The year the rich went wild for gold

Demand for vault space with ‘white glove’ service rises after blistering rally.

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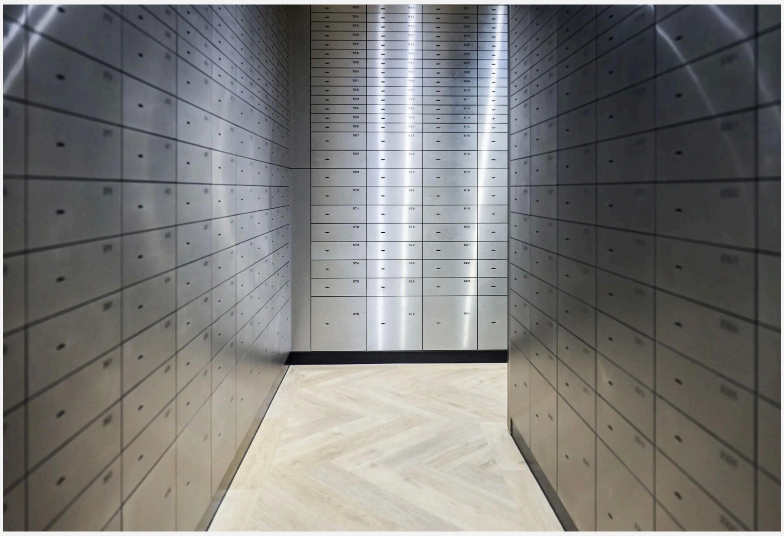

Row upon row of gunmetal-grey boxes fill the floor-to-ceiling shelves of Sharps Pixley’s underground vault, concealing the glittering treasure packed inside. The vault in London is so full that the gold dealership is hunting for a site for a new one, says Giles Maber, head of UK at the company. It is part of a global race to build vaults for precious metals from Switzerland to Singapore. This is a problem the industry doesn’t usually have — after all, gold takes up very little space, and a vault can last for hundreds of years.

But the blistering rally in the gold price, which has doubled in the last three years, and accompanying surge of demand from wealthy individuals who insist on holding their gold in physical bar form, have prompted a small rush of activity in the normally sleepy vaulting sector. At Swiss gold group MKS Pamp, chief commercial officer Omar Liess is looking to build a “substantial” vault specifically to cater to the group’s richest clients, so they can visit their gold in an elegant setting that he compares to a five-star hotel. “When people are leaving $200mn or more with us, we want to make sure we have the right infrastructure in place for them,” he says. “We have seen a big rise in demand on this side in the past 12-18 months” for the group’s “white glove” service, he adds. This is for clients storing a minimum of $50mn worth of bullion, who can — and do — visit their gold, which is stored inside dedicated cages. “They want it as a safety net,” says Liess. “If for any reason the banking system collapses, at least they have this gold that is physically allocated and outside the banking system.” That sentiment is one of the factors that helped drive gold to a record price of $5,595 per troy ounce earlier this year, up 104 per cent on 12 months before.

Prices have cooled from the January peak but remain higher than a year ago. Heavy buying from central banks, fears about the future of the US dollar, investor concerns about public debt and geopolitical chaos have together created a frenzy of buying and selling gold unlike anything industry veterans have seen.

Within this cocktail of motives, the stealthy purchases of the wealthy and their fixation with owning physical gold bars have prompted big changes in the niche segment of the market dedicated to private storage. “We have six vault locations, and every single one of them we have to expand right now,” says Ludwig Karl, chief operating officer of Swiss Gold Safe, which provides bullion storage. It is not only about space — the insurance limit, which can be up to $5bn on a single vault, also creates the need for additional vaults, he explains.

In Switzerland, vault space is also becoming more constrained because many disused second world war military bunkers — which have since been a popular option for storing precious metals — are being pressed back into service by the country’s military, which is seeking to bolster its defences. Maber, at Sharps Pixley, says its hunt for additional vault space has been prompted in part by growing participation from family offices and by clients switching from gold-backed exchanged traded funds into physical bullion. It is not ETFs that clients want now, he says: it is bars, it is coins

Despite the recent price volatility — gold was $4,638 per troy ounce at time of press — the faith of the rich in gold is, like the metal, untarnished. A recent survey of affluent investors by HSBC found that gold was one of the top assets they planned to increase their allocation of in the next year. Almost half planned to add to their holdings, and just 13 per cent to decrease.

