The Silver Bull is Not Transitory

Transitory. That's something we've been hearing a lot lately.

At its latest FOMC meeting the Fed naturally decided to keep the fed funds rate target at 0.25%.

It also decided not to mess with the $120 billion monthly bond buying program to help "support the flow of credit to households and businesses." Par for the course.

Meanwhile inflation numbers of the previous four months have been anything but typical. The Fed's favored Personal Consumption Expenditures Price Index has soared: in February it was 1.6%, March 2.4%, April 3.6% and in May 3.9%.

But headline CPI recently came in at 5%, reaching a 10-year high.

These recent months of elevated and increasing prices may have been exacerbated by price plunges due to the COVID-19 pandemic. But those were for a few months, and their effects should already have dissipated. And yet, they haven't.

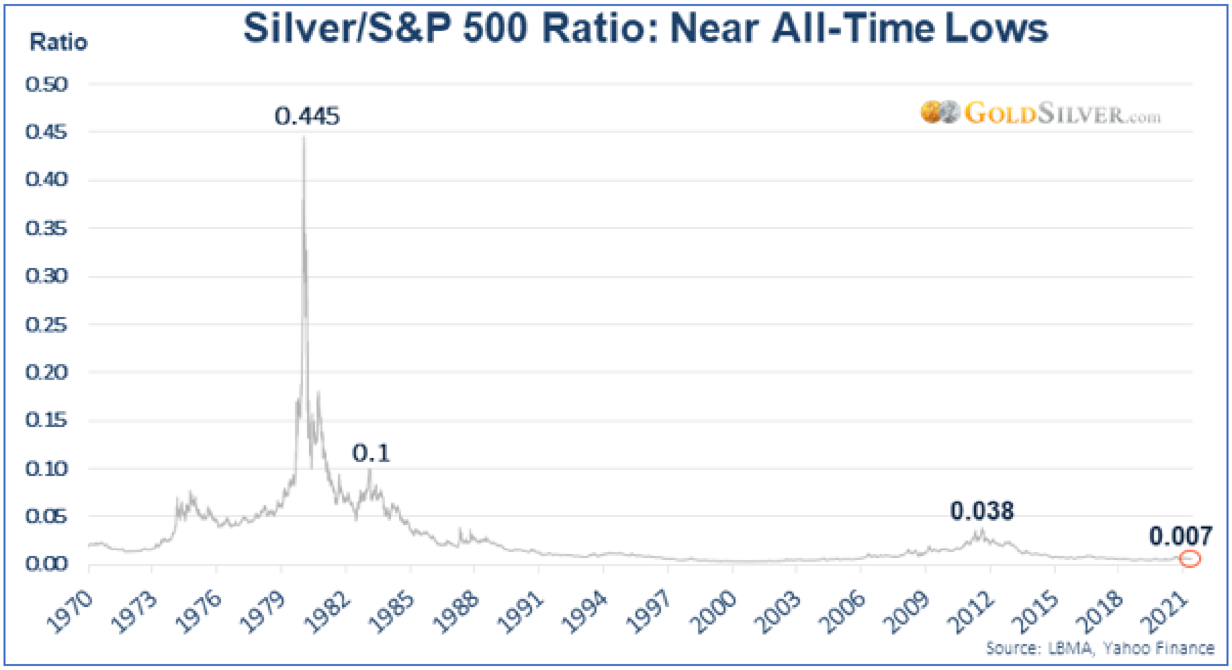
In fact core inflation, which excludes volatile energy and food prices, recently touched 3.8%, its highest in 30 years.

The Fed is looking increasingly wrong in its assessment that the inflation numbers we've been seeing are transitory. That means investors would do well to seek shelter from inflation-protection assets. And as I'll show, for multiple reasons, chief among them is silver.

Silver is Cheap Vs. Stocks

It's always informative, and sometimes eye-opening, to look at asset prices in relation to other assets. It usually provides good perspective on relative pricing. In that vein, there's little more surprising than to see just how cheap silver remains relative to the S&P 500 ratio.

The following chart shows the long-term ratio of silver to the S&P 500.



Source: goldsilver.com

It's currently sitting near its 50-year lows. For what it's worth, silver would have to rise by a factor of 63 times just to match its level at its $50 peak in 1980. While this might sound sensational, my point is these conditions have existed in the past. This alone suggests explosive potential upside as the stock market matures and likely corrects, while silver continues to climb.

Physical Silver Demand Remains Elevated

Of course, protection from inflation and uncertainty are great reasons to buy and own silver. And as I described above, inflation appears to be coming back with a vengeance. In any case, many investors are hedging against the risk that it becomes entrenched.

In the past 15 months, prices for physical silver are higher than normal. That's because demand for physical products has remained elevated, leading to sustained high premiums over the spot price. And that's if you can even get your hands on them. Many of the most popular coins and bars have been persistently out of stock. Premiums are typically 40% or higher, which is nearly triple normal levels.

What's more, in its recent World Silver Survey 2021, the Silver Institute is forecasting continued strength this year. They expect physical demand to climb by 26% after a very strong 2020. In fact, they foresee overall demand, from all sectors, to be up by 15%, nearly doubling supply growth of 8%.

