

THE SCANNER

Gold and Silver after the surge: Opportunity or overheating?



Since January 2025, precious metals have experienced extraordinary appreciation - gold has risen 92% to \$5,070 per ounce, while silver has surged an even more dramatic 245% to \$99 per ounce. Following such exceptional performance, investors must carefully consider: Do current valuations represent opportunity or overextension?

Multi-faceted lens

In order to answer this critical question, we analysed the metals through a multi-faceted lens. Factors that we studied included the historical performance and volatility of the metals, key technical levels. Statistical imperatives, and the relationship between gold and silver prices.



Historical performance and volatility

In the twenty five year period 2000-2025, gold delivered a total return of 1,075%, with an average annual return of 10.9%. Over the longer period from 1971-2024, gold averaged 7.9% annual returns compared to 10.7% for stocks. However, it also registered significant volatility. Gold's biggest drawdown was in 2013, when prices dropped 28% from historical highs. Silver spins a more dampened story. Silver's long-term returns (approximately 5.9% annually from 1975-2025) trail both gold and equities, but the metal delivers explosive gains during specific market environments. Further, its volatility is even more pronounced, the metal lost 90% from its 1980 peak of \$35 and required 31 years to set a new record in 2011. Following that peak, silver declined 70% before bottoming in 2016.



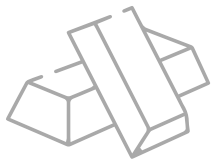
Message in the charts



Gold Support Zones

Primary Support: \$3,400-\$3,500 – From April to September 2025 consolidation area representing roughly 30-32% downside

Secondary Support: \$1,900-\$2,100 - Pandemic-era breakout zone; catastrophic support requiring fundamental shifts



Silver Support Zones

Primary Support: \$47-\$50 – October to November 2025 consolidation representing approximately **50-52%** downside

Secondary Support: \$33-\$36 - Early 2025 breakout and 2011 record high area; roughly **63-66%** correction

Both metals show firmly bullish trends above their first support levels, though momentum indicators are extended after such dramatic rallies.



Statistical Analysis

Both metals are trading at statistically extreme levels relative to their historical norms. Gold's 2-standard deviation (2SD) level sits at \$2,781.1. This means that at current price, i.e., at \$5,070 per ounce, gold is trading approximately **82% above the 2SD threshold**. Silver's 2SD level is at \$40.8 per ounce, with the current price of \$99 trading roughly **145% above its 2SD threshold**.

It should be noted that silver's **145%** premium to its 2SD level versus gold's **82%** premium reflects silver's characteristic higher volatility and tendency to overshoot in both directions. This statistical divergence also helps explain why silver has outperformed gold by such a wide margin during 2025.

However, in both the cases, this would be considered as extreme deviation. To put this in perspective, in a normal distribution, prices should trade above the 2SD level only about 2.5% of the time. The fact that both metals are significantly exceeding these statistical boundaries suggests one of the following:



Paradigm shift

The fundamental structure of the precious metals markets has changed, requiring a recalibration of what constitutes "normal" pricing.



Extreme overextension

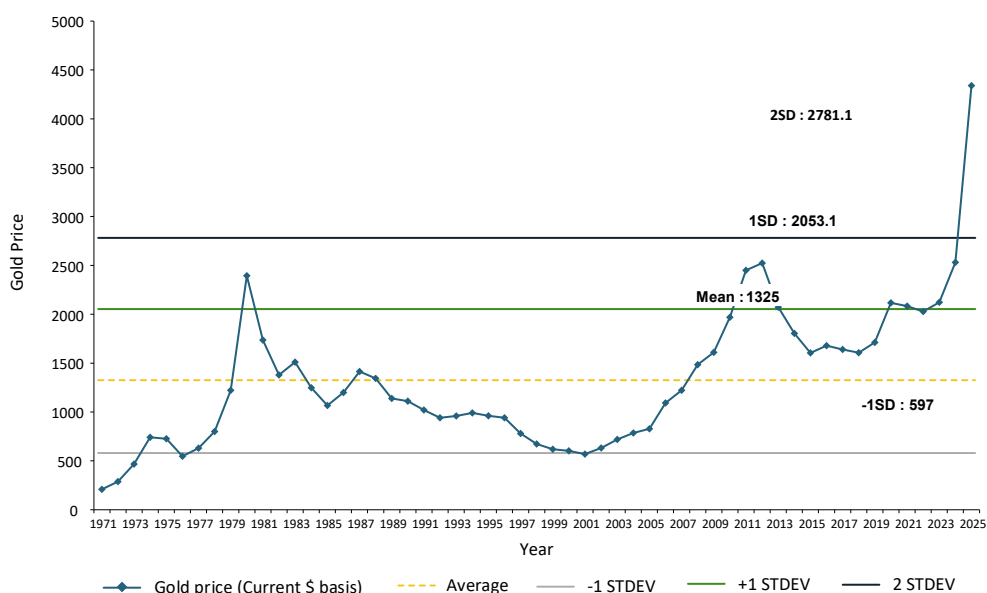
Prices have been driven by momentum and will eventually mean-revert towards historical ranges.



