

Gold's 2019 Resolution: Challenge the Resistance

By Joe Foster, Portfolio Manager

VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Fund Review

The International Investors Gold Fund's Class A shares returned 11.77% for the one month period ending December 31, 2018 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)¹ returned 10.77% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

Average Annual Total Returns (%) as of December 31, 2018

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	11.77	-15.99	0.57	-0.81
Class A: Maximum 5.75% load	5.35	-20.81	-0.61	-1.39
GDMNTR Index	10.77	-8.55	0.95	-3.52

Average Annual Total Returns (%) as of September 30, 2018

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-2.14	-20.66	-4.31	-1.96
Class A: Maximum 5.75% load	-7.82	-25.19	-5.43	-2.53
GDMNTR Index	-0.25	-18.28	-4.82	-4.80

[†]Monthly returns are not annualized. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/19 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

The tables present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends from index constituents have been reinvested.

Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

Geologist Joe Foster has been part of VanEck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

Market Review

After spending several months consolidating around the \$1,200 per ounce level, we believe gold has embarked on a new positive trend supported by strong inflows to bullion exchange-traded products. Early in December the gold price gained with other commodities when President Donald Trump and China's President Xi Jinping communicated a pause in their trade conflict. Gold then rose to six-month highs following the Federal Reserve's decision to raise rates on December 19. The stock market, crude oil, bonds, and President Trump all signaled that Fed Chairman Jerome Powell had made a grave mistake by indicating more rate increases to come in 2019. We also believe that the Fed made a serious mistake, but we think the blame should be placed on Mr. Powell's predecessors, who waited far too long to normalize monetary policy. Now the Fed is tasked with normalizing rates late in the cycle, and it is rapidly running out of time.

Since the stock market peaked on September 21, gold has outperformed West Texas Intermediate (WTI) crude oil by 42% and the NYSE Arca Gold Miners Index (GDMNTR) has outperformed the S&P 500® Index² by 27%. Markets are beginning to price in an end to the post-crises expansion in 2019, while gold, the U.S. dollar, and U.S. Treasuries are all signaling a rise in global financial risks. For the month of December, gold gained \$59.95 (4.9%) to \$1,282.45

per ounce. Gold stocks trended higher with gold, as the GDMNTR advanced 10.8% and the MVIS Global Junior Gold Miners Index (MVGDXJTR)³ gained 13.1%.

Excluding December, it was a difficult year for gold and gold stocks. The U.S. dollar was stronger than expected in 2018, which created a major headwind for gold. The U.S. economy received a boost from the Trump tax cuts and deficit spending, resulting in strong growth, low unemployment, and an annual gain of 4% for the US Dollar Index (DXY).⁴ Investors showed little interest in gold investments amid the booming economy and stock market highs. Rising rates coupled with the strong U.S. dollar created problems for emerging markets debt, which culminated in a currency crisis in Turkey. The U.S. dollar saw additional gains against many emerging markets currencies that are not included in the DXY. Weak fundamentals caused the gold price to fall through technical support to its yearly low of \$1,160 in August. However, gold cut its losses late in the year, as market sentiment seemed to change to favor gold. Gold ended 2018 with an annual loss of just \$20 (1.6%).

The lack of interest in gold for most of the year was magnified for gold stocks. The GDMNTR fell 8.5% in 2018, while the MVGDXJTR declined 11.3%. It was a particularly difficult year for junior companies, which we define as developers and those companies producing less than 300,000 ounces per year. Most juniors failed to outperform the GDMNTR benchmark. Tax loss selling and liquidation of a large gold fund weighed on juniors in the fourth quarter. The weak stock performance belies the fact that companies are doing well both operationally and financially. This has resulted in valuations that are well below the long-term average. Strong company fundamentals suggest that this value gap could close once investors take a more positive outlook for the gold price.

Our active gold strategy performance did not meet our expectations in 2018, even though we had some strong winners. Mid-tier producer Kirkland Lake (10.2% of net assets*) was able to expand high-grade reserves and production, resulting in strong gains for our top position. Several of our Australian mid-tier stocks also outperformed thanks to strong operating results. Our top junior developer Corvus Gold (2.3% of net assets*) advanced as the company published a robust preliminary economic assessment for its project in Nevada. However, we had a number of junior and mid-tier companies in the portfolio that reported unanticipated operating or social problems that impacted performance. When we invest, we are convinced through our due diligence that management can mitigate operating and

social risks. Thus, when companies fail to operate as planned, we must determine whether it is a temporary issue or a lasting problem for management. In 2018, we had seven companies that failed to properly manage risks, which is more than double the norm. Four of these are no longer in the portfolio, