

Analyzing the Reasons for the Sustained Growth of the Market Through the Continuous Growth of the Gold Market

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Abstract: The Gold Market plays a dominant role in the world economic and has significant impact on financial stability worldwide. Therefore, this paper focuses on investigating the underlying reasons for the sustained growth in gold prices and continuous expansion of the gold market using a literature analysis approach. The trends of the Gold Market are affected by the overall market, inflation, economic cycle as well as the inherent properties of gold. Market growth is influenced by internal factors, including profit growth, dividend reinvestment, asset reallocation, and the international environment. Besides, it is also influenced by external factors, such as inflation, technological advancements and shifts in productivity.

Keywords: Market Growth, Gold Market, World economics, Market Expansion

1. Introduction

In recent days, the fluctuations in the gold prices have become a widely discussed topic. Despite short-term volatility, gold prices have demonstrated an overall sustained upward trend. Similarly, studies of other commodity markets reveal that most markets have upward trends. However, market growth is always taken as granted and there is less exploration into the reasons causing the phenomenon happened. This article analyzes the topic through three parts, Current State of Gold Price Trends, Direct Drivers of Sustained Market Growth: Internal Factors as well as Indirect Drivers of Sustained Market Growth: External Factors. Using a literature analysis approach, this study seeks to provide a theoretical foundation for understanding gold price dynamics and broader market trends.

2. Current state of gold price trends

2.1. External factors

2.1.1. Market dynamics

Under normal circumstances, market performances has an inverse relationship with the gold prices. When markets thrive, investors allocate more capital to equities and less to gold, and vice versa. However, frequent geopolitical conflicts in recent years such as wars and other global uncertainties cause the market volatility, driving more investors to purchase gold to hedge against risks [1].

2.1.2. Inflation

Gold is widely regarded as an effective hedge against inflation risks. Gold price movements normally has the similar trends as the inflation rate trends. When inflation occurs, gold price increases may lag behind other commodities in short terms. However, in the long term, it may increases considerably and even exceeding the inflation rate to achieve value preservation. Additionally, during inflationary periods, diminished purchasing power for other merchandises may motivate individuals to allocate more assets to purchase gold. With increasing global trade interdependence, inflationary pressures have become more frequent, further boosting gold demand and driving prices appreciation [2].

2.1.3. Economic cycles (Merrill Lynch Investment Clock Model)

The Merrill Lynch Investment Clock Model categorizes economic cycles into four phases: Recovery, Overheating, Stagflation, and Recession.

In the Recovery phase, accelerating GDP growth and improving economic conditions lead to declining gold prices.

In the Overheating phase, as economic growth slows and inflation rises, investors seek gold as a hedge against inflation, increasing its demand and driving up prices.

In the Stagflation phase, economic stagnates, coupled with high inflation rate, enhances gold's purchasing power.. For instance, the oil crisis in the 1970s, the price of gold increased more than ten times.

In the Recession phase, slowing GDP and decreasing the inflation rate as well as the gold prices. During the financial crisis in 2008, the price of gold dropped initially but increased later due to the demand of safe-haven.

2.2. Internal factors

2.2.1. Non-renewable nature

As a naturally non-renewable metal, gold is scarce. Beyond its traditional role in jewelry, gold is also a key asset for physical investment. In 2024, the demand amount of gold reached 4974 tons and the supply quantities increased by 1% year-on-year, both setting historical records [3]. However, the total global gold reserves are limited. As easily accessible gold deposits become deplete, new mining operations require deeper excavation, driving production costs from \$200 per ounce in 2000 to more than \$1,200 per ounce today, providing a solid foundation of the increase of the gold prices.

2.2.2. Diversified applications

Gold has a broad range of applications beyond jewelry and investment. For example, in the electronic industry area, gold is widely used for manufacturing high-end components due to its conductivity and corrosion resistance. Additionally, in the healthcare area, the demand of gold in dentistry, orthopedics and cancer therapies expand continuously. These diversified applications amplify gold's intrinsic value and price resilience.

2.2.3. Growing demand amid limited supply

Gold investment demand has sustained growth, but the supply of gold haven't demonstrate a significant increase trend. From 2018 to 2022, global gold output has experienced a continuous decline. With supply growth lagging behind escalating demand, the market faces persistent supply shortages, pushing the gold price go up.

3. Direct drivers of sustained market growth: internal factors

3.1. Profit growth

Corporate profitability forms the foundation of the market growth. Companies enhance profits by improving efficiency, fostering innovation and expanding market scale. The profit growth of corporate directly pushes the value of stock market growth. For example, data from S&P 500 constituents reveal that a 1% increase in earnings per share (EPS) between 2010 and 2020 correlated with an average 2.3% rise in stock prices [4]. Apple's net profit grew by 8% in 2023, triggering a 5.2% surge in its market capitalization on the earnings release date, demonstrating the market's immediate responsiveness to profit performance. However, sustained profit growth does not guarantee constant market expansion. Excessive optimism may fuel irrational exuberance. For instance, during Japan's 1980s-1990s bubble economy, corporate profits grew for eight consecutive years, but excessively high price-to-book ratios ultimately led to a 60% collapse in the Nikkei Index, severely affecting the market [5].

3.2. Dividend reinvestment & capital reallocation

Dividend reinvestment is an essential mechanism for value creation in the markets, dividend reinvestment ranks as the second largest source of investor returns. Companies distribute a portion of profits to shareholders through dividends, which are reinvested to compound returns later. This process can not only leverage the power of compounding but also reduce cash flow pressures and diminish the reliance on external financing. In general, mature companies typically pay dividends, while non-dividend paying firms often prioritize reinvesting capital into rapid growth initiatives.

