

Silver ETFs outperform gold funds in one month. Should you invest in them?

By Shivani Bazaz ET Online Last Updated: Mar 03, 2022, 09:26 AM IST

Synopsis

In times of crisis and uncertainty like now, gold has been touted to be the best investment option. However, Silver ETFs are catching the attention of mutual fund investors.



In times of crisis and uncertainty like now, gold has been touted to be the best investment option. However, there is another theme that is catching the attention of mutual fund investors. In the last one month, the newly launched silver ETF category has outperformed gold funds. Silver ETFs have given an average return of 8% in the last one month. The question is: can silver ETFs and FoFs replace gold funds as a portfolio diversifiers in your mutual fund portfolios?

At the moment, there are eight schemes, including ETFs and FOFs investing in silver. All these schemes are very new as they were launched after Sebi gave an approval in the later half of 2021. Only one scheme, ICICI Prudential Silver ETF, has actually completed a month in the market. This ETF has offered 3.44% returns in one week and 8% returns in one month.

Mutual fund managers believe that the geo-political scenario and the environment of uncertainty and chaos is pushing these schemes up. "Since the pandemic broke out, the Fed balance sheet has steadily expanded from \$15 trillion to around \$28 trillion. This first helped the equity markets and subsequently the debt market. However, over the past few weeks, owing to geo-political tensions, there has been a broad based commodity rally which includes crude, coal, steel, zinc. Some of the other commodities like aluminum, wheat are at multi-year highs. Similarly, silver, which is considered as an industrial commodity, too, has witnessed an uptick," says Chintan Haria, Head Product & Strategy, ICICI Prudential Mutual Fund.

The Russia-Ukraine war has triggered a massive move into safe-haven metals recently. Market analysts believe that fears of supply disruptions, economic consequences, and inflation are pushing precious metals prices to new multi-month highs. Hence both silver and gold are seeing price rise and that is reflecting in the returns posed by these funds.

"We believe till the time the uncertainty continues; silver will stand to benefit just like other commodities. At the same time, one should remember that silver is just coming off a decade-long consolidation phase. If inflation remains persistent, then both silver and gold may continue to do well given their role as a hedge against inflation," says Chintan Haria.

However, many mutual fund advisors believe that silver has not proven itself as a hedge allocation for Indian mutual fund investors. Since investments in silver are only done via ETFs and FOFs, unlike gold funds, these advisors ask investors to tread with caution. The ETF route is meant for more aware and evolved investors.

"Our view is that whilst silver is up and has marginally outperformed gold over the last one month, this is synchronous with the price increase in other metals as well. However, longer term returns for silver are still fairly low and thus investors may not wish to invest simply on the basis of the very short term recent performance. Equities and silver tend to move in similar directions over long periods, whilst gold acts as a portfolio hedge and thus silver ETFs should ideally be added to your growth portfolio bucket but can't replace the hedge value of gold funds," says Vishal Dhawan, Founder Plan Ahead Wealth Advisors, based in Mumbai.
