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Gold miners are generating record margins and have built fortress balance sheets, yet trade at unstretched valuations. The market is starting to pay attention.

23 September 2025

In 2024 we set out our view that despite a secularly bullish outlook for gold, gold equity valuations were close to 40-year lows, adding that **“the sector could rally 50% and still look inexpensive”**.¹

Incoming interest has been picking up lately, and gold equities have been quietly booming. We say quietly because we don't see much in the way of hype from either investors or from the producers themselves. Recent interest can't mask the fact that gold funds² have seen net outflows of c.US\$5 billion over the past 18 months (not what we were expecting).

Naturally, investors who have not allocated to the space, or who have a core gold bullion position, but not a gold equity position, are asking whether they have missed the boat. Investors who already hold gold equities are contemplating whether the move is now over and it is time to sell.

Reviewing the data, we can't help but think we were too cautious in our views last year. Despite rallying substantially, more than 50% this year, gold equities do still look inexpensive from at least three main perspectives.

Perspective 1:

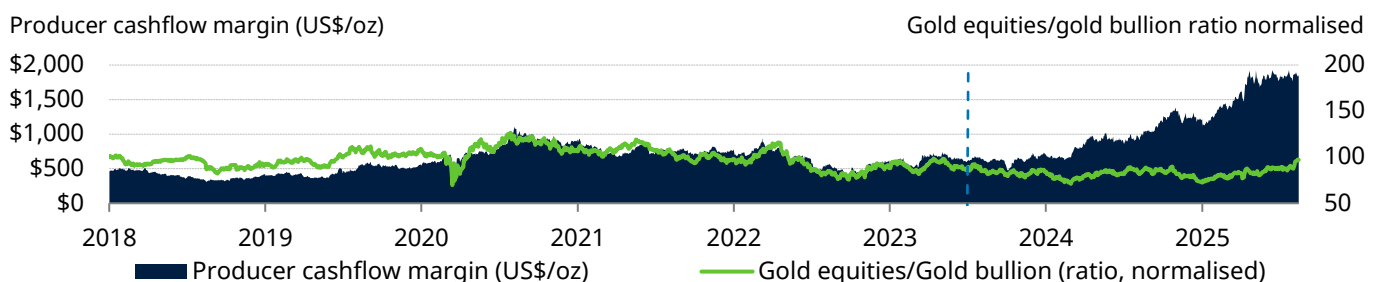
Gold equity performance remains badly dislocated from record cashflow margins (which continue to expand)

As chart 1 illustrates, and as logic would suggest, gold equities usually outperform gold in periods when cashflow margins are expanding, and underperform when margins are contracting. This is very clear in the 2018 to mid-2023 period.

Since late 2023 – the period beyond the blue line in the chart – producer cashflow margins have expanded to unprecedented levels as gold's bull market has gathered pace. Current US\$2,000/oz average AISC³ margins are close to 100% higher than the previous peak seen in the COVID summer of 2020.

The reason for that margin explosion is disarmingly simple. Gold is increasingly being priced as a pure monetary asset, or “non-debt money” to quote Ray Dalio, for very good long-cycle secular reasons (see the end of this article). Meanwhile, gold producer cost inflation – mainly a combination of energy, consumable and labour inputs – has slowed substantially from the high inflation seen in the 2021–2023 period.

Chart 1: Gold equities performance has not kept pace with cashflow margin expansion



Source: Bloomberg, company reports, Schroders – August 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

¹See [here](#).

²Based on our AUM tracking of the largest actively and passively managed gold equity vehicles.

³AISC = all-in-sustaining cost. Essentially cash operating costs plus sustaining capital.

The room for gold equities to outperform gold bullion remains substantial. Relative to gold bullion prices (the green line on the chart) gold equities would need to outperform by a further 30% to return to 2020 levels. Yet, as we pointed out, margins are double today what they were then (and additionally producer balance sheets are much stronger and returns to shareholders via buybacks and dividends higher).

If gold equities were to reflect current margins then they would rationally need to almost double vs. the gold price (and that is assuming gold prices do not rise further).

It must be stressed that producers are now delivering on a much more consistent basis than during 2020–2023. That period saw operators stressed by cost inflation caused by post COVID supply chain snarl-ups, a lack of labour mobility and the 2022 energy crisis.

