

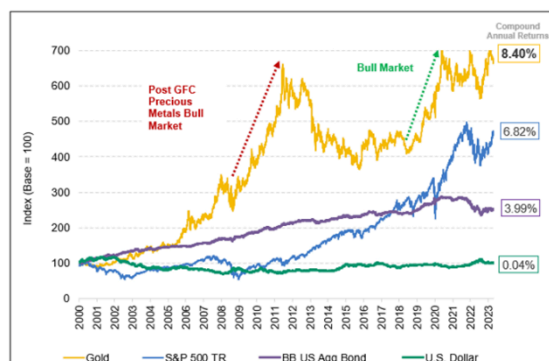
# Why silver is the new gold

**Safe-haven demand and solar panels have sent its price soaring**

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It is a fabulous time to be a gold bug. Not long ago, outing yourself as one was a good way of getting people to back away from you at an investment conference. The popular image was of someone in possession of their own electricity generator, stacks of water-purification tablets and several years' supply of tinned food. Now it just features a shrewd investor. Since the start of 2023 the shiniest asset's price has soared by nearly 60% in dollars. That is more than any of the world's leading share indices—including, after a turbulent couple of weeks, America's s&p 500.

Gold's Long-Term Outperformance vs. S&P 500, Bonds & USD  
(2000-2023)



Yet the sweetest vindication goes to fans of another precious metal. Even gold enthusiasts tend to view an ardent interest in silver as somewhat eccentric. To traders it is the “poor man’s gold” or “the devil’s metal”. For years those nicknames were justified by silver’s lacklustre returns and the wild ride its price took along the way. The devil’s metal is still not for the faint-hearted. But it has almost kept pace with gold over the past year and has outperformed it over the past five. With investment flows now following returns, a once-niche asset is inching towards the mainstream.

Logic suggests that silver’s price should move similarly to gold’s. It, too, is rare, pretty and inert, and so has been used to forge jewellery and coins for millennia. This long-established role as a store of value lends it “safe-haven” appeal when investors are nervous. As with gold, the fixed amount of silver in the Earth’s crust ought also to make it a good hedge against inflation. Sure enough, both metals’ recent rallies came as investors fretted over geopolitical chaos and persistently rising prices. In doing so they overcame another common tendency, for their prices to fall when real interest rates rise and vice versa, since they generate no income. So much for theory. In practice, different levels of mining supply and industrial demand ensure that the silver-to-gold price ratio is changing all the time. Over the long term, that has led to decades of disappointment for silverites. For most of the 1970s you would have needed to sell 30 to 40 ounces of silver to buy one of gold. Today it would be more like 90.

Speculators have been burned by the devil’s metal, too. After the global financial crisis of 2007-09, faltering industrial demand and a spotlight on haven assets meant silver’s price depended more than ever on traders’ whims. As a result, the silver-to-gold price ratio spent years moving in line with the gold price. A bet on silver became an amplified bet on gold—a relationship cherished by hedge funds, which would usually have had to pay for a margin loan to obtain such leverage. The relationship then fell apart towards the end of the 2010s, causing traders relying on it to lose their shirts, as silver abruptly fell out of fashion with investors.

Now it is back in vogue. Central banks have spent years building up their gold reserves. In September Interfax, a Russian news agency, reported that its government would soon start buying silver, too. Last year was the first since 2021 that silver exchange-traded funds, which individuals use to buy commodities, saw net inflows. This year traders in New York have been draining London's vaults of gold, amid fears that such imports may face tariffs in the future. They have been snapping up silver even faster—so much so, in fact, that the transatlantic price gap justifies loading bars of it onto commercial flights.

What is more, a widening gulf between supply and demand looks likely to keep the frenzy going. The annual supply of silver, driven by mining production and recycling, has contracted slightly over the past decade, according to the Silver Institute, a research outfit. Over the same period, industrial demand has surged by more than 50%, owing largely to silver's use in solar panels. Imports into China, which manufactures large quantities of these, have shot up. Since mining capacity cannot be expanded quickly, the imbalance should continue to boost silver's price for some time. As the world becomes a more fractious place, it is hard to imagine investors' demand for haven assets falling soon. Meanwhile, the incentives for governments to store value in places beyond the reach of Uncle Sam are growing. That is a big reason why central bankers have been buying so much gold of late. Some may be tempted, along with Donald Trump, to include cryptocurrencies in their reserves. But there is another precious metal that could do the job, too. It is time for silverites to come in from the cold."



Figure 1 - Sprott Physical Silver Trust (PSLV-NY) Weekly Price Chart; source - StockCharts.com