Defense Against Complacency

By David Schassler, Portfolio Manager

RAAX® VanEck Vectors® Real Asset Allocation ETF

Overview

The VanEck Vectors Real Asset Allocation ETF ("RAAX") returned +0.61% versus +4.34% for the Bloomberg Commodity Index and +3.42% for its custom blended benchmark. The reason for RAAX's recent underperformance is that the model remains convinced that we are in the midst of a bear market. RAAX, therefore, continues to seek shelter in an ultra-conservative portfolio of U.S. Treasury bills and gold bullion.

Historically, getting defensive based on falling asset prices, deteriorating economic activity and extreme near-term investor sentiment has been a successful recipe during bear markets. We do not think that has changed. So far, the remarkable Fed fueled market recovery has challenged conventional market thinking. Like always, we look to the past for information about the future. In previous bear markets, asset prices have not fallen in a linear fashion. Roads to market bottoms are typically bumpy. The biggest bumps come in the form of bear market rallies. And, so far, this has been one heck of a rally. The S&P 500 Index is now up over 35% since the low achieved on March 23!

Average Annual Total Returns (%) as of May 31, 2020

	1 Mo†	YTD†	1 Yr	Life (04/09/18)
RAAX (NAV)	0.61	-24.80	-17.90	-10.38
RAAX (Share Price)	0.73	-24.80	-18.0	-10.40
Bloomberg Commodity Index*	4.34	-21.20	-17.06	-12.84
Blended Real Asset Index*	3.42	-19.88	-12.11	-6.86

Average Annual Total Returns (%) as of March 31, 2020

	1 Mo†	YTD†	1 Yr	Life (04/09/18)
RAAX (NAV)	-17.83	-25.77	-22.48	-11.78
RAAX (Share Price)	-17.54	-25.58	-22.37	-11.67
Bloomberg Commodity Index*	-12.81	-23.29	-22.31	-14.66
Blended Real Asset Index*	-17.20	-27.74	-24.01	-12.10

†Returns less than a year are not annualized.

Expenses: Gross 1.13%; Net 0.75%. Expenses are capped contractually at 0.55% through February 1, 2021. Expenses are based on estimated amounts for the current fiscal year. Cap exclude certain expenses, such as interest, acquired fund fees and expenses, and trading expenses.

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the ETF incurred all expenses and fees, investment returns would have been reduced. Investment returns and ETF share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost.

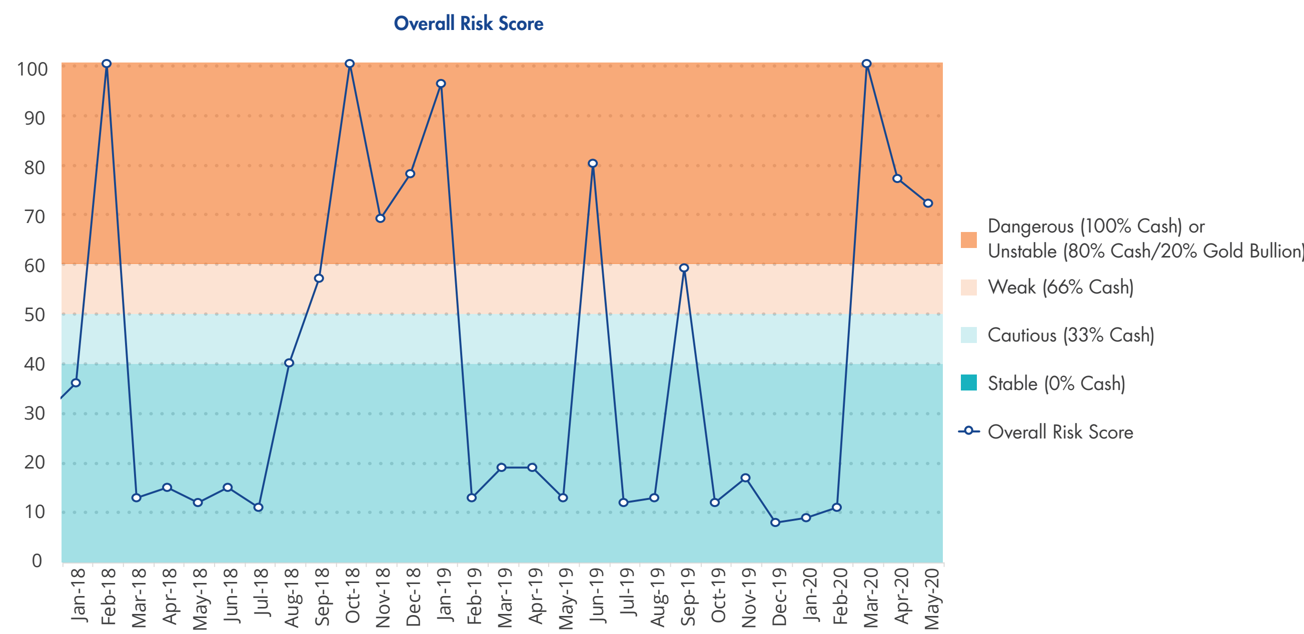
*The Blended Real Asset Index is calculated by VanEck and comprises an equally weighted blend of the returns of Bloomberg Commodity Index (BCOM), S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. This is an appropriate benchmark because it represents the various real assets investments considered by the Fund covering natural resources equities, MLPs, infrastructure, real estate, and commodity futures. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