In Q2 producers generated c.50% more free cash flow than consensus estimates expected just prior to reporting season beginning. Recent meetings with producers at the Denver gold show showcased management teams who remain extremely grounded and unwilling to chase either growth or higher prices (via lower cut-off grades for example). Realistic guidance, management discipline, and a strong macro backdrop for precious metal prices are having a transformative effect.

Perspective 2:

Unstretched valuations and fortress balance sheets

Margins are very elevated, but investors are rightly asking whether valuations are still reasonable given the move higher in absolute terms.

In our view, very much so. We look at a range of valuation and returns metrics within our investment process. These stretch from long-term discounted cashflow based metrics such as price to net asset value (P/NAV), to near-term earnings and cashflow metrics (EV/Ebitda, free cash flow yields), returns metrics like return on invested capital as well as development stage company-specific multiples such as EV/resource ounce.

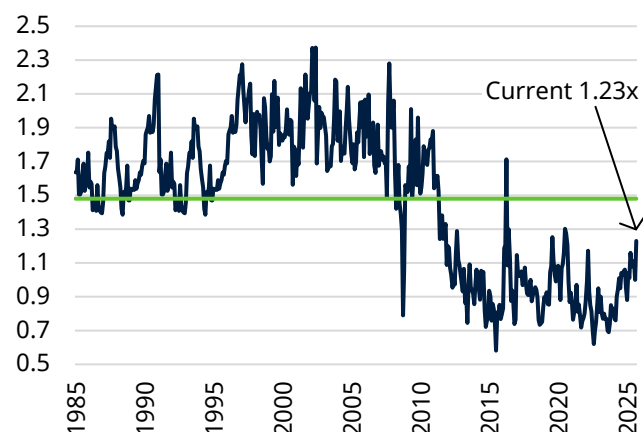
It would take many pages to review each one in detail but from our perspective valuations remain reasonable across all these metrics, even when running a gold price deck that remains meaningfully below spot prices (where consensus gold price forecasts remain).

We run through a couple of examples below:

On a long-run basis P/NAV valuations do not look stretched at all, as shown in the chart below. Most producers are pricing in gold prices significantly below spot (i.e. trading at a discount to NAV), with the mean skewed higher by royalty companies and a handful of more expensive producers.

Chart 2: P/NAV valuations are well below long-run average

Price/Net asset value (ratio)



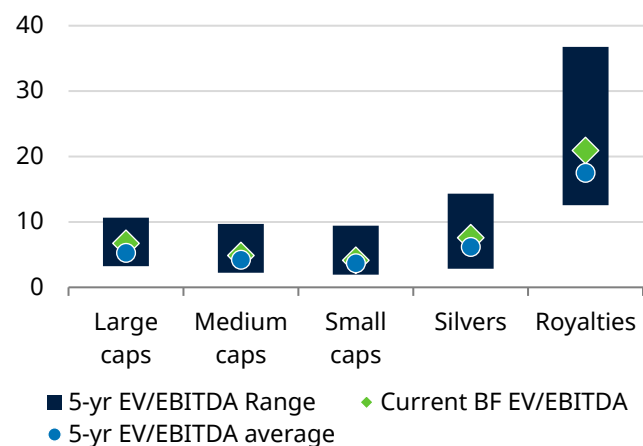
Source: Scotia – September 2025. NAV estimates calculated at Scotiabank gold price deck – currently using long term estimates of \$2,300/oz, significantly below spot. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

EV/Ebitda multiples also look far from stretched.

In aggregate, multiples are still towards the bottom of five-year ranges across the producer spectrum. The obvious question investors will have here is “what gold price do these valuations assume?”. The answer is consensus gold price forecasts which, while increasing, remain substantially below spot for 2026 and beyond.

Overall, increasing share prices are being largely offset by increasing earnings expectations as analysts are forced to increase their gold price forecasts while strong cashflow generation itself works to compress the net debt component of enterprise value.

Chart 3: EV/EBITDA multiples are still towards bottom of 5-year range across producer spectrum



Source: Bloomberg, Schroders – August 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

Enterprise value per ounce of resource (a simple but effective way of seeing the value being assigned by the market to each ounce in the ground held by pre-production explorers) is a metric that isn't driven by gold price forecasts. The picture here also shows a remarkable lack of exuberance given how strong the run in gold prices has been. Despite the bounce seen this year in EV/resource ounce valuations, at just US\$25/oz we are still far off from highs seen in previous cycles.

