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Gold and Silver Re-emerge as Safe Havens Against Global Economic Uncertainty

Understanding the macroeconomic, geopolitical and technological factors that influence gold prices is essential for investors navigating the market's complexities.

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The global economy remains under strain, facing recession fears, geopolitical conflicts and trade sanctions. With North America focused on the prolonged war in Eastern Europe and other global tensions, Western economic influence is diminishing as a significant shift in global power unfolds quietly.

The China and Russia-led BRICS coalition is becoming a major force that has implications for trade, international finance, energy and political dynamics. Their pursuit of a gold-backed currency could potentially challenge the dominance of the U.S. dollar as the global reserve currency. It will be on the agenda at the BRICS meeting in Kazan, Russia next month.

Understanding the macroeconomic, geopolitical and technological factors that influence gold prices is essential for investors navigating the market's complexities. Key variables include interest rates, global economic policies, advancements in mining technology, and changes in consumer demand, all of which shape the investment landscape.

Since mid-2022, central banks have tripled their gold purchases, motivated by concerns over U.S. financial sanctions and sovereign debt risks, a trend likely to continue. With the conclusion of interest rate hikes and anticipated interest rate cuts from the U.S. Federal Reserve Board, Western capital is expected to flow back into the gold market. Coupled with ongoing geopolitical instability, these factors are straining the money supply and contributing to record debt levels.

In this climate gold has seen a resurgence, solidifying its status as a safe haven. Prices are up more than 20 per cent in 2024, topping US$2,500 an ounce in mid-September from US$2,063.73 at the beginning of the year. Silver and gold typically move in tandem as they serve similar roles in hedging against macroeconomic risks and currency fluctuations. But while gold has reached record highs this year, silver continues to be undervalued.

A common method to assess the relative value of gold to silver is by calculating the gold-silver ratio, which is done by dividing the spot price of gold by the spot price of silver. A breakout in silver is imminent given how undervalued it is compared with gold. Using a median gold-silver ratio of 80:1 (80 ounces of silver per ounce of gold), a gold price of US$2,500 points to a silver price of US$31.25. However, silver is priced at around US$30.72 an ounce.

Silver is eventually expected to attract the same surge of attention and speculative capital that gold has recently seen, meaning the price target won’t stop at US$31 an ounce but is likely to hit US$35 or higher. Investors who position themselves before this breakout stand to benefit significantly.

Like gold, silver serves as a safe haven for investors during periods of economic and political uncertainty. However, a significant portion of silver’s value stems from industrial demand. Approximately 60 per cent of silver is used in industrial applications, such as solar energy and electronics, with only 40 per cent allocated for investment purposes.

This versatile metal plays a critical role in various industries, including solar power, automotive manufacturing, brazing and soldering, 5G wireless technology, and printed and flexible electronics. As demand increases, supply will tighten.

Platinum, on the other hand, remains challenged. It’s a lustrous white metal that’s rarer than gold and serves numerous industrial purposes. Platinum plays a crucial role in catalytic converters, helping to reduce vehicle emissions. Its durability and corrosion resistance also make it ideal for laboratory equipment and electrical components.

This scarcity, coupled with industrial demand, influences platinum’s pricing in the precious metals market. While it’s a less stable investment, some investors view platinum as an appealing choice because of its rarity and potential for significant price increases.

Although an economic soft landing is still feasible, the effects of previous monetary policy decisions are continuing to surface. That makes it crucial for investors to adopt a balanced strategy, implement portfolio adjustments carefully and stay responsive to shifting market trends.

Incorporating precious metals into portfolios has proven effective for optimizing returns and managing risk.

Gold has historically provided strong returns, and with expectations of a robust gold market extending into 2025, both silver and platinum are projected to gain momentum. Amid escalating global challenges and the potential weakening of the U.S. dollar, precious metals are recognized increasingly as reliable alternatives.

Yvonne Blaszczyk is President and Chief Executive Officer of BMG Group Inc. (BMG) and its three subsidiaries. She is an expert in corporate governance and has an extensive background in corporate management, strategy and board governance, finance, human resources, legal compliance and change management.

Yvonne has been serving as a member of the BMG Group Inc. Board of Directors for over a decade, while holding other corporate positions. She is also a member of the Board of Directors of BMG's asset management group – the registrant subsidiaries (the IFM & EMD), Chief Financial Officer for the BMG Mutual Funds, and is a Trustee for the BMG Restricted Share Holding Trust.