPIX Real Estate Index, Nikkei 225 Index, MSCI World ex Japan Index, S&P 500 Index, Bloomberg Commodities Index, Bloomberg Global Agg Index, Bloomberg US Agg Index, Bloomberg Japanese Government Bond Index, and LBMA Gold Price PM. 2026 returns and ATHs are based on data as of 13 March 2026. Source: Bloomberg, ICE Benchmark Administration, World Gold Council



Japan's 2026 macro scene

Inflationary pressure, higher rates

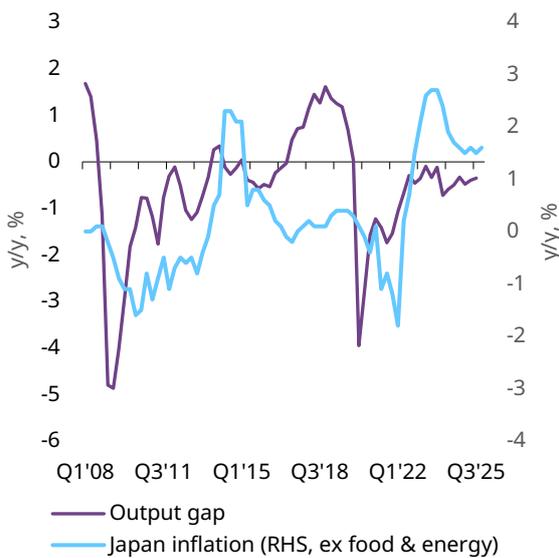
To answer this question, we believe it is vital to first assess *Japanese investors' portfolio needs*.

Prime Minister Takaichi's historical election win may have multiple implications for Japan's economy and local assets.¹ Her expansionary fiscal policy stance, such as suspending food consumption tax, is likely to ease household cost of living pressure and push down headline inflation in the near term. But upside risks to longer-term inflation remain.

With economic activity in Japan improving, and likely to be further boosted by expansionary fiscal policies, the country's output gap could widen into positive territory, in line with the projection from the Bank of Japan (BoJ).² And when the gap turns positive, it typically implies that demand is running ahead of supply capacity and labour constraints, putting upward pressure on inflation (Chart 2).

Chart 2: Improved output gap, higher inflationary pressure

The Japanese economy output gap and core inflation *



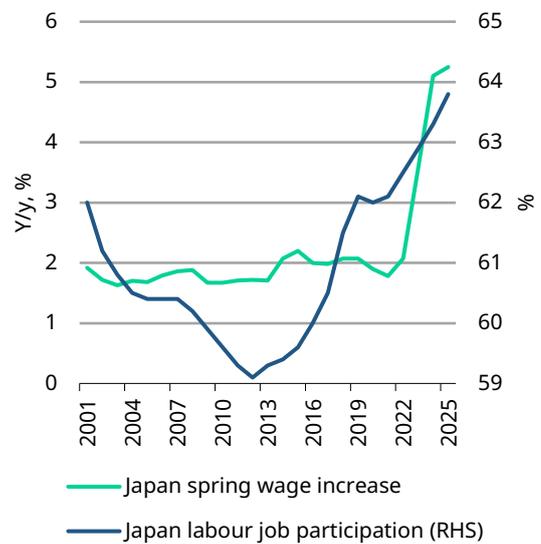
*Quarterly data as of Q3'25 for output gap and as of Q4'25 for core inflation. Source: Bloomberg, World Gold Council

Meanwhile, the labour shortage may further fuel price pressures. Declining fertility rates, rising longevity, and a shrinking working-age population have tightened labour supply. These factors, combined with an improving output gap, have pushed the Japanese labour force participation rate to a record high.

Takaichi's tougher stance on immigration does little to alleviate these constraints. Taken together, limited labour supply and a widening output gap are likely to sustain wage growth, contributing to higher inflation over the longer run. (Chart 3).

Chart 3: Shunto wins are no coincidence

Japan spring wage negotiation results and job participation rate*



*Annual data as of 2025. Source: Bloomberg, World Gold Council

This brings the BoJ into focus. Despite its expansionary fiscal policy, the bank is expected to continue monetary policy normalisation. While this may appear at odds with the Prime Minister's stance, incremental tightening is necessary to counter yen weakness and rising inflationary pressures – both of which could be exacerbated by fiscal easing.

