

TRANSCRIPT: EPISODE 359

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[INTRODUCTION]

Staci West (SW): Welcome back to the Investing on the go podcast brought to you by FundCalibre. In this episode, we dive into the enduring allure of gold and silver in an uncertain economic climate.

James Yardley (JY): I'm James Yardley and today I'm joined by the one and only Ned Naylor-Leyland, manager of the Jupiter Gold and Silver fund. Ned, thank you so much for joining us today,

Ned Naylor-Leyland (NNL): And very good afternoon to you, sir.

[INTERVIEW]

JY: Now, Ned, I think you are one of the biggest advocates for gold that I know. Well, no, sorry, that's not true — you're the biggest advocate for gold that I know. So I think I know the answer to this first question, but gold has obviously done very well, is now the time to take profits?

NNL: Well, as you know James, I don't really see it that way. I mean, I think it should be something that you think of as a core holding. Now, you know, there are times, of course you should top slice investments of all kinds, but physical gold, which I think more what you're asking than maybe the mining equities, which of course we like as well. I don't think that's the same. I think it's money. It's better than Sterling. You should own it. Should you top slice? Not really, in my view.

History suggests of course that the right way to invest in physical gold is to dollar cost average on the way in. So if you did do that, you're certainly not gonna be selling any at the moment. You would just be consistent in the way that you accumulate it. But you know, the move we've had has been substantial. It just hasn't been in our world yet, which is a strange thing for people to understand because the price action has been very strong and yet long only investors, in other words, people who put the money up properly to buy

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stuff as it were. Having participated, this move has very much been hedge funds and trend followers who money to make investments. That's where the price action has been coming from, not from 'our world'. So, so no, I think that there's plenty more to go for and it'll be interesting to see if those long only investors join in at some point in the next six to 12 months.

JY: And so you believe that everyone should have a portion of gold in their portfolio permanently, just as an allocation?

NNL: Yeah, I mean, whether they own it physically outside the portfolio or whether they own physical gold, silver, gold miners, silver miners within the portfolio. I do think that in both cases, yes, these should be things you own as hedges, as natural diversifiers. What we've learned in the last few years, not just this year, is that there are periods where bonds and equities do badly at the same time. And generally, not always, but generally there'll be an environment where gold, gold miners, silver and silver miners do well. So I think there is an argument.

I think the question is more what the percentage your allocation is. And to further answer your question about permanence in the portfolio, just remember that our outcomes in the UK are very much dependent on government policy and central bank policy, and ultimately central banks, less so in the UK and elsewhere, hold a large portion of their reserves in gold bars as a permanent fixture. So, you know, I think it is something which people haven't done for a long time, but yeah, I think you should behave as grandma might have said "do as they say, not as I do".

JY: Indeed. Well, I think we should explain to the listeners, I think your fund, I mean you have a mixture of both physical gold and silver and gold and silver miners isn't that correct?

NN: Yes, exactly. It's sort of four subcategories.

JY: And I guess one of the criticisms of gold miners over the last few years is that they tend to have perhaps underperformed the gold price a bit or not, given you that kind of beta on the upside as you might have hoped for. So I mean, is there a catch up there or do you why have they underperformed so far, I guess?

NNL: I wouldn't say they've underperformed. I think that's a bit harsh. But what I will say is they haven't delivered the level of outperformance that we have seen previously for short periods. And I think those of us that like these things and understand why you would own them are looking to see happen. But this sort of circles back to what we were discussing earlier, or rather I mentioned earlier, which is that we really haven't had anybody join in yet. You know, ultimately gold and silver miners are equities, so they are competing for investor capital with you know, bank shares or whatever it might be. And thus far we have not seen people go, goodness, this is makes so much sense. That's why goldmines having said that their operating performance, so the amount of of cash flow they're generating is really dramatically better than people realise and has been the case in the past.