Capital relocation is through the dividend-driven capital reallocation outweighing the foundational return generated by companies themselves. Capital relocation can relocate the underutilized capitals to firms with higher growth potential, reinvested dividends enhance overall portfolio returns. When shareholders reinvest dividends, a portion flows into faster-growing enterprises, optimizing resource allocation across the market.

3.3. International environment

Globalization has significantly accelerated market growth by facilitating international trade and increasing cross-border investment opportunities. Enhanced global supply chains allow bulk commodities to be efficiently transported via air or sea, expanding their accessibility to international markets and fueling market expansion.

The existence of national policies like tariffs and currency exchange rates, inflates commodity prices, directly stimulating market expansion. Concurrently, globalization has diversified financial derivatives and exploited time zone and information discrepancies between nations, creating arbitrage opportunities. These factors attract more participants, boosting trading volumes and further accelerating market growth.

4. Indirect drivers of sustained market growth: external factors

4.1. Inflation

Inflation, in simple terms, means that the money becomes less valuable. A product that once cost \$10 may now require more than \$10 due to inflation. Fundamentally, inflation occurs when demand exceeds supply. Moderate inflation can stimulate consumption, boost economic activity and alleviate future debt burdens. It also cultivates the productivity-driven innovation, higher costs push firms to adopt more efficient production methods, increasing profits and attracting competitors. However,

heightened competition can eventually squeeze profit margins, prompting firms to exit or innovate further, creating a cyclical dynamic [6].

To stabilize inflation, banks employ monetary policy tools. For example, Central banks control the inflation threshold through interest rate tools. The Federal Reserve's Average Inflation Targeting (AIT) framework permitted short-term overshooting while anchoring long-term expectations. This policy contributed to a rise in US corporate R&D intensity from 2.5% (2008) to 3.1% (2022) [7]. However, hyperinflation, like Argentina's 211% inflation in 2023, distorts price signals, necessitating aggressive interest rate hikes to restore market equilibrium [8].

4.2. Technological advancements

Rapid technological advancements in data science, artificial intelligence (AI), and automation have revolutionized multiple industries, significantly enhancing market efficiency and growth.

Data science dramatically enhance the productivity. According to McKinsey's estimation, AI technology can boost manufacturing labor productivity by 20% - 35%. Tesla's Shanghai Gigafactory, leveraging industrial robots, reduced Model 3 production time per vehicle from 30 to 15 hours, enhancing the annual capacity to 1.1 million vehicles. Besides, from 2010 to 2020, 63% of U.S. total factor productivity (TFP) growth stemmed from the contribution of digital technologies [9].

Big data development has helped the market to collect and sort vast datasets, optimizing market structures to achieve a win-win outcome, which both reached consumers' demands and maximized the investors' returns.

Advanced digital models empower investors to forecast market trends with greater accuracy, enabling strategic investments that drive market expansion.

4.3. Productivity

Productivity is the fundamental force of pushing the growth of the market. The growth of the population directly drives the growth of the market. At the same time, population growth will also bring about more productive forces which plays a significant role in improving the economics. Improved productivity enables the creation of greater value with equal or fewer inputs. Historically, traditional productivity relied on three pillars: sufficiently leveraging demographic dividends, capitalizing on land resources, and adopting imitative technologies to propel economic growth and structural transformation. However, China's traditional productivity currently faces three critical constraints that hinder its alignment with market development needs:

(1) Closure of the Demographic Dividend Window: The total population has experienced consecutive negative growth since 2022, with the 16-year old to 59-year old working-age people declining to 62.0% of the population (National Bureau of Statistics, 2023).

(2) Human Capital Quality Disconnect: Despite a gross enrollment rate in higher education rising to 59.6%, the skills mismatch rate remains at 34% (Ministry of Education, 2023).

(3) Declining Marginal Returns on Land: GDP output growth per unit of developed land slowed from 8.7% in 2010 to 3.1% in 2022 (Ministry of Natural Resources, 2023).

With the progress in technology and social transformation, new-quality productivity emerged and became popular. These forces represent a more efficient paradigm that organically integrates technological innovation with traditional productive systems. By elevating labor productivity, intensifying market competition, and holistically optimizing resource allocation efficiency, these factors collectively drive systemic improvements across economic frameworks. The application of new technologies like data science, artificial intelligence has highly replaced human labor, optimized resource rationality, enhanced production efficiency, reduced labor costs, and propelled market development. However, new-quality productive forces also has certain limitations. The rapid pace of

technological advancement enables AI to displace large segments of the workforce, leading to widespread job losses and imposing substantial social pressures.

Therefore, it is necessary to pursue an optimized integration and coordinated development of new-quality and traditional productive forces. Traditional productivity should undergo transformation and upgrading. Simultaneously, institutional reforms corresponded to traditional systems should be gradually implemented to harmonize their evolution with new-quality forces. This synergy ensures balanced progress, mitigates societal disruptions, and sustains market growth [10,11].

5. Conclusion

The gold price leaps results from the combination of these factors. The internal factors interact each others, which brings about the unique role of the gold in the financial system. Meanwhile, external factors directly push the gold price in a high point and sustain its long-term growth.

More broadly, market growth is driven by both direct and indirect forces. Internal factors, including profit growth, dividend reinvestment, capital reallocation, and the international environment, contribute to the expansion of financial markets. Meanwhile, external factors such as inflation, technological advancements, and shifts in productivity create a dynamic economic landscape that further accelerates market growth. This study is market-centric, focusing primarily on economic and financial determinants. Future research could broaden the scope to incorporate a more comprehensive examination of additional variables influencing market growth.

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