

Safe havens in 2025? It's a complicated relationship

From the Field



Key Insights

- “Safe-haven” assets are evolving amid changing market dynamics, necessitating a rethink of the traditional relationships between asset classes.
- As the other side of the market regime shift comes into view, alpha opportunities could broaden across currencies, asset classes, and sectors.
- Investors should proactively manage multiple directions of risk while preserving liquidity to capitalize on emerging opportunities as appropriate.

Ritu Vohora, CFA
*Investment Specialist,
Capital Markets*

During times of market turmoil, investors regularly seek out assets like gold, U.S. Treasuries, and the dollar — so-called “safe-haven” assets that are expected to retain or increase in value during such periods. But in 2025, the relationship is complicated. One moment safe havens are acting like a source of security; the next, they’re betraying expectations.

The U.S. dollar has declined. Treasury yields have fluctuated widely and remain elevated. And gold has surged to record levels despite higher bond yields, defying typical correlations.

The traditional links between asset classes are weakening amid geopolitical realignments, fiscal and monetary policy actions, inflationary pressures, and a changing macroeconomic landscape.

Puzzled investors are wondering whether this is just a rough patch or something more.

Rather than trying to forecast how the behavior of safe havens will evolve, investors should step back and reconsider long-held assumptions about these assets. With a highly uncertain road ahead, diversification, risk management, and the ability to recognize genuine turning points in markets are as crucial as ever.

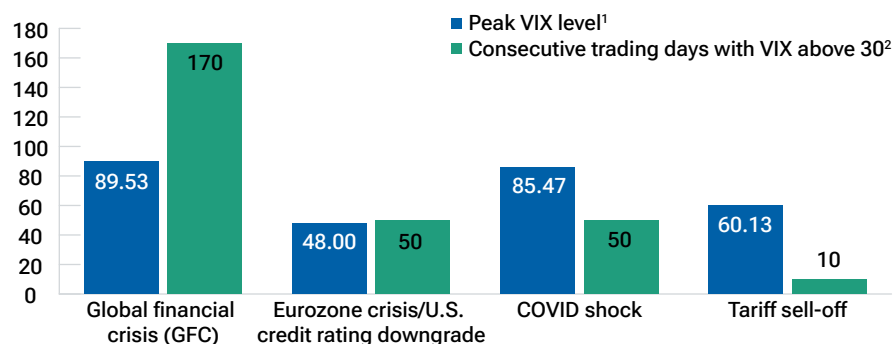
Putting things in perspective

While markets reacted strongly to tariff rollouts, selling activity in April remained relatively orderly. The S&P 500 Index ultimately finished the month little changed, and the CBOE Volatility Index (VIX)—a measure of expected volatility

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Cooling-off period

(Fig. 1) Notable spikes in the VIX and days until significant volatility subsided



Source: T. Rowe Price analysis of Chicago Board of Options Exchange (CBOE) data.

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Note: VIX levels above 30 are generally considered to represent heightened volatility.

¹ Peak levels amid the market events shown on the chart (from left to right) occurred on October 24, 2008, March 18, 2020, August 8, 2011, and April 7, 2025, and include intraday readings.

² Based on close-of-day levels.

in U.S. equities—stabilized relatively quickly compared with other periods of extreme volatility (Figure 1).

Lingering uncertainty around U.S. policy has weighed heavily on both consumer and corporate confidence, but parts of the global economy appear to be holding up. Based on April data, U.S. job growth has remained solid, global Purchasing Managers' Indices have softened but not yet posted meaningful declines, and the tightening of financial conditions has partially unwound.

Still, the risks of accelerating inflation and recession have increased, and the range of economic outcomes remains wide. What's more, tariffs and other policy shifts are reshaping the outlook for investing in both the U.S. economy and dollar assets. After a decadelong love affair with U.S. markets, simultaneous sell-offs in U.S. equities, bonds, and the dollar offer a rare signal of declining confidence in American leadership.

From a portfolio construction standpoint, investors should consider better aligning positioning by preparing for a range of scenarios and managing multiple

directions of risk. However, the changing behaviors of safe havens necessitate a rethink of risk-hedging opportunities.

Trust factor: safe havens behaving badly

Long duration Treasuries have been especially volatile. Supply/demand dynamics offer some explanation: The federal government has issued a whopping USD 2.3 trillion in new debt annually since 2020, while regulations have constrained bond dealers' balance sheets. This has worsened market liquidity and added to concerns over debt sustainability.

A protectionist impulse in the U.S. government has further dulled the appeal of Treasuries, with trade and immigration policies increasing the risk of stagflation. Meanwhile, political instability, including on-again, off-again threats to the Federal Reserve's independence, is raising questions about America's institutions. These structural changes suggest that while Treasuries still offer risk-hedging potential, they may not be as universally reliable as they were in the past.

Commitment issues: unshakable dollar being put to the test

For now, there are few challengers to the U.S. dollar as the world's reserve currency. However, erratic policies, trade tensions, and fiscal issues in Washington have caused some investors to question the long-term haven status of the dollar, one of the few assets that was consistently defensive through the post-GFC and post-pandemic periods, including 2022.

The waning perception of U.S. exceptionalism has led to an increased favoring of other developed market currencies, such as the Swiss franc, the euro, and the Japanese yen.

A rocky relationship: managing multiple risks

Further complicating the use of traditional safe havens, investors now need to manage multiple directions of

risk from high inflation, stagflation, low growth (or recession), and changing market leadership.

