Allianz Research | 16 October 2025

What to watch: Germany's Autumn of Reforms, Lecornu's government survives in France and the twin rally in gold and equity

Ludovic Subran
Chief Investment Officer and Chief Economist
ludovic.subran@allianz.com

Maxime Darmet
Senior Economist for France, US & UK
maxime.darmet@allianz-trade.com

Björn Griesbach
Head of Macro and CMR
bjoern.griesbach@allianz.com

Jasmin Gröschl
Senior Economist for Europe
jasmin.groeschl@allianz.com

Lina Manthey
Senior Investment Strategist
lina.manthey@allianz.com

Patrick Krizan
Senior Investment Strategist
patrick.krizan@allianz.com

In summary

Seize the season: Will Germany's Autumn of Reforms deliver? Recent announcements on investment, R&D and defense are positive but insufficient to turn the wheel on GDP growth, projected at just +0.1% in 2025 and long-term potential growth stuck at +0.4%. Deeper changes in labor, pensions and taxation are essential, alongside sustained momentum on the green transition, a strategic shift toward innovation, targeted investment and welfare state reform. Political consensus must drive the shift from consumption to investment we highlighted in previous research, and strengthen labor market incentives. But time is short as the legislative window closes by end-2026. In a realistic scenario, planned cuts to red tape, fiscal stimulus around defense and infrastructure and investment reform incentives such as the 30% super-depreciation until 2028, corporate tax cuts from 2028 and R&D incentives could bring an additional +1.2pp to GDP growth by 2026. Labor market incentives alongside real structural pension and income tax reforms, as well as climate renewables expansion and investments on top could bring growth up to +2.3pp by 2026 (optimistic scenario), and +2.7pps by 2029. But without decisive action, mobilizing capital, modernizing welfare systems and investing strategically, Germany might risk missing its best chance to reshape its economic future.

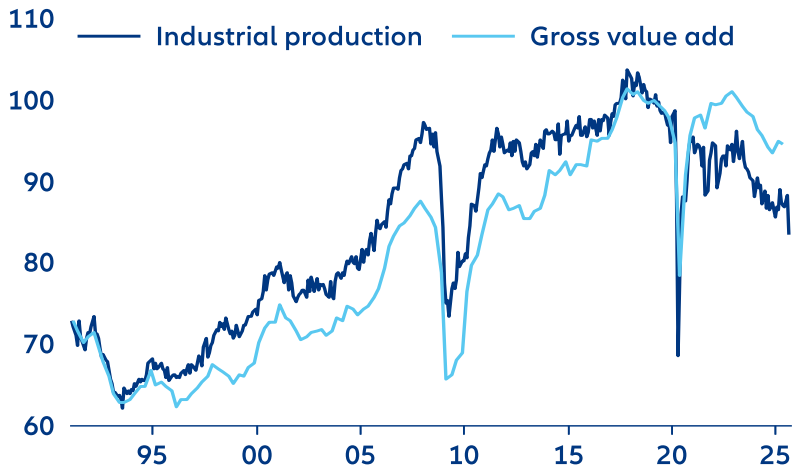
Le comeback: Lecornu's government survives in France. Prime Minister Sébastien Lecornu's government narrowly survived a no-confidence vote, clearing the way for the 2026 budget debate. The budget bill relies on a mix of spending cuts (EUR 19.5bn) and tax hikes (EUR 9bn). Corporates will face a significant reduction in social contribution rebates, a move likely to hit low-wage sectors. Large corporates will see a halving of the corporate surtax though. The budget bill introduces a new tax on wealth-holding companies, though with a limited scope. Households face scaled back tax breaks and rebates. Defense spending, on the other hand, will rise significantly. The -4.7% of GDP deficit target for 2026 looks unlikely amid political fragmentation and the likely undershoot of revenue collection. The OAT-Bund spread is expected to trade around 70-90bps, while a dissolution could send it temporarily to 110bps. Market participants have welcomed the 2026 budget proposal in spite of the risks of fiscal slippages and the pension reform being suspended. Ratings agencies are likely to see an effective suspension as credit-negative, both because of direct and indirect costs through lower growth – we estimate the reform supported GDP growth by 0.2pp annually. French government bonds continue to trade in the high beta segment of the European government bonds market alongside Italy and Slovakia, despite their lower rating.

Gold and equity: The twin rally. Gold has jumped roughly +59% in 2025, nearing USD4,200 per ounce, while the S&P 500 has also reached historic highs. Traditionally, when risk appetite surges and stocks climb, gold retreats as investors favor growth over safety, and conversely. Sticky inflation (since 2021), financial fragmentation risks (since 2008-9, and then 2022) and then structural policy shifts including de-dollarization and the debasement trade – moving out of paper currencies and into assets that cannot be printed or debased by governments – explain most of this new co-movement. Gold's strength shows a rational desire for security, while equities' gains signal confidence in technological innovation and artificial intelligence. Concomitant positioning signals a new barbell approach to globalization and the diversification dividend.

