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Prepare for corrections, volatility, amid upward trend, in 2026

OUR TAKE

Gold was among the strongest-performing asset classes in 2025. The returns were a sharp 60 per cent due to a confluence of lower opportunity costs, heightened geopolitics, and robust demand, according to Axis MF's outlook and trends. The rally was aided by the expectations of a soft interest environment in the US. The mutual fund expects 1-2 US rate cuts in the current cycle. "While the American Fed has turned more cautious after its third consecutive rate cut, markets are pricing a meaningful probability of additional easing in early 2026," says Riya Singh, research analyst, commodities and currency, Emkay Global Financial Services. In addition, concerns over the US fiscal position, and monetary policy credibility boosted the bullion's appeal. With the US debt-to-GDP ratio at 124 per cent, the dollar index depreciated eight per cent in 2025, which worked in favour of the dollar-denominated gold prices.

Investment flows into gold-backed instruments remained strong. Gold exchange-traded funds (ETFs) witnessed significant inflows, with total assets under management reaching a record \$470 billion by the end of the third quarter. Physical demand stayed resilient. The demand for gold bars and coins recorded three consecutive quarters of above 300 tonnes each, which reflected investors' preferences for physical hedges amid global uncertainty. "ETF flows turned competitive, with institutional investors vying for limited physical bullion. ETF investors are competing with the central banks, a powerful dynamic rarely seen at this scale," says Singh.

Central bank buying remains a crucial pillar. Although the pace of purchases moderated in 2025, compared with the previous three years, demand remained healthy. Gold's share in central banks' reserves overtook that of the US Treasuries for the first time in nearly three decades. Axis MF feels that this shows the long-term conviction in the metal's role as a reserve asset. "Buyers in the west continue to perceive gold as a lucrative hedge. Domestically, wedding season-led demand remains an important support factor, keeping the sales momentum up

and sustained. If there are no surprise factors related to interest rates and currencies, gold will have a bias with a strong uptrend," says Colin Shah, MD, Kama Jewellery.

In 2026, Axis MF cautions that while gold retains strong long-term support, investors need to be prepared for intermittent corrections. Potential headwinds include higher real yields, stronger US dollar, improved global growth, and reduced geopolitical tensions. "Overall, while gold retains long-term support from persistent central bank purchases, and safe-haven demand, 2026 may bring bouts of correction and volatility," its report states. From an asset allocation perspective, gold continues to serve as an effective diversifier, and should remain an integral part of investor portfolios. "Gold is transitioning from a liquidity-driven surge to a structural bull phase. After a year in which prices rose by two-thirds, the strongest performance since 1979, a period of digestion is healthy. Medium-term projections clustering around \$4,500-\$5,000 suggest the trend remains decisively upward," explains Singh.

Silver emerged as a standout performer in 2025, with prices surging nearly 100 per cent, driven by a demand-supply imbalance, industrial consumption, and heightened safe-haven appeal, according to Axis MF's outlook and trends. On December 9, the metal traded at \$58 per troy ounce, which indicates stretched valuations. However, Axis MF feels that there are "no signs of retreat," as multiple structural and cyclical drivers will support prices. "Demand for physical silver delivery against futures contracts surged to one of the highest levels in three decades, while inventories continue to decline. This tightening contrasts sharply with gold, where supply stress has moderated, explaining silver's sharp relative outperformance. In addition to the monetary tailwinds, silver benefits from industrial demand, particularly from China," says Singh.

Unlike gold, silver's case is intertwined with

industrial usage. This demand accounts for more than half of silver consumption, with applications in solar energy, RV batteries, and semi-conductors. "Industrial usage, particularly from the solar sector, anchors demand. The price rally was supported by the broader momentum in metals. Higher copper prices, reflecting robust industrial activity, provided crossover support to silver, and gains in gold added further tailwinds. Global silver deficits, estimated at over 2,500 tonnes a year, could widen to more than 5,000 tonnes, potentially pushing prices higher. India imported over 2,600 tonnes of silver in September-October," notes a report by Tata mutual fund.

This year (2025) marks the fifth consecutive year in which demand exceeded supply. "Five years of sizable, uninterrupted deficits" tightened the market, and amplified price sensitivity. "Supply pressures intensified following policy shifts in major producing nations. The US classified silver as a 'critical mineral,' while China imposed export restrictions, allowing only state-approved firms producing at least 80 tonnes annually to ship the metal", the Tata report states. "Silver continues to outperform gold aggressively, recently setting fresh record highs before mild profit-taking emerged. Unlike gold, silver's rally is being driven by a genuine physical supply squeeze, as evidenced by rising silver lease rates and persistent outflows from COMEX warehouses," says Singh.

Strong inflows into silver-backed ETFs signal growing investor confidence, and modest physical demand provides an underlying price floor. A rotation of flows from equities into commodities amid global uncertainty supported silver prices, alongside factors such as a weaker dollar, geopolitics, Fed's policy uncertainty, and turmoil in Japan's bond market. In 2026, cautions Axis MF, elevated valuations may invite bouts of correction. Risks include profit-taking, ETF outflows, a stronger US dollar, rising real yields, or slowdown in copper prices. "Overall, our outlook for silver is constructive with multiple tailwinds sustaining its rally even as valuations stretch," the report states. This is despite 2025 cementing the white metal's position as both a precious and industrial metal, and positioned it as a standout asset in investors' diversified portfolios.

"The launch of silver futures trading on China's Guangzhou Futures Exchange significantly boosted local participation, with open interest and volumes surging, and domestic prices trading at a premium to global benchmarks. Technically, silver's structure remains emphatically bullish. Pullbacks toward the mid-\$60 zone appear corrective rather than trend-reversing, with dips increasingly viewed as accumulation opportunities rather than exits," says Singh. Hence, in both gold and silver, while investors can invest further in 2026, they need to be prepared for regular corrections amid volatility, as was evident in the yellow metal in the recent past. The returns may be more sober, and the trajectory may be wavy, and awkward.

