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Debasement Trade: Gold, Bitcoin and the new financial architecture

The global monetary order is coming under mounting structural pressure. Persistent monetary expansion, elevated fiscal deficits, and increasing political influence over assets are shaping an environment in which scarce, value-preserving and largely counterparty-independent assets are gaining relevance.

The debasement trade is frequently framed as a response to expanding fiat money supply and the gradual loss of purchasing power in sovereign currencies. This interpretation understates the scope of the current shift. Recent allocation patterns point less to tactical positioning and more to a structural reassessment within a financial system under growing strain.

As monetary conditions deteriorate, focus shifts toward counterparty exposure, debt sustainability, and the credibility of financial intermediaries. The debasement trade has thus evolved into a broader search for assets capable of preserving value with minimal reliance on political discretion or system-wide fragilities.

We analyse this transition through three interrelated drivers: persistent monetary expansion alongside rising leverage, the concentration of counterparty risk embedded in complex financial architectures, and the expanding role of geopolitical intervention in established ownership and reserve frameworks.

1. Monetary expansion and currency debasement

Gold and silver moved sharply into focus in 2025, delivering performance well above their long-term averages. Historically, such moves have tended to coincide with periods of rising systemic stress.

Since the global financial crisis of 2008, monetary policy across major economies has followed a recurring pattern: sustained liquidity expansion aimed at stabilising the financial system and accommodating structurally rising public expenditure. This approach has resulted in an unprecedented accumulation of debt. Across the core reserve-currency jurisdictions, public balance sheets are increasingly stretched. Global government debt stands at approximately 94.7 percent of world GDP. The United States, issuer of the world's primary reserve currency, is approaching a public debt ratio of 120 percent of GDP in 2025, while key European sovereigns remain deeply leveraged, with France exceeding 110 percent and Italy around 135 percent. Japan, which has long operated at the extreme end of fiscal expansion, stands at close to 230 percent of GDP.

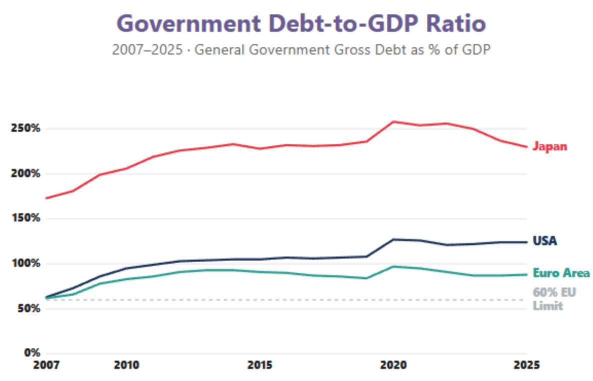

Chart: DAS | Sources: IMF, Eurostat

This configuration is not sustainable. The point at which fiscal stability could be restored through real

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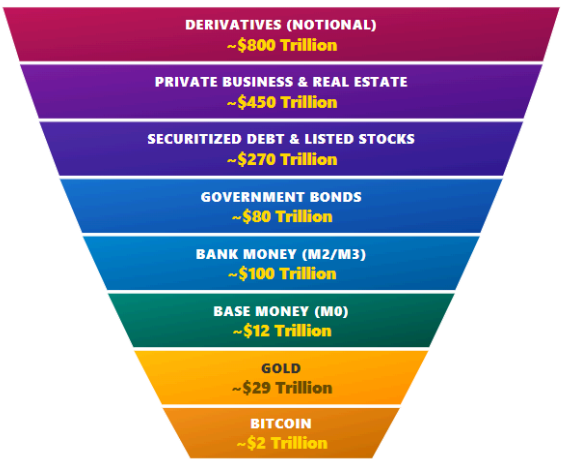
economic growth and rising tax revenues has already been passed. The system is effectively sustained through continuous monetary expansion. Global money supply (M2) has increased from USD 26 trillion in 2000 to USD 142 trillion today, a more than fivefold rise over 25 years, equivalent to an average annual growth rate of around 7 percent. This trajectory reinforces the persistence of negative real rates and reflects a structural path of monetary expansion and ongoing currency debasement that is increasingly difficult, if not impossible, to reverse.

2. Counterparty risk in complex financial structures

Past financial crises have repeatedly demonstrated how deeply interconnected the global financial system has become. During periods of stress, systemically important banks are supported across jurisdictions, while investors often absorb a significant share of the losses. The principle of "too big to fail" has preserved short-term stability, but it has also shifted risk and introduced new structural vulnerabilities.

An increasing share of these exposures now sits outside traditional bank balance sheets. Shadow banking structures, derivatives markets, and the private equity and private credit segments concentrate risk in areas characterised by limited transparency, constrained liquidity, and regulatory gaps, amplifying systemic fragility.