New normal range

The 2SD levels will rise over time as recent high prices are absorbed by the statistical base.

Exhibit: Inflation adjusted gold price (\$/ounce)

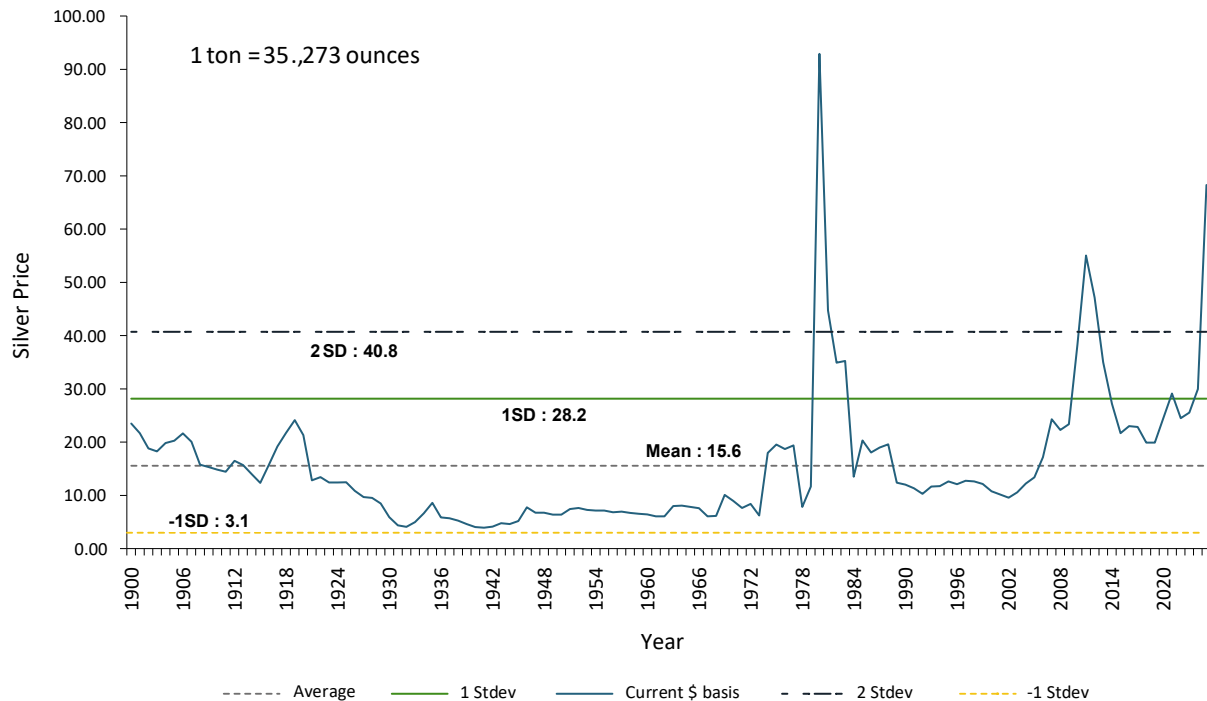


Gold price is adjusted for 3% inflation taking current price as a base

Source: Bloomberg

Historically gold price tends to get support at -1STDEV and resistance above +2STDEV

Exhibit: Inflation adjusted silver price (\$/ounce)



Silver price is adjusted for 3% inflation taking current price as a base.

