

# Schroder ISF\* Global Gold



## Fund update: May 2026

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Past Performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise.

## Fund performance

The fund posted a return of -1.9% for May. This compared to the FTSE Gold Mines UCITS Capped Net Tax Index benchmark return of 1.3%.

### I shares gross

US\$ %	May 2026	YTD	Annualised performance				Cumulative Since Inception
			1 Yr	3 Yr	5 Yr	Since inception <sup>1</sup>	
<b>Fund</b>	<b>-1.9</b>	<b>5.4</b>	<b>99.4</b>	<b>58.6</b>	<b>26.0</b>	<b>17.7</b>	<b>404.0</b>
Benchmark <sup>2</sup>	1.3	2.3	85.3	52.1	22.2	15.0	299.2

### Calendar year performance

US\$ %	2016 <sup>1</sup>	2017	2018	2019	2020	2021	2022	2023	2024	2025
<b>Fund</b>	<b>-17.6</b>	<b>11.3</b>	<b>-13.9</b>	<b>51.1</b>	<b>31.5</b>	<b>-17.1</b>	<b>-10.5</b>	<b>15.5</b>	<b>19.0</b>	<b>197.4</b>
Benchmark <sup>2</sup>	<b>-23.1</b>	10.2	<b>-10.4</b>	42.7	25.0	<b>-10.4</b>	<b>-12.8</b>	12.4	12.0	186.7

Source for performance: Morningstar I shares gross USD. Performance is on a NAV-to-NAV basis. <sup>1</sup>Inception 29 June 2016. <sup>2</sup>FTSE Gold Mines UCITS Capped Net Tax Index. The benchmark changed on 15 March 2024. FTSE Gold Mines Index was used prior to this. Typical ongoing charges for I shares are 0.06%.

### Risk Considerations:

**Counterparty risk:** The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole. **Currency risk:** If the fund's investments are denominated in currencies different to the fund's base currency, the fund may lose value as a result of movements in foreign exchange rates, otherwise known as currency rates. If the investor holds a share class in a different currency to the base currency of the fund, investors may be exposed to losses as a result of movements in currency rates. **Currency risk / hedged share class:** The currency hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes. **Derivatives risk:** Derivatives, which are financial instruments deriving their value from an underlying asset, may be used to manage the portfolio efficiently. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.

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Schroders

\*Schroders ISF is referred to as SISF throughout.

## Current strategy and portfolio activity

From a top-down perspective fund allocations are quite balanced with beta vs. benchmark still lower than January but significantly higher than early March.

In terms of bottom-up stock specific changes, within the mid-cap space the fund has increased positioning in Torex (funded from Centerra) and also increased positioning in Royal Gold where a deep valuation dislocation looks far from justified. We have also re-opened a small opportunistic position in Allied Gold having previously sold into the Zijin bid. The stock is trading at a sharp discount to that bid. A refreshed outside date of 29<sup>th</sup> July will yield a 23% return if the original bid holds.

Overall fund bottom-up strategy remains broadly unchanged, focused on producers with unjustifiably cheap valuations, clear paths to free cash inflections and/or other value surfacing optionality.

In the pre-production space, the fund participated in a pacing for Challenger Gold who are developing the Hualilan project in San Juan, Argentina (and have optionality via an Ecuadorian Copper-Gold-Silver asset). The stock trades on a very cheap 0.1x P/NAV on the existing study and we both expect and back management to optimise this further.

As a reminder overall pre-production positions are individually small as a percentage of fund NAV but offer explosive potential upside, un-replicable in passive vehicles, as the secular gold bull market evolves further.

## Gold market outlook

Technically gold prices have recently tested down to the 200dma, holding that level quite comfortably until last Friday when a very solid US non-farm payrolls number triggered a strong move up in yields and the dollar and down in gold (and most other assets).

**Chart 1: Gold prices had been consolidating around \$4,500/oz before this latest break below the 200dma**



Source: Bloomberg.

A re-emerging belief in US exceptionalism is tangible near-term. Elsewhere the giant suction of capital into the “AI trade” has also dented interest in gold, and pretty much everything else. Even the energy sub-sector, in the midst of an energy crisis, has badly lagged the tech-driven S&P 500. Bitcoin’s recent collapse (and collapse in correlation to equities) is also very plausibly a function of retail selling in preparation for massive upcoming equity issuance (Space X IPO, Anthropic, Open AI, Meta etc).

**Figure 1: AI mania is sucking (relative) capital from everywhere, even energy in the midst of an unresolved energy crisis**



The result is gold's uptrend vs. equities has sharply reversed, as it did multiple times for 2005 to 2011.

