Yardeni Research

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Morning Briefing

Gold & S&P 500 Earnings

Check out the accompanying chart collection.

Executive Summary: Monetary authorities around the world are stocking their national reserves with gold, driving up the metal's price. De-dollarization is on the agendas of nations that are US adversaries for sure. The move to gold started after the US froze Russia's reserves when the country invaded Ukraine in early 2022. President Trump has contributed to the move with his debt-defying fiscal policy and attacks on the Fed's independence. William examines these trends and asks: Is the dollar's supremacy at risk? … Also: Joe chronicles the wild rollercoaster rides of three stock groups during the year's first half: the S&P 500, the Magnificent-7, and the "S&P 493."

Global Gold Rush I: Central Bank Buying. Gold's advance to $4,000 per ounce is more of "when" than an "if." A growing number of financial behemoths from *Goldman Sachs* to *Morgan Stanley* to *Bank of America* now see this milestone as all but inevitable.

Yet the most important aspect of the gold rally is *why* it's unfolding.

In years past, the rush to hoard what John Maynard Keynes dismissed a century ago as a "barbarous relic" would have meant that central bankers had a runaway inflation crisis on their hands. But there's a world of difference between today's inflation threats (e.g., tariffs, Middle East tensions) and past inflation crises (like the Russian Revolution, the German hyperinflation of the 1920s, the 1970s oil shock, and *Venezuela* in the 2010s).

What's driving the gold rush is central banks' waning confidence in the US dollar as reserve currency. The monetary authorities of US adversaries are likely to continue buying gold as a dollar alternative. Think: China, Egypt, Hungary, India, *Kazakhstan*, Kyrgyzstan, Pakistan, Turkey, Uzbekistan, Gulf States like Qatar, and other nations and regions facing *geopolitical friction* with America under Trump.

Add to the list of gold-buyers the BRICS—Brazil, Russia, India, China, South Africa—which have been keen to create a dollar alternative. Add also some US allies: The National Bank of Poland has *led the pack* this year, with gold reserves exceeding the European Central Bank's.

Let's look at who's buying gold and why:

(1) *The China effect*. Washington's adversaries are hoarding gold in ways that bear watching. The People's Bank of China (PBOC) increased its gold holdings for a seventh straight month in May (*Fig. 1*).

Overall, China's foreign-exchange reserves *increased to $3.285 trillion* in May from $3.282 trillion a month earlier. The PBOC's determination to continue buying gold at such elevated prices—*up 27%* so far this year—demonstrates Beijing's urgency to diversify away from the dollar (*Fig. 2*).

That urgency is also reflected in the steady decline in China's US Treasury holdings. Beijing's $784 billion of US government debt in February dropped to *$757 billion* by April's end. China has been reducing its dollar exposure for a few years now, content to let Japan assume the role of Washington's top financier in Asia. Then again, it is widely believed that China owns additional US Treasuries that are held in accounts in Belgium, Luxembourg, and the United Kingdom (*Fig. 3*).

(2) *Growth potential*. Yet the scope for China to continue loading up on gold is quite significant. According to Daan Struyven at Goldman Sachs, the global average for central banks keeping reserves in gold is *about 20%*. China holds only about 7% of its reserves in gold versus about 75% for the US, Germany, France, and Italy. The magnitude of these stockpiles is a legacy of the gold standard that ended in 1971.

In the gold market, central banks are the ultimate whales—with turns sending ripple effects far and wide. When monetary authorities in Canada, Switzerland, and the UK reduced gold reserves during the 1990s, for example, a decade-long bear market in gold ensued.

Global Gold Rush II: The Trump Effect. In the late 2010s, President Donald Trump did as much as anyone to rekindle demand for the yellow metal. Trump 1.0's threats of meddling with the Federal Reserve's independence did faith in the dollar no favors. Nor did reports that Trump World considered a plan to "*cancel*" debt held by China.

The Joe Biden years also damaged trust in the dollar, boosting demand for gold. In 2022, President Biden and US allies froze portions of Russia's foreign-exchange reserves in response to its invasion of Ukraine. Such "*dollar weaponization*," warned George Pearkes at the Atlantic Council, "cannot end the reserve status of the dollar overnight, but it could help to accelerate such a shift."

