NASHVILLE NOTES

Gold hedge for banks

Thursday, January 22, 2026 10:32 AM CT

By Jeff K. Davis

Jeff Davis is a veteran bank analyst. The views and opinions expressed in this piece are those of the author and do not necessarily represent the views of S&P Global Market Intelligence; Mercer Capital, where Davis is the managing director of the financial institutions group; or StillPoint Capital, where Davis is a registered representative.

As I write this in mid-January, the Wall Street banks have reported fourth-quarter earnings that were fine, though investors largely shrugged — seemingly asking, "What have you done for me lately?" Citigroup Inc. deserves an asterisk: Results were noisy and underwhelming in my view relative to the hype surrounding the name, though directionally the year was positive and 2026 may be too.

There was ample commentary on the potential negative impact of a proposed one-year cap on credit card interest rates at 10%. Not surprisingly, there were no questions about gold, a monetary metal since the dawn of time that is called a "pet rock" by some in recent decades.

A CEO asked how I would treat a gold position in a valuation. Aside from offering congratulations given gold's run, I said the gold would be added to the company's value net of the deferred tax liability on the unrealized gain. In this case, the gold represented less than 5% of operating value, though the contribution was presumably far greater than several years ago, when gold traded near $2,000 per ounce versus roughly $4,600 today.

Over the years, I have seen banks and bank holding companies that own various non-operating assets — mineral rights, artwork, minority interests in entities that become highly valuable — but not gold. A century ago, the question would not have arisen because gold was a monetary asset that was foundational for most countries' financial system. Banks held both gold and currency to meet liquidity needs, though ideally not too much under a fractional-reserve system, since neither earns interest.

> ***Gold today is often viewed as an insurance policy against "monetary disorder." If so, the metal's recent surge may reflect the market's verdict on the state of government finances.***

Gold was demonetized under FDR via Executive Order 6102 in 1933, which forced citizens, businesses and banks to sell gold to the government at $20.67 per ounce in an effort to generate inflation and counter massive deflation of the early 1930s.

President Nixon later ended the last remnants of the gold standard when he closed the gold window in 1971, ending the post–World War II Bretton Woods system under which foreign governments could convert dollars into gold, as gold was flowing rapidly out of the US in response to fiscal and monetary policies. The ban on private ownership of gold above a nominal amount was repealed in 1974, however.

Gold today is often viewed as an insurance policy against what Jim Grant of Grant's Interest Rate Observer calls "monetary disorder." If so, the metal's recent surge may reflect the market's verdict on the state of government finances — namely, that massive indebtedness has ushered in "fiscal dominance," where fiscal needs dictate monetary policy. Or, to state the obvious: The federal government increasingly requires artificially low interest rates to keep the system aloft.

President Trump is typically clear about his preferences, including lower Fed-administered policy rates and lower — or at least managed — long-term rates set by the market. Hence the directive for Fannie Mae and Freddie Mac to use excess liquidity and apparent statutory authority to purchase $200 billion of agency mortgage-backed securities to narrow mortgage spreads relative to Treasuries.

The threat of a criminal indictment against Fed Chair Jerome Powell for alleged untruthfulness in congressional testimony represents another level of power politics — or Stalinist tactics, depending on one's perspective. One could argue that Fed policy the past 25 years or so has been way too accommodative in the form of near-zero policy rates and massive bond buying that flooded the system with liquidity and allowed Congress and the Executive to spend with impunity.

> ***If President Trump gets his way on policy rates, the setup for banks is not so bad, assuming the dollar does not tank.***

It remains to be seen whether monetary disorder and gold's uneven but persistent rise since 2000 — when the US operated with a surplus and the pet rock traded near $300 per ounce — will lead more banks to hold some gold. My guess is probably not, because it has no coupon. That said, optionality of owning gold seems to be favorable as the government's financial position seemingly will deteriorate with each passing year, accompanied by a system that needs negative real interest rates.

If Trump gets his way on policy rates, the setup for banks is not so bad, assuming the dollar does not tank. Investors will compensate, I think, by pushing intermediate- and long-term US Treasury rates higher than would be the case absent the raw politics. If so, banks should see higher net interest margins.

If NIMs can trend modestly higher and investors come to believe the yield curve will remain steep for an extended period, then P/E multiples could expand. And they almost certainly would expand if some portion of the massive amount of capital concentrated in seven or so tech stocks rotates into other sectors, where aggregate market capitalizations are far smaller.

This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.