Source: Bloomberg, www.usgs.gov

Historically silver price tends to get support below mean and resistance above +2STDEV



Momentum Analysis - RSI overextension across timeframes RSI Fundamentals and Current Readings

The Relative Strength Index (RSI) is a momentum oscillator measuring the speed and magnitude of price movements on a scale of 0-100. Traditionally, the overbought threshold is RSI 70; readings above 80 suggest extreme momentum that markets struggle to maintain. Further, historical observations indicate that readings above 90 occur less than 2% of the time and typically mark unsustainable momentum. In this context, it is interesting to note that **monthly chart readings show gold at RSI 95 and silver at RSI 94, exceptionally rare levels representing statistical extremes. These readings represent parabolic exhaustion zones, not merely overbought conditions.**

Weekly timeframe confirmation

- Weekly RSI shows gold at 80 and silver at 83, both firmly entrenched in overbought territory
- The persistence of elevated weekly RSI while monthly RSI reaches extremes indicates multi-timeframe momentum exhaustion
- This alignment suggests that overbought conditions have persisted across multiple time horizons rather than representing a brief spike

Gold vs. Silver RSI Differential

- Silver's weekly RSI of 83 exceeds gold's 80, indicating that silver has been the momentum leader
- Silver's higher reading suggests greater vulnerability to profit-taking given its tendency toward higher beta
- The divergence implies that if a correction materialises, silver could experience more violent downside due to its more pronounced volatility in both directions

