

What is gold trying to say?

Gold Rally



Rally in Gold is anticipating an inflationary surge

Elevated global uncertainties will prevent steep reversal in gold prices in near term

Divergence between movement in USD and gold at unsustainable levels

Gold Rally

What is gold trying to say?

The stellar outperformance in gold is on the back of sustained buying by central banks since 2022, structural shift away from US treasuries, and ETF flows in 2025. Global uncertainties remain elevated and, considering that the rally in gold lasts for multiple years, a steep reversal is unlikely in the near term. Based on our assessment, it is clear that the rally in gold is in anticipation of a global surge in inflation in the upcoming 2 years, even as central banks and markets are uncertain of the inflationary impact of tariffs, which is the biggest risk factor. The divergence between gold and the US Dollar index is at unsustainable levels currently, which, based on past trends, could lead to a moderation in gold prices while the USD strengthens. However, we believe that expectations of an accelerated rate cut cycle in the US do not warrant a strengthening bias in the USD. We observed that in the last eight cycles, a trough in the Nifty/gold ratio was followed by positive gains in equity in the 12 months that followed. The sharp rise in gold as % of reserves in past crises reflects the RBI's proactive attempts to cushion the economy from external shocks.

- **Steep rally supported by global uncertainty:** Gold, being considered as a non-productive asset, has returned ~8% annualised returns over the last 5 decades. And with trading volumes of USD 329bn/day during 1HCY25, the gold market is more liquid than major financial markets and at par with US treasuries. Historical data indicates that the rally in gold sustains for multiple years. Although the current rally is steeper vs. the last two, we assess that the macro-economic situation is fluid currently and far from normal, which will support gold prices or prevent a steep reversal in the near term.
- **Demand drivers in this rally: Central banks and ETF flows:** Our assessment reveals that the rally in gold was mainly fuelled by central bank demand (17% of total demand) since Oct'22 even as the US Fed had already commenced its hiking cycle with 300bps till then and inflationary pressure had abated from its peak. While central bank buying was in response to heightened global uncertainty, the steep rally in 2025 coincided with strong ETF flows from North America and Asia.
- **What is gold trying to say?** We believe that gold acts as a lead indicator of the global inflation trajectory. Our assessment indicates that the correlation between the movement in gold prices and inflation has been strong post 2014, and based on this relationship the rally in gold is anticipating a surge in inflation in the upcoming 21 months. The US President's recent indication of stimulus checks worth USD 2,000 will add to the debt burden in addition to being inflationary in nature. However, even as central banks are uncertain of the impact of tariffs on inflation, the markets are factoring in a benign inflation trajectory. This, we believe, is the biggest risk factor for the markets.
- **Divergence between gold and USD unsustainable:** We observed that the long-term trend between the USD and gold has diverged to unsustainable levels based on past trends. Based on this relationship, the price of gold is expected to moderate and the US Dollar index is likely to strengthen going forward. However, markets are building in an accelerated rate cut cycle by the Fed, mainly to address the growth challenges in the economy. And, in such a scenario, the US Dollar index is unlikely to reflect a strengthening bias in the near term, while the price of gold will depend on demand from central banks and ETF flows, which remains strong currently.
- **Rally in gold followed by positive return in domestic risk assets:** During past crises, the Reserve Bank of India (RBI) raised the share of gold in total reserves. However, a closer look reveals that it was due to the combination of an increase in gold holding and reduced forex exposure that was being carried out to cushion the economy from external shocks. Our analysis of the relationship between domestic risk assets vs. gold indicates that the trough in the Nifty/gold ratio is followed by positive returns in equities in the subsequent 12 months.



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Key Highlights:

- Rally in gold lasts for multiple years; current one is comparatively steeper
- Lack of signs of resolution of global uncertainty will prevent a steep reversal in gold prices in the near term
- The movement in gold reflects the expectation of a surge in inflation, while central banks are uncertain of the inflationary impact of tariffs.
- Domestic equity gained after a trough in Nifty/gold ratio in the past.

dJM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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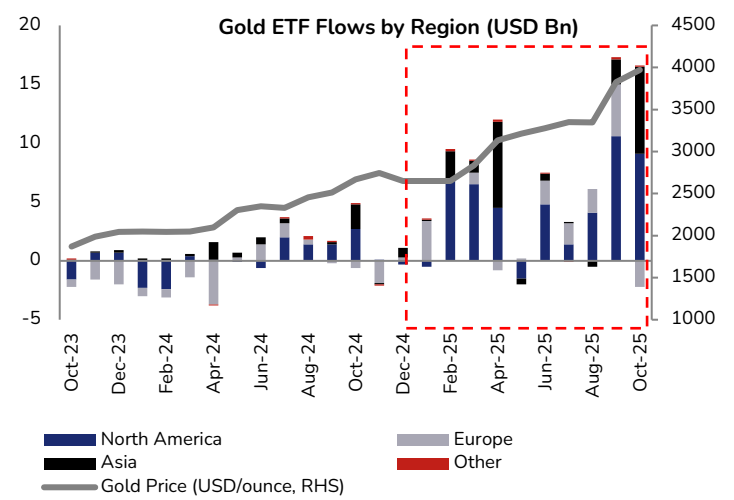
Story in Charts

Exhibit 1. Gold's rally coincided with central bank buying since 2022



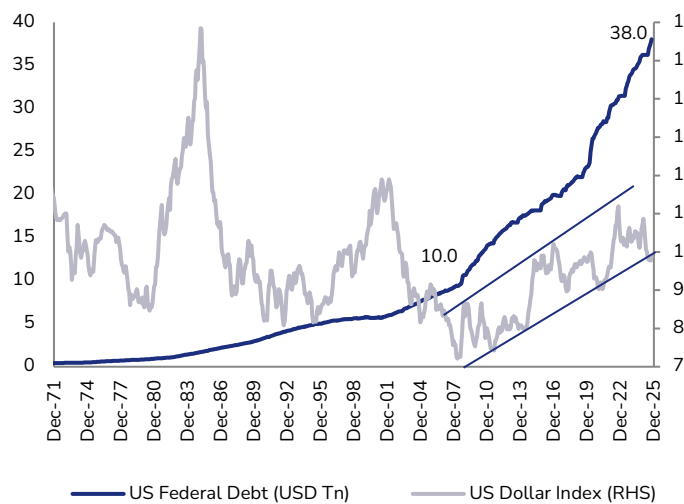
Source: CMIE, JM Financial | shaded area represents increased gold purchases by central banks

Exhibit 2. Concerns around US debt, independence of US Fed increased ETF demand in 2025



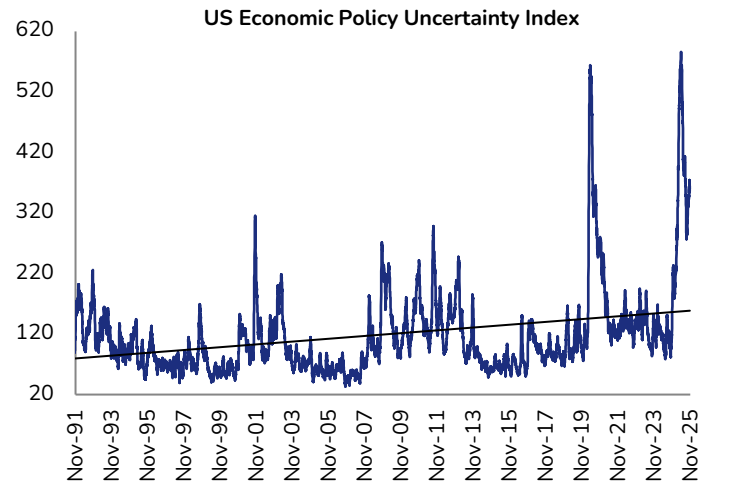
Source: World Gold Council, JM Financial