Gold is particularly popular among wealthy Gen-Z investors, who typically hold 50 per cent more allocation compared with their boomer counterparts. “Gold could end 2026 as Gen Z’s leading non-cash asset, ahead of equities,” the report notes. “The fact that the price is going down does not change the case for gold,” says Jean-Sebastien Jacquetin, managing partner at Hong Kong’s Cavendish Investment Corporation, a multi-family office. “There is a correction in the market, which is normal. But fundamentally gold is still highly in demand." Some families he works with hold a quarter or even a third of their portfolio in gold. "This is a lot," he acknowledges. Jacquetin specialises in arranging gold deals directly between families, private transactions that are discreet and avoid impacting the wider gold market, known as an "over-the-counter" (OTC) deal. (OTC also includes other types of private transactions.) In the first half of this year, gold buying in the "OTC and other" category surged to 570 tonnes, the highest level in more than a decade and about a fifth of overall demand, according to data from the World Gold Council, an industry body

Why has gold gone wild? The drive of the wealthy is only one part of the story in a market animated by different classes, from central banks to institutional investors to retail investors. The historic rally began in 2022 when central banks stepped up their gold purchases after Russia's full-scale invasion of Ukraine. Central banks in emerging markets were alarmed by the US seizure of Russian overseas assets and wanted to diversify away from their US dollar holdings, so they have been leading this trend. At the end of last year, gold surpassed US Treasuries as the world's top reserve asset, according to a report by the European Central Bank.

While central-bank buying cooled somewhat last year and has cooled further this year, partly because of the high prices, many still see it as the single most important factor in the long-term bull case for gold. Even as that buying was moderating, Trump's second term in office was providing another source of interest. His policies have fuelled concerns about the size of the fiscal deficit and the long-term role of the US dollar, encouraging the so-called "debasement trade" — the idea that gold can be a hedge against the deterioration of the US dollar. "What gold tells you is that, in general, people are concerned that we are heading towards a more fractured, less stable, less predictable world, where the US is seen as a less trustworthy partner — that US Treasuries are perhaps not what they were in the past," says John Reade, market strategist at the World Gold Council.

One of the biggest proponents of the debasement trade idea has been the crypto group Tether, whose chief executive Paolo Ardoino once referred to gold as "natural bitcoin". Tether has loaded up on gold, buying about 67 tonnes over the past year, according to its quarterly reports, bringing its holding to 146 tonnes, making it the largest single holder of gold outside central banks.

Another big contributor to the bullion rally has been retail investors, who have piled into gold and silver since last autumn as momentum picked up and drove both to record highs in January. But they have been fickle friends, selling off when the bubble popped, and their rapid exit has helped to drive gold down 17 per cent this year from its peak. Not everyone was convinced the momentum was sustainable. It started building in the market from last summer, says Reade: “Every pocket of the gold market turned on to gold in a big way, and I’ve never seen the likes of that before . . . Back in January, it did look a bit wild.” It is not just how much the rich are buying that has been making waves in the gold world, but also how they are buying it.

This gets to the heart of their reasons for buying: the fear trade. “Physical gold has become very in vogue,” says Stephen Flood, chief executive of GoldCore, a dealer that provides physical storage in eight sites globally. He notes that rich investors, who two years ago might have turned to financial products such as gold-backed exchange traded funds, are now much more interested in owning actual gold bars. “They want to have a highly liquid asset, but they also want to have it in multiple jurisdictions,” he says. “They want to be as close to the metal as possible, and they want as few intermediaries as possible.” Wealthy investors also want their gold “allocated and segregated”, he says, referring to gold bars that are specifically assigned to their owners and stored separately, as opposed to bars that are part of a general pool. “They want it on the shelf.”