Seize the season: Will Germany's Autumn of Reforms deliver?

Germany's Autumn of Reforms risks being window dressing amid bleak economic prospects. In a fragmented, multipolar world, the country's export-driven economy faces severe headwinds: rising tariffs, Chinese competition and persistently high energy costs. These pressures are reflected in a sharp decline in industrial production and weak gross value added (Figure 1). Domestically, structural challenges weigh heavily: demographic aging, labor market inefficiencies and mounting pressure on pensions and healthcare systems. Although the coalition government has recently advanced reform proposals, they will remain insufficient to reverse the growth slowdown in the short-term. Moreover, mounting economic pressures risk pushing the climate transition further down the political agenda. Growth is projected at just +0.1% in 2025, followed by only modest rebounds of +1.0% in 2026 and +1.4% in 2027, largely driven by the fiscal stimulus. Breaking this low-growth trajectory will require a strategic shift. Policymakers and the business community must collaborate to prioritize innovation and actively shape the transformation together. With the legislative window likely closing by end-2026, forging consensus on reform priorities (Table 1) is essential. Only coordinated action can modernize the welfare state, enhance competitiveness, strengthen labor market incentives and reorient spending towards strategic investment over consumption.

Figure 1: Industrial production and gross value added in manufacturing, Jan 2019 = 100



Sources: LSEG Workspace, Allianz Research

Three positive developments stand out, but without deeper structural reforms they are unlikely to move the needle. First, investment incentives and corporate tax cuts send strong signals: A 30% super-depreciation scheme, in place since June 2025 for equipment purchases through 2028, could increase investment by +1.1pp annually and lift GDP growth by +0.16pp per year. In addition, Martin Blessing's appointment as envoy for foreign investments provides clearer coordination for international investors. Key funding instruments (the EUR100bn Deutschlandfonds and expanded WIN Initiative (EUR25bn+)) target digital infrastructure, AI and automation. From 2028, corporate tax rates will be cut by -1pp for five consecutive years (from 29.9%), increasing GDP growth by an estimated +0.25pp annually. However, global tax competitiveness will only be reached by 2032. Second, innovation capacity is being strengthened. Public R&D will rise from EUR7.8bn in 2024 to EUR8bn in 2025, followed by +3% annual increases through 2030. Private R&D is incentivized via 25% tax credits (35% for SMEs), with the eligible expenditure cap raised from EUR4mn to EUR10mn, including equipment. Increasing R&D investment to 3.5% of GDP could increase growth by +0.6pp to +1.8pp over 5-10 years. Targeted support for future-oriented sectors such as microelectronics, biotech and chemicals is planned, partly funded via the off-budget special investment and climate fund, though specific policies are pending. Third, a March 2025 constitutional reform allows defense spending above 1% of GDP without breaching the debt brake, enabling Germany to meet NATO's 3.5% core defense spending target by 2029, with potential GDP growth gains of by up to +0.3pp annually. The Bundeswehr Planning and Procurement Acceleration

Act (effective August 2025) should further strengthen defense responsiveness and capabilities. However, EU procurement remains fragmented and the debate on reinstating compulsory conscription remains controversial.