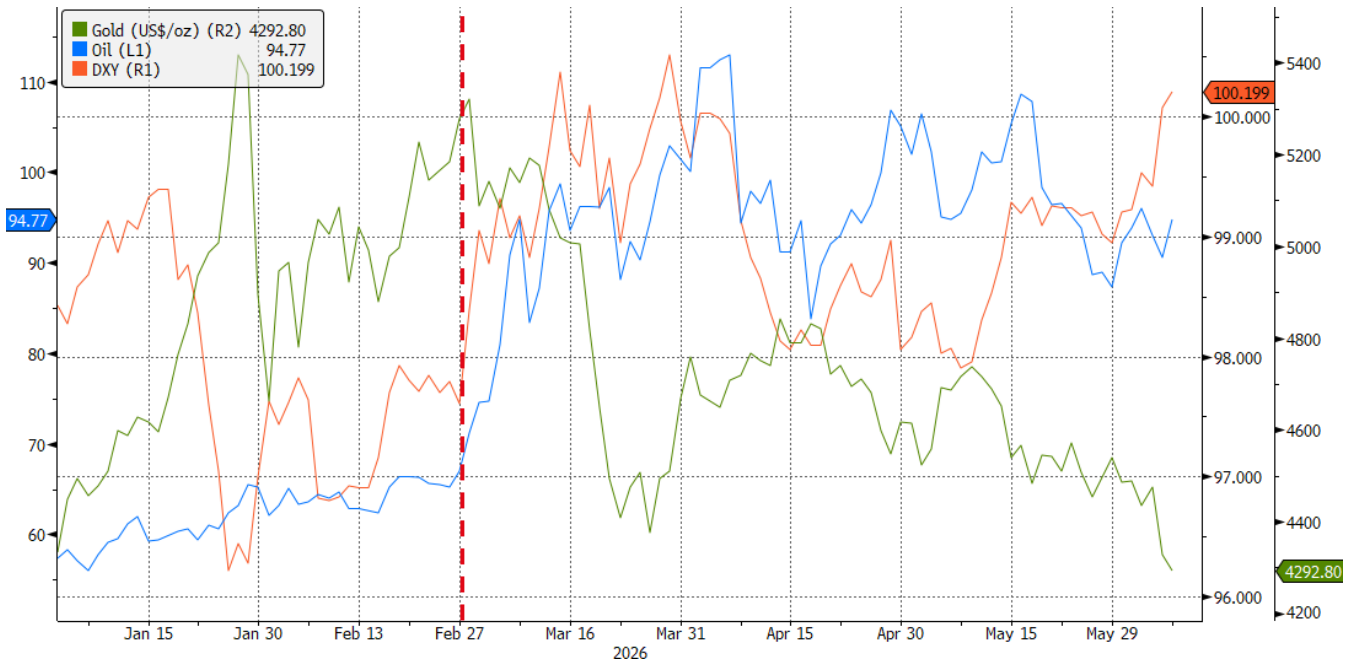
**Chart 2: Gold's uptrend vs. equities has sharply reversed (as it did many times from 2005 to 2011)**



Source: Bloomberg.

A more important weight on short-term interest in gold remains the unresolved Iran war. A closed Strait of Hormuz is the root cause of nominal and real rate strength and, in turn, more hawkish central bank stances. Negative short-run correlations between rates, oil, the dollar to gold remain pronounced.

**Chart 3: Strong inverse relationship between gold and oil and the US dollar since the conflict began**



Source: Bloomberg.

For all that pressure, gold micro demand data paints a picture of a very slow bleed of investment ounces from ETF products in the west and in China but nothing overly concerning. Outside of Turkey, central banks have not been major sellers (a recent report that India sold US\$12bn of gold to support the Rupee was outright rejected by the RBI) and May data confirmed accelerating dip buying from China’s central bank, the PBOC.

The reality is a frustrating amount still depends on whether the “great deal” with Iran President Trump keeps touting does actually happen before energy storage buffers are exhausted and/or the Chinese return to the oil import market in size later in the year.

Market narratives can shift quickly, an MOU on the Straits, a blip in the AI trade, a softer patch for US jobs....all can rapidly turn the tactical narrative on gold more constructive and would come into a market where **secular fiscal and geopolitical** forces will continue to drive a soft re-monetisation of gold via reserve purchasing and large portfolio allocations. That demand will ebb and flow through time but remains far from saturated.

### **A fed rate hike wouldn’t change the fiscal leg of the gold bull case at all**

The short-term bear case on gold is that the Fed is going to have to raise rates, US growth is strong and anyway, as the evangelicals of AI tell us, a productivity miracle is about to catapult real economic growth higher. Why worry about fiscal sustainability or fiscal dominance (and why bother with gold) when Elon Musk’s “at least 10 billion humanoid robots” will melt away debt burdens via a real growth boom.

Being less facetious, the answer is that the fiscal starting point to which the AI “magic wand” needs to be applied is extreme in the three largest global economic zones (US, China, EU) as well as in developed markets like Japan and the UK. It (should) also goes without saying that an AI revolution could just as easily worsen fiscal realities as ameliorate them. In the absence of more time, it is worth framing the fiscal issue more closely where it matters most, in the United states, the reserve currency issuer.

We all know the headline numbers by now:

- **US treasury debt held by the public debt is >100% of GDP (up from 35% just before the GFC in 2007)**
- **fiscal deficits are above 6% of GDP even with basically full employment and very high financial asset prices (implying double digit deficits and massive oversupply of treasuries in the event of a recession and/or a deep correction in financial assets as capital gains tax revenue evaporates)**
- **interest payments (c.US\$1tn) are already higher than the defence budget (c.US\$900bn) - breaking the recently popularised “Ferguson’s Law”**
- **Treasury debt maturing in the next 12 months is c.US\$8.5tn (or c.28% of US GDP). Gross financing needs are likely closer to US\$10.5tn (c.35% of GDP) if you assume a US\$2tn deficit.**