The model is cautioning against complacency. Yes, we are experiencing a monster of a rally. But we also just experienced a monster of a crash. Without trying to be an alarmist, the other crash that resembles what we experienced in March is the Great Depression. At the beginning of the Great Depression, the S&P 500 Index lost 44.34% in two-months and then rebounded by 45.83% in the following five-months. Investors then, just like now, experienced a huge boost in confidence. As we all know, the worst was yet to come and the maximum drawdown during the Great Depression exceeded 85% from peak-to-trough.

We are not suggesting that prices will fall nearly as much as they did during the Great Depression. That event taught hard lessons on the risks of failing to adequately support the markets and economy when it is needed most. The "Fed put" has given investors much needed confidence. But government support does not mean that prices cannot correct and, with all of the damage that has been done, our model anticipates near-term challenges.

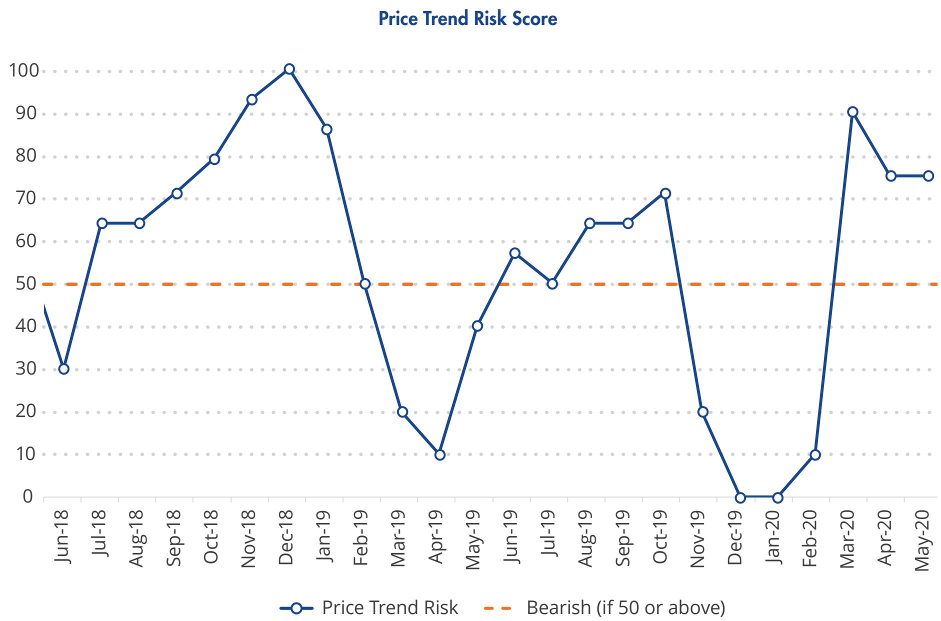
A Deeper Dive

Below is the overall real asset composite. A score of 0 represents the lowest risk level and a score of 100 represents the highest risk level. A score of 60 or higher will result in our most defensive posture. The current score of 72 indicates an unstable risk regime for real assets.