Table 1: Overview of reform initiatives and economic impact assessment

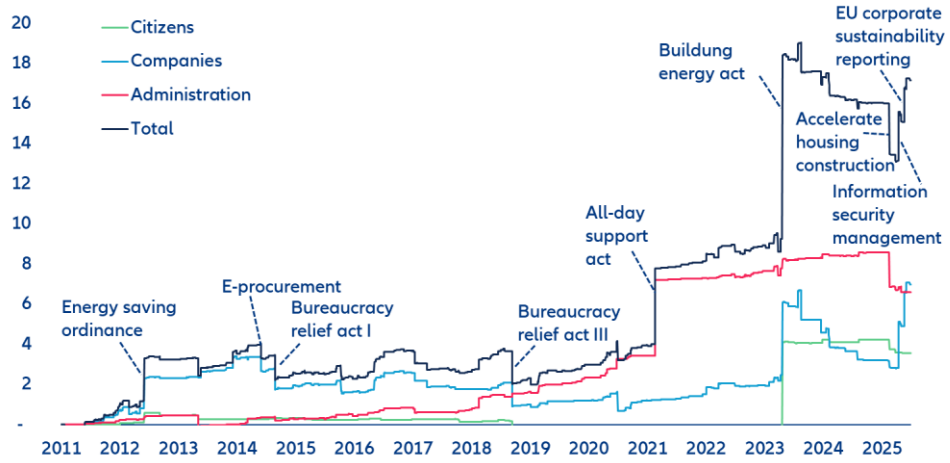
	Progress	Realistic but too slow	No progress	Critical constraints
Public investments	EUR500bn investment and climate fund with establishment act passed end-September 2025		dynamic debt brake	simplification of approval procedures
			strategic rather than consumptive approach to federal budget	additional private capital (where possible)
				centralized infrastructure investment pipeline
Private investments	30% depreciation rates for three years			
	Blessing as personal go-to contact for foreign investments	Deutschlandfond and WIN-Initiative		
	corporate taxation -5pps over five years from 2028 onwards			
Economic policy	higher public R&D budget	support for strategic sectors like microelectronics, chemicals and biotech		relief measures for heavy-energy industry and lock-in of gas
	private R&D via higher research allowance (25% tax credit; SMEs with 35%)			
Bureaucracy		Reduce bureaucracy by 25% over four years		-8% staff cut by 2029 but new Ministry of Digital Affairs
		one-stop digital platform for citizens and businesses		speeding of digitalizing procedures
Pensions	promotion of occupational pensions	pension commission only by 2027	overarching pension reform	guarantee of a 48% pension level until 2031
	Frühstartrente		curb early retirement incentives	mothers pension expansion by 2027
	Aktivrente		Riester reform	rising non-wage costs
Health and long-term care	mandatory first-contact physicians	long-term care expert commission only by 2027		coherent financing strategy to secure sustainability
	digital healthcare initiatives (e-records, telemedicine)	hospital reform by 2029		attract and retain healthcare professionals
Labor market	work & stay agency to be operational by 2026		structural labor market activation (income tax, care expansion, minijob, low-income integration)	minimum wage increase to EUR14.30 by 2026
	Bürgergeld reform with sanctions			
Green transformation and energy		market integration (CfDs/PPAs)	flexible regional pricing	conservative demand estimates slow renewables/AI
		smart meters and electricity tariffs	regional grid charges	hydrogen focus risks gas lock-in
		decentralized electricity system	renewables expansion (no timeline)	electrification options underused
		grid expansion and flexibilization	higher CO2 price	single-price zone and long-term contracts
			phasing out fossil fuel subsidies	limited manpower / equipment constrain rollout
Defense and security	defense budget 3.5% by 2029 via debt brake exemption (>1% of GDP)	streamlining of EU defense procurement		within European competition and procurement
	Bundeswehr planning and procurement acceleration			

Sources: various, Allianz Research. Notes: green dots mean high economic impact in the short-term; yellow means economic impact in the medium to long-run; blue indicates no quantifiable growth impact or only in combination with other reforms (i.e., pension reforms with labor market activation).

Germany is still awaiting the fiscal boost to unlock growth. A key pillar, the EUR500bn fund for infrastructure and climate neutrality, remained stalled until recently despite constitutional changes in March 2025. Its rollout hinged on the Establishment Act, which defines infrastructure and eases approvals, that passed the Bundestag and Bundesrat in late September. Once deployed, the fiscal boost could raise annual GDP growth by +0.4pp (gradual scenario) to +0.9pp (full deployment), though inflation may rise by +0.2pp to +0.3pp due to wage pressures and capacity constraints. Legislative delays and missed opportunities in mobilizing private capital limit its impact. To ensure full deployment, key reforms are needed: cutting red tape to reduce construction backlogs, centralizing the infrastructure project pipeline and adopting a dynamic debt brake that supports strategic investments. An expert commission will propose debt-brake reforms by end-2025, but political consensus remains uncertain.

Promising ideas on cutting red tape, but progress remains slow. The government launched an 80-point action plan aiming to reduce bureaucracy by 25% over four years, potentially boosting GDP growth by +0.2pp annually. The plan includes relaxing compliance rules and replacing some national laws with EU standards, such as substituting the Corporate Supply Chain Act with the EU's CSDDD. But despite good ideas like the digital-by-default approach with a one-stop digital platform for citizens and business (yet to be implemented), bureaucratic costs remain high: initial compliance cost savings of EUR3bn were offset by a recent EUR4bn increase due to new legislation (Figure 2). Moreover, the creation of a new Ministry of Digital Affairs raises questions about plans to cut federal staff by -8% by 2029, following a +30% increase over the past decade. Ultimately, success depends on political consensus, simplifying regulations and administrative capacity, alongside accelerating digitalization.

Figure 2: Bureaucracy compliance costs until beginning of October 2025, in EUR bn



Sources: Normenkontrollrat, Allianz Research.