One area of note is demand from flexible electronics. The Silver Institute indicates demand for silver in printed and flexible electronics is about 48 million ounces annually. They forecast demand will rise to about 74 million ounces in 2030, absorbing 615 million ounces of silver in this decade alone.

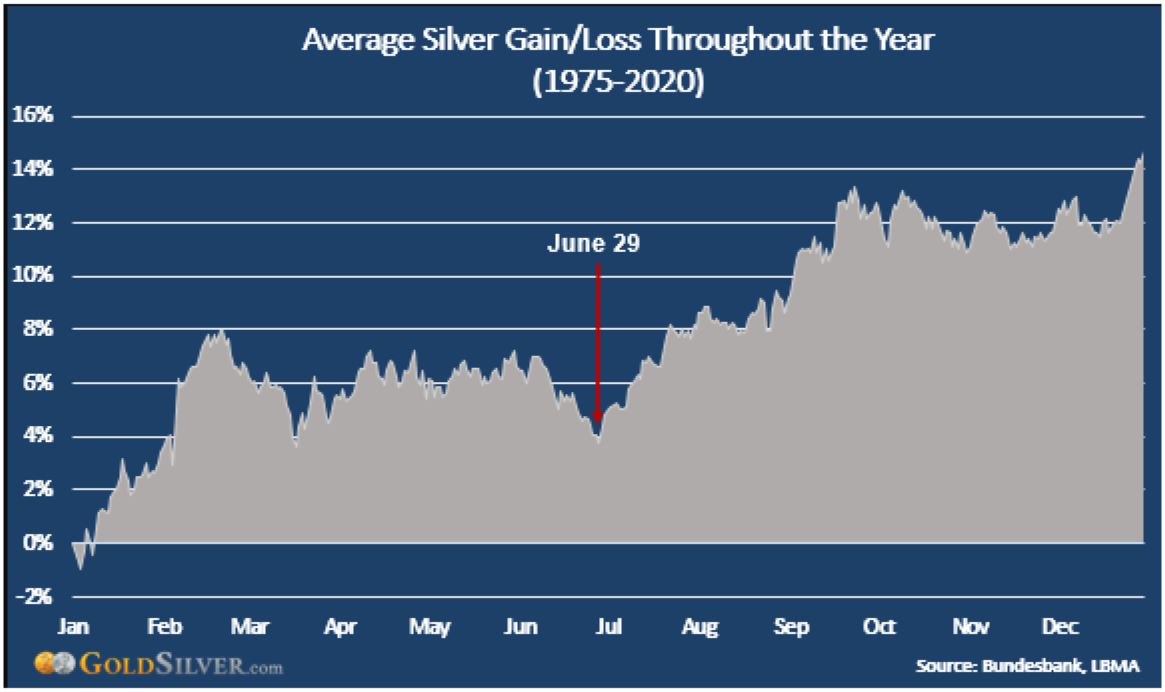
As technology becomes increasingly commonplace in our daily lives the world over, printed and flexible electronics are likely to play a bigger role. Consider that wearable electronics like smartwatches, appliances, medical devices and a host of internet-connected devices are exploding in use. Sensors for light, motion, temperature, moisture and motion all make use of printed and flexible electronics.

So, it's natural that the electronics subsector promises to be the fastest growing demand for industrial silver usage.

Silver's Seasonal Outlook is Bullish

Another indicator that now may be a great time to be bullish on silver is its seasonal trend.

The following is a 45-year chart, from 1975 to 2020, which averages the annual silver price tendency.



Source: goldsilver.com

From this, it's quite clear that silver tends to mark a mid-year low right at the end of June. And from that point on, on average, the silver price enjoys a strong third quarter.

How to Play Silver Now

In my view a basket of silver stocks is a great way to approach the high potential of this sector right now. One of my favorite options to accomplish this is the **ETFMG Prime Junior Silver Miners ETF (NYSE:SILJ)**. With over 1 billion in assets and average daily volume over 1.5 million shares, SILJ offer plenty of liquidity to enter and exit at will.

Its top ten holdings represent over 63% of overall assets. And these include Hecla Mining (NYSE:HL), Pan American Silver (TSX:PAAS; Nasdaq:PAAS), First Majestic Silver (TSX:FR; NYSE:AG), MAG Silver (TSX:MAG; NYSE:MAG), Yamana Gold (TSX:YRI; NYSE:AUY), Hochschild Mining (LSE:HOC), SSR Mining (TSX:SSRM; Nasdaq: SSRM), SilverCrest Metals (TSX:SIL; NYSE:SILV), Turquoise Hill (TSX:TRQ; NYSE:TRQ), and Endeavour Silver (TSX:EXK; NYSE:EXK).

In the end, the Fed is all about managing expectations, not about tell us what we should *really* expect. Therefore, actively hedging for inflation with a silver miners ETF such as SILJ looks like a great option with a lot of potential upside.

One thing is certain; silver is in the early days of a massive bull market. That's why in the Silver Stock Investor newsletter I provide my outlook on which silver stocks have the best prospects as this bull market progresses. One stock in the portfolio is up 50%, and several more are up over 30% since the start of 2021 alone. Many offer 5x to 10x return potential in just the next few years, especially as silver heats up.

Remember, silver’s been rising on balance for the last couple of years, and looks primed to rally strongly on the back of multiple drivers.

The key takeaway is that silver’s bull market is anything but transitory.