Chart 4: EV per ounce valuations are well below highs of previous cycles

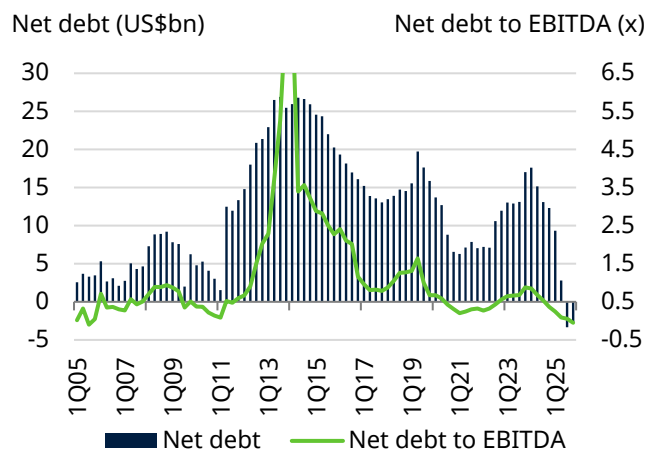
Enterprise value per ounce of resource (US\$/oz)



Source: Scotia – August 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

Yet, it is also worth pointing out that the rapidly accumulating 'fortress balance sheets' for many in the sector add a layer of financial resilience which hasn't previously existed at buoyant parts of the cycle – particularly in the period between 2008 to 2011. Given the sector's inherent risks we like the resilience that improved balance sheets are bringing. They also allow companies room to increase shareholder returns (dividends and buybacks) and reduce leverage, which has been evident in recent financial results.

Chart 5: Balance sheets are shifting from net debt to cash as high free cash flow supports deleveraging



Source: RBC, Schroders – August 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

Perspective 3:

No sign of 'mania' in the sector – in fact, quite the opposite

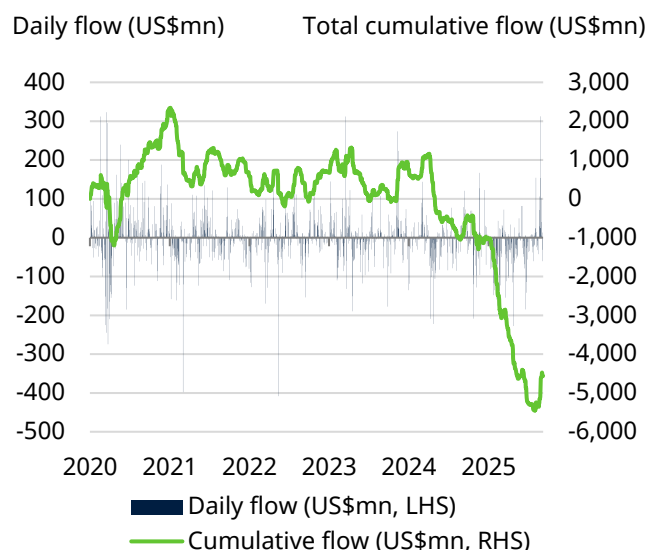
On aggregate, we still don't think western investors are broad 'believers' in gold. We are far from the 'blind faith' part of the cycle and we struggle to see any sign of mania type behaviour.

In fact, until very recently, the cumulative reaction from investors with positions in passive and active gold mining funds has been to 'sell the rally'. As the chart below shows, selling pressure has come in record volumes. Only very recently has interest begun to pick up.

Why is that? As we never tire of re-iterating, what we witnessed in gold since late 2022 until roughly the second quarter of this year has primarily been a bull market led by eastern central banks and – to a lesser extent – eastern households and investors. A marked lack of western participation also spilled over into a severe lack of interest in precious metal equities (hence the valuation dislocation and the yawning opportunity).

History also plays a part. Many investors remain scarred by the underperformance of gold stocks in the decade between 2005 and 2015. That scarring also stretches to gold producer management teams, which is why anyone expecting a rapid return to the 'growth at all costs' mentality that ultimately led to severe value destruction in the sector will be disappointed. There was certainly no sign of it in the dozens of meetings we had with producers in Denver recently.

Chart 6: Gold producer equity ETFs (cumulative flows 2020–present)



Source: Bloomberg, Schroders – 11 September 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell. Past Performance is not a guide to future performance and may not be repeated.