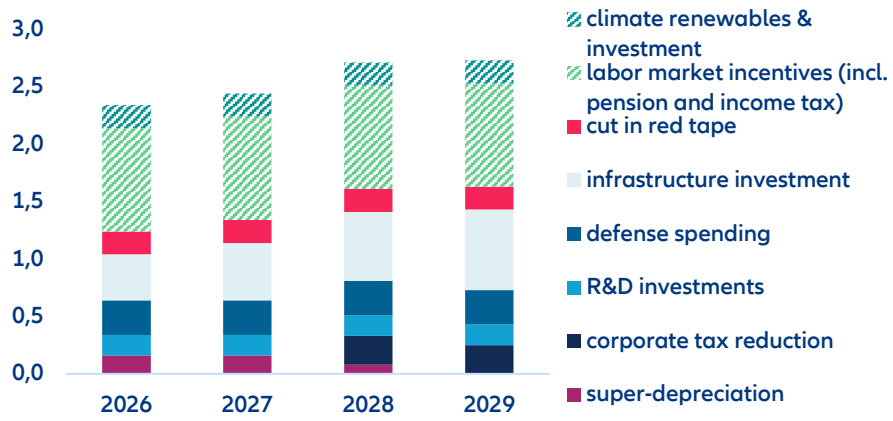
Despite mounting demographic and fiscal challenges, Germany's pension reforms remain largely incremental. By 2035, the number of retirees is expected to rise by 2.1mn, while the working-age population may shrink by 2mn, pushing the retiree-to-contribution payer ratio to over 61% by 2036. Pensions already account for 9.4% of GDP and combined with health insurance, consume 75% of welfare spending. However, the government's 2025 pension package maintains benefit levels at 48% until 2031 and delays a meaningful review until 2029. Measures like the expanded mothers' pension (by 2027) add fiscal strain. Boosting occupational pensions for SMEs and low earners as well as the pension starter kit for children from 2026 (likely adding bureaucracy) are constructive. But crucial reforms, such as financial viability, linking retirement age to life expectancy and indexing pensions to prices, have been postponed to late-stage commissions (2027) unlikely to yield action. Health and long-term care reforms emphasize financing and digitalization, with care contributions expected to stabilize by 2027 and hospital reforms rolled out by 2029. Primary care will require mandatory first-contact physicians by 2026, while digital health expands with e-records and telemedicine. A coherent financing strategy alongside faster implementation of digital tools are needed.

Labor market efforts also remain modest. Initiatives like the Work & Stay agency with skill-based migration policies aim to improve labor market integration but lack transformative impact. A minimum wage hike to EUR14.30 by 2026, which will put Germany's among the EU's highest, may pressure low-wage sectors and reduce demand for low-skilled workers. The initiated Basic income (Bürgergeld) reform aims to save EUR5bn annually through stricter requirements and freezing benefits. This only affects 3.5% of welfare spending, making it largely symbolic. Broader structural labor market reforms, including tax simplification, expanding child- and elder care, an overhaul of the Minijob system, spousal income splitting reform and integration of low-income earners are lacking, are missing. Income tax plans to activate untapped labor force potential remains vague and unambitious, with no clear timeline. Measures such as tax-free income for retirees by 2026 will have a limited effect. While shifting to weekly working hour limits may add flexibility, comprehensive labor market modernization is absent. Yet, a combined package of pension, tax and labor reforms could activate +1.7% of the inactive workforce and boost GDP growth by up to +0.9pp annually.

The green transition risks losing momentum amid short-term economic pressures. Current efforts focus on modernizing the electricity system and improving investment security through better market integration of renewables. Key steps include accelerating smart meter rollout, enabling variable electricity tariffs and promoting decentralized flexibility. Grid expansion must align with generation capacity, supported by clear capacity market rules to ensure supply security and planning certainty. However, conservative capacity targets, modest demand projections and overreliance on hydrogen may hinder renewable deployment and divert resources from more efficient solutions. Retaining a single-pricing zone and rigid long-term contracts mask regional bottlenecks. Though flexible pricing and regional network charges guide investment more efficiently, political resistance remains. A subsidy review is under way but phasing out feed-in tariffs without redirecting support risks slowing renewable deployment. A strategic shift toward utility-scale PV, wind and charging infrastructure is needed. Raising the CO_2 price and phasing out fossil-fuel subsidies (still over EUR40bn annually, distorting market signals) are essential to fund the transition. Concrete actions are key to create planning certainty and drive Germany's climate goals while maintaining competitiveness. If fully implemented, investments in climate action and a fast renewables expansion could contribute up to +0.2pp to annual GDP growth through 2030.

Act now or miss the opportunity. Germany's long-term potential growth is limited to +0.4% over the next decade due to a shrinking labor force from demographic aging. However, realizing structural reforms combined with fiscal stimulus could significantly boost growth. If implemented, these measures could raise GDP growth by +1.3pp (realistic scenario) to +2.3pps (in a currently unrealistic full implementation scenario) by 2026 (Figure 3). This could further rise to +1.6pp to +2.7pps by 2029. The government and businesses must act decisively to seize this window, or risk missing it entirely.

Figure 3: Additional growth attributes to German GDP growth, in pp



Source: Allianz Research. Notes: hatch-shaded measures are estimated growth impacts that are likely not implemented or face delays due to political blockage.