So really the only thing that's missing to create the beta as you describe it, so you know, an environment where gold and silver mines can do more than let's say 1.4, 1.5 times the gold price, which is broadly what they're doing at the moment, up towards two times or three times, we need people to actually commit capital, jump in and get involved.

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So, you know, it is in that way like every other kind of equity, you know, the reason Nvidia got to \$3 trillion market cap is because everyone was buying it, not because they were looking at it or discussing AI and deciding this was an exciting theme, it's because they actually ended up committing capital to the sector. So really, you know, I think that this observation, which is a fair one, which is they haven't quite set far yet, is a reflection of the fact that we haven't yet had broader participation.

JY: So how are you positioned in the fund at the moment? Are you favouring the miners over the physical and are you favouring silver over gold or gold over silver? How are you positioned it?

NNL: Well, so when you mentioned beta, you know, with our beta one is gold. So when we think about gold price going up, let's say 100 or 100 or whatever, what I just said is that gold miners are doing about 150 and gold miners when gold's doing a 100. So obviously you want more gold miners than gold because they're outperforming. Now, obviously it's also true that if they were doing badly, you would want more of the physical and less of the mining stocks. So yes, we like the mining equities. Silver is another way of expressing that beta. So silver has generally a bit of a beater on gold. It too is lacking flow. But overall our split is about 18% in physical gold and silver, which is broadly split equally between the two metals. And then well 82% in mining equities.

The point of the fund, remember, is to deliver attribution. So in other words, a bit more bang for the buck. And if that's the case, then you need the miners in there, you want silver in there because it has more ability to deliver that bang to the buck than the metal on its own, which is really just like I mentioned in the beginning, a form of money. You know, gold coins are, particularly if you buy briton or sovereigns in the UK, they are legal tender, they're money now they can do very well relative to sterling, but the idea that will erupt in your portfolio is a little fanciful, whereas there is at least the potential for that from silver and the mining stock. So yeah, we've got lots of that in there and I'm very bullish of both.

JY: And what do you see for the gold price going forward from here? Why has it been so strong recently? I mean, we've obviously had increased geopolitical concerns, we've had Trump and the tariffs and so forth. There is this sort of talk about the concerns about the dollar. I mean, what are your thoughts there? What are your thoughts on fiat currencies and what is the potential for gold here over the next few years?

NNL: I mean one of the things I mentioned before, which is these futures markets buyers. So what happened was a year ago was exactly a year ago the US dollar gold price. So the price of gold in dollars rather than serving it broke out to an all time nominal high price. Nowadays in financial markets, a breakout to a new high is accompanied by swarms of derivative bias outside of our world, which are very, very powerful. So that's been very important in terms of driving price.

Having said that, there is another factor which you've touched on too, which is I suppose as you frame, I think you framed it as geopolitics, but what I would say is, think about it like this. Only two things have ever been considered to be risk free in our lifetimes or our parents lifetimes or our grandparents lifetimes: One is a gold bar and central banks hold gold as risk-free rather than US government bonds. And the other is US government bonds.

And what has changed is the market started to become worried on two levels about their holding in US treasuries. For US government bonds. Firstly, they're worried as we are in the UK the scale of the debt. So there comes a point where it all feels a bit let's say late stage. And then of course the other one is the language coming from the White House, which has changed quite meaningfully of late talking about de-globalisation and pulling back from the role as global policemen. The dollar and the US government bond

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market has been supported by really a very powerful form of synthetic buying of treasuries driven by oil and gas producers.

So whether that's the Middle East or everywhere recycling their, their sales into US government debt. And this has really underpinned all financial markets for 50 years. And this stuff is all very much up in the air at the moment and that makes gold look very good because gold of course, not being issued by an individual government and being limited in supply. It's the neutral form of reserve asset the same way the US government bond is not neutral. So whenever you think about gold its performance, you must think about it with relation to the other thing that people are thinking of in that way, which is US government bonds.