Moreover, the macro conditions for the BoJ to continue hiking, as we have noted before, are now firmly in place. The wage-price spiral remains intact while the output gap keeps growing. Both point to sticky inflationary pressure that may cost the BoJ dearly if they stay behind the curve.

1. See: [PM Takaichi vows policy shifts to make Japan strong and prosperous](#) - The Mainichi, 20 February 2026.

2. See: [Highlights of the Outlook for Economic Activity and Prices \(January 2026\)](#)



Rising bond-equity correlation as inflationary pressure climbs

The above analysis indicates three potential trends for Japanese investors to watch:

- Expansionary fiscal policies ahead
- Higher inflationary pressure
- Rising interest rates.

Meanwhile, global uncertainties cannot be overlooked:

- Rising geopolitical risks involving Japan
- Resurging global trade uncertainties
- The de-globalisation trend, which structurally pushes up costs.

As we [noted previously](#), global bond-equity correlation has remained at elevated levels amid sticky inflationary pressure. Positive inflation surprises often adversely impact both assets, which is particularly true in the current environment:

- Inflation is unlikely to ease
- Growth outlook is positive but external shocks abound

Local interest rates are expected to rise further.

Geopolitical risks aren't fading soon

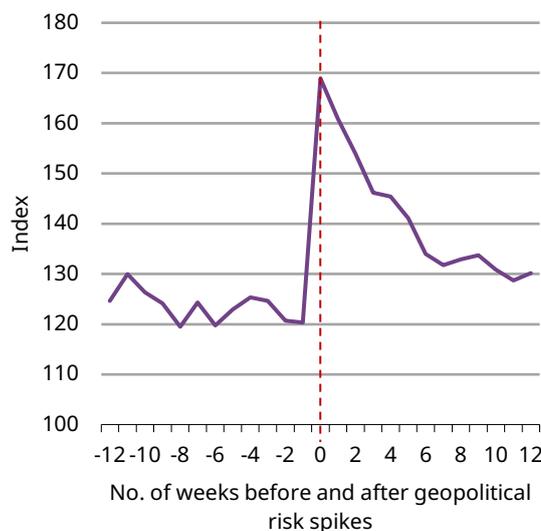
Japanese investors may need to factor in several considerations when constructing their portfolios. Not least, historical data tells us that geopolitical risk spikes tend to cluster. Each spike averages three weeks in duration but the GPR index level tends to stay high for some weeks afterwards: when such risks occur, they come not in single spikes, but in battalions ([Chart 4](#)).

Our assessment of the domestic and global conditions indicates that Japanese investors, who typically put their assets into domestic and global equities and bonds, may want to consider:

- *Hedge against inflation*
- *Assets with low/negative correlation to equities.*
- *Cushion geopolitical shocks, the “unknown unknown”*

Chart 4: Geopolitical risk spikes tend to persist

Average GPR paths before and after spikes*



*Based on weekly averages of Geopolitical Risk Index between 6 January 1985 and 8 March 2026. Spikes are defined as when the GPR index rises above the 90th percentile of the sample. There are 215 observations in the top 10 percentile. Source: Bloomberg, World Gold Council

Does gold still offer Japanese investors a strategic edge?

Let us return to our original question: *is gold still a safe-haven asset now that it moves at wider ranges than it has done historically?*

We believe the recent rise in gold price volatility has been driven by frequent spikes in geopolitical risk, alongside rapidly shifting expectations around inflation and major central banks' policy paths so far in 2026. Historical analysis shows that gold's volatility is mean-reverting, suggesting that the current elevated volatility is likely to subside over time.