France: Government survives, but path toward deficit reduction remains challenging

Prime Minister Sébastien Lecornu's government narrowly survived a no-confidence vote on Tuesday, clearing the way for the 2026 budget debate — though uncertainty still clouds the path ahead. The motion, tabled by the hard-left *France Unbowed*, drew backing from the far-right *National Rally* and several unaffiliated MPs. However, the leadership of both the Socialist Party and *Les Républicains* (LR) urged their members not to support it, allowing the government to survive. To secure Socialist abstention, Lecornu made key promises: suspending the controversial 2023 pension reform and pledging not to invoke Article 49.3 of the Constitution, which allows the government to pass a budget without a formal vote. The decision was particularly difficult for LR MPs, many of whom remain staunchly opposed to freezing the pension overhaul. While the vote outcome spares Lecornu for now, the road to adopting a budget remains fraught. His promise to avoid Article 49.3 means the bill is likely to undergo extensive revisions in Parliament. Given the Assembly's deep fragmentation, debates are expected to be chaotic, with no guaranteed majority in sight. Several contentious measures from the original draft – including a pension freeze and tighter controls on healthcare spending – face strong resistance. Meanwhile, opposition parties are preparing amendments reflecting their own priorities: higher taxes on the wealthy from the left and tougher immigration spending limits from the far right. In this tense atmosphere, political risks remain high, and another government crisis before the year's end cannot be ruled out.

France's 2026 budget aims for an ambitious deficit cut… The government's 2026 draft budget sets an ambitious course for deficit reduction, targeting –4.7% of GDP, after a confirmed –5.4% in 2025. The fiscal adjustment, amounting to roughly 1% of GDP (Figure 4), will rely on a mix of 70% spending cuts (EUR19.5bn) and 30% tax increases (EUR9bn). Two temporary taxes introduced in 2025 – the levy on high-income households and the corporate surtax on large firms – will be extended. However, the corporate surtax will be halved next year, depriving the state of about EUR4bn in revenue. To offset this, companies will face a EUR5.6bn reduction in social contribution rebates, a move likely to hit low-wage sectors such as hospitality, retail and construction. The concurrent reduction in production taxes will do little to cushion the blow. The budget also introduces a new tax on wealth-holding companies (parent entities that own and manage stakes in multiple firms). Yet its impact will be limited, expected to raise less than EUR1.5bn due to its narrow base and the low 2% rate. On the household side, the government plans to scale back several tax breaks and rebates. The 10% income tax allowance on pensions will be replaced with a flat-rate deduction, while tax relief for secondary and higher education expenses will be curtailed. Tax advantages for certain plant-based fuels will also be reduced. Public spending cuts will fall heavily on Social Security, which is expected to deliver EUR7bn in healthcare savings and EUR5bn through a freeze in social benefits. Social Security alone will account for 0.4pp of GDP in the overall fiscal adjustment, compared with 0.2pp from both local and central government spending (excluding defense). Defense remains one of the few spending priorities, with an increase of EUR6.4bn – around EUR2.3bn above a "neutral" trend – alongside a modest reduction in production taxes.

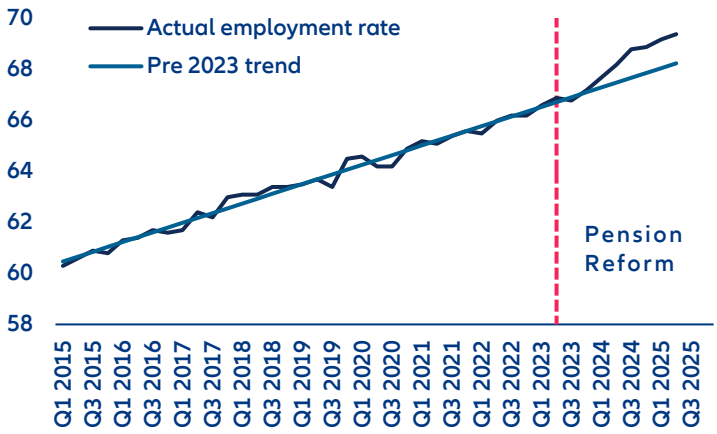
Figure 4: 2026 draft budget bill – fiscal measures

Spending			Taxes		
	EUR bn	% GDP		EUR bn	% GDP
Central government spending cuts (budgets, wage bill, subsidies etc)	5.00	0.17	Tax on financial wealth (holdings)	1.30	0.04
Streamlining and tighter control of healthcare spendind	7.00	0.24	Reduction or removal of inefficient tax loopholes	3.30	0.11
Freeze in social benefits (pensions, housing aid, etc)	5.00	0.17	Fight against tax and welfare fraud	1.50	0.05
Lower transfers to local governments	4.80	0.16	Freeze in personal income tax brackets	1.90	0.07
			Reduction of employers' social contributions rebates	5.60	0.19
			Others (lowering of VAT threshold for micro enterprises, etc)	0.70	0.02
Increase in defense spending	-2.30	-0.08	Decrease in production tax (CVAE)	-1.30	-0.04
			Reduction of windfall tax on profits for large corporates	-4.00	-0.14
TOTAL	19.5	0.7	TOTAL	9.00	0.30

Sources: French government, Cour des comptes, HCFP, Allianz Research. Note: easing fiscal measures are shown with a negative sign to show that they increase the deficit. Spending measures are reported against a neutral growth baseline equal to 2.6% (nominal potential GDP growth estimated for 2026).