DAS Exter Pyramid / Data rounded from IMF, WGC, JPMC

The inverted financial pyramid highlights the core counterparty risk embedded in the modern financial system. The majority of today's asset universe consists of layered claims, derivatives, and money-like instruments whose nominal volume exceeds the underlying real base by a wide margin. At the same time, global debt continues to expand faster than economic output, deepening the imbalance and further increasing systemic fragility.

In a stress scenario, a collective attempt to convert paper claims into hard assets would inevitably collide with the narrowness of the real base. Against this backdrop, direct and unencumbered ownership gains strategic relevance. Physical assets and Bitcoin offer a structural advantage in this context. They sit outside the counterparty cascade, operate without reliance on intermediaries, and are therefore insulated from default risk within the financial system.

3. Geopolitics reshapes the reserve order

Geopolitical developments in recent years have turned what was long considered a theoretical risk into a practical reality. Sovereign reserves are increasingly being used as instruments of geopolitical pressure. The freezing of more than USD 300 billion in Russian central bank reserves by Western countries in 2022 marked a decisive turning point. For the first time in decades, state reserves were rendered effectively inaccessible at scale, establishing a precedent that was closely observed internationally.

This episode triggered shifts in reserve allocation. A number of central banks reduced their holdings of US Treasuries while increasing gold reserves. As a result, a factor that had long played a secondary role in portfolio and reserve construction moved to the forefront: the censorship resistance of assets, meaning the extent to which ownership can be constrained by political or institutional action in times of stress. Physical gold has traditionally met this criterion. Bitcoin, as a digital and scarce asset, exhibits comparable characteristics and is likely to gain further relevance as a censorship-resistant store of value.

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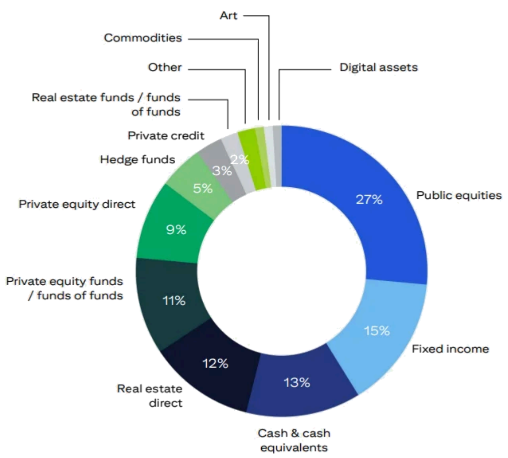
The end of monetary policy optionality

The drivers outlined above do not operate in isolation. They reinforce one another and steadily narrow policy flexibility. Central banks face limited room for manoeuvre. In the event of an economic slowdown, monetary easing is likely to be not only the preferred response, but effectively unavoidable. At the same time, geopolitical realignment continues. Should initiatives within the BRICS framework evolve into a commodity-linked settlement unit, this would mark a tectonic shift. For the first time since 1971, an alternative anchored in real assets would emerge, increasing competitive pressure on unbacked fiat currencies.

The allocation dilemma facing investors

For professional investors, this environment creates a structural dilemma. Hard assets remain structurally underweighted across portfolios. This is evident, for example, in the Citi Global Family Office Report 2025, where commodities and digital assets each account for around 1 percent of allocations, while digital assets play no meaningful role for two thirds of respondents. The long-standing focus on yield-generating assets, particularly among institutional investors, is becoming increasingly risk-intensive amid negative real rates and rising systemic uncertainty. At the same time, the policy response to the next downturn is likely to rely once again on liquidity provision, further accelerating debasement dynamics. This implies substantial catch-up potential for hard assets.



Global Asset Allocation of Family Offices, 2025 | Source: Citi Global Family Office Report

A digital response to systemic fragility

Bitcoin is built for such an environment. Its capped supply and structurally disinflationary issuance curve stand in direct contrast to the monetary expansion of sovereign currencies. The concept alone, however, would be ineffective without adoption. This is where recent developments are decisive. Regulation, exchange-traded products, institutional custody, and rising network strength have allowed Bitcoin to mature from a theoretical construct into a functioning value-transfer system. Its digital form enables rapid transfer and storage regardless of volume, characteristics that give Bitcoin clear advantages over physical gold. Its shared feature of censorship resistance further elevates its strategic relevance. Initial holdings in national reserves and the ongoing debate around Bitcoin as a reserve asset suggest that this evolution remains at an early stage.

Beyond Bitcoin, blockchain infrastructure addresses key weaknesses of the traditional financial system. Ownership becomes technically verifiable, processes more transparent, and settlement faster. As regulatory clarity improves, stablecoins and tokenised assets are likely to strengthen the link between digital finance and the real economy.

The question is no longer whether the financial architecture will change, but how fast - and who is positioned.

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