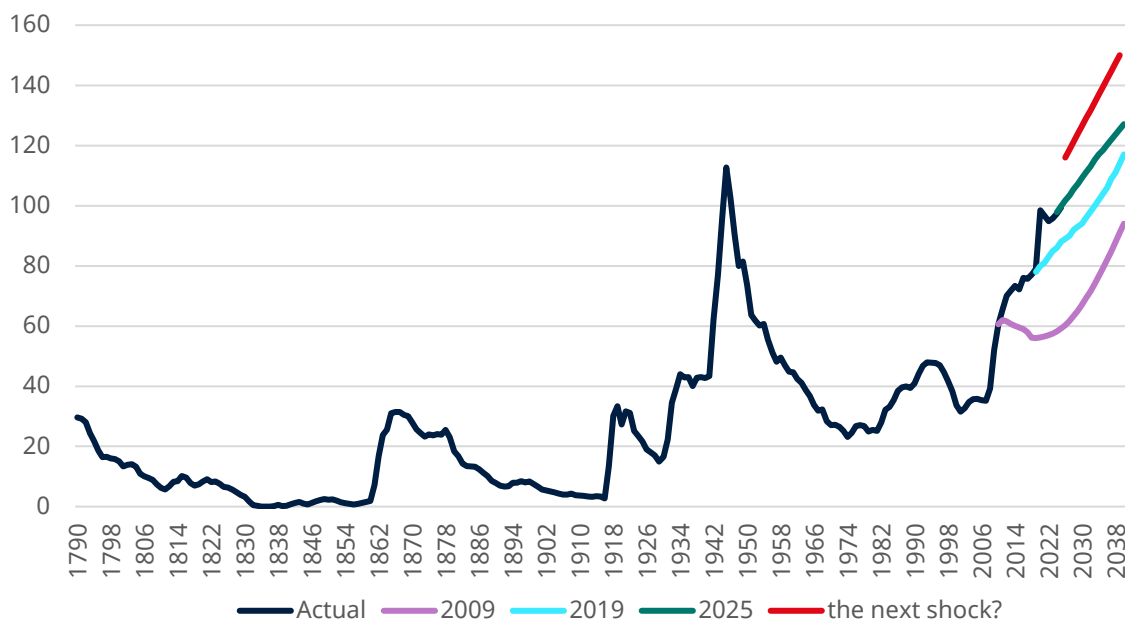
These are striking numbers but actually much less interesting than how we have arrived at this point over time and where we could go when the next shock hits (we say “when” not “if” because we think very high debt/deficits and geopolitical tensions mean shocks are very hard to avoid).

As chart 4 below shows CBO debt projections have got meaningfully worse over time since 2008; a combination of long cycle demographic pressure pushing up entitlement spending, the low rate “QE” era as well as the reaction function of politicians and central bankers, trapped by impatient electorates and a commitment to maintaining financial stability, to “the next shock”.

In one scenario the Iran war could easily become that next shock. Not a base case, but if the CBO comes to publish its next outlook in the context of a prolonged Straits closure, much higher average energy prices, enlarged US military spending, higher average interest rates, and weakened US growth (reducing tax revenue) it’s surely possible the next “next shock” line on the US debt outlook could look something like the one we sketch onto the chart below.

That crisis would be the latest ratchet higher in the US debt outlook and another reminder that each shock in turn starts from a weaker fiscal position than the one before it. What does that do to the credibility of US treasuries as a “risk free” asset? Who would absorb the excess treasury supply? Are we really convinced the Fed balance sheet would not expand again in response to this emergency? To us the path remains set towards more Fed monetisation of debt not less. I.e: the debasement trade is far from dead.

**Chart 4: Total US treasury debt held by the public (% GDP, 1790 - 2040) with the evolution of the forecast path marked.**



Source: CBO, Schroders.

The above is basically a long-winded way of saying the structural constraints facing Kevin Warsh as he attempts “regime change” at the Fed are unbelievably high. The backdrop he inherits is so systemically stretched that it wouldn’t matter if Kevin Warsh was Paul Volcker on ideological steroids, he is constrained by the fiscal realities highlighted in table 1.

**Table 1: US long run fiscal deterioration remains pretty shocking to behold on every metric:**

Metric	Unit	1980	2001	2026*
Total federal debt held by public / GDP	%	25%	32%	101%
Total Debt / GDP	%	119%	173%	230%
Social sec / medicare PV deficit vs. PV of fiscal revenue	US\$tn			-88.4
Fiscal deficits	%	-1.6	1.0	-6.0
Twin deficit	%	-1.6	-2.0	-7.7
US NIIP	US\$tn	0.3	-2.3	-27.5
US NIIP (% GDP)	%	10%	-22%	-87%
US stock market (% GDP)	%	48%	132%	243%

Source: Bloomberg, Various, \*data is from Q4'25 onwards

As Charles Goodhart (co-author of *The Great Demographic Reversal* and an upcoming book called *The Unanchored Central Banker*) less histrionically put it in a recent FT interview:

***"I don't think interest rates are as strong a tool as many in central banks like to think, because I don't think the decline in inflation that occurred from the 1990s through to 2020 was due to central bank activity. ... The problem is that fiscal dominance is going to constrain the ability of central banks to use interest rates to the extent that they may desire.***

***From the 1990s down to about 2019 the trend in inflation and the trend in interest rates was down. There's no government in the world that is unhappy with downward trending interest rates, both nominal and real. And why not? It makes life a lot easier. So central bank independence was never really seriously challenged during this period.***

***When we've got fiscal problems, increases in interest rates make life difficult for governments. [Donald] Trump is the obvious example. But this is going to become more general in all advanced economies. Central banks are going to be subject to much greater pressure.<sup>1</sup>***

Fiscal (and political) realities will force central banks to tread on eggshells.

For example, a recent academic paper co-authored by MAGA-favoured economist Stephen Miran<sup>1</sup> suggests 15 ways in which banks' demand for reserves could be reduced and the Fed balance sheet be shrunk as a result.