Exhibit: Gold RSI Chart

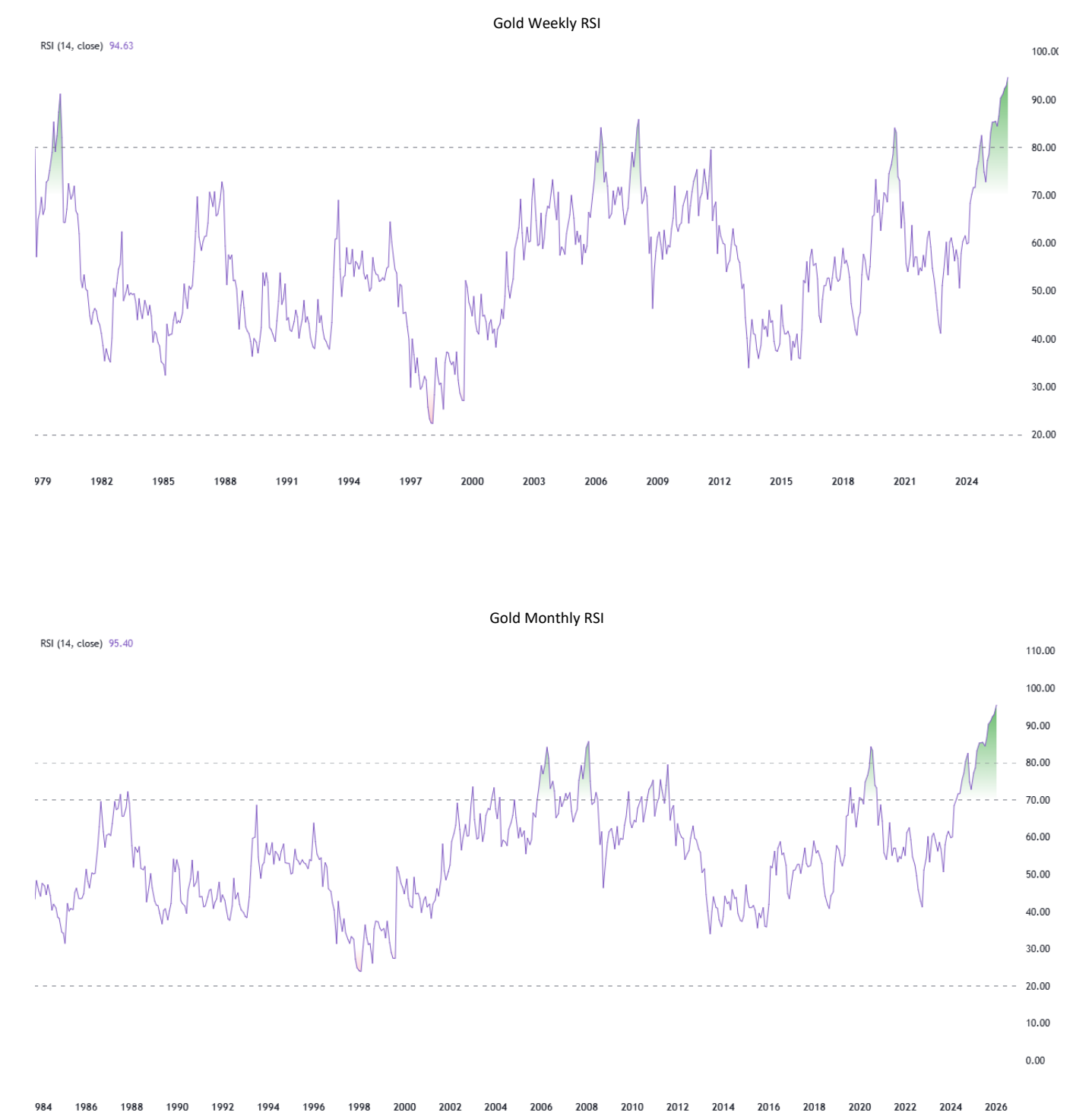
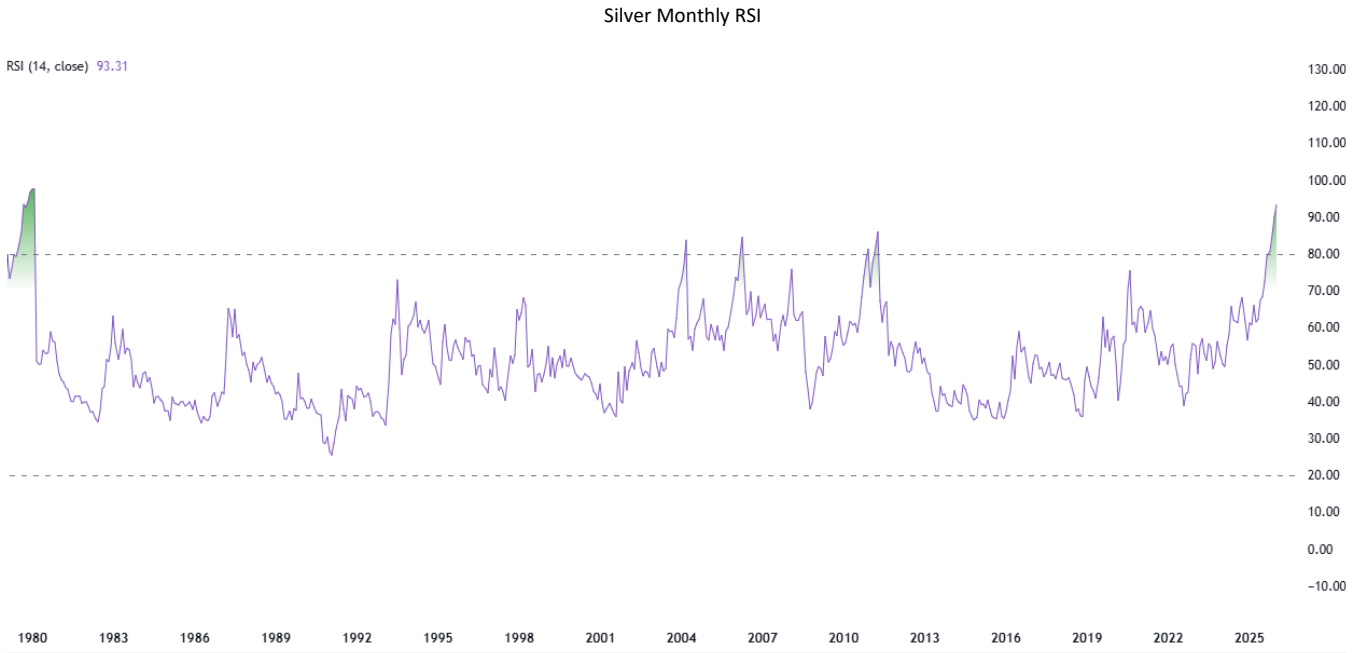
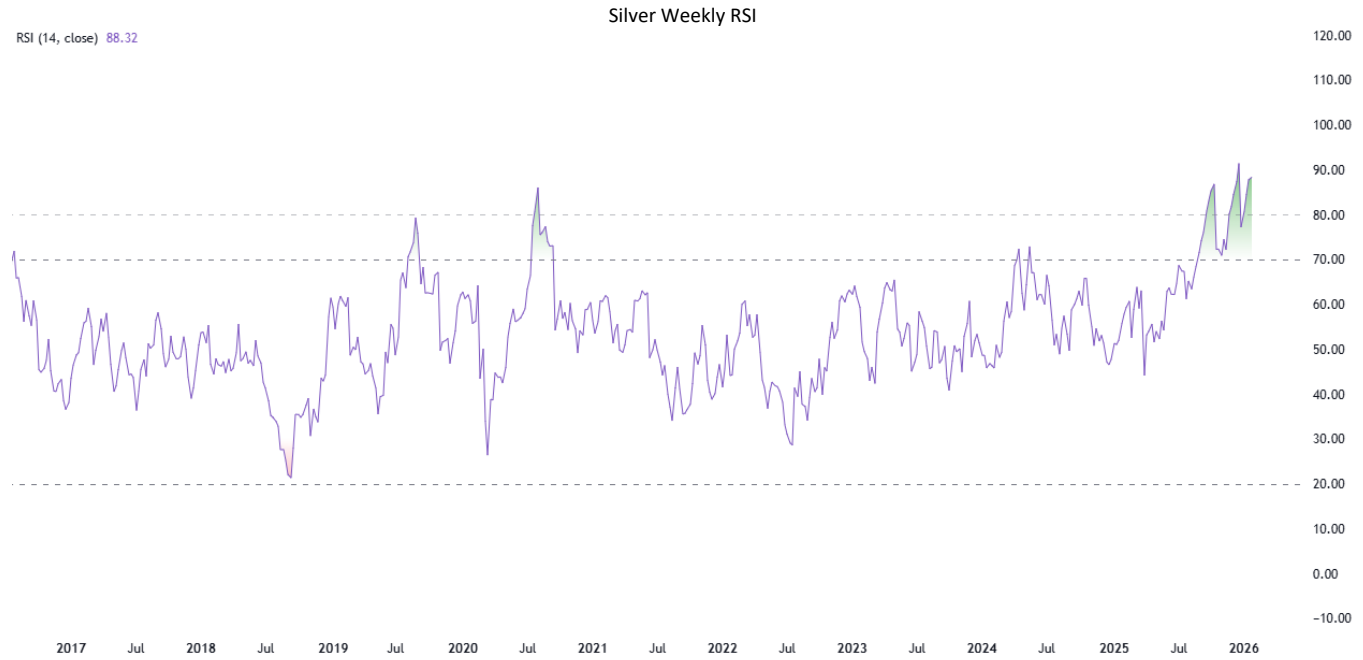




