

# Silver has got its lustre back but beware the volatility

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Silver, which is currently trading at ₹62,110 per kilogram, has rallied around 11.7 per cent over the past three months. Experts say its prospects are bright and this is a good time to enter silver exchange-traded funds or fund of funds (FoFs).

## Rallying alongside equities

The equity markets have rallied globally over the past month or so owing to the expectation that the US Federal Reserve will raise interest rates at a slower pace than was expected earlier.

“Traditionally, silver has had a high correlation with risky assets like equities. Unlike gold, which moves in an inverse direction, silver tends to do better when the equity markets do well,” says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisers.

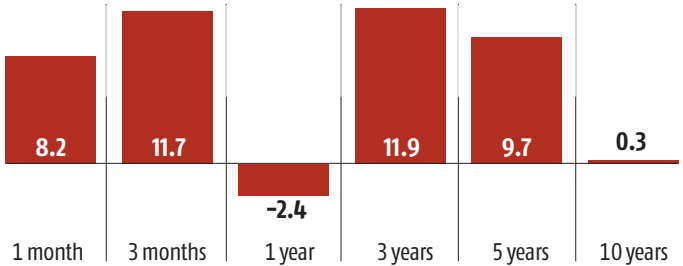
It has underperformed over the past two years. “It was trading at around ₹71,200 level in August 2020 and is currently at ₹62,110. After this spell of underperformance, it is expected to play catch up,” says Ajay Kedia, director, Kedia Advisory.

Industrial demand for silver is picking up. Electric vehicles (charging stations and batteries), solar panels and 5G technology all require silver. Meanwhile, its inventory is at a two-year low globally. “While the output from mines has been dropping continuously, industrial usage is increasing, which makes it attractive,” says Kedia.

Physical demand for silver — in the form of utensils, coins, bars, and jewellery — and investment demand from ETFs are also contributing to the demand from India. “India has imported about 8,200 tonnes of

## SILVER: UNDERPERFORMER OVER PAST DECADE

Returns (%)



Above one-year returns are in CAGR. Source: IBJA, Zaveri Bazar Compiled by BS Research Bureau

silver in the first nine months of 2022, which accounts for one-third of total global production. Imports are likely to cross 10,000 tonnes by the end of the year,” says Navneet Damani, head of research, commodities & currencies, Motilal Oswal Financial Services.

The current inflationary environment is positive for silver. “Its price history shows that during times of rising inflation, there can be an uptick in silver price. It tends to act as a hedge against inflation as its price is highly linked to general price levels in the economy,” says Chintan Haria, head-product & strategy, ICICI Prudential Mutual Fund.

Experts are bullish on its prospects. “We expect silver to offer an upside of 20-22 per cent over the next 12 to 18 months,” says Damani.

## Take the fund route

Currently, silver ETFs and FoFs from seven fund houses are available: ICICI Prudential, Nippon India, Aditya Birla Sun Life, HDFC, Axis, DSP and Kotak. The total assets under

management of this nascent category is ₹2,056 crore. Expense ratios are in the range of 0.09-0.55

per cent.

Traditionally, Indians have invested in silver via the physical route. But owing to the bulky nature of silver, storage becomes a challenge. “By taking the silver ETF, investors need not worry about storage or purity,” says Haria. Even safety-related concerns are taken care of.

## Place in growth basket

Silver tends to do well in a risk-on environment. Financial planners suggest it should be kept in the growth portion of the portfolio (because of its positive correlation with risky assets like equities).

“Owing to its high volatility, investors should put their money in silver with at least a 10-year horizon. Moreover, investment in silver funds should be done via the systematic investment plan (SIP) route to get the benefit of rupee-cost averaging,” says Dhawan.

He adds that buying aggressively via the lump-sum route should be avoided since there is still a considerable chance that the global economy, which is witnessing a slowdown, could tip into a recession in 2023. Risk-averse investors may avoid silver on account of its high volatility. Those with a moderate risk profile may invest 5 per cent of their portfolio in silver while those with an aggressive profile may invest up to 10 per cent.



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