What jumped out at us from the synopsis shown below is how timid the overall conclusions are. Starting to reduce the balance sheet "gingerly" in a few years' time, with a target of a US\$1.2-2.1tn reduction sounds less like "regime change" and more like tinkering at the margin.

<sup>1</sup> Who also authored [638199 A Users Guide to Restructuring the Global Trading System.pdf](#) which among numerous other ideas suggested partially withholding treasury coupon payments from geopolitical adversaries like China as a "user fee" for building dollar reserves.

# A User's Guide to Reducing the Federal Reserve's Balance Sheet\*

Alyssa Anderson<sup>†</sup> Alessandro Barbarino<sup>‡</sup> Anthony M. Diercks<sup>§</sup> Stephen Miran<sup>¶</sup>

March 2026

## Abstract

For the avoidance of doubt: 1) This catalog presents and analyzes a variety of options for reducing the Federal Reserve's balance sheet. **Nothing here is an endorsement of any specific policy option**; this is a menu of options. Combined, we estimate these options open the door to balance sheet reduction of \$1.2 to \$2.1 trillion within the Fed's current ample reserves framework. While we do not advocate for or against a return to a scarce reserves regime, further reductions would be possible with a return to scarce reserves. 2) The process of materially shrinking the balance sheet would require a great deal of implementation and rulemaking work in advance and would take time, **at least a year and quite possibly several, before the Fed can begin shrinking its balance sheet.** **If undertaken, there are good reasons for moving slowly and gingerly, and to take steps to ensure financial markets are able to absorb the reissue of securities that roll off the Federal Reserve's balance sheet.**

In contrast to these long-term plans, the Fed balance sheet Mr. Warsh inherits is currently growing c.US\$30bn per month as a result of reserve management purchases (RMP) of short end T-bills. The total balance sheet size is US\$6.7tn, up US\$180bn since December last year.

The reason (we would argue) officials emphasise the need to move "gingerly" in their long-term plans is at root the same as the reason quantitative tightening (QT) had to be stopped last December despite a still strong economy. The weight of current deficits and the size of public debt outstanding significantly increases the systemic downside risks of a "policy mistake".

Put bluntly, though they can never say it in public, officials are acutely aware that if they acted too hastily, they would risk creating a treasury market panic of the "hit the wall" type former Treasury Secretary Hank Paulson was warning about in this recent interview:

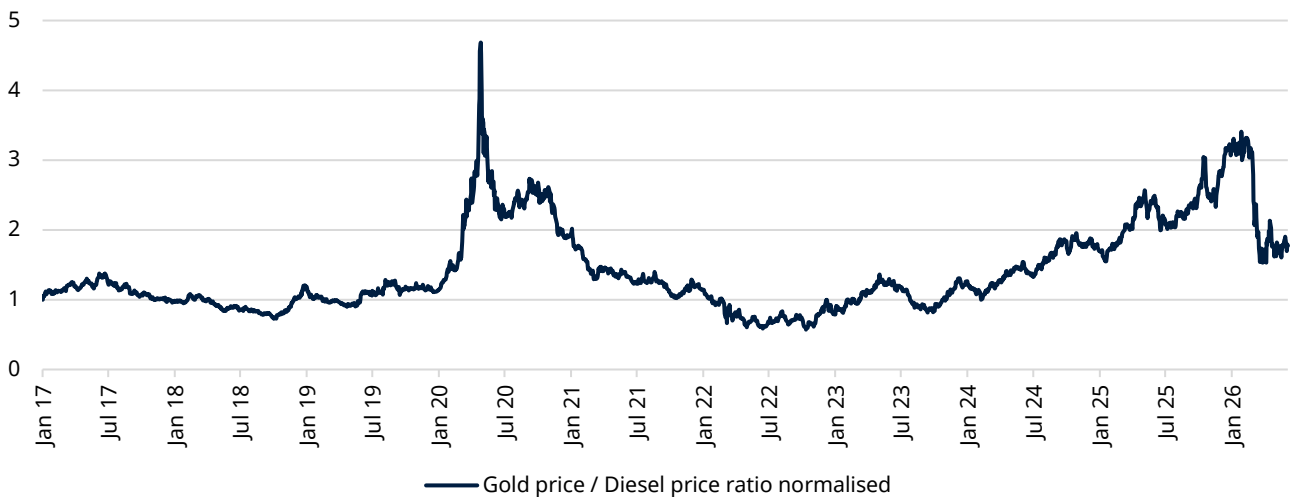
*"people say when are you going to hit the wall? I obviously don't know, it's impossible to know....but when we hit it it will be vicious so we have to prepare for that eventuality and I think we need an emergency break glass plan that is targeted and short term and on the shelf so it's ready to go when we hit the wall"*

# Gold equity outlook

Gold equities traded up very modestly over May, masking a 15% intra month range. In essence the equities have traded quite tightly with gold price direction and (as is logical) have ignored broad equity index strength. Gold equities at the time of writing are roughly flat for the YTD, again very similar to bullion itself.

It remains the case that markets concern around producer margin contraction will dissipate very rapidly on a lasting peace deal (even if that is only really a “can-kick” deal into 2027). Put simplistically, if gold/diesel ratios move higher from here we will expect gold equities to rapidly make new highs.