The post-Covid-19 explosion of US debt only fuels nations' ambitions to diversify their reserves away from the dollar (a.k.a. de-dollarization). Even before the passage of Trump's Big, Beautiful Bill, the US national debt *topped $37 trillion*.

Consider the following related observations:

(1) *Secular shift*. De-dollarization "reflect[s] what may well be a structural and *secular shift* in the global economy," said Mohamed El-Erian at Allianz. As such, said JP Morgan's Gregory Shearer, "central banks aren't done with gold yet, with added political uncertainty likely helping to stoke a continued revival in 2025."

How the BRICS' de-dollarization ambitions will affect the gold market is a wildcard. Gold still represents *only 10%*, on average, of the BRICs' central bank reserves. That is generally true of the BRICS+ universe of newer members as well, including Egypt, Ethiopia, Indonesia, Iran, and the United Arab Emirates. De-dollarization is a major goal of the BRICS+ bloc, which controls 42% of global central bank reserves.

(2) *RIP, petrodollar?* Saudi Arabia is considering joining BRICS+ and is also a key proponent of finding a dollar alternative. Riyadh scrapping the dollar for, say, the Chinese yuan for oil transactions could upend the "*petrodollar*" framework on which commodity markets long have operated. China's teaming up with the Saudis could put the dollar on its hind legs. China's President Xi's economy does *$6 trillion of foreign trade* annually across more than 150 countries.

Beijing's prodding Saudi leader Mohammed bin Salman Al Saud to settle oil transactions in yuan could level the currency playing field. So might China's accelerated efforts to expand its SWIFT-rival Cross-Border Interbank Payment System.

(3) *Let the President beware.* To be sure, rumors of the dollar's demise can be greatly exaggerated. European Central Bank President Christine Lagarde said in October, "I won't see the renminbi take the place of the dollar *in my lifetime*." Indeed, the dollar still accounts for *58% of global reserves* (*Fig. 4*).

But the fact that the dollar isn't on the verge of losing its global supremacy despite mounting threats to it is all the more reason for the Trump administration to tread more carefully on policies that might hasten the migration of capital from dollars to gold. One obvious risk is Trump's continued *broadsides* against Fed Chair Jerome Powell, including calling him a "fool" and "*numbskull*." Were Trump to try to fire Powell, he might hasten gold's surge.

(4) *Fiscal risks*. It was wise of Trump to direct congressional Republicans to chop the "revenge tax" provision from the Big, Beautiful Bill. The idea of the White House being able to slap taxes arbitrarily on foreign-owned companies or investors had global markets in a whirl. Then again, the trillions of dollars that the funding bill adds to the US debt might run afoul of central banks worried about the trajectory of the federal budget deficit.

It's not all central banks. Joni Teves at UBS *expects gold* to appeal increasingly to long-term asset managers, macro funds, private wealth accounts, and retail investors. "Persistent uncertainty boosts the need to diversify portfolios, benefiting gold," she notes.

Yet if monetary authorities continue to clamor for gold, future economists may look back on the "exorbitant privilege" that Washington derives from the dollar's dominance as a "barbarous relic" of its own.

Strategy: Mid-Year Performance Highlights. What a wild ride the first half of 2025 has been! All 48 of the major US market indexes that we follow were up ytd on February 19; all were in a correction or bear market just seven weeks later, and now the S&P 500 is back at a record high as of the end of last week. So is the "S&P 493"—i.e., the broad index minus the Magnificent-7. The Mag-7 stocks surged recently too but still lag the market; it's been over six months since they last hit a record high.

The S&P 500 is now up 5.5% ytd through Monday's close to a record high, driven by a 6.5% gain to a record high for the S&P 493 (*Fig. 5* and *Fig. 6*). The Mag-7 is up just 2.0% ytd.

