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The Correlation Break

Gold sat out the 2026 equity rally · the valuation gap that leaves behind has a precedent

By Diego Molina · Mediavertical

Gold is roughly flat to modestly lower on the year while the S&P 500 is up about 9% · a real break from 2025, when both rallied together and gold finished the year up 48%. Bank of America's framing of the resulting gap is the more important detail: no rate-hike cycle since 1999·2000 has started with equities this expensive relative to gold, and that prior period was the year before gold began its longest bull run in modern history.

2026 broke a pattern investors had gotten used to

Gold and equities both rallied through 2025, with gold up 48% on the year alongside a strong stock market · a combination that let allocators treat gold as a return driver rather than strictly a hedge. That pattern didn't carry into 2026: gold has traded roughly flat to down for the year even as the S&P 500 has continued climbing, a genuine divergence rather than a pause in a shared uptrend. Academic work on the gold-equity relationship is consistent with this: the correlation is generally low, but it is not fixed · it shifts with the macro regime rather than holding as a constant.

The valuation gap is the more important number than either return figure

The S&P 500-to-gold ratio has moved from roughly 1.27 to 1.79 · about a 40% shift · as equities re-rated higher on AI-driven earnings enthusiasm while gold stalled. Bank of America has drawn a direct parallel to 1999·2000: current equity valuations relative to gold echo the dot-com peak, when gold sat near a 20-year low of $252 an ounce in August 1999, at the height of tech-stock mania · the year before gold began its longest sustained bull run in modern history.

This year's decoupling looks like a regime signal, not a broken hedge

Gold did not fail as a hedge in 2026 · equities are running on a genuine earnings story, not a shared systemic shock that gold would normally track. The AI-capex-driven earnings growth discussed elsewhere in this series is real revenue and real margin expansion, which is a different kind of rally than the one gold typically responds to. That is also what made 1999·2000 comparable: the dot-com rally was, for a period, a genuine growth story too · right up until it wasn't.

What this means for allocators

The read-through here isn't "sell equities" or "buy gold" as a binary call. It's that a widening valuation gap during a concentrated, single-theme equity rally has historically marked the setup for a gold re-rating, not the endpoint of one. Allocators should treat the current gap as an active signal to monitor and rebalance against · not dismiss it as evidence that gold has simply lost its usefulness as a portfolio hedge.

If the current equity-to-gold valuation gap most closely resembles the setup right before gold's longest bull run in modern history, how much weight should that historical parallel carry against the real possibility that this AI-driven rally, unlike 2000, isn't a bubble at all?