The Debasement Trade

If you've been following our articles for some time, you'll know that this has been an ongoing theme that we've continued to explore. Last week, JP Morgan gave it a more formal name – the "*debasement trade*".

What is the Debasement Trade?

Essentially, it's an investment strategy in which a growing number of individuals, institutions, and even nations shift their capital away from fiat currencies like the US dollar and into assets perceived as hedges against its erosion or debasement.

This year in particular, the US dollar has suffered a sharp decline of roughly 10% against a basket of other major currencies. Even against the typically weaker rand, which on average loses 4% to 5% per annum, the US dollar has fallen roughly 9%.

Ken Griffin, billionaire founder of Citadel Securities, recently remarked:

"*We are seeing substantial asset inflation away from the dollar, as people are looking for ways to effectively de-dollarise or de-risk their portfolios, vis-à-vis US sovereign risk.*"

Gold: The Standout Performer

In 2025, the single biggest beneficiary of this trade has been gold, which this week broke above $4000 per ounce, gaining more than 50% year-to-date in US dollar terms.

This phenomenon is hardly new. Gold experienced a similar surge in the **1970s**, when rampant inflation led investors to seek protection from currency debasement. During that decade, the metal delivered compounded annual returns of more than **30%**.

The rally eventually stalled in the early 1980s, as the US Federal Reserve aggressively raised interest rates, to nearly **20%,** in an effort to rein in inflation. With real rates restored to around 5–6%, investors shifted back into the dollar and away from the non-yielding metal. Over the next two decades, gold prices declined both in nominal and real terms, as fixed income and equities once again became more attractive

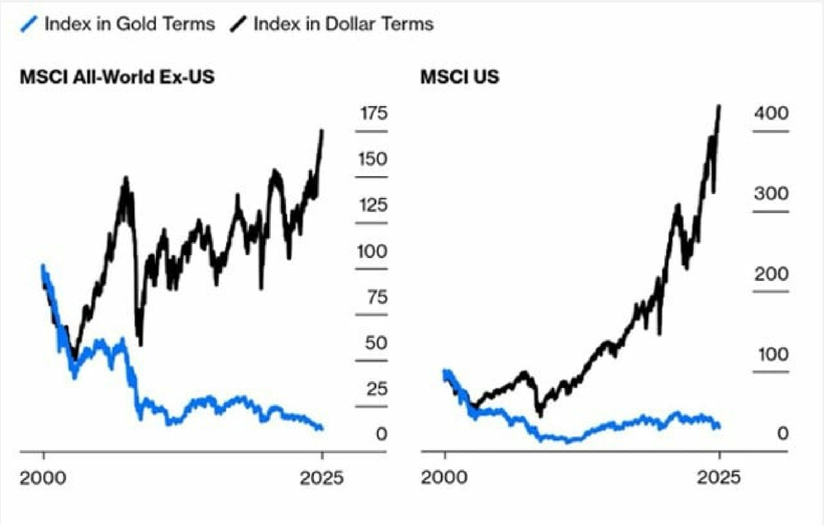
A Resurgent Theme

This year, the "trade" has gained renewed momentum, driven by concerns over large government deficits and rising global political instability.

So far this decade, gold has compounded at nearly **20% per annum.** Looking further back - to **March 2000**, when many global equity markets peaked - Bloomberg data shows that when priced in gold, global equity performance has been far more muted than when priced in depreciating US dollars.

Gold Removes Stocks' Luster

Denominated in gold, equities have been falling ever since 2000



Source/s : Bloomberg
Data is normalised with factor 100 as of March 24, 2000

Conclusion

There is a strong possibility that this "trade" or investment case continues to play out on a multi-year basis. However, investors should also expect significant short-term volatility, especially given the substantial 50% gain in gold this year.

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If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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