...but we continue to expect the government to undershoot the deficit-reduction target. As we have written previously, the fiscal measures proposed often rely on overly ambitious targets for revenue collection and healthcare spending. Besides, several measures in the draft budget bill could be trimmed or removed altogether amid deep political fragmentation in the National Assembly. Finally, the government itself may trim its own ambitions. It has announced that it will include a measure to support purchasing power – supporting wages around the minimum wage – but could dampen the expected revenue from the freeze of income tax. Overall, we stick to our long-term view that a watered-down budget is the most likely outcome, or than fiscal targets will undershoot. We continue to expect a fiscal deficit of -5.1% of GDP next year, versus -4.7% targeted by the Lecornu government. Snap elections being called before the end of the year remain a high probability (40%), and sharply higher political uncertainty – with question marks over the effective fiscal plans of the new government – would pressure growth and lead to more fiscal slippage because of lower revenues. Looking further ahead, the suspension of the pension reform, if effectively enacted. is negative for both growth and public finances. In 2026, the cost of the suspension will be easily offset by new savings (EUR0.4bn), but further ahead the cost stemming from more state pension handouts and lower social contribution revenues (with less people working) will grow rapidly. The 2023 pension reform was likely the explanation behind the significant increase in the employment rate of people aged 50-64 in 2024-25 (Figure 5), which helped both GDP growth and government revenues. We estimate that pension reform has boosted senior employment by 88K people between Q1-2024 and Q2-2025. This, in turn, has supported annual GDP growth by 0.2pp in both 2024 and 2025[1].

Figure 5: Employment rate people aged 50-64 relative to pre-pension reform trend

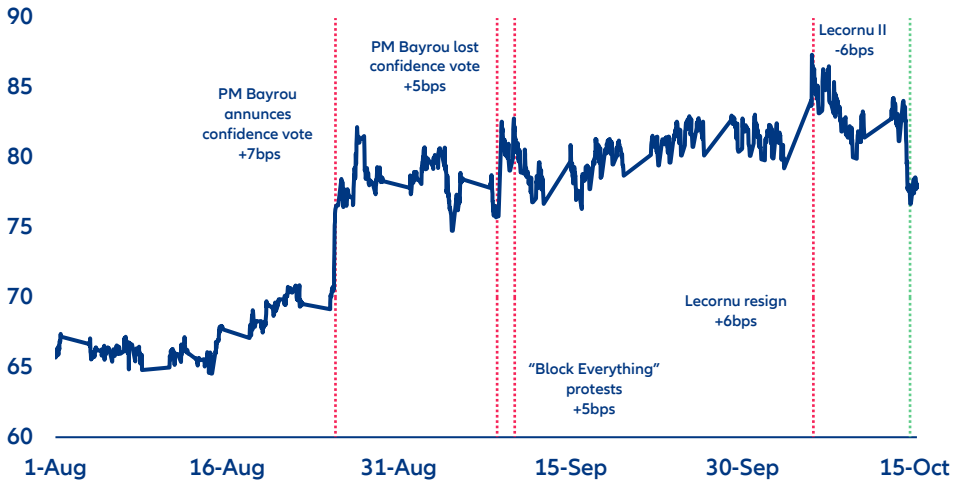


Sources: LSEG Workspace, Allianz Research

Market sentiment has improved after turbulent weeks. French 10-year government bond (OAT) spreads over German Bunds initially widened 5bps to 86bps following the resignation of Lecornu on 6 October – approaching the high of 88bps during the first confidence vote in December 2024. However, as political tensions have eased and investors are focusing on the higher probability of a budget being passed, with a lower probability of immediate snap elections, the 10-year OAT spread has returned to its initial level of 80bps. Since September 2025, shifts in political risk seem to be priced in 5bps increments for OAT spreads. Accordingly, if a new event changes the perceived likelihood of the Lecornu II government failing, we could at least expect another 5bps increase of the 10-year OAT spread (Figure 6).

[1] We make the simple assumption that extra senior employment has the same productivity and working hours that the aggregate working population.

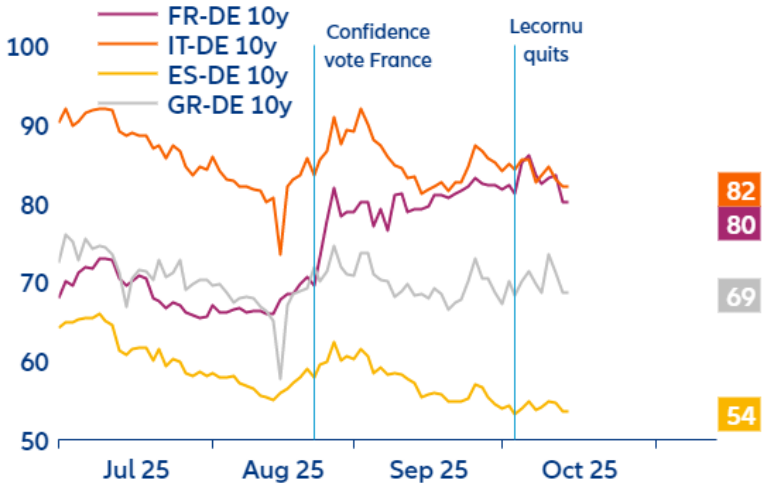
Figure 6: Recent jumps in 10-year OAT spread where driven by political risk sentiment