So, you know, two things, the debt not good growing pretty dramatically as it is here. And then also this change in language and behaviour in the White House. All of this supports people reaching across for gold as risk free.

JY: You seem to suggest earlier that people haven't really started to buy it yet. What were you getting about is that institutions aren't buying or retail investors aren't buying, or...

NNL: So neither of the above are really buying, although they are in China. So look, I think that the trick here is to recognise that I mentioned long only when I say that, what I mean is Western financial markets. So, so your clients the people I generally talk to, they're not allocated at all to gold. They haven't been buying it. The buying has come from central banks. That's true. The central banks have been buying more. I know that's a narrative in the market that people talk about, which is central banks are buying more gold and selling US debt. That's true as well. Like I mentioned Chinese retailer have been buying, but the biggest potential buyer of gold by a long way is <inaudible>. The vast trillions in investible capital that sit in portfolios really hasn't participated at all, in fact is very, very stark.

The difference between price action so far and the lack of participation from people who have, I don't know, large positions in the US equities and gilts and all the other things that people hold in their portfolio. So it's a strange situation, but it's very exciting for me because, or for us, because at a certain point I expect they will want to do it probably when rather if, rather than when we see other things doing less well. So we can see markets go lower again like they did in Q1.

Then I think the good performance that we're seeing in gold and the good performance we're seeing on the ground in gold miners will drive people to consider very seriously, do I need to do this now at the moment they're looking and they're interested, but we haven't seen any rotation, we haven't seen that move across yet.

JY: And silver often lags gold but can outperform in bull markets. I mean, what's your view on silver's trajectory here going forward? I mean, can silver still perform if the global economy falls over, for example?

NNL: Absolutely, yes. Gold and silver are tied at the hip in terms of price direction. Effectively the same observation that I've made about gold and why it does well, it's true of silver, but silver is about one 10th of the size. So it's extremely sensitive to even more sensitive to flows and participation and whether people are coming in or around. It's just very, very quiet at the moment. But you made an excellent point there, James, about the lag. Very, very normal that when gold goes silver goes and it goes very, very much harder in due course, but it does do it a little bit later in the cycle.

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So the fact that gold's already had a big move and silver's done fine, but it hasn't sort of set fire yet is interesting. And if we look back at the QE period that followed the great financial crisis as they call it, the GFC in '08 very much the same thing happened, which is for the first year and a half or so gold and silver going up together, gold slightly outperforming silver actually, which was frustrating for people owning silver because they were looking for an extra return.

And then at a certain point after burners came on and still ended up going up four times what gold went up over a 12 month period. And I think that can happen again. It's just a case of the same observation on May before, you know, we need to see asset allocators, wealth managers and even individuals go, I need to do this now and actually move rather than looking at it and discussing it and saying, isn't that interesting, but actually moving on it when that happens.

So that's when silver really goes and I have every reason to expect at some point it should challenge, its nominal all time high \$50 an ounce. It's been there twice before in history, once in 1980 and once in 2011 and we're about \$33 now. I think that's a very interesting level to keep an eye on and if we can get through \$50 or other when we can get through \$50, then what would anticipate it might behave a bit like gold has in the last 12 months. So really it could gather momentum quite meaningfully above \$50. But you know, I do like silver at the moment, our portfolio is 50% in silver, 50% in gold and, and I'm more bullish of silver over let's say the next 12 to 24 months than I'm of gold, although I'm bullish of both.

JY: Very good. Well that's seems like a good place to leave it Ned. So really interesting thoughts as always and thank you very much for joining us today.

NNL: An absolute pleasure.

SW: A truly unique fund, Jupiter Gold & Silver invests in both physical gold and silver bullion, as well as gold and silver mining companies. For more information on the Jupiter Gold & Silver fund, please visit fundcalibre.com – and don't forget to subscribe to the Investing on the go podcast, available wherever you get your podcasts.