

# Quick take: Silver or gold?

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Silver's recent dramatic rise has investors wondering whether it's time to reallocate gains into gold.

From a fundamental perspective, central banks—particularly those in the Global South—are structurally accumulating gold as a reserve asset. This trend reflects a desire to diversify away from US Treasuries amid concerns over long-term US risks. Gold's status as a globally recognized store of value, along with its preferential treatment in official reserves, supports sustained, price-inelastic demand. In contrast, silver lacks official reserve status and is rarely held by central banks. Gold's structural attractiveness is further reinforced by its favourable treatment in bank capital frameworks under Basel rules—a benefit that silver does not enjoy.

While silver benefits from many of the same macroeconomic drivers as gold, such as interest rate expectations and the outlook for the US dollar, its price is also influenced by industrial demand, particularly from the solar panel sector. However, the solar industry is increasingly seeking alternatives due to rising costs and supply constraints associated with silver.

Recent strength in silver prices has been supported by supply bottlenecks and anticipation of US tariffs on critical minerals. Silver has been shipped into the US ahead of the potential imposition of Section 232 tariffs on critical minerals, although these tariffs appear to be on pause for now. Silver prices surged due to a lack of supply in London and other global markets, but if the tariffs remain on hold, the ounces in the US could flow back out to global markets, easing supply constraints elsewhere.

Silver also appears relatively expensive compared to gold, based on the gold-to-silver ratio—a widely used measure of relative value. Currently, the ratio is around 51, near its ten-year low of 49 and significantly below the decade average of 81. This suggests, at present levels, silver may be overvalued relative to gold, or gold is undervalued relative to silver.

Looking further back, since the US left the gold standard in 1971, the average gold-to-silver ratio over the past fifty-five years has been 60, which is still above the current level. If we applied the fifty-five-year average ratio to current spot prices, either silver should be \$82/oz (14% below current levels), or gold should be \$5,750/oz (17% above current levels).

History is only a guide, and it is possible that the gold-to-silver ratio has fundamentally changed due to structural shifts in demand for silver. In the intermediate term, tariffs on critical minerals could also resurface as a concern for silver investors. Still, given the weight of evidence, we believe it is prudent to revisit allocations between the two precious metals.

Companies in the Materials sector are primed to benefit from both higher gold and silver prices, with many miners exposed to both metals. Higher prices expand margins and increase cash flows available for reinvestment or distribution to shareholders, positioning these companies for higher multiples and share prices. Indeed, diversified exposure to the Materials sector may be the most prudent way for investors to address the question of whether to invest in silver or gold.

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