Exhibit: Silver RSI Chart





The Gold-Silver Ratio

The gold-silver ratio, defined as the number of silver ounces required to purchase one ounce of gold, currently stands around **51** (calculated as **5,070/99**). This metric provides valuable insight into the relative value between the two metals.

Historical context:

Long-term average
Approximately 69:1

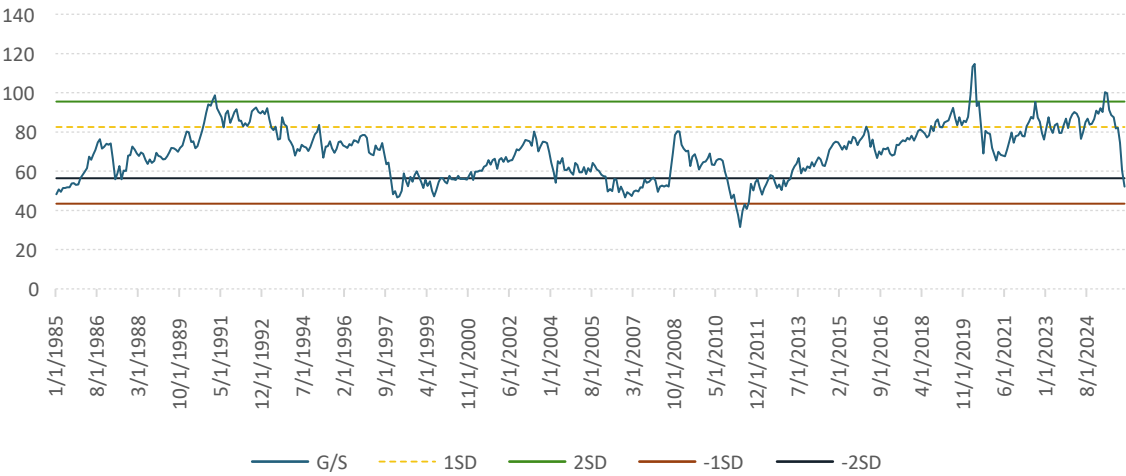
Recent years (2020-2024)
Often traded in the 79-80 range