**Chart 5: A resumption of the uptrend in the gold / diesel ratio in the event of a lasting US/Iran truce would be very positive for the sector**

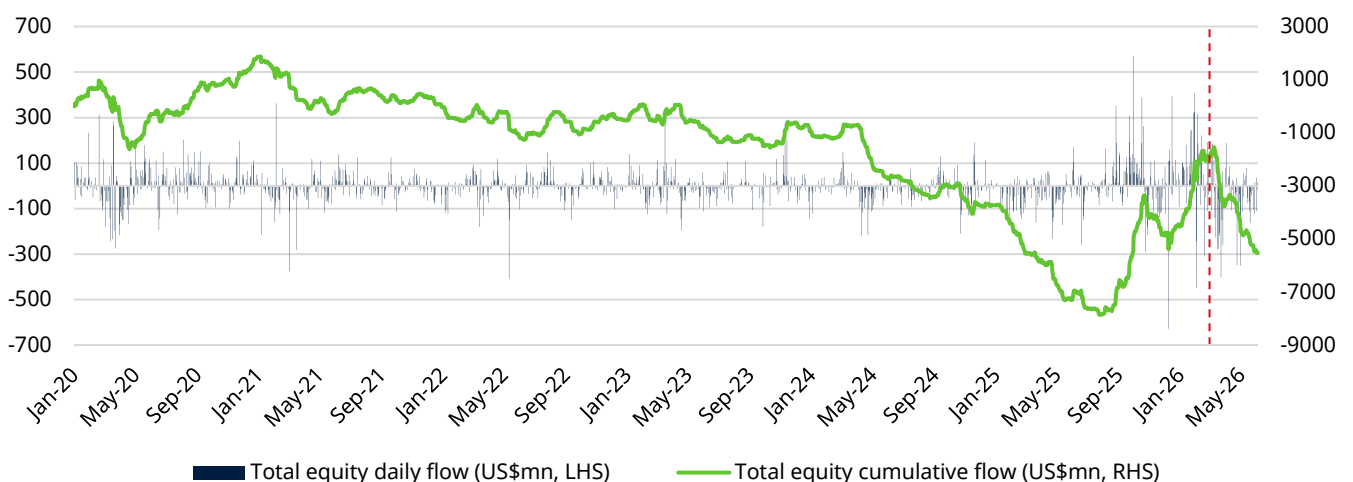


Source: Bloomberg, Schroders.

The depressing effect of the Iran war on both the gold bullion price and the gold equities has been evident in flows to the sector.

These flipped negative just as the war started on an aggregate (passive + active) basis:

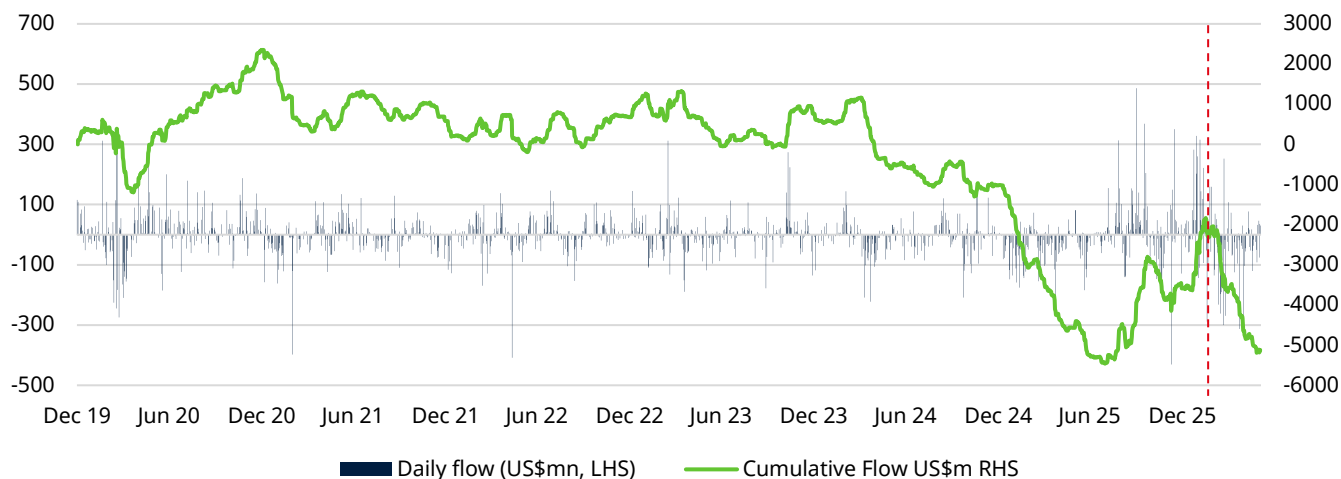
**Chart 6: Gold equity fund flows (active + passive, cumulative, 2020 - Present)**



Source: Bloomberg, Schroders. Estimated gold equity flows based on passive vehicles (GDX, GDXJ, iShares, Sprott ETFs) and five active funds (Schroders and four institutional peers).

And were particularly bad for passive alone on our data (at least there is some logic in these markets):