At the market's bottom on April 8, "deplorable" is the word for the trio's recent price performances: The S&P 493 dropped 15.8% from its February 19 high (a minor correction); the S&P 500 had fallen 18.9% from its February high (a major correction just 1.1ppt shy of bear market territory), and the Mag-7 had careened south by 28.6% (solidly in a bear market).

The Mag-7 is back in positive ytd gain territory since Friday—for the first time since mid-February—but is still 2.5% shy of its December 24 record high. It's also lagging the broader indexes on a y/y basis, a rarity for the group over the past decade (*Fig. 7*). The S&P 493's 14.0% y/y gain is ahead of the S&P 500's (13.2%) and Mag-7's (12.3%) gains.

The Magnificent-7's disappointing share price performance has fundamental support: Analysts now forecast weaker revenue and earnings growth forecasts for the Mag-7 than they had at the year's start. However, the group is bound for stronger growth than expected for the S&P 500 and S&P 493, as Joe shows below:

(1) *Weaker, but still strong, revenue growth expectations for Magnificent-7.* While analysts have lowered their collective sights for the group's revenues since the year began—pulling down its forward revenues growth rate—forward revenues are still forecasted to grow twice as fast as those of the S&P 493 over the next 12 months (*Fig. 8*). The Magnificent-7's revenues are forecasted to rise 11.9% now, down 1.9ppts from 13.8% in January.

The S&P 493's revenues growth forecast is unchanged so far this year at 4.6%. The S&P 500's forecast has edged down 0.1ppt to 5.5% from 5.6% over the same time period, mainly due to weakening Mag-7 expectations.

(2) *Earnings growth slowing too, but also strong.* Forward earnings growth has moved lower across the board for all three indexes. However, they remain relatively strong, showing no signs of an impending recession. The Mag-7's forward earnings growth forecast has dropped 2.4ppts to 16.7% from 19.1% at the start of the year, but faster earnings growth is expected for it than for the S&P 493 and the S&P 500 (*Fig. 9*). The S&P 493's current forecast of 11.1% is down 1.9ppts from 13.0% in January. That compares to a 2.8ppt reduction for the S&P 500 to 11.4% from 14.2% six months ago.

Calendars

US: Wed: ADP Employment Change 85k; Total Vehicle Sales 15.5mu; MBA Mortgage Applications. **Thurs:** Nonfarm Payroll Employment 120k; Average Hourly Earnings 0.3%; Average Weekly Hours 34.3; Unemployment Rate 4.3%; Initial Unemployment Claims 239k; Trade Balance -$69.6b; Factory Orders 7.9%; ISM NM-PMI 50.8; S&P Global Composite C-PMI & NM-PMI 52.8 & 53.1; Bostic. (Source: FX Street)

Global: Wed: Eurozone Unemployment Rate 6.2%; Lagarde; Lane; Cipollone; De Guindos; Lane; Taylor. **Thurs:** Eurozone, Germany, and France C-PMIs 50.2/50.4/48.4; Eurozone, Germany & France NM-PMIs 50.0, 49.4 & 48.7; UK C-PMI & NM-PMI 50.7 & 51.3; Japan

Household Spending 0.4%m/m, 1.3%y/y; ECB Publishes Account of Monetary Policy Meeting Balz. (Source: FX Street)

US Economic Indicators

US Manufacturing PMI (*link*): The ISM M-PMI contracted for the fourth straight month in June after expanding the first two months of the year. June's *M-PMI* fell steadily from 50.9 in January to a six-month low of 48.5 in May, though ticked up to 49.0 in June. It was at a recent low of 46.9 last October—which was the lowest level since December 2023. According to ISM, the *overall economy* continued its expansion for the 62nd month after a one-month contraction in April 2020. (A manufacturing PMI above 42.5 over a period of time generally indicates an expansion of the overall economy.) *New orders* (to 46.4 from 47.6) contracted for the fifth successive month, following three straight months of expansion, with June's measure showing a faster decline in billings. The *production* (50.3 from 45.4) gauge returned to expansion in June, though barely. Companies liquidated *inventories* (49.2 from 46.7) last month, though at a slower pace, just shy of the breakeven point between liquidation and accumulation. *Suppliers' deliveries* (54.2 from 56.1) remained high, at 54.2—a reading above 50.0 indicates slower deliveries. The *employment* (45.0 from 46.8) measure continued to show jobs cuts in the sector, with jobs in June falling at a faster pace than in May. Meanwhile, *prices* (69.7 to 69.4) remain in expansion (or increasing) territory, continuing to accelerate in June.