Exhibit 3. USD strengthened post GFC even as US Federal debt rose



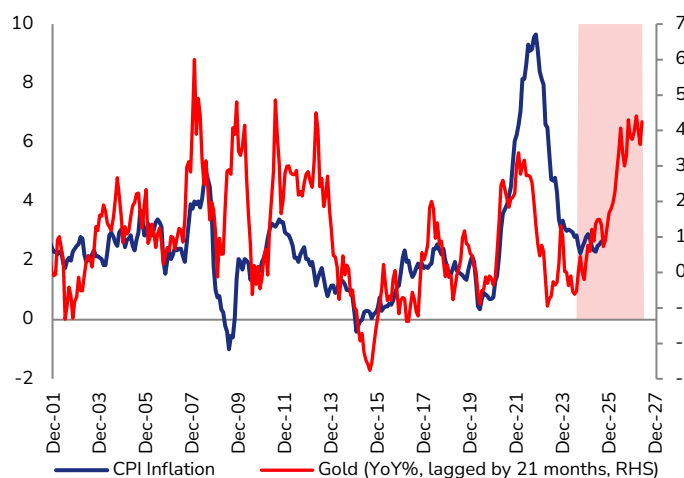
Source: CEIC, JM Financial

Exhibit 4. US policy uncertainty moderates but still at elevated levels



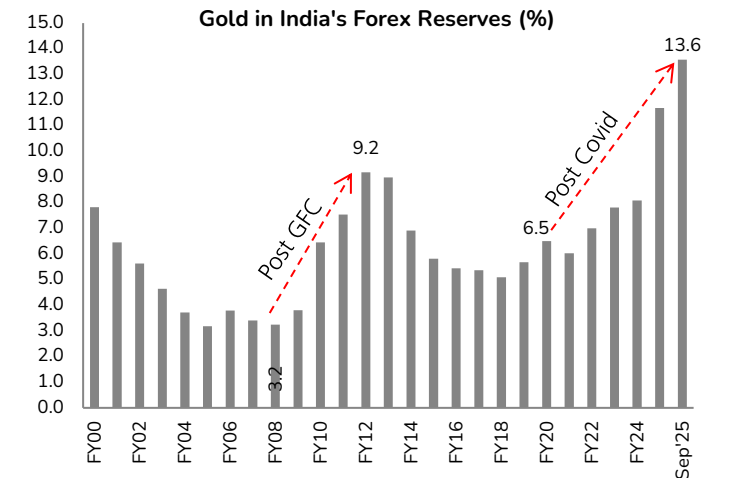
Source: CEIC, JM Financial

Exhibit 5. Gold indicating inflationary pressures ahead



Source: CEIC, JM Financial | Average CPI inflation in US and EU considered

Exhibit 6. RBI increased gold's share in reserves during crisis periods

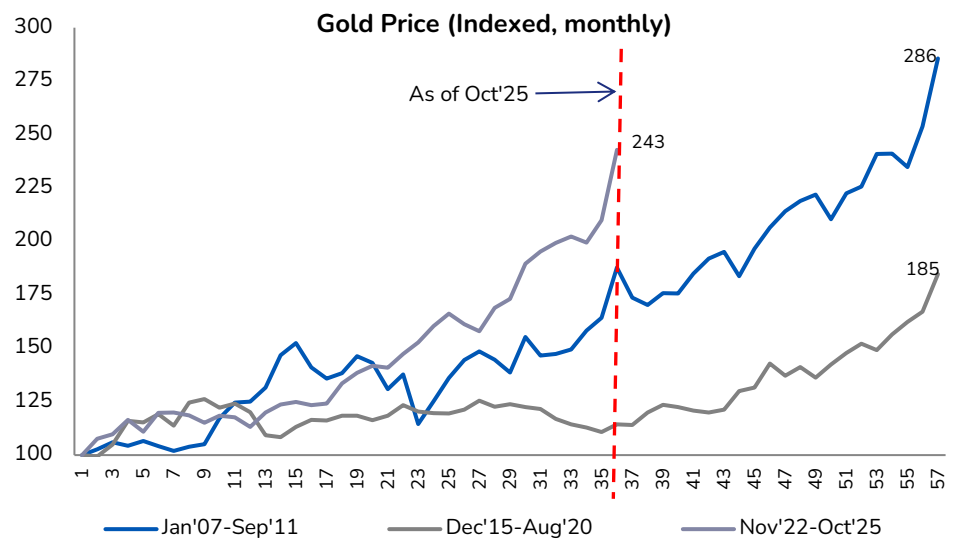


Source: CMIE, JM Financial

Does the recent gold rally have more legs?

Gold outperformed major asset classes in the last 1 year. The outperformance in gold accelerated from the start of 2025, when Donald Trump took charge as the US President. Uncertainty around trade policy and the expectations of tariff-led inflationary pressures in the US led to a shift in investor preference away from US treasuries and the US dollar in favour of gold. However, a closer look reveals that global central banks substantially increased gold buying at the pace of 1,000 tonnes per annum since 3QCY22, which sustained for 3 years (Ex 10). The gold rally in 2025, however, coincided with increased demand for gold ETF, mainly in North America and Asia (Ex 15). The shift in safe-haven demand in favour of gold vs. USD/Treasuries has led to an outperformance in gold (50%+ gain) over MSCI EM's 25% gain since Jan'25. On a CAGR basis, gold has gained 17% in the last 5 years and 13.3 CAGR in the last 10 years. The rally was steep compared to during the Global Financial Crisis (GFC, 07-11) and during 2015-20; however, it is clear in Ex 7 that the uptrend in gold lasts for multiple years, leaving ample room for a further uptick in the current rally.

Exhibit 7. Current rally in gold steeper but may have leg room



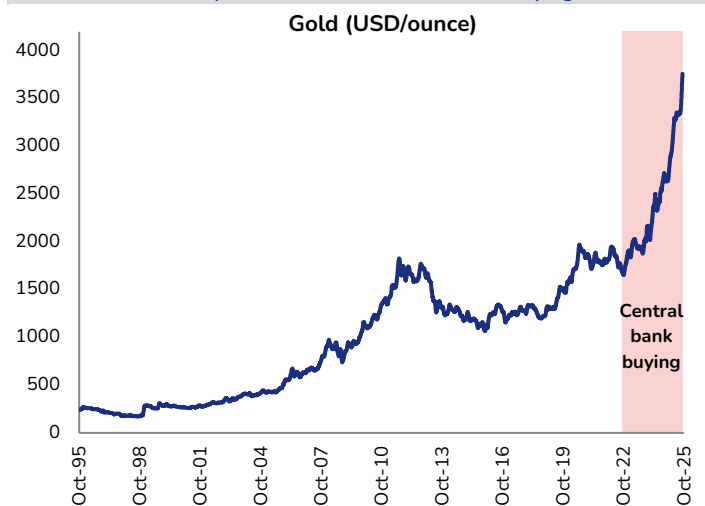
Source: CEIC, JM Financial

Exhibit 8. Gold outperformed major asset classes in last 1 year

	Performance (%)			
	1 month	3 month	YTD	1 Year
Sensex	3.3	4.1	7.3	5.2
Nifty	3.3	4.7	8.8	5.8
BSE Mid Cap	3.3	4.5	1.6	2.0
BSE Small Cap	1.4	3.0	(1.9)	(2.7)
MSCI India (INR)	3.1	4.8	6.5	4.2
MSCI India (US\$)	3.1	3.3	2.7	(1.3)
INR/USD	(0.0)	(1.3)	(3.6)	(5.3)
INR/EUR	1.7	(1.0)	(12.9)	(10.5)
Gold (US\$)	3.4	19.2	53.2	46.9
Crude (INR/bbl)	1.1	(6.3)	(12.6)	(10.7)
CRB Index	(1.0)	(3.9)	0.7	1.1
MSCI EM	2.0	14.3	30.3	24.9
MSCI DM	1.2	9.1	18.4	20.0
USD	2.1	0.6	(8.1)	(2.3)

Source: Bloomberg, JM Financial

Exhibit 9. Gold's rally coincided with central bank buying since 2022



Source: CMIE, JM Financial | shaded area represents increased gold purchases by central banks