And we believe gold remains highly relevant as a strategic asset in Japanese investors' portfolios due principally to these attributes:

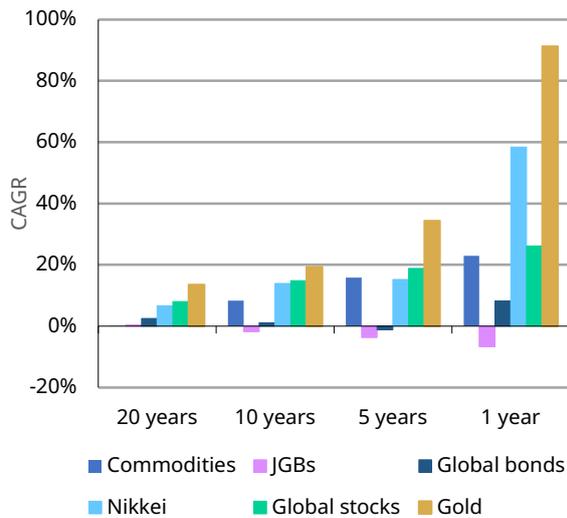
Gold, an efficient contributor to growth

Investors have long considered gold a beneficial asset during periods of uncertainty. Yet, historically, gold has generated long-term positive returns in both good and bad times, outperforming many other major asset classes over various horizons ([Chart 5, p6](#)).



Chart 5: Gold has been a stable source of return

Compound annual growth rate (CAGR)*



*Based on returns in JPY between February 2006 and February 2026. Indices used: Nikkei 225 Index, MSCI World ex Japan Index, FTSE Japanese Government Bond Index, Bloomberg Global Agg Index, Bloomberg Commodities Index, and LBMA Gold Price PM.
Source: ICE Benchmark Administration, Bloomberg, World Gold Council

Gold's diverse sources of demand give it not only a particular resilience, but also the potential to deliver solid returns in various market conditions. Gold is, on the one hand, often used as an investment to protect and enhance wealth over the long term (counter-cyclical demand), but on the other hand it is also a consumer good, via jewellery and technology demand (pro-cyclical demand).

Low correlation with risk assets

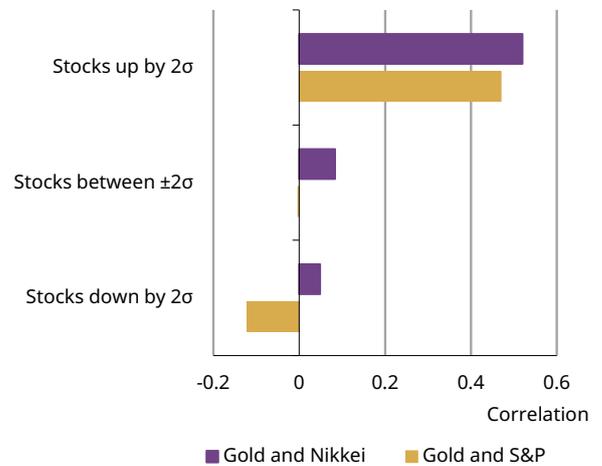
Gold's correlation with local equities has been unique based on historical patterns. It decreases to nearly zero as stocks go down yet investors won't miss the party when equities rally: gold's correlation with equities rises at such times (Chart 6).

Gold has long been treated as a safe-haven asset to which investors flock during market stress, underpinning its resilience during risk-off periods. And because gold is a global asset, driven by various global factors, its correlation with stocks in any one country – dependent on that country's economic conditions and policies – has been muted.

Most rallies in local stocks are driven by a weaker yen or easier global/local liquidity conditions, among other factors. Gold in yen often benefits from these conditions, resulting in a higher correlation with local equities during an upswing.

Chart 6: Gold's unique correlation with equities can enhance investor portfolios

Conditional correlation between gold and Japanese stocks*



*Data between January 2000 and February 2026 in weekly frequency. Correlations based on weekly returns in yen for 'stocks': Nikkei 225 Index & S&P 500 Index; and 'gold': LBMA Gold Price PM. The top bar corresponds to the respective correlations when the weekly returns on stocks rise by more than two standard deviations; the middle bar corresponds to the respective correlations when weekly returns are between two standard deviations (or σ), while the bottom bar corresponds to the respective correlation when weekly returns fall by more than two standard deviations. Correlation between gold and S&P 500 is based on returns in USD.
Source: ICE Benchmark Administration, Bloomberg, World Gold Council