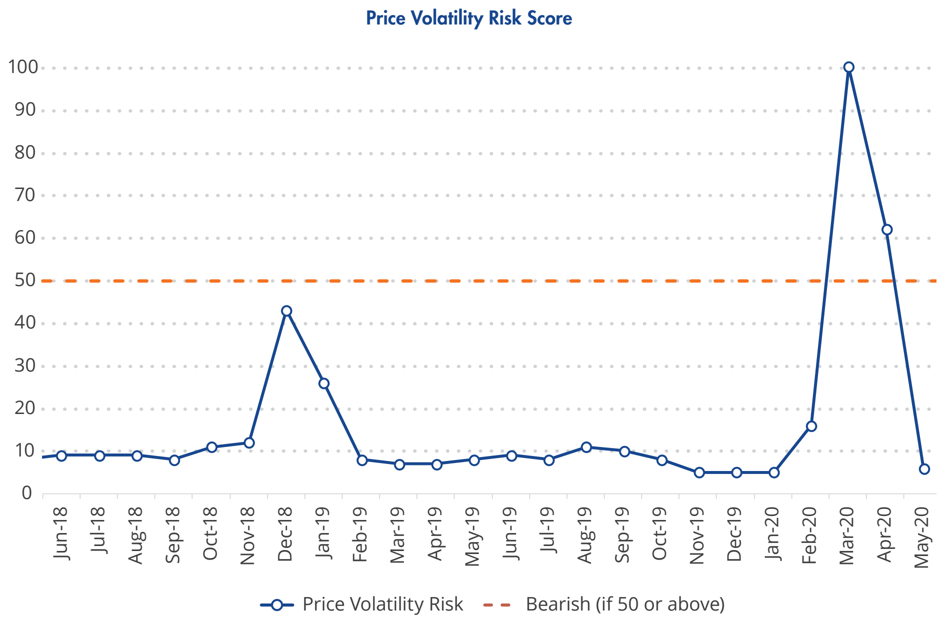
The risk score can be decomposed into key factors that drive real asset prices. These include price trends, economic activity, realized volatility and investor sentiment.

- Price trends are bearish on each real asset with the exception of gold bullion, gold equities and low carbon energy.

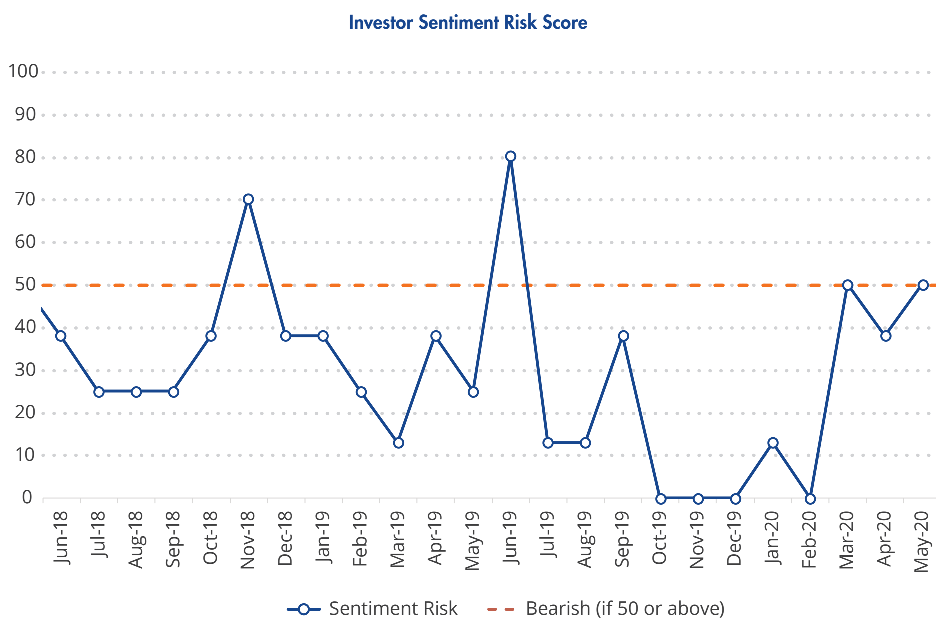


- The economic composite turned bearish as the supply and demand dynamics for real assets have been disrupted by the COVID-19 pandemic.