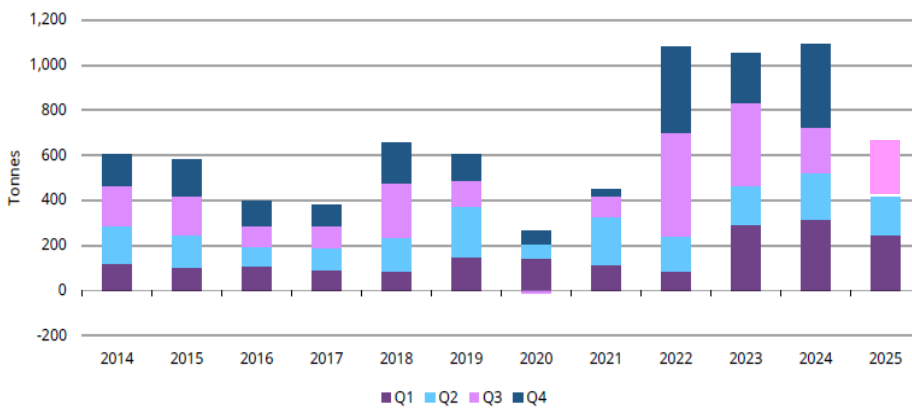
Demand drivers: Rally aided by central bank buying/ETF flows

The appetite for gold among global central banks began to rise from 3QCY22. By that time, the US Fed had already hiked rates by 300bps in five consecutive FOMC meetings; this reflected in moderation in inflationary pressure (7.75% in Oct'22) from its peak of 8.99% (Jun'22). Global central banks bought gold exceeding 1,000 tonnes annually during 2022 to 2024 (Ex 10). The escalation in geopolitical tensions between Russia and Ukraine, sanctions on Russian reserves and rising tensions in the Middle East (Israel-Gaza) was the trigger for the central banks to diversify to gold over US treasuries and the USD.

After piling up gold for 3 consecutive years (2022-2024), central banks have marginally moderated their gold purchases in 2025 to 634 tonnes (Jan-Sep'25) vs. 724 tonnes during Jan-Sep'24. However central bank demand continues to be strong, which is evident from the fact that gold purchases in the first 3 quarters of 2025 exceed annual gold purchases during 2014-2021.

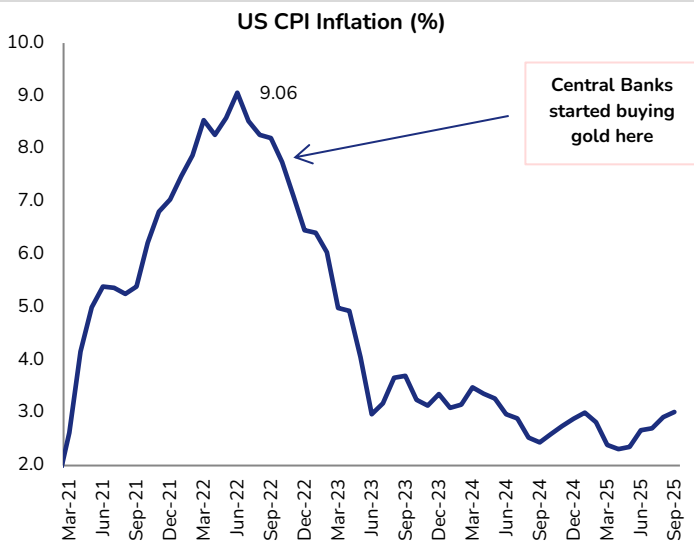
Considering that central bank purchase forms a large chunk (~17%) of total gold demand, we believe that the sustenance of central bank demand will prevent a steep decline in gold prices in the near term.

Exhibit 10. Central banks bought >1000 tonnes annually during 2022-24



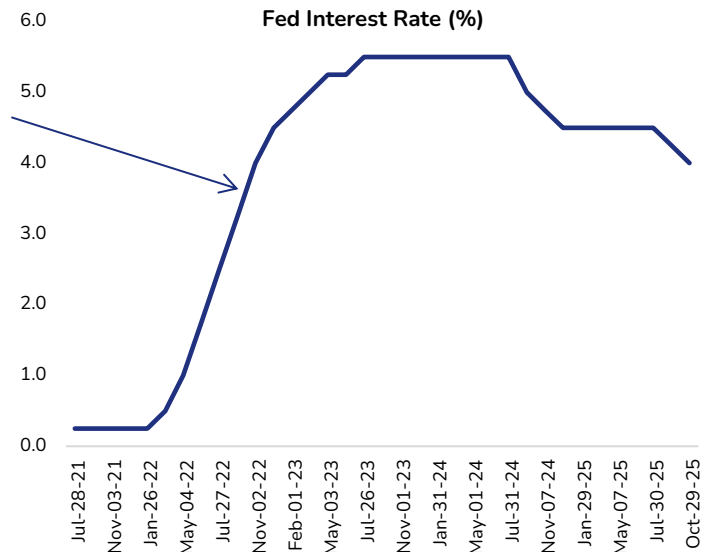
Source: World Gold Council, JM Financial

Exhibit 11. Inflationary pressure had already started easing by Oct'22...



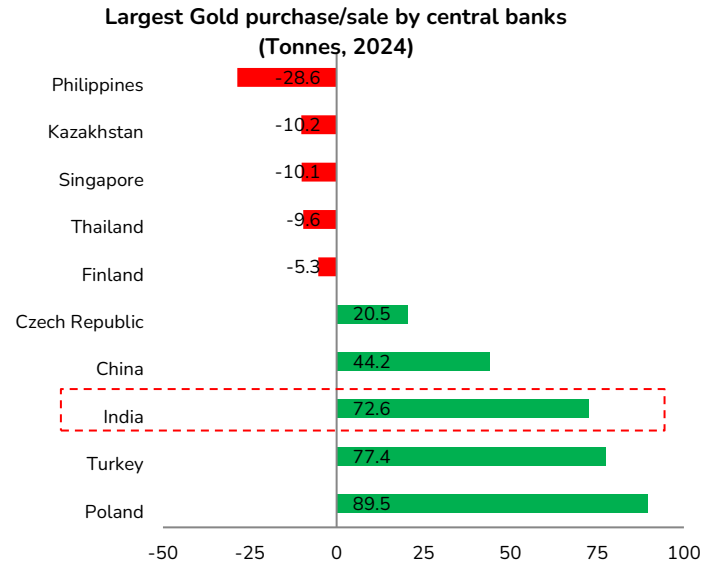
Source: US BLS, JM Financial

Exhibit 12. ...led by the US Fed's steep rate hikes



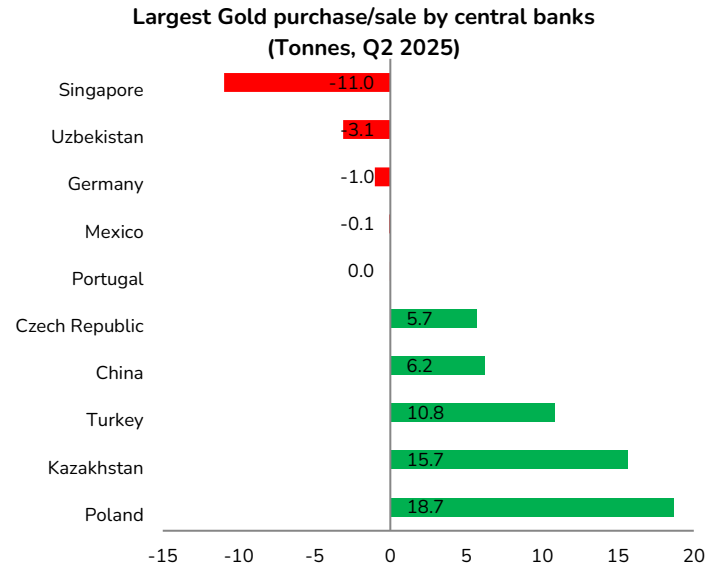
Source: US Fed, JM Financial

Exhibit 13. India (RBI) was one of the largest purchasers of gold in 2024...



