Cetera® Investment Management

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Commentary

Gold, Silver, and the Fed: Understanding Friday's Sell-Off

- Overbought conditions finally send gold and silver sharply lower.
- Fed nomination and stronger dollar prospects reduce demand for precious metals.
- Forced selling and margin calls likely amplified the decline as prices dropped quickly.

Precious metals, like gold and silver, have made historic runs, climbing roughly 92% and 265%, respectively, over the past 12 months before Friday's market action. Friday's declines took a bite out of these returns as gold fell more than 10% and silver dropped nearly 30%, underscoring how volatile these asset classes can be. Ironically, the sell-off occurred on a day when the Producer Price Index showed hotter-than-expected results. While gold and silver are often viewed as inflation hedges, the relationship is more nuanced than a simple "hot inflation equals higher metals prices," as we outline below.

The sell-off began in the futures markets Thursday night, possibly tied to anticipation around the pending Federal Reserve Chair nomination, after the President indicated an announcement would come Friday. Ultimately, former Fed Governor Kevin Warsh was nominated to succeed Jerome Powell when his term ends in May. Warsh would still need Senate confirmation, and while many view him as a steady, well-known choice within global central banking circles, the confirmation process may be complicated by ongoing scrutiny surrounding the current Fed leadership. Even with a Republican Senate majority, any hesitation among lawmakers could impact the speed of the process.

Warsh's nomination provided a clearer picture of the Fed's direction but also eased concerns that a more aggressive rate-cutting stance might emerge. He has historically been seen as more inflation-focused, even willing to accept slower growth to maintain price stability. More recently, however, his comments on productivity gains from artificial intelligence, which many consider deflationary, suggest a more balanced view on future policy.

Friday's sharp move in gold and silver likely reflected a "perfect storm": extended and overbought conditions after a massive run-up, combined with a Fed nomination viewed as maintaining institutional independence, plus indications that another government shutdown may be avoided. A more stable policy backdrop and firmer expectations for higher rates helped push the U.S. dollar higher, and since commodities are generally priced in dollars, contributed to weakness in precious metals. The speed of the decline also suggests that some forced selling occurred as prices dropped quickly and traders faced margin calls, amplifying the downside move.

The broader market sold off as well but nowhere near the degree seen in metals. The S&P 500 slipped less than 0.50% and still finished the week in positive territory. Diversification remains critical, and volatility like this can create opportunities for long-term investors. As always, investors should avoid being distracted by short-term swings and work with their financial professional to determine strategies aligned with their goals and risk tolerance.

This report is created by Cetera Investment Management LLC. @CeteraIM

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