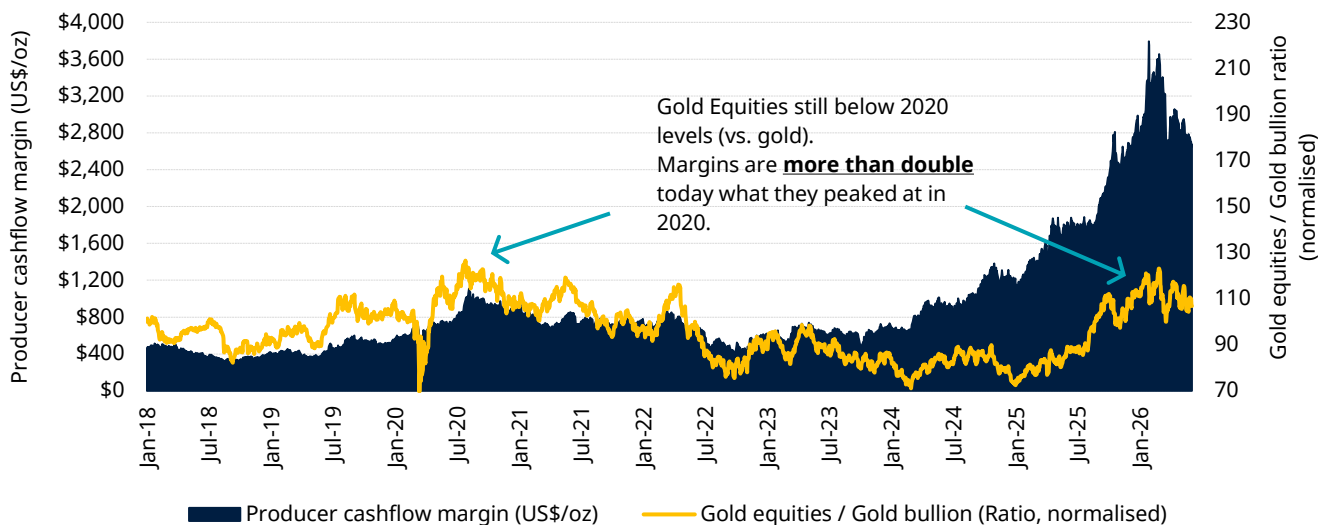
**Chart 7: Gold equity fund flows (passive), cumulative, 2020 - Present**



Source: Bloomberg, Schroders. Estimated gold equity flows based on passive vehicles (GDX, GDXJ, iShares, Sprott ETFs).

Producers are in good shape to weather current volatility as we have discussed endlessly. Margins remain very elevated even when adding 10% to costs for expected inflation.

**Chart 8: Gold equity all-in-sustaining cost margins vs. relative performance of gold equities vs. gold bullion**



Source: Bloomberg, Schroders.

This margin buffer is so high (or operational leveraged so low) vs. history that gold equities have not traded with exceptionally high downside beta to the gold price in the recent sell off.

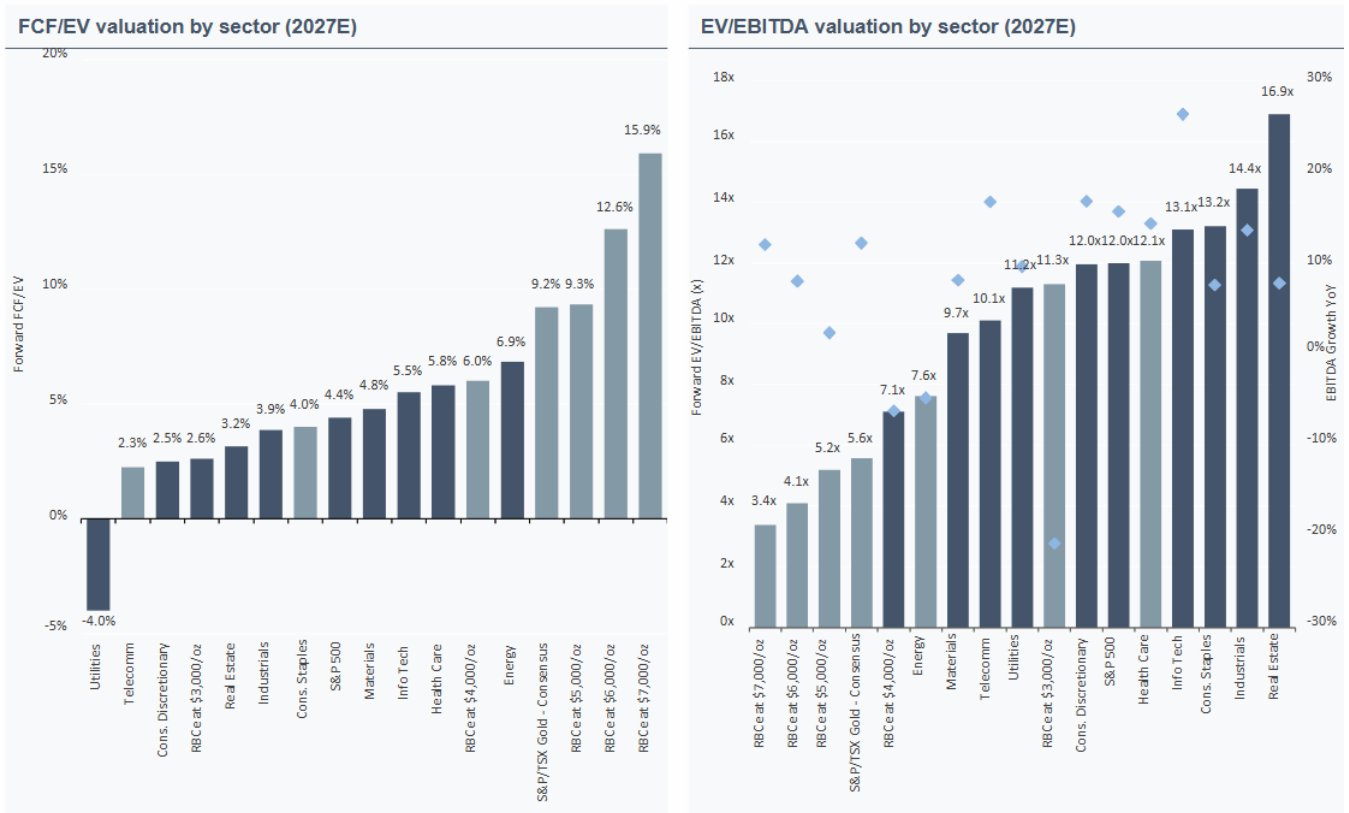
**Chart 9: Gold equity (GDx) vs. Gold year-to-date performance normalised**



Source: Bloomberg, Schroders.

