Dear reader,

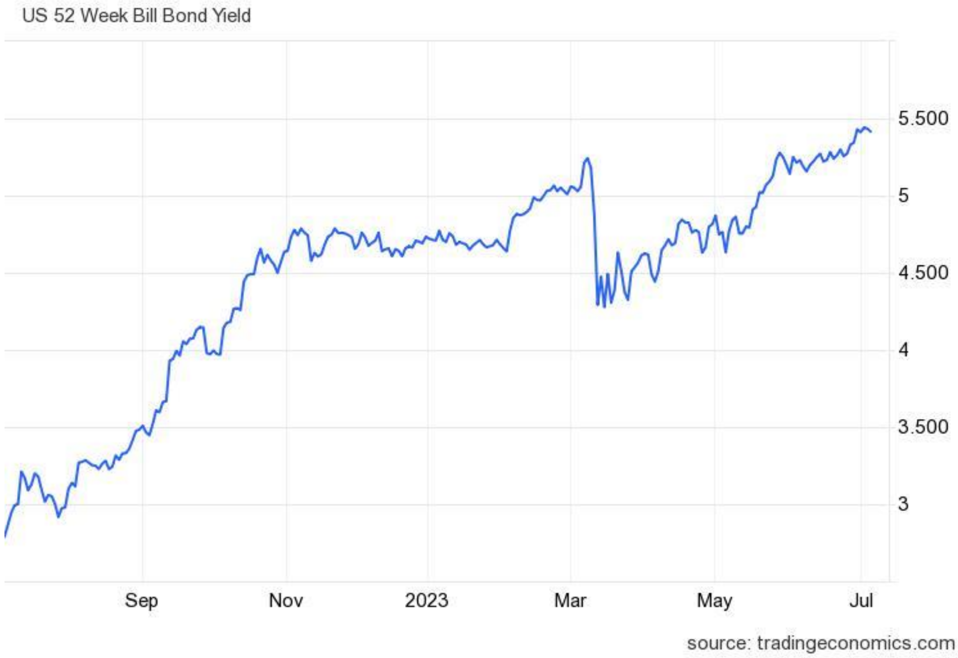
At the beginning of the Ukraine conflict, the prices of gold and silver experienced a significant increase, reaching nearly a new all-time high in US dollars. It is no surprise that gold, especially during crises, is sought after not only by short-term investors but also as a hedge. Many believed that the boom would continue, especially considering the significant rise in inflation, which should make precious metals an attractive investment.

However, things turned out differently. The prices of gold and silver declined noticeably until November 2022 before a recovery began. Gold reached a new all-time high in US dollars in early May 2022, but it was unable to sustain that level.

The main reason for the price decline in 2022 was the sharp increase in interest rates and, consequently, bond yields. This made the non-interest-bearing precious metals less attractive as an investment. Additionally, the stronger US dollar weighed on the prices, as US investors, in particular, reduced their gold investments in such circumstances. However, these negative influences subsided from autumn 2022 onwards, as the US dollar depreciated, and bond yields, at least in the US, did not increase significantly anymore.

Bond yields have risen again.

However, in recent weeks, this situation has changed once again. Short-term bond yields have risen both in the US and Europe, causing gold and silver to come under pressure once more. The anticipated timing of the first interest rate cut by the US Federal Reserve has been continuously pushed further into the future over the past few months. Currently, the majority of bond traders expect this rate cut to occur only in May 2024.



While there isn't a strict correlation between interest rate developments and the prices of gold and silver, short-term reactions can be observed, particularly among speculative investors. This can be seen in the activities in the futures market and in the inflows and outflows of gold and silver ETFs.

However, in the long term, I consider both precious metals to be promising investments, partly because central banks cannot arbitrarily raise interest rates. Doing so would create significant stress in the financial system, as demonstrated by the turbulence in the US banking sector in the spring. Moreover, governments require low interest rates to refinance their high debts and to continue borrowing.

Lower interest rates would also make gold and silver more attractive for short-term oriented investors once again. On the other hand, the interest from long-term oriented investors is already at a high level. In fact, sales of gold bars and coins in 2022 reached their highest level since 2013, and the first quarter of 2023 has surpassed the previous year's level. A similar trend can be observed for silver: Investor demand for physical silver even reached an all-time high in 2022.

Important Differences between Gold and Silver

The price of gold is more strongly influenced by developments in the financial market compared to the price of silver. One important reason is that the gold market, due to its higher liquidity, is more attractive to institutional investors. Additionally, in contrast to gold, only a relatively small portion of silver demand comes from financial products such as ETFs (or ETCs), and the role of the futures market is less significant. On the other hand, the industry consumes a large portion of the annual silver supply, accounting for approximately 50 percent, while for gold, it is only 7 to 8 percent.

During periods of strong economic growth, silver demand increases, and this can drive or depress the price independently of financial market developments. Fear of a recession or a slowdown in the global economy is therefore the main reason why silver has performed weaker than gold since the beginning of the year.

Silver is considered the "metal of the future" due to its special properties, particularly its electrical conductivity, which is required for the electrification of the vehicle fleet, 5G technology, and the development of green infrastructure, among other applications. The demand for silver in the photovoltaic industry has reached a new record level, being about 60 percent higher in 2023 compared to 2020. This trend is expected to continue in the coming years. Over time, this will make silver more attractive to financial investors, especially as the fear of a significant downturn in the global economy diminishes.

Overall, the gold market is much larger than the silver market. Jewelers alone consume about half of the annual gold supply, which contributes to a certain stability in demand. In addition, central banks' purchases of gold have reached a record level in the past 12 months.

Lastly, due to its narrower market, silver is more volatile than gold. Specifically, during bull phases in the precious metals market, silver has historically experienced much stronger gains than gold. This was particularly evident in 2010 and 2011 when silver outperformed gold by a wide margin. However, the subsequent price decline is also more significant in such cases.

Exchange-traded products on gold and silver

I believe it is prudent to allocate 8 to 12 percent of investment capital to gold and silver for long-term purposes. This allocation serves not only as a diversification strategy for the portfolio but also as a means of protecting against crises. For this purpose, I prefer investing in physical precious metals such as coins and bars rather than in exchange-traded products, although ETCs can be considered as an alternative.

Gold or silver ETCs generally track the price movements of the metals on a 1:1 basis. They are often backed by physical gold or silver, meaning that they acquire gold or silver when investors invest in them. ETCs are more suitable for short-term investment purposes due to their lower fees for buying and selling, compared to coins and bars.

Name	ISIN	Fee
WisdomTree Physical Gold	JE00B1VS3770	0,39% p.a.
iShares Physical Gold ETC	IE00B4ND3602	0,12% p.a.
Wisdom Tree Physical Silver	JE00B1VS3333	0,49% p.a.
iShares Physical Silver ETC	IE00B4NCWG09	0,20% p.a.

My Conclusion

Gold demonstrates its strength primarily during times of crisis, while silver benefits from long-term demand in future sectors. These, in my opinion, are good reasons to include both precious metals, possibly complemented by mining stocks, in a long-term portfolio for diversification and crisis protection.

However, the prices of gold and silver are influenced by many factors, and in the short term, the behavior of financial investors primarily determines their price movements. This behavior is also subject to psychological influences, making it difficult to predict. That is why, for short- and medium-term speculations, I always consult technical analysis and do not rely solely on fundamental market forecasts.