Bull market extremes
Can compress to 40-50 during silver rallies

Bear market extremes
Can exceed 100 during silver weakness

The gold-to-silver ratio chart spans over four decades, providing data from January 1, 1985 to January 1, 2026. Currently, the ratio stands at approximately **51**, representing a dramatic compression from the elevated levels of 110 observed in 2024. This substantial decline of **59** points (approximately **54%**) in just over a year signals that silver has significantly outperformed gold during this period, delivering exceptional returns to silver investors.

Exhibit: Gold to Silver ratio



The long-term historical average of the ratio sits around 69, serving as a critical reference point for understanding whether silver is relatively overvalued or undervalued compared to gold. With the current ratio trading at **51**, it has moved approximately **26%** below the long-term mean, suggesting that silver may have become relatively expensive compared to its historical relationship with gold.

To conclude, gold and silver have delivered extraordinary returns, but current valuations suggest caution. Both metals are trading significantly above statistical norms. Investors should resist temptation and wait for more favourable entry points. The bull market may have years to run, but patience in timing entries will likely be rewarded with better risk-adjusted returns. Consider this an environment for disciplined position-building rather than aggressive momentum chasing



Abhishek Tembe

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? What is your analysis of gold price movement?

Gold experienced a significant rally of approximately 1,233 points (185%) during the 2008-2012 period, driven by the global financial crisis and subsequent economic uncertainty. This remarkable surge took gold from around \$600-700 to over \$1,900 per ounce. Following this explosive move, gold entered an extended consolidation phase lasting nearly 10 years (2012-2020), characterised by a broad horizontal range with no sustained directional momentum. This prolonged sideways action indicates that the market was absorbing the previous gains and establishing equilibrium.

In the backdrop of the current landscape, traders should exercise caution with new entries. The market's behaviour after such a prolonged consolidation can be unpredictable, making disciplined entry and exit strategies essential. Traders and investors should pay heed to the following:

- Await clearer directional signals
- Use appropriate risk management strategies
- Consider scaling into positions rather than committing large capital at once
- Monitor key support and resistance levels closely

? What is your overarching advice to investors basis the analysis done?

In brief, I would like to say that timing is critical. After such explosive rallies, the probability of near-term consolidation or correction has increased substantially. While both metals could continue higher, they could just as easily pull back 30-40% before resuming uptrends. Rather than committing significant capital at current levels, consider a staggered investment approach-deploying capital in tranches as prices pull back to more favourable entry points. This strategy allows investors to build positions incrementally, averaging down if corrections materialize while maintaining discipline. Patient investors who employ such systematic entry strategies typically achieve better risk-adjusted returns than momentum chasers

? Could you also spotlight factors that could go wrong?

There are three factors to consider from a risk perspective.

- **One, valuation concerns continue to persist.** After gold's 92% gain and silver's 245% surge, both metals are trading at historically elevated levels. Such extreme moves typically require consolidation periods, and assets that rise quickly often experience painful corrections.
- **Monetary policy risks.** If economic growth accelerates or inflation persists, central banks might maintain higher rates longer than expected. Higher real interest rates increase the opportunity cost of holding precious metals. A resurgent dollar would create additional headwinds, making metals more expensive for international buyers.
- **Silver specific risks.** Silver's industrial sensitivity creates recession vulnerability. A severe downturn would delay solar installations, reduce electronics consumption, and postpone Electric Vehicle (EV) purchases. Additionally, if prices were to elevate to extreme levels, industrial consumers will invest in finding alternatives or efficiency improvements that reduce silver intensity per application.

? What are the trading implications of the momentum analysis?

- Initiating new long positions at current levels carries unfavourable risk-reward characteristics
- The combination of extreme monthly and elevated weekly readings shifts the burden of proof to bulls to demonstrate why "this time is different"
- Probability favours mean reversion toward more normalised momentum levels
- Such normalisation would likely require significant price corrections given how far current readings deviate from equilibrium
- Risk management dictates either standing aside or implementing defensive positioning strategies for existing holders

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