This continues to drive exceptionally strong FCF yields and exceptionally cheap EV/Ebitda yields vs. other sub sectors including energy:

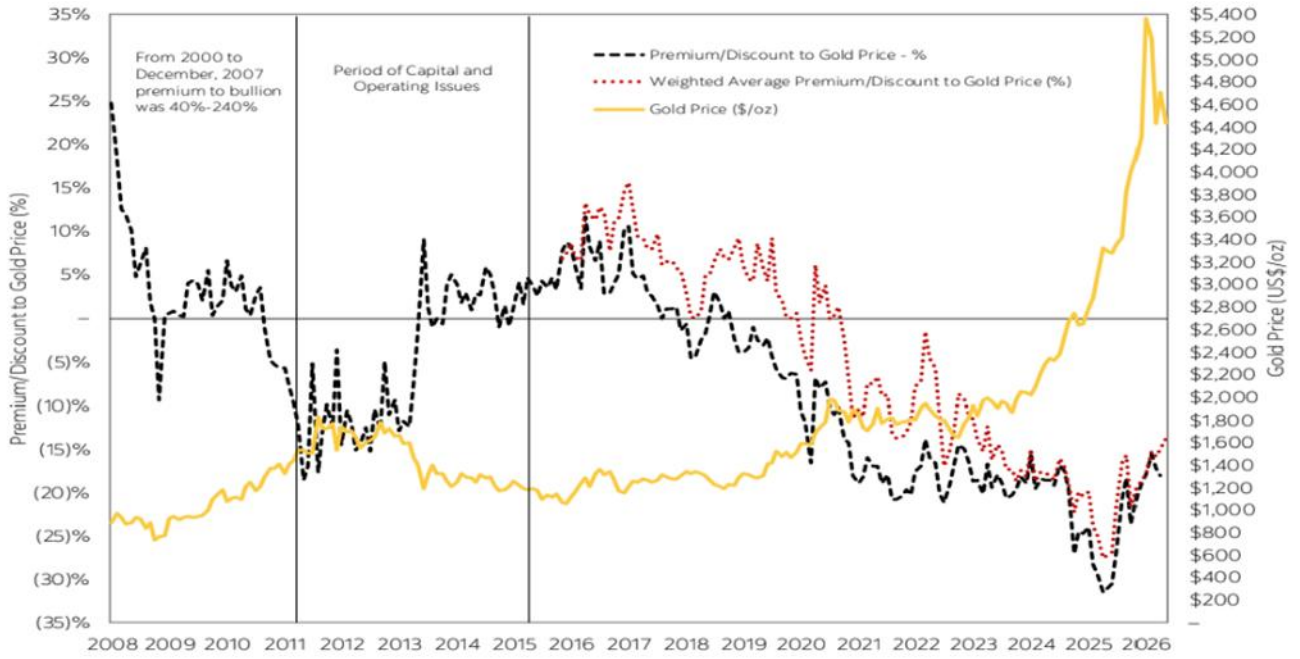
**Figure 2: 2027 forecast FCF/EV and EV/EBITDA by sector**



Source: RBC

The lack of belief that DM investors still have in gold we think is reflected in still secularly low equity valuations. We think that if investors believed gold was likely to become a core portfolio anchor asset and increasingly compete with sovereign bond holdings in 60/40 portfolios then the market would price equities at a premium to spot prices not a sharp discount (chart 10).