An effective hedge against geopolitical shocks

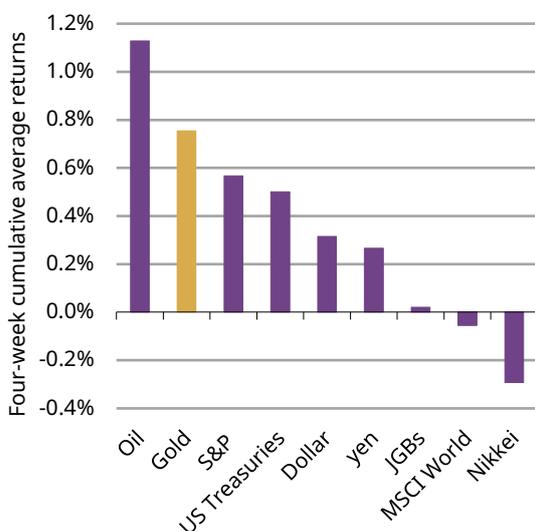
Gold is widely regarded as an effective hedge against geopolitical risk. During periods of heightened geopolitical tension investors are drawn to gold's lack of counterparty risk, its global liquidity, and its independence from any single government or currency.

Historical data shows that gold tends to rise when geopolitical risk spikes, indicating a distinct "geopolitical premium" (Chart 7, p7).



Chart 7: Gold has been an effective geopolitical risk hedge

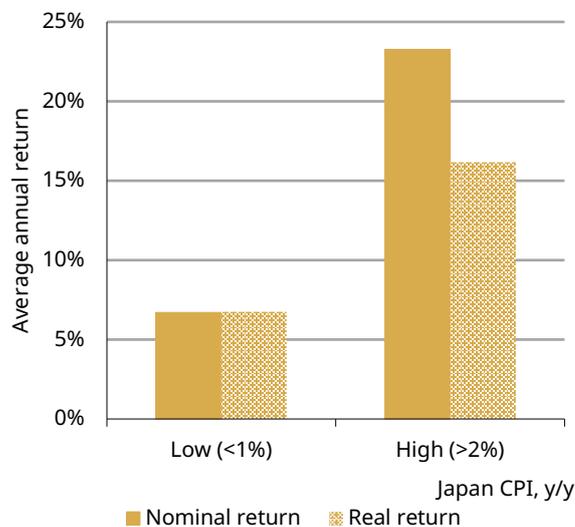
Average cumulative returns in the four weeks leading up to a geopolitical spike (including the spike week)*



*Data between January 1985 and February 2026 in weekly frequency. Geopolitical risk spikes refer to weeks when the Geopolitical Risk Index rises by more than two standard deviations – when it happens consecutively, the first week is used. Indices used: WTI Oil price, LBMA Gold Price PM, S&P 500 Index, Bloomberg US Treasuries agg Index, Bloomberg Dollar Index, Yen spot, BPI JGB Index, MSCI World ex-Japan Index and Nikkei Index, in dollars. Source: ICE Benchmark Administration, Bloomberg, World Gold Council

Chart 8: Beating inflation, combating deflation

Gold’s nominal and real returns conditional on inflation regimes in Japan*



*As of 2025. Based on annual average y/y changes in yen for ‘gold’: LBMA Gold Price PM and ‘inflation’: Japanese CPI since 1971; over that period, there have been 26 instances of low inflation and 20 of high inflation. Source: ICE Benchmark Administration, Bloomberg, World Gold Council

The ideal hedge against inflation

Gold has also long been considered a hedge against inflation. This is not only true globally, but historical data confirms gold’s inflation-hedging ability in Japan. During periods when inflation rises above 2% – the BoJ’s target since 2013 – gold in yen averages a stunning nominal return of 23% annually – equivalent to an annual average real return of 16% (Chart 8). Over the long term, therefore, gold has not just preserved capital but helped it to grow.

Data also shows that gold has the capacity to do well in periods of deflation – a factor that has bothered Japanese investors for decades. Such periods are characterised by slow growth, low – in Japan’s case, negative – interest rates, reduced consumption and investment, and financial stress, all of which tend to foster gold investment demand.