Sources: LSEG Workspace, Allianz Research

We expect French spreads to remain in a 70–90bps range over the next six months. In the event of snap elections, spreads could widen temporarily up to 110bps. Levels beyond that seem unlikely as markets would expect the ECB to step in – most likely by adjusting the pace of quantitative tightening or even switching to quantitative easing again via its Transmission Protection Instrument. However, while such a response would support spreads, it would most likely weaken the euro further from current levels. Despite the relatively favorable reaction of markets to the new government's ambitious fiscal stance, the summer of political drama has left its mark on French government bonds. They are now trading in the high beta segment of the European Government Bonds (EGB) market alongside Italy and Slovakia despite their lower rating (BBB and A vs AA- for France). As shown in Figure 7, heightened political uncertainty led to French risk premia temporarily even exceeding those of Italy before converging back down.

Figure 7: Eurozone government bond spreads, bps

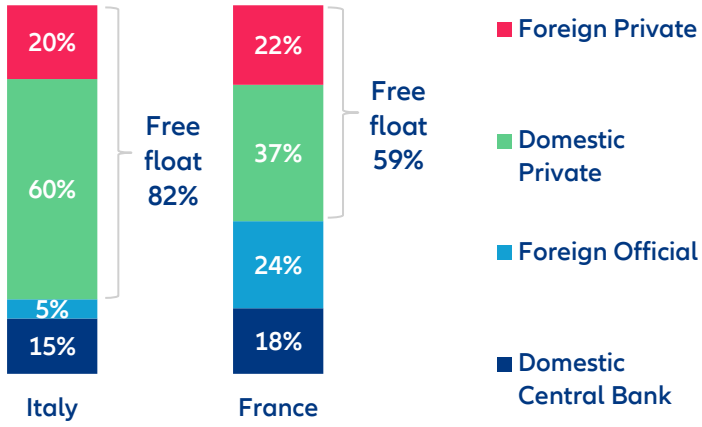


Sources: LSEG Workspace, Allianz Research

We expect this neck-and-neck race to continue in the coming months. While France has stronger fundamentals, Italy benefits from, among other things, positive rating momentum. One advantage for Italy in this context is also its strong domestic investor base, with a significant retail share, which reacts less sensitively to changes in yield or spreads. French government bonds are an international asset to a much greater extent. This is certainly an

advantage in calm times, but in periods of heightened risk, it can turn into a disadvantage as international investors react much more sensitively to political risk and do not hesitate to reduce their positions significantly. Although the domestic share among holders of French government bonds has also increased, it remains well below that of Italy (Figure 8).

Figure 8: Holding structure of sovereign government bonds (as of Q3 2025)