Source: World Gold Council, JM Financial

Exhibit 14. ...which is not the case recently (2QCY25)



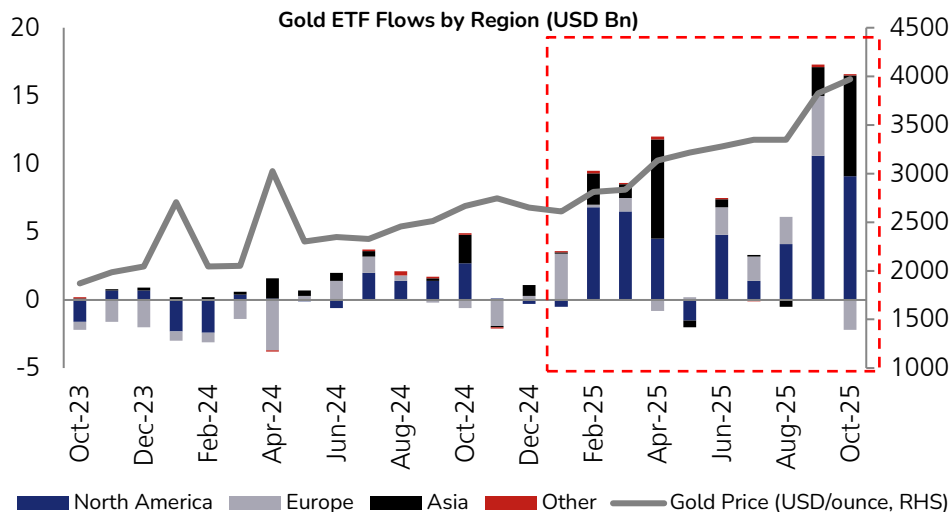
Source: World Gold Council, JM Financial

Ongoing tariff uncertainty fuelled ETF flows in 2025

The heightened global uncertainty around trade, applicable tariffs and its likely impact on US inflation and global growth increased appetite for a geopolitically neutral and safe-haven asset (gold). It is evident in Ex 15 that ETF flows picked up pace in Jan'25 when Donald Trump took charge as the US President and concerns of global supply chain disruption due to elevated tariffs gained momentum. Major flows in ETF was from North America and Asia. Gold purchases by central banks had already cornered supply, but renewed concerns around elevated debt levels in the US, independence of the US Fed, and FOMO in the gold rally led to increased ETF demand, which further fuelled the gold rally in 2025.

Latest data on ETF flows (Oct'25) indicates that demand for ETF from North America has marginally moderated while ETF flows from Asia have more than doubled; however, Europe has dragged overall demand (Ex 15).

Exhibit 15. Concerns around US debt, independence of US Fed increased ETF demand in 2025

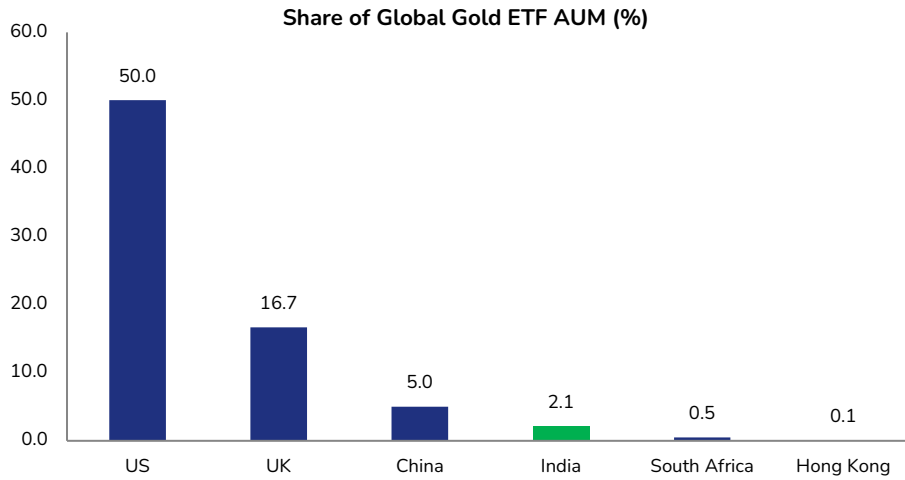


Source: World Gold Council, JM Financial

Indian MF share in global gold ETF flows at 4.8%

Gold ETF flows in Indian MFs (USD 1.2bn) during Jan-Sep'25 forms 4.8% of global ETF flows. China recorded an outflow during this period (-2% of global flows). US tops with more than half of the total ETF flows at 61.2%. In the last 2 months, ETF flows in North America formed ~60% of total ETF flows and 50% of global ETF AUM.

Exhibit 16. India's share in total gold ETF AUM is just 2.1%; US share at 50%



Source: World Gold Council, JM Financial

Structural shift in demand for gold vs. US treasuries

Unlike the shift in global demand for gold highlighted above, we believe that the divergence in the share of gold vs. the US treasuries in global reserves (Ex 17) is a **structural change** and is unlikely to revert in the near term unless the multipolar global trade system is reinstated back to pre-Trump era. Countries around the world are negotiating bilateral trade deals or carrying out trade with close allies.

Moreover, US debt has ballooned to unprecedented levels (USD 38trln) with no sight of a meaningful course correction. Even the Big Beautiful Bill is expected to add USD 3.4trln to the debt burden. Also, the US government shutdown has been the longest historically at 41+ days in 2025, which adds to the policy uncertainty despite the agreement being reached recently to end it. Secondly, the US dollar is gradually losing its credibility as a safe haven due to lack of concrete measures to address the debt situation in the US economy. The recent pivot by US Fed Chair Jerome Powell in favour of a 'tactical pause' supported the US dollar. However, his exit early next year could create market sentiment in favour of an accelerated rate cut cycle, which would be dollar negative. Although markets were quick to respond initially to the Fed's pivot in October, the lack of policy clarity hardened benchmark yields by 15+ bps and the futures market now expects a rate cut in Dec'25.

Exhibit 17. Gold favoured over US treasuries

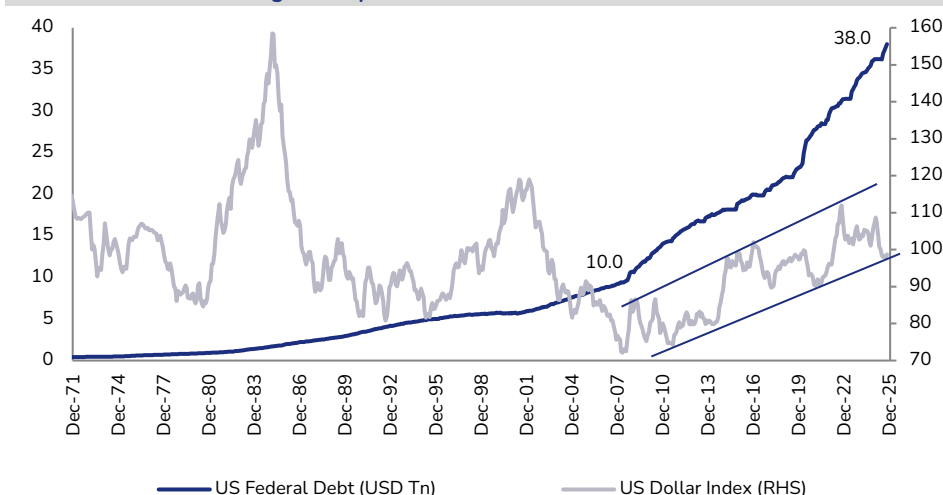


Source: Bloomberg, Crescat capital, JM Financial

Dollar strengthened despite fiscal deterioration

Amidst volatility, the US dollar reflected strengthening bias post the GFC period despite US debt build-up from USD 10trln in 2008 to USD 38trln now. Throughout this period, the reserve currency status aided the USD; however, early signs of gold being favoured over US treasuries and chances of an accelerated rate cuts in 2026 could weaken the US dollar.