**Chart 10: Gold equities historic premium/discount to gold price**

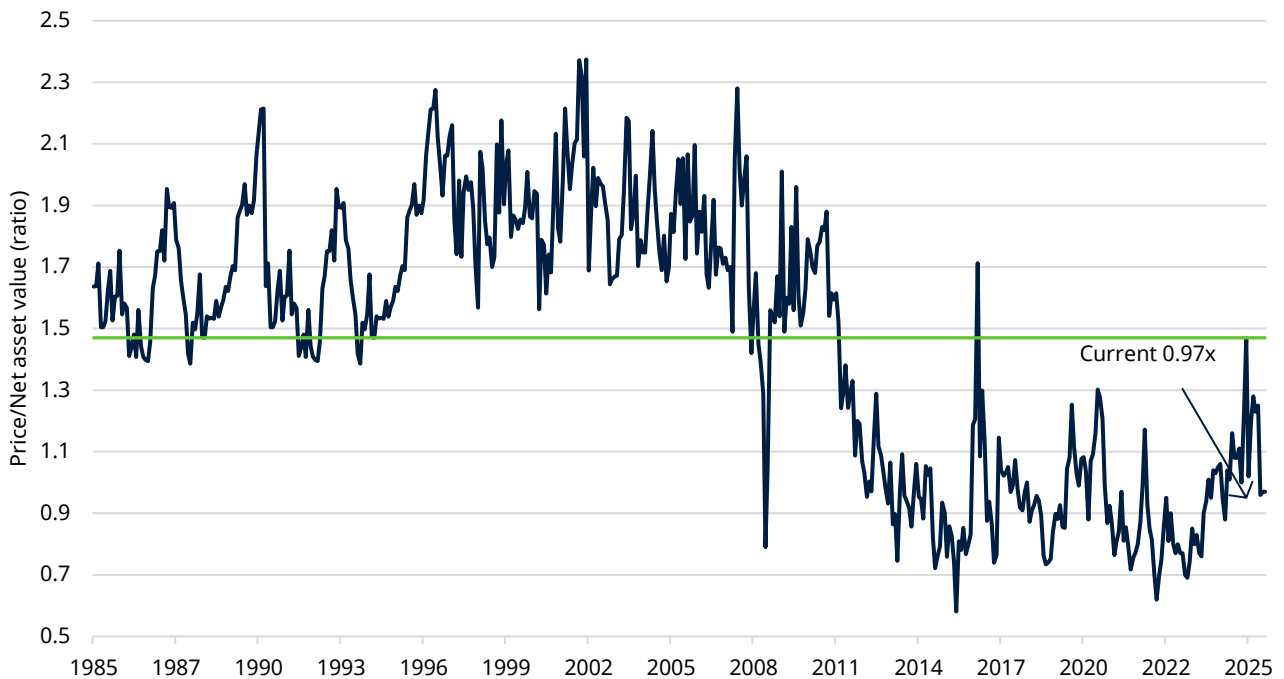


Source: FactSet; Scotiabank GBM estimates.

Source: Scotiabank.

On a long run view we think through price appreciation P/NAV multiples will move back into the 1985 – 2013 range as investor attitudes finally shift in a world of fiscal dominance and a changing global monetary order:

**Chart 11: Historical P/NAV for North American gold equity coverage**

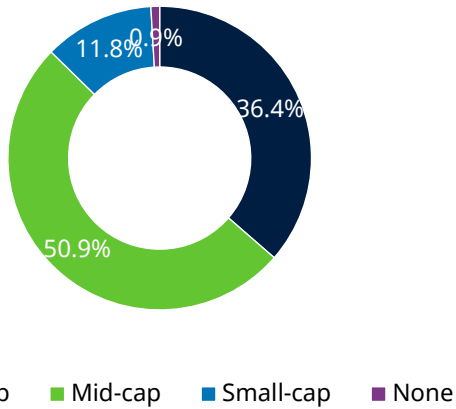


Source: Scotiabank.

# Performance attribution

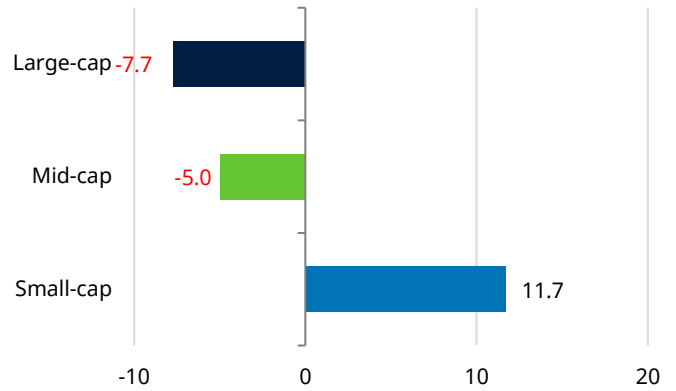
Fund performance in May was -1.9% vs. 1.3% for the benchmark. Our largest active position Predictive Discovery was a negative contributor in the month giving back much of the gains of April. Nothing has changed fundamentally and our conviction in the name remains strong with this pullback providing an opportunity to add to our position. In terms of positive attribution pre-production positions in Montage Gold, Omai Gold and NevGold all were top positive contributors.

## Market cap %



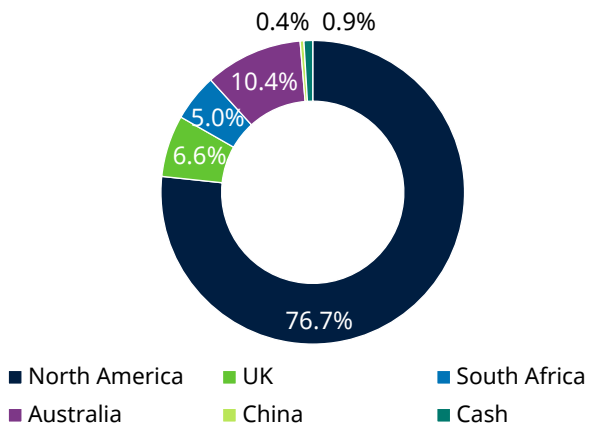
Source: Schroders, Bloomberg – May 2026.

## Market cap over/underweight %



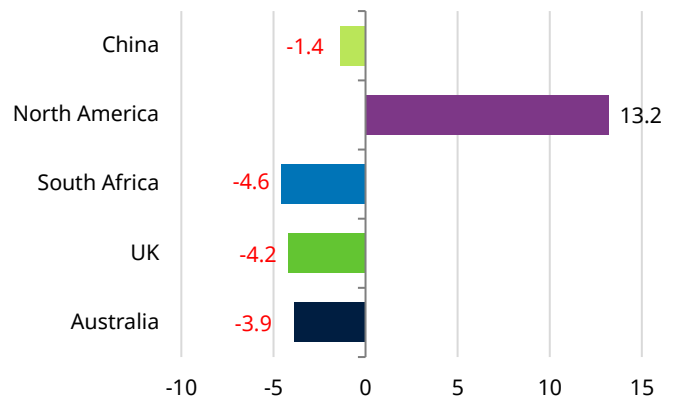
Source: Schroders, Bloomberg – May 2026.

## Regional (%)



Source: Schroders, Bloomberg – May 2026.

## Regional over/underweight %



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