- Volatility has declined significantly as the U.S. Federal Reserve acted swiftly and decisively to calm markets.

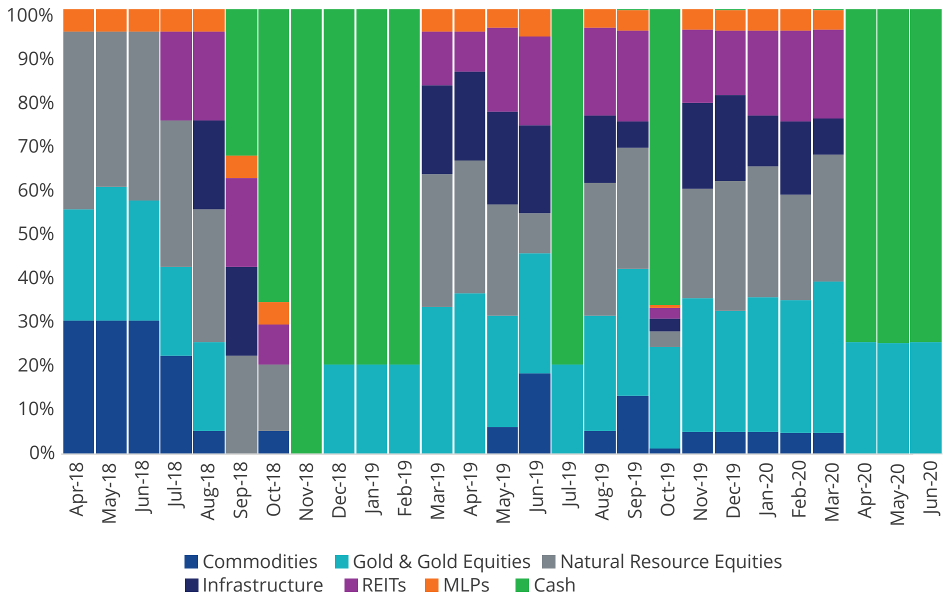


- Investor sentiment within commodities is at a near-term extreme, indicating that prices are more vulnerable to a correction.



June will mark the third month that RAAX has remained defensively positioned. It will continue to measure the risks within the real asset markets and, if conditions materially improve, look for an opportunity to re-invest. Alternatively, if the risk remains high, it will remain defensive.

Real Asset Sector Allocations Since Inception



Real Asset Class Allocations

	Jun-20	May-20	Change from Previous Month	
Cash	74.7%	75.2%	-0.5%	Decrease
Gold Bullion	25.3%	24.8%	0.5%	Increase
Global Metals & Mining Equities	0.0%	0.0%	0.0%	No Change
Unconventional Oil & Gas Equities	0.0%	0.0%	0.0%	No Change
Steel Equities	0.0%	0.0%	0.0%	No Change
Oil Services Equities	0.0%	0.0%	0.0%	No Change
Energy Equities	0.0%	0.0%	0.0%	No Change
Agribusiness Equities	0.0%	0.0%	0.0%	No Change
Coal Equities	0.0%	0.0%	0.0%	No Change
Low Carbon Energy Equities	0.0%	0.0%	0.0%	No Change
MLPs	0.0%	0.0%	0.0%	No Change
Diversified Commodities	0.0%	0.0%	0.0%	No Change
Global Infrastructure	0.0%	0.0%	0.0%	No Change
Gold Equities	0.0%	0.0%	0.0%	No Change
REITs	0.0%	0.0%	0.0%	No Change

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The Blended Real Assets Index consists of an equally weighted blend of the returns of Bloomberg Commodity Index, S&P Real Assets Equity Index, and VanEck® Natural Resources Index. Equal weightings are reset monthly. The S&P Real Assets Equity Index measures the performance of equity real return strategies that invest in listed global property, infrastructure, natural resources, and timber and forestry companies. The VanEck Natural Resources Index is a rules-based index intended to give investors a means of tracking the overall performance of a global universe of listed companies engaged in the production and distribution of commodities and commodity-related products and services. Sector weights are set annually based on estimates of global natural resources consumption, and stock weights within sectors are based on market capitalization, float-adjusted and modified to conform to various asset diversification requirements. The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity. The S&P 500® Index (S&P 500) consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation).

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