Exhibit 18. US dollar strengthened post GFC even as Federal debt ballooned

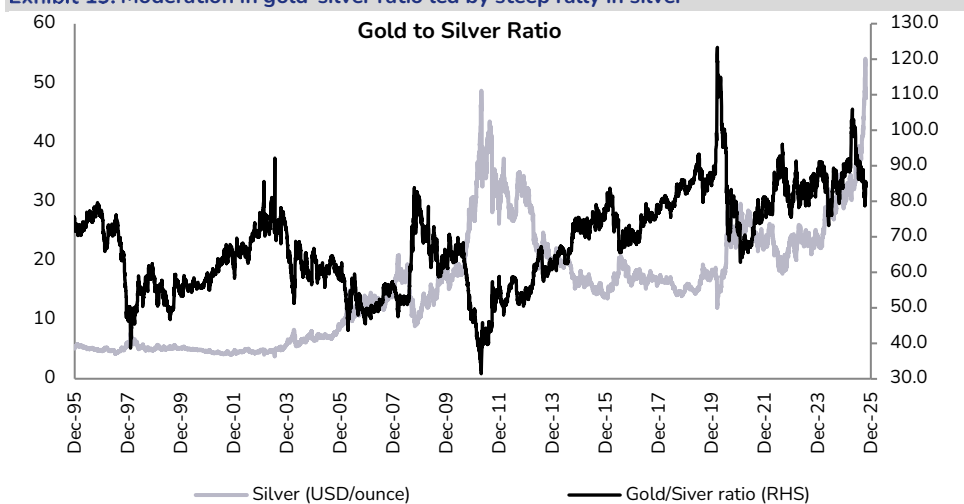


Source: CEIC, JM Financial

Elevated gold-silver ratio indicates heightened global uncertainty

The gold-silver ratio currently hovers near 80, well above its long-term average of around 68, indicating gold's strong outperformance over silver. It is worth highlighting that this ratio peaked at 102 in Apr'25; the moderation till now is mainly on the back of a steeper rally in silver (44%) relative to gold's 27% gain since then. This elevated ratio reflects heightened risk aversion and global uncertainty, with investors favouring gold's safe-haven status amid geopolitical tensions and slowing global growth. Persistent central bank gold purchases and concerns over inflation have further strengthened gold's relative appeal; moreover, **volatility in silver (30) is twice that in gold (16.3)**. Silver, being tied to industrial demand, has lagged due to weaker manufacturing momentum and uneven recovery in clean energy sectors. From a macro lens, a high ratio signals defensive investor positioning and cautious sentiment on global growth. Historically, such extremes have sometimes preceded silver catch-up rallies as economic optimism returns. The gold-silver ratio underscores the broader trade-off between safety and cyclical growth exposure in the global economy.

Exhibit 19. Moderation in gold-silver ratio led by steep rally in silver



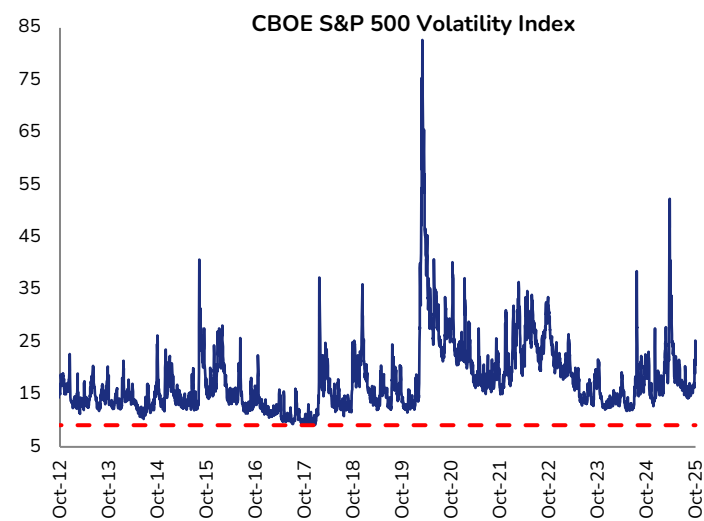
Source: CEIC, JM Financial

Global uncertainty to support gold price

The policies in the US across trade, fiscal, immigration and, to some extent, monetary policy have kept global uncertainty high. Although the mini agreement between the US and China on a handful of issues like rare earth, soybean, etc. has led to a calm in the global trade environment, lack of clarity around the inflationary impact of tariffs and the expected monetary policy action has kept the "US economic policy uncertainty index" at elevated levels, despite the recent moderation (Ex 22). Even the S&P volatility index continues to hover at elevated levels, unlike the calmness reflected by India VIX.

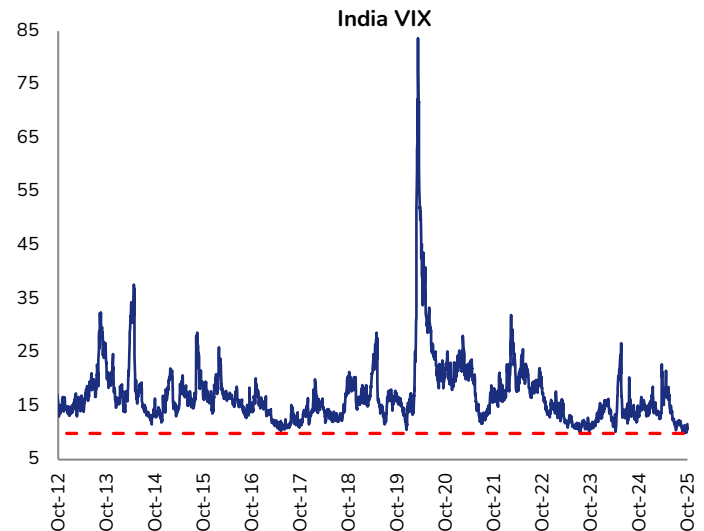
Considering the recent moderation in the price of gold to USD 4,000/ounce, we take comfort from the elevated levels of the "US Economic Policy uncertainty index" which, according to us, will support gold prices from a sharp reversal.

Exhibit 20. Volatility in the US markets inched up recently...



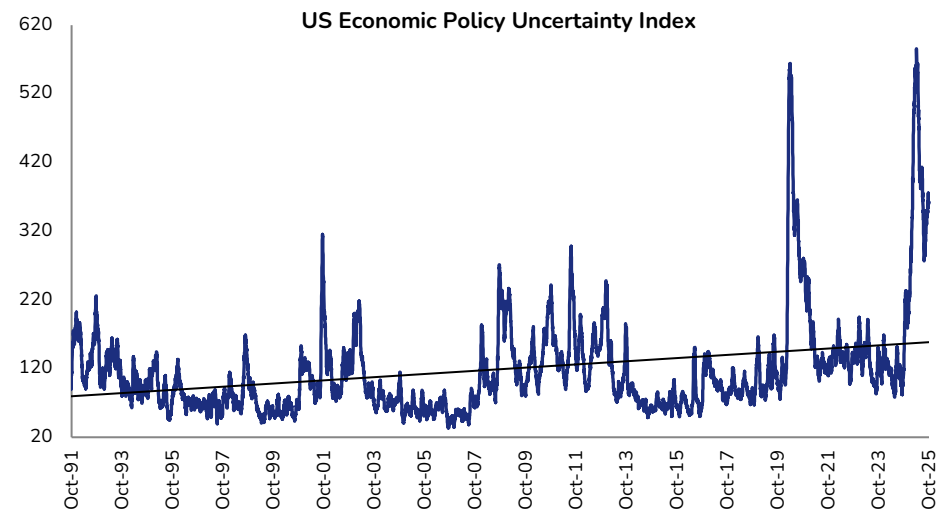
Source: CEIC, JM Financial

Exhibit 21. ...while Indian markets remain relatively calm



Source: CEIC, JM Financial

Exhibit 22. Policy uncertainty in the US at elevated levels but has moderated from peak