Given the fiscal and geopolitical factors that are the underlying drivers of this bull market, do we believe that this bull market can finish without seeing much more aggressive western participation? We really doubt it. And that, ultimately is why the opportunity is still very much alive.

The secular case for gold

Gold's transition from 'niche' investment talking point to real asset class in its own right remains relatively immature. In early 2024 we suggested cycle highs of US\$5,000/oz late this decade were perfectly plausible. The fuel that the 'MAGA' White House continues to pour on long-cycle thematics makes us think the peak could be much higher.

As many have pointed out to us recently, gold prices are now at both nominal and real inflation adjusted all-time highs. The narrative of how they got here is very familiar: beefed up central bank gold demand after G7 freezing of Russian FX assets in 2022 escalated dollar weaponisation to new levels, the emergence of Chinese household demand as China's onshore real estate malaise worsened, and recently the White House's trade war and increasing attacks on Federal Reserve independence.

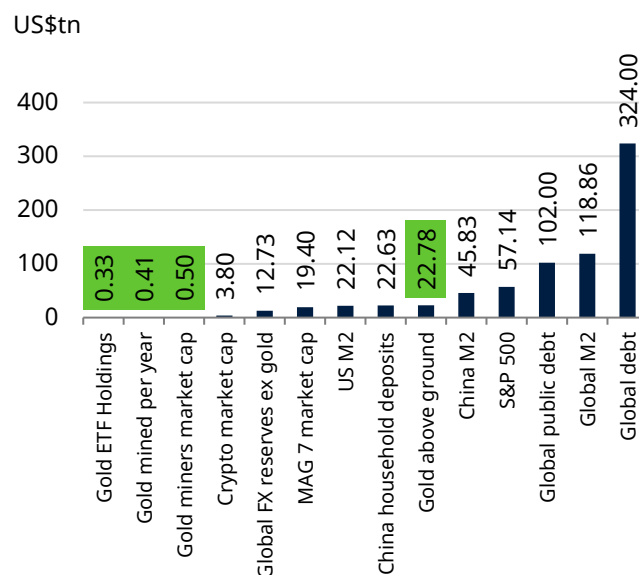
To us, these events, including President Trump's White House itself, are not isolated one-offs but symptoms of secular long-cycle fiscal and geopolitical trends that appear nowhere close to resolved. These are best summarised as fiscal fragility and a geopolitical new world order.

- **Fiscal fragility:** Unsustainable debt and deficit paths, largely driven by demographic trends and political paralysis in the face of them, are leading towards (some form) of fiscal dominance. That implies weakened central bank independence, higher inflation targets, further debt monetisation, and increasingly shaken confidence in the 'safe' nature of long duration sovereign bonds or indeed the existence of a 'risk free' asset at all
- **Geopolitical new world order:** A continued move away from Pax Americana unipolarity and the post WWII international order towards a multi-polar reality crystallising around US-China competition. A new Cold War, as Niall Ferguson has termed it, that will also bring a monetary multi-polarity to replace the 'dollar standard' of the post 1971 period

Should we be surprised if these secular trends lead to a global economic re-ordering on a par with Bretton Woods (b.1944, d.1971), to paraphrase Treasury Secretary Scott Bessant. Will investor faith in 60/40 allocations really sustain in a world where long-end bond yields ultimately need pinning down via central bank money printing (even if inflation stays above target)?

The point is that monetary demand for gold (a small US\$400 billion market) from various gargantuan pools of capital is, and will continue to be, stimulated by the uncertainty created by these trends. Those pools of capital include emerging market central bank reserve assets, household deposits (particularly in China and the Middle East), institutional investment capital (endowments, pension funds, family offices) as well as increasingly the 'cryptoverse'. Of those, only central bank demand has truly boomed, and even there the demand runway remains long.

Chart 7: Gold vs. money aggregates, savings and financial assets (US\$tn)



Source: Bloomberg, World Gold Council, Schroders – August 2025. For illustrative purposes only and should not be viewed as a recommendation to buy or sell.

Investment interest is only now beginning to really pick up. Current ETF holdings of gold are c.95Moz according to Bloomberg. The US\$380 billion of investment (at spot) it would take to move those holdings to 200Moz sounds large until you compare the gold market to broader global financial aggregates. A simultaneous global bid will require both much higher prices and significant further jewellery demand destruction to absorb.

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