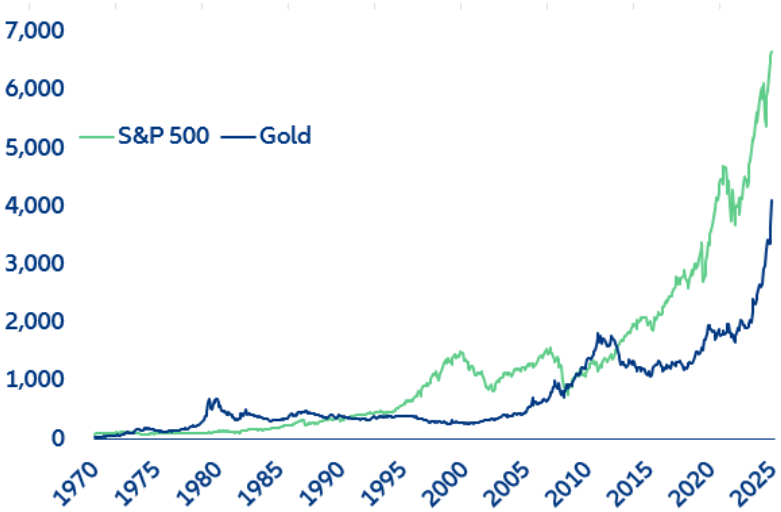


Sources: National Central Banks, IMF, Allianz Research

Gold and equities: A twin rally

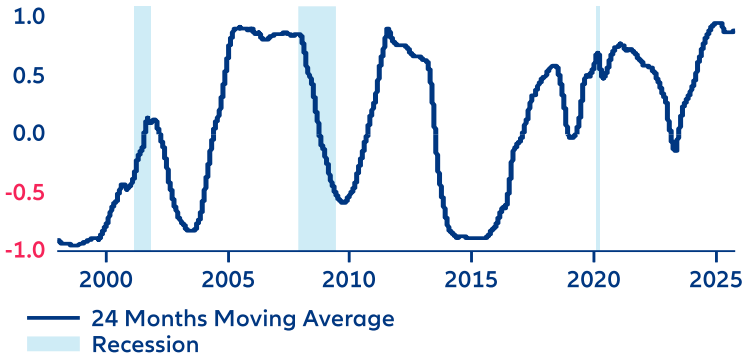
Gold and equities are soaring together, defying long-standing market logic. Gold has jumped roughly +59% in 2025, nearing USD4,200 per ounce (Figure 9), while the S&P 500 has also reached historic highs, buoyed by strong corporate earnings and excitement over artificial intelligence. Traditionally, when risk appetite surges and stocks climb, gold retreats as investors favor growth over safety; conversely, when fear dominates and stocks tumble, gold shines as a safe haven. However, since 2020, gold and major stock indices have shown periods of strong positive correlation, with the relationship peaking at a remarkable +0.91 in 2025 (Figure 10). Such a sustained twin rally has not occurred since the inflationary upheavals of the 1970s, raising fundamental questions about the current global financial order.

Figure 9: S&P 500 and gold price indices



Source: LSEG Workspace, Allianz Research

Figure 10: Correlation between S&P 500 and gold



Source: LSEG Workspace, Allianz Research

Several forces have converged to fuel this unusual tandem rally. The first is inflation. Although it has come down from its peak, it remains 'sticky' and above central bank targets. The threat of renewed inflation, fueled by rising tariffs and expansive fiscal policies, has not vanished. This has led investors to seek assets that retain their value if prices continue to rise. Gold fits the bill as an inflation hedge so even though stocks are performing well, many still see gold as a prudent addition to a portfolio rather than an alternative.

Geopolitical and policy uncertainties add to the mix. Concerns range from high government debt levels and deficits to the independence of central banks and potential policy shifts. Political uncertainty (e.g. the US government shutdown) reminds investors of systemic risks. Gold tends to react to such fears, rising on any hint of instability or conflict. Rather than rotating out of stocks into gold in 2025, investors are holding both, reflecting a mindset of hoping for the best but preparing for the worst. One way to interpret this is as diversification in optimism. Rather than shifting into gold only when fear spikes, as would be the classic behavior, investors are now spreading their bets – effectively saying that both tech stocks and gold can be winners at the same time.

Structural shifts in the global financial landscape are also boosting gold demand as "debasement trade" – moving out of paper currencies and into assets that cannot be printed or debased by governments – gains traction. Following the outbreak of war in Ukraine, Western sanctions froze about USD300bn of Russia's foreign currency reserves, sending a chill through many other nations with large dollar and euro reserves. Since then, central banks around the world have become major gold buyers. Unlike fiat assets, gold cannot be frozen or devalued by another government's policies, boosting confidence that a nation's reserves are safe from geopolitical risk. Unlike fiat assets, gold cannot be frozen or devalued by another government's policies. Holding gold boosts confidence that a nation's reserves are safe from geopolitical risk. Another structural driver is the push to diversify away from the US dollar in international reserves and trade ('de-dollarization'). Countries looking to reduce their reliance on the dollar, whether due to strategic rivalry, sanctions risks or simply prudent diversification, are turning to gold as an alternative store of value. Gold is appealing in this context because it is a neutral reserve asset: it is not issued by any one country, so it carries no political strings. In an era of financial deglobalization and great-power competition, holding gold is seen as a means of building monetary independence and resilience against foreign economic pressure. The simultaneous rush into gold, stocks and even cryptocurrencies can also be viewed in the context of "debasement trade". Investors are concerned that the heavy borrowing and large deficits of major governments will ultimately erode the value of fiat money. Rather than holding cash or low-yield bonds, which could be devalued by inflation, they are investing in assets with a limited supply, such as precious metals, equities and Bitcoin. Against this backdrop, the gold-equity duo serves as a reminder that, even in a booming bull market, the instinct to secure a hedge remains strong.

The twin rally in gold and equities encapsulates the complexity of modern markets, encompassing optimism and caution, globalization and fragmentation and growth and inflation. Rather than choosing between fear and greed, investors today are embracing both. Gold's rise signals a rational search for security in the face of structural change, rather than panic. Meanwhile, equities' strength reflects confidence in productivity, innovation and economic adaptability. Corporate balance sheets remain healthy, and innovation continues to boost productivity. The coexistence of rising gold and stocks may actually signal a 'Goldilocks' environment, where inflation is high enough to support hard assets, but not so high as to crush earnings. So far, monetary conditions and earnings momentum have supported a steady climb in equities. Investors should expect more volatility as macro forces evolve, but the long-term outlook for equities remains positive. As inflation gradually moderates and global liquidity remains ample, risky assets can continue to perform well — even as gold retains its strategic importance.

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.