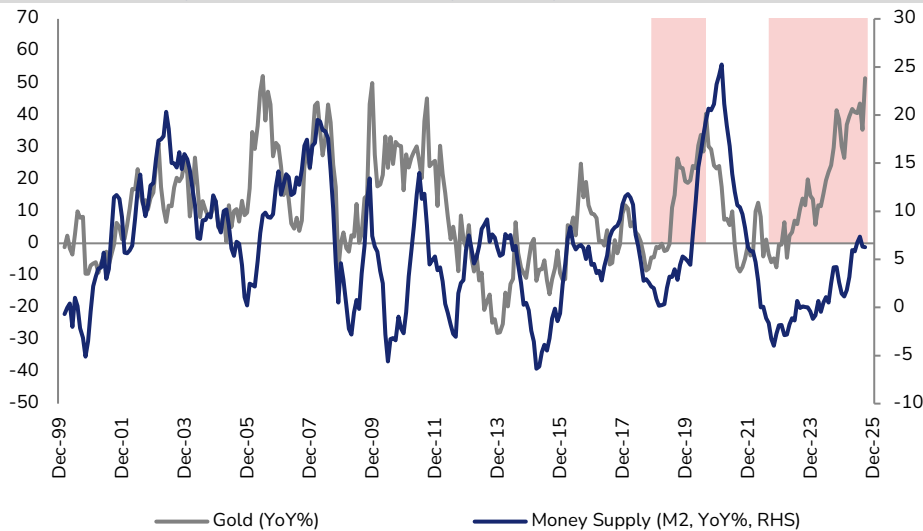
Source: CEIC, JM Financial

Money supply drives asset prices

Money supply tends to drive asset prices globally. Our assessment of the relationship of change in money supply in the US and the EU with gold prices over the past 2.5 decades indicates that both have moved broadly in tandem, except during the GFC period and during 2012-14 (Ex 23). If the market reads the US Fed's recent decision to discontinue quantitative tightening (QT) as a signal for the resumption in liquidity injection in the near term, such a scenario would be positive for asset prices including risk assets like equities.

If we consider gold as % of money supply (M2) in the US as a guide, the ratio is well below the previous peak (gold formed ~20 times the US money supply in Sep'11). If we consider that as the ceiling, there is still sufficient headroom for gold in the near term. (Ex 24)

Exhibit 23. Rally in gold prices much ahead of growth in global money supply



Source: CEIC, JM Financial | shaded area represents growth in aggregate money supply (M2) in US and EU recently

Exhibit 24. Ratio of gold/US money supply signals further upside in gold prices



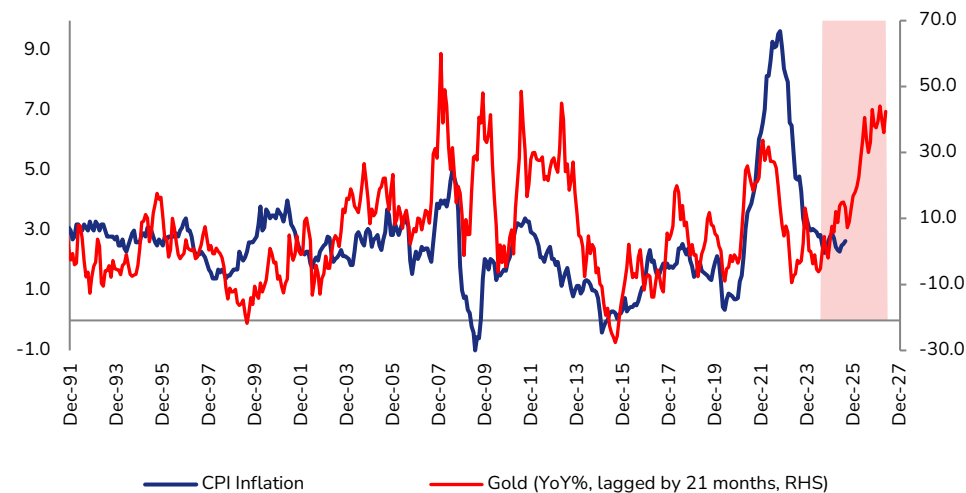
Source: JM Financial | US M2 used for money supply

Is gold trying to warn against an inflationary surge?

Our assessment of the relationship between movement in gold prices with inflation revealed that gold prices tend to anticipate global inflationary pressures. For this, we mapped average inflation in the US and the EU with gold price movement on YoY basis with a lag of 21 months (Ex 25). This relationship has a correlation as strong as 0.64 (since 2014), clearly demonstrating that **gold can be considered as a good lead indicator for anticipating global inflation trajectory**. Even during the heightened uncertainty post the GFC, gold prices accurately predicted the upcoming inflationary and deflationary phases in the immediate near term.

Based on this assessment it would be safe to assume that the rally in gold is in anticipation of a pick-up in inflationary pressure globally in the near term. The latest CPI prints in the US lack any specific signals of a meaningful impact of heightened tariffs imposed globally. This is despite the 3.5 times increase in US custom duty collection in the last 6 months to USD 30bn in Sep'25. The gradual pass-through in the system is said to have delayed the impact of tariffs on the CPI print; however, the rally in gold prices may be signalling an uptick in inflationary pressure in the upcoming 21 months, as per this relationship.

Exhibit 25. Gold indicating inflationary pressures ahead...



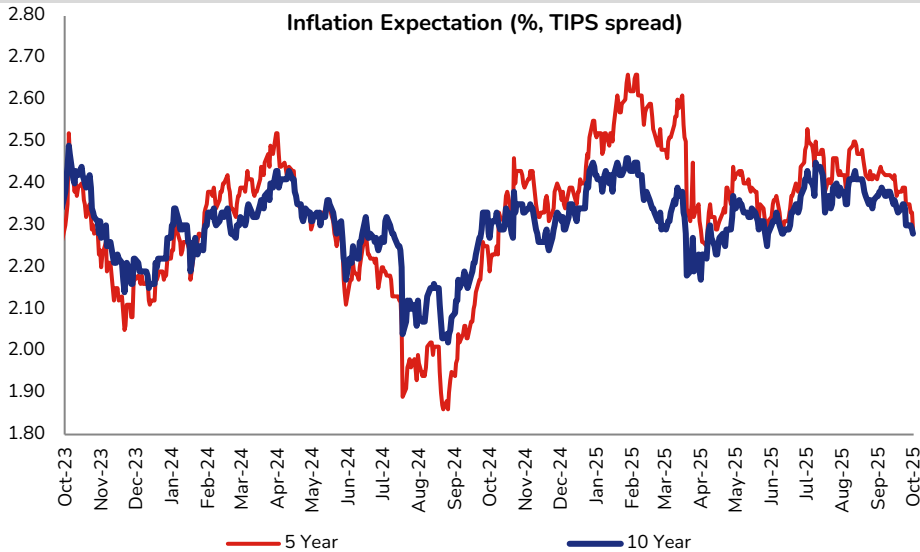
Source: CEIC, JM Financial | Average CPI inflation in US and EU considered

Markets are not factoring in such an uptick

On the contrary, the Treasury Inflation-Protected Securities (TIPS) spread is indicating that the markets are factoring in a moderation in inflation expectations. Here, we have considered the TIPS spread for 5 Year and 10 year; both are signalling moderation in inflation to 2.3% on an annual basis. Moreover, the recent indication by the US administration on stimulus checks worth USD 2,000 would be inflationary in addition to adding ~USD 440bn to the already elevated debt. Such a scenario suggests that **either gold price seems to have run up ahead of the fundamentals or the markets are unsure of the impact of tariffs on inflation**.

Hence, if the relationship of the movement in gold with inflation holds true, than it would be a major risk for the markets, which is not being factored in currently.