Gold, the strategic asset in Japanese portfolios

We have looked back at historical data as well as recent records to show that gold has been a provider of stable returns – particularly on a risk-adjusted basis – an asset that has unique correlations with equities, a cushion for geopolitical shocks, and a hedge against inflation. So, *is gold relevant in Japanese portfolios?*

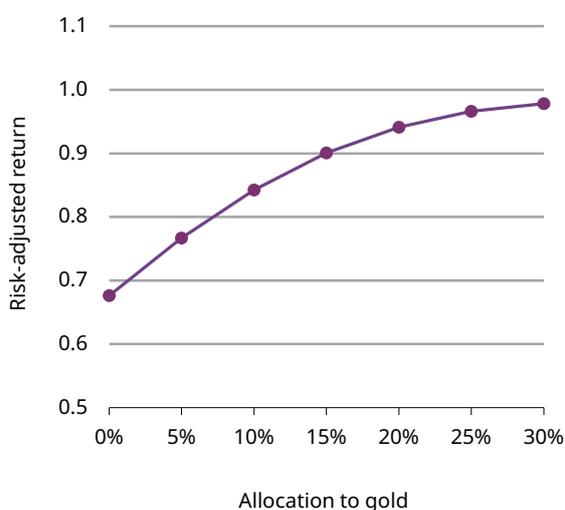
To assess gold’s role for Japanese investors, we simulated a hypothetical Japanese corporate pension portfolio based on historical data.³ And we analysed this hypothetical portfolio performance over various time horizons, without gold, and with a 5% gold allocation taken proportionally from other investments. Results show that a 5% allocation to gold is able to help the portfolio improve its return and lower risks (Table 1, p8).

3. See: [Pension Fund Association](#)



Chart 9: Gold improves performance of a hypothetical Japanese corporate pension portfolio

Risk-adjusted returns of a hypothetical Japanese corporate pension portfolio*



*The hypothetical corporate pension portfolio consists of Japanese bonds (18.7%, based on BPI JGB Index); foreign bonds (17.1%, Bloomberg Global Agg Index ex-Japan); Japanese equities (9.5%, TOPIX Index); foreign equities (13.7%, MSCI World Index ex-Japan); alternatives (19.9%, an equally weighted index of TOPIX Real Estate Index, FTSE PE/VC Index, S&P Infrastructure Index & Barclay Equity Long/Short Index); General Account (16%, which is a hypothetical index assuming 1.5% fixed annual return); short-term bonds (5.1%, BPI JGB 1-3 yr Index) and gold (LBMA Gold Price PM). Asset allocation weights based on Pension Fund Association's most recent data. All calculations are based on monthly JPY values between February 2006 and February 2026. As the amount of gold increases other assets are proportionately decreases.

Source: Bloomberg, Pension Fund Association, World Gold Council

Our results also show that the hypothetical Japanese corporate pension portfolio would have achieved higher returns and lower risks if 2.5%, 5%, 7.5% or 10% had been allocated to gold over the past 20 years (Chart 9).

Conclusion

Japan has entered a markedly different macro environment. The widening positive output gap, persistent labour shortage issues, and expansionary fiscal policies are generating stickier inflationary pressures than have been present in the past. And there is a real possibility that the BoJ may continue its gradual policy normalisation. Externally, geopolitical risks are unlikely to ease any time soon, brewing unpredictable market shocks. All these changes, including elevated equity-bond correlations, frequent unexpected shocks, and perhaps concerns around government debt amid the aggressive fiscal expansion, have weakened the traditional portfolio construction for Japanese investors.

Despite its recent volatility, our analysis shows that gold remains a strategically relevant asset for Japanese portfolios. Historically, gold in yen has delivered stable long-term returns, strong risk-adjusted performance, and low or asymmetric correlation with equities. Crucially, gold has also acted as an effective hedge against inflation. Portfolio simulations further indicate that even a modest allocation to gold can improve the performance of a hypothetical Japanese corporate pension portfolio over various time horizons.

Table 1: Gold improves a hypothetical Japanese corporate pension portfolio*

	20 years		15 years		5 years	
	No gold	<i>With 5% gold</i>	No gold	<i>With 5% gold</i>	No gold	<i>With 5% gold</i>
Annualised return	7.1%	7.7%	15.7%	16.4%	15.3%	17.2%
Annualised volatility	10.5%	10.0%	10.6%	10.0%	12.6%	11.7%
Risk-adj return	0.68	0.77	1.47	1.63	1.22	1.48
Max drawdown	-31.2%	-29.4%	-25.8%	-21.6%	-13.0%	-11.1%
VAR @ 99%	-24.5%	-23.3%	-24.8%	-23.4%	-29.3%	-27.2%

*Please see chart notes under Chart 9 for details of the hypothetical portfolio. Source: Bloomberg, PFA, World Gold Council



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Published: March 2026