Short-dated U.S. Treasuries are still the best diversifier for growth risks but are not as effective in an inflationary shock—a particularly relevant concern as inflation looks set to be a clingy partner and may even increase in the coming months. Short-term inflation protected Treasuries should provide a cost-effective

Risk-hedging opportunities

(Fig. 2) Potential benefits and considerations by asset class

Potential use case	Asset class	Considerations
Recession/growth shock	U.S. Treasuries	<ul style="list-style-type: none"> • Less effective in inflationary periods • Short duration Treasuries more attractive
	German bunds	<ul style="list-style-type: none"> • Increasingly attractive versus U.S. Treasuries • Supply expected to rise on fiscal stimulus
	Defensive equity sectors	<ul style="list-style-type: none"> • Utilities, staples, health care • Idiosyncratic factors make fundamental research and bottom-up stock picking essential
Inflation	Inflation protected government securities	<ul style="list-style-type: none"> • Consider currency hedging • Valuations versus nominal counterparts should be monitored closely
	Gold	<ul style="list-style-type: none"> • Inflation hedge, store of value, tangible asset • Fees/storage costs and presently high valuations
	Cash/money market funds	<ul style="list-style-type: none"> • Provide still-attractive yields and optionality • Opportunity cost and central bank rate cuts
Added diversification	Alternative assets	<ul style="list-style-type: none"> • Can offer compelling risk-adjusted returns • Often illiquid and can be speculative (high risk)
	Hedged equity strategies	<ul style="list-style-type: none"> • Low volatility stocks, option strategies can mitigate downside risk • Cost considerations vital

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Diversification cannot assure a profit or protect against loss in a declining market.

hedge, as should real assets and companies with pricing power.

What other assets might investors want to consider?

Cash remains a defensive asset class and is far more attractive today than it was in the zero interest rate environment of several years ago. Yet, investors should remain mindful of the opportunity cost associated with holding cash. Staying invested has paid over the long term; waiting for the perfect market entry is nearly impossible and can mean forfeiting valuable gains.

Among equities, market broadening has been a core theme of 2025 (Figure 3) and appears likely to continue in the near term, underscoring the importance of diversification across investment styles, market capitalizations, and geographies.

In a traditional growth shock, defensive sectors like consumer staples, health care, and utilities have tended to outperform the broader market. Health care offers promising opportunities due to secular tailwinds from an aging population and radical innovations. However, regulatory issues and the risk of tariffs in areas like pharmaceuticals mean that strong fundamental analysis of individual companies is essential to navigating the sector.

Elsewhere, alternative investments such as cryptocurrencies, private assets, art, and fine wine are gaining traction as investors seek diversification. While the objective of some may be to provide attractive risk-adjusted returns for

Value and international outperformance

(Fig. 3) Total returns in U.S. dollar terms over the year-to-date period ended April 30, 2025

Russell 1000 Growth Index	-8.37%
Russell 1000 Value Index	-0.98
S&P 500 Index	-4.92
MSCI All Country World Index ex USA	9.25
MSCI Europe Index	15.65

Past performance is not a guarantee or a reliable indicator of future results.

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long-term investors, these assets can be speculative and/or illiquid.

Opportunity on the other side

Although recent headlines suggest that global trade tensions are easing, and market sentiment has responded positively, there is still no clear evidence of a permanent resolution. Additionally, the timing and scope of potential monetary and fiscal stimulus in the U.S., such as Federal Reserve rate cuts and an extension of the 2017 Tax Cuts and Jobs Act, remain uncertain.

But the macro instability will eventually pass, and successful investors will be the ones able to look past rocky moments and navigate genuine turning points along the way. As the other side of the market regime shift comes into view, alpha opportunities could broaden across currencies, asset classes, and sectors due to greater dispersion and idiosyncratic risks.

Emerging markets (EM) are one area that could be particularly ripe for active investors.

EM currencies are already considered cheap versus the greenback, and a structural downtrend in the dollar could give EM central banks more latitude to cut rates, providing an additional tailwind. However, any reorientation of global supply chains in response to tariffs will produce winners and losers in EM equities and bonds. Moreover, the White House has indicated that it will step up scrutiny over foreign exchange rates, potentially adding currency appreciation to its arsenal of tariff measures. These variables make fundamental research and a risk-aware approach paramount.

Avoiding heartbreak

The shifts in safe havens necessitate a reevaluation of asset class relationships. In this increasingly complicated environment, investors who are risk-aware, focused on their long-term goals, and understand market volatility as opportunity should be best equipped for the journey ahead.

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Definitions

Alpha is the excess return of an investment relative to its benchmark.

Alternative investments are typically speculative investments that involve more aggressive investment strategies. In addition, alternative investments may be illiquid, difficult to value, and are typically not subject to the same regulatory requirements as traditional investments. These factors may increase an investment's liquidity risks and risk of loss.

Correlation measures how one asset class, style, or individual group may be related to another. A perfect positive correlation means that the correlation coefficient is exactly 1. This implies that as one security moves, either up or down, the other security moves in lockstep, in the same direction. A perfect negative correlation means that two assets move in opposite directions, while a zero correlation implies no relationship at all.

Duration measures a bond's sensitivity to changes in interest rates.

Treasuries are backed by the full faith and credit of the U.S. government, but no investment involves zero risk.

For additional definitions of financial terms, refer to our glossary at www.troweprice.com/glossary

Investment Risks

Fixed income securities are subject to credit risk, liquidity risk, call risk, and interest-rate risk. As interest rates rise, bond prices generally fall.

Treasuries are backed by the full faith and credit of the U.S. government, but no investment involves zero risk and they are subject to interest rate risk. In periods of no or low inflation, other types of bonds, such as US Treasury Bonds, may perform better than **Treasury Inflation Protected Securities**.

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