Exhibit 26. ...while markets expect inflation to moderate

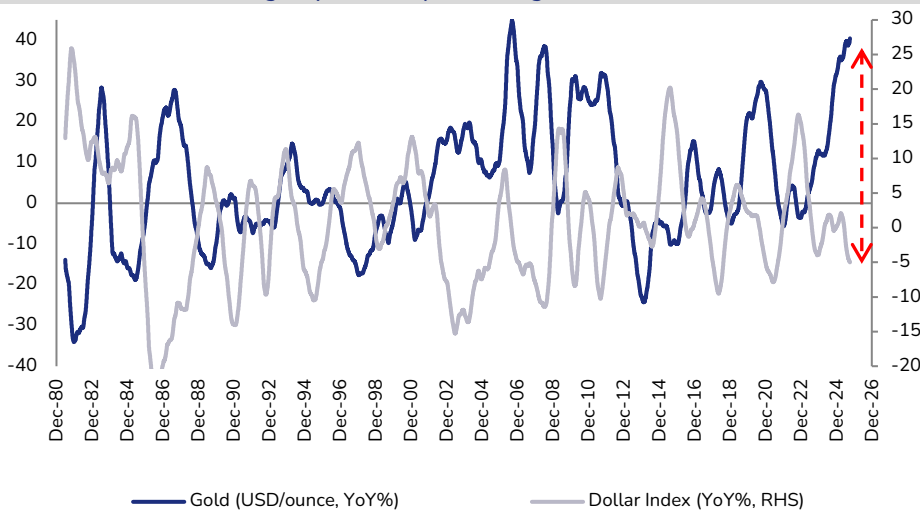


Source: Fred, JM Financial | Note: TIPS spread used for respective tenures

Divergence between gold and USD unlikely to sustain

Ex 27 clearly indicates that the divergence between the movement in gold price vs. US Dollar index has widened substantially to unsustainable levels basis past trends. Based on this assessment, it is highly likely that either the price of gold will ease or the US dollar index will strengthen. However, markets are building in expectation of an accelerated rate cut cycle in the US due to the adverse impact of the elevated tariffs and the escalation of the trade war between US and China. This will exert pressure on the US dollar – hence, a **strengthening bias in the USD is unlikely in a rate cut cycle**. The run-up in gold is backed by demand from central banks and ETF flows, which remains resilient. Moreover, the absence of a solution to the debt issue in the US will sustain gold’s safe haven appeal in the near term.

Exhibit 27. Dollar index and gold prices likely to converge



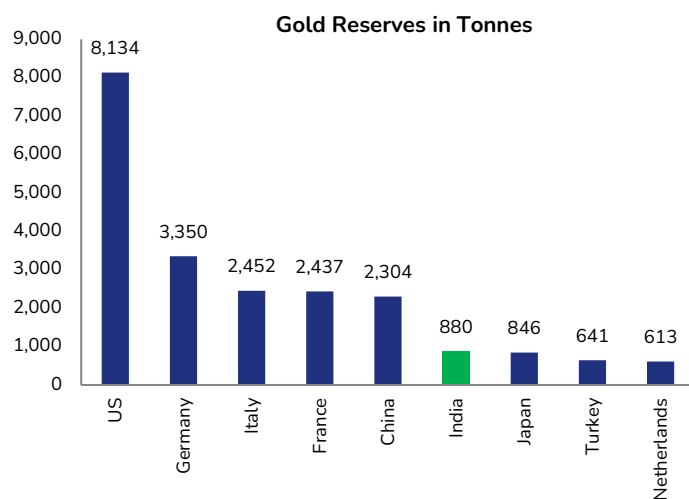
Source: CEIC, Bloomberg, JM Financial | 6 months moving average considered to smoothen the data

Gold price and its impact on India

On a global level, India ranks sixth with gold holdings to the tune of 880 tonnes which is ~1/10th of US holding, China holds ~2,300 tonnes. As a share of total reserves, US leads with gold forming ~80% of its reserves, which is followed by European countries like Germany, France and Italy (Ex 29). In India's case, gold forms 15.2% of total reserves, which is double that in case of China (6.7%). We observed that gold's share in India's reserves consistently improved post Covid from 6.5% in FY20 to 15.2% in Oct'25. A similar trend was observed post the GFC period when the share of gold holding in India's reserves increased three times to 9.2% by FY12.

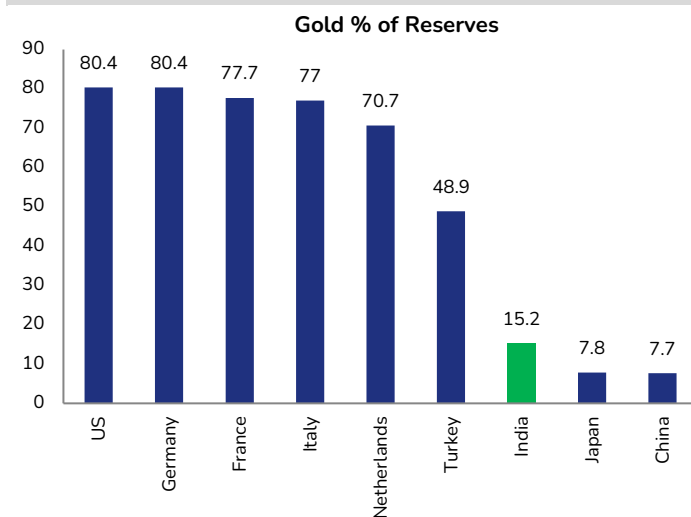
It is evident in Ex 24 that RBI proactively loads up gold in its reserves during crisis periods to cushion the economy from any external shocks – mainly through the currency route. The share of gold in India's reserves increased from 3.2% in 2008 to 9.2% in 2012, which later normalised to 5% by FY18. Again, post Covid, gold's share in India's reserves increased from 6.5% in FY20 to 15.2% in Oct'25. Here, it is worth highlighting that the RBI added gold to the tune of 199 tonnes in a single shot in Nov'09 vs. 323 tonnes of gold over a period of 7 years (since 2018) in the current cycle. This indicates that **higher share of gold is a result of a combination of impact of price appreciation and paring of exposure to foreign currency in reserves.**

Exhibit 28. India's gold reserves 1/10th of US holding



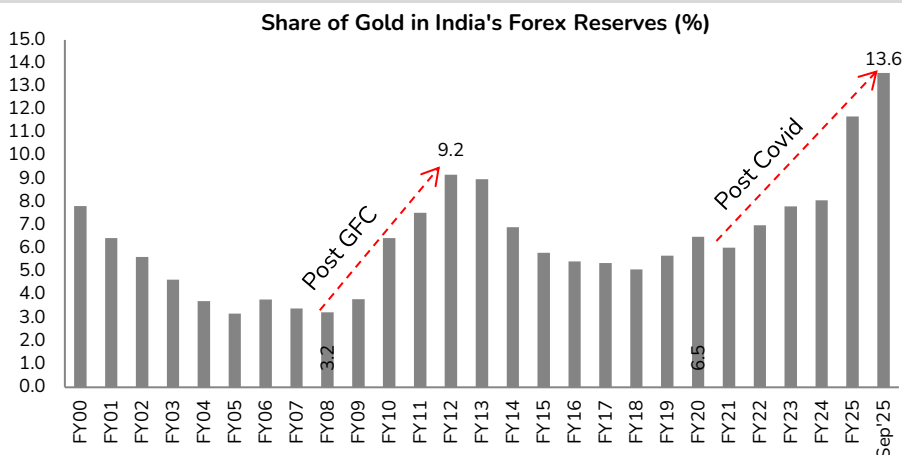
Source: World Gold Council, JM Financial