Construction Spending (*link*): Construction spending fell again in May, as higher borrowing costs and growing inventories impeded building, particularly of single-family units. *Total construction* spending fell 0.3%, slightly weaker than the consensus estimate of a 0.2% loss, following April's upwardly revised decline of 0.2%. *Residential* investment contracted 0.5%, while *nonresidential* investment slipped 0.2%. *Private construction* investment dropped 0.5%, with both residential (-0.5%) and nonresidential (-0.4) investment reporting declines again. The decrease in *residential construction* in May was led by a 1.8% slump in new single-family building, while multi-family construction was flat. The shortfall in *nonresidential construction* was led by declines in religious (-1.7%), lodging (-1.3), transportation (-0.9), commercial (-0.8), power (-0.6), and manufacturing (-0.6) building. *Versus a year ago,* total construction spending was 3.5% below a year ago, with private construction investment down 5.4%, reflecting declines in both residential (-6.7) and nonresidential (-3.9) building. Meanwhile, public construction building was little changed in May, ticking up 0.1%, led by a 1.4% jump in residential investment, while nonresidential investment was flat. Public construction investment was 3.3% above a year ago.

JOLTS (*link*): Job openings in May were a surprise on the upside, climbing to the highest level since November 2024. *Job openings* climbed 374,000 in May to 7.8 million from 7.4 million in April, with total private-sector openings up 374,000 to 6.9 million and government openings flat at 834,000. *By industry*, accommodation & food services (314,000) posted the largest gain, followed by finance & insurance (91,000), transportation, warehousing, and utilities (60,000), health care & social assistance (60,000), and durable goods manufacturing (32,000). The largest declines were in retail trade (-71,000), arts, entertainment, and recreation (-37,000), real estate and rental and leasing (-33,000), and wholesale trade (-27,000). *Regionally*, job openings rose in the South (310,000), Midwest (97,000), and the Northeast (45,000), and fell in the West (-77,000). There were 1.1 *available jobs for each unemployed* person; this ratio was at a recent high of 2.0 during July 2022. *Separations* include quits, which are generally voluntary separations initiated by employees—serving as a measure of workers' willingness or ability to leave jobs. *Total quits* rose 78,000 in May to 3.29 million, near March's eight-month high of 3.33 million. Quits were at a recent peak of 4.46 million during spring 2022, falling to a recent low of 3.03 million during November 2024.

Global Economic Indicators

Eurozone CPI (*link*): The *Eurozone's CPI* is expected to be 2.0% in June, according to the flash estimate, up from 1.9% in May. That's down from the 2.5% rate at the start of this year. It was at 1.7% last September—which was the lowest yearly rate since April 2021. The core rate is expected to hold at 2.3% in June, which was the lowest rate since January 2022; the rate was at 2.7% in April. The headline and core CPIs are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. Looking at the components, the flash estimate shows the services rate ticking up to 3.3% in June, after easing from 4.0% in April to 3.2% in May. The rate for *energy* prices in June is expected to be in negative territory for the fourth month, though easing to -2.7% in June from -3.6% in both May and April. Meanwhile, the rate for *food, alcohol & tobacco* is expected to remain around 3.0%, edging down from 3.2% in May to 3.1% in June. It was at 2.3% at the start of this year. The rate for *non-energy industrial goods* is expected to tick down from 0.6% to 0.5% in June, continuing to fluctuate in a narrow band between 0.5% and 0.6% since last October. Among the *four largest Eurozone countries*: The inflation rate in Germany (2.0% from 2.1%) is expected to ease lightly in June, while the rates for Spain (2.2 from 2.0) and France (0.8 from 0.6) are expected to accelerate a bit, while Italy's rate is expected to remain at 1.7%.

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