

Market Spotlight

The way forward for inflation and investing in precious metals

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Where inflation is headed and what it means for investors

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Forthcoming monetary policy actions are of significant importance for investors. The beginning of a global rate-cutting cycle is underway. But investors should expect central banks to cut rates less than expected for the remainder of the year due to resilient economic growth. The inflation landscape continues to improve in developed markets with wage growth slowing and inflation achieving or moving closer to the target rate of 2% in Canada and the US. [Bond markets anticipate faster disinflation](#) ahead, reflecting delayed effects of tight monetary policies and expectations of lackluster growth.

Is inflation moving in the right direction?

Disinflation trends such as slowing wage growth are important because they're positive developments and act as key indicators when central banks are making rate decisions. Inflation progress should lead central banks to be less worried about second-wave inflation risks, less focused on recent inflation figures and more forward looking.

The shifting mindset of central banks from current inflation risks to growth development going forward reinforces the view that an important global rate-cutting cycles have started. The Bank of Canada announced its first rate cut in June and the [US Federal Reserve cut rates](#) for the first time on September 18, 2024. But the extent of rate cuts central banks can deliver remains uncertain. Markets are pricing in significant reductions which is in line with a return to a neutral stance within a year. Pricing a return to a neutral stance implies both a sustained return of inflation to 2% and several quarters of weak growth given the economy is running above its potential. While we anticipate central banks to

make cuts, we're skeptical about their willingness to reduce rates as aggressively as bond markets anticipate because the economy is more resilient than suggested.

We expect interest rate cuts will unleash sizeable pent-up demand. We foresee the output gap remaining in positive territory and [inflation persisting moderately above target levels](#). Within developed markets, we expect policy rates to remain 50-100 basis points (bps) above neutral rates in 12 months.

How does inflation impact fixed income and equity investments?

Overall, investors are facing a constructive environment for risky assets, characterized by faster disinflation, policy support from rate cuts and economic growth remaining surprisingly resilient. We project a positive medium-term investment landscape for various sectors including housing, public infrastructure and technology.

For government bond yields, we anticipate limited downside—making the outlook less attractive. Yields have already declined to levels near or below the lower end of the range we outlined in our [last quarterly Perspectives](#). While ongoing disinflation should exert downward pressure on yields, we expect resilient growth to provide an offset. We anticipate the correlation between yields and inflation will continue to remain unusually low. That said, government bonds remain essential in a diversified investment portfolio as a hedge against a more pronounced economic slowdown—a scenario that would result in a higher correlation between yields and inflation.



Could your investment portfolio benefit from having a silver lining?

Daniel Greenspan

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Although silver may get a bit less attention than its cousin gold, its story as an investment option within a portfolio is an interesting one. Consider the following: both precious metals hit a low in February of this year, but as of early September, silver is outperforming gold by approximately 4%.

Silver's sunny story as a precious metals investment

Indeed, it's hard to talk about [investing in silver without mentioning gold](#). After all, the prices of both are driven by many of the same factors, such as interest rate expectations, the US dollar outlook, and geopolitics. But there's a key difference that's been distinguishing the price of silver (and therefore its investment viability) from gold as of late—demand factors.

Industrial demand for silver is growing at a much more rapid pace than gold. When demand increases, generally so does the price—making silver attractive for investors who are considering precious metals. But why is demand growing? Because silver is essential to the production of solar cells. Therefore, the growth in solar power is driving a significant increase in the demand for silver. In fact, solar demand for silver was up 63% Year-over-Year in 2023 and is forecasted to keep growing as global solar capacity continues to develop. Another contributing factor is

mining volume. Because the amount of silver mined each year is flat, demand for the metal exceeds the supply. And as mentioned earlier, when the supply of a commodity is low and its demand increases, so too does its price.

The gold to silver ratio and its attractiveness for investors

So where is the price of silver now and where should investors expect it to go? We can't understand the attractiveness of investing in silver until we understand its relation to the price of gold—known as the gold to silver ratio (the gold price divided by the silver price). Despite its recent outperformance and growing demand, the gold to silver ratio currently sits at around 88:1—well above its 10-year average of 79:1 (September 4, 2014 to September 4, 2024). This implies the price of silver has room to grow, making it an attractive precious metals investment alternative to gold.

When you factor in the story of silver's ongoing demand and its likely growth potential, we continue to see a case for a [strategic investment portfolio asset allocation](#) in the precious metals. Depending on your investment objectives, this may be the time to give your investment portfolio a silver lining.



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