Exhibit 29. Gold's share in India's reserves more than doubled to 15.2%



Source: World Gold Council, JM Financial

Exhibit 30. RBI increased gold's share in the last two crisis periods

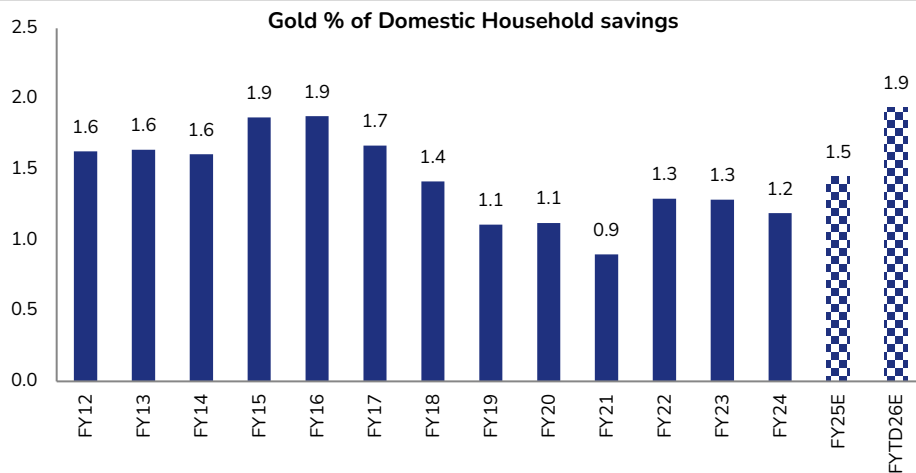


Source: CMIE, JM Financial

Wealth effect of gold differs vs. other asset classes

As per the Ministry of Statistics and Programme Implementation (MOSPI), households in India own INR 651bn worth of gold as of Mar'24. When we assigned the effective price of gold for FY25 and FYTD26, gold's share in domestic savings has reached levels not seen since FY16. However, a recent market estimate pegs gold holdings with households at USD 3.8trln. We believe that the wealth effect of gold in households will differ vs. other asset classes like equity and real estate. The intention to liquidate is lower in case of jewellery vs. in case of bullion because jewellery is liquidity majorly only in case of distress vs. bullion, which is held as an investment. However, at a macro level, higher demand for gold imports has a negative impact on India's current account balance. India has imported on average ~815 tonnes of gold on an annual basis in the last 10 years. Considering that it is a non-productive asset, these imports led to a depletion of forex reserves to that extent.

Exhibit 31. Gradual decline in gold's share in domestic savings in India



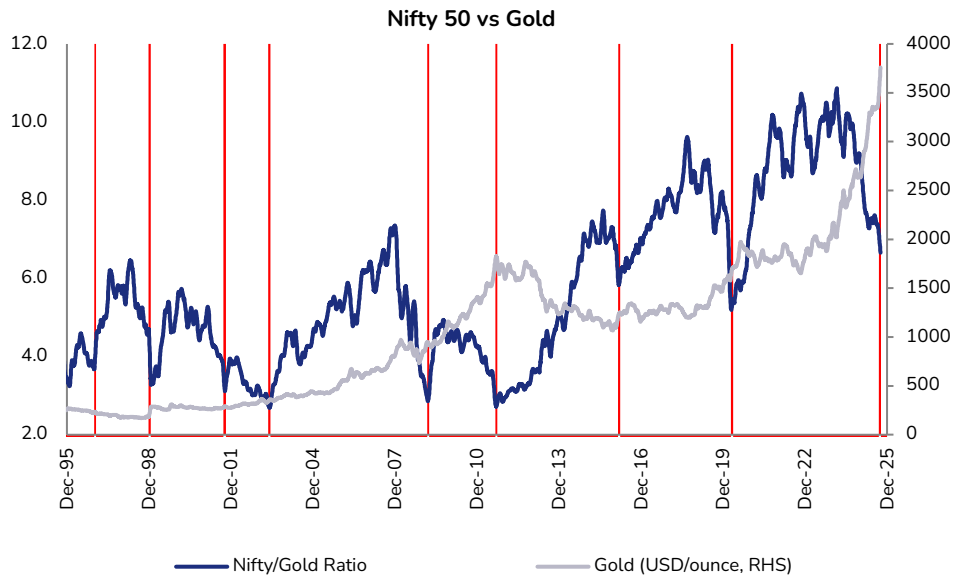
Source: MOSPI, CMIE, JM Financial | Price appreciation considered in holding for FY25 and beyond

Domestic risk assets gain post the rally in gold

Our analysis of the relationship between Nifty and gold over last 3 decades reveals that in 6 out of 9 instances in the past, the trough in the Nifty/gold ratio was followed by a positive close in the Nifty in the next month. On average, Nifty gained 2.8% in the month that followed; its gain has been in double digits in 3 months (15.1%), 6 months (28.9%) and 12 months (31.9%) post the trough in the Nifty/gold ratio.

Nifty is trading at valuation closer to one standard deviation from the long-term mean. The above observation paints an optimistic picture for equities in the near term.

Exhibit 32. Nifty/gold ratio troughed in Oct'25



Source: CMIE, JM Financial | Vertical lines mark trough of Nifty/Gold ratio | 20 Day moving average considered

Exhibit 33. Nifty on average gained 2.8% in one month post the trough in Nifty/gold ratio

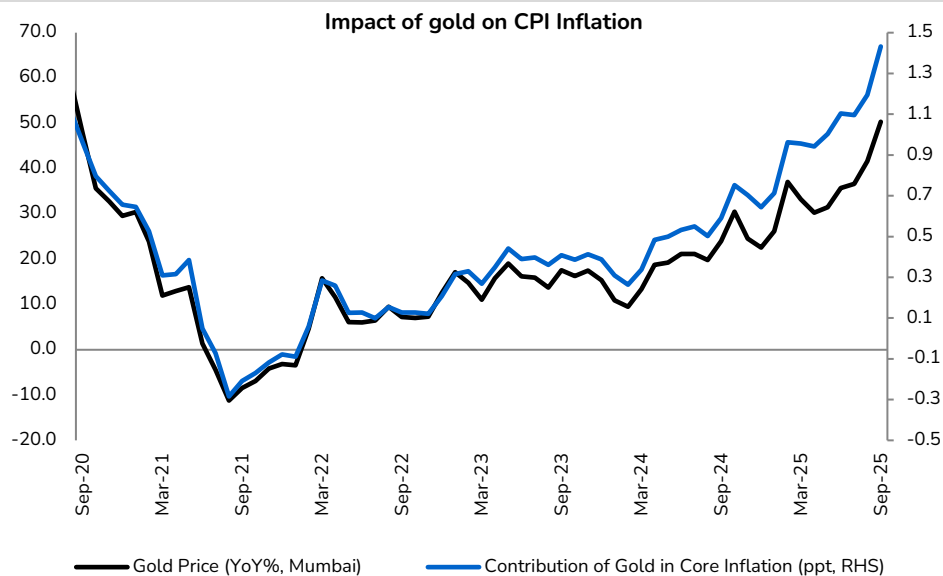
	Nifty Returns (%)			
	1 month	3 months	6 months	12 months
Oct-96	-2.9	-2.6	13.0	19.2
Jan-97	3.5	3.3	26.9	13.0
Sep-01	-13.6	1.3	8.4	-6.3
May-03	11.8	33.2	55.8	59.8
Mar-09	22.2	62.6	75.1	86.3
Sep-11	2.4	-4.2	6.9	6.9
Mar-16	0.8	9.6	17.7	18.9
Apr-20	-2.1	17.7	27.0	57.4
Oct-25	?	?	?	?
Average	2.8	15.1	28.9	31.9

Source: CMIE, JM Financial

Gold kept core inflation elevated

Gold prices impact domestic CPI inflation through core inflation. Gold has a weightage of ~1.08% in India's CPI basket. Our assessment indicates that with the rally in the price of gold, its contribution in the inflation print turned positive since Jan'22 and currently (Oct'25) contributes 0.82ppts to the headline inflation while the core inflation remained elevated at 4.4% of which gold contributed 1.43ppts. The weightage of silver is miniscule at 0.11% in the CPI basket and, hence, the rally in silver had a limited impact on domestic inflation vs. gold.

Exhibit 34. Contribution of gold in India's CPI Inflation



Source: CMIE, JM Financial

APPENDIX I

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New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return \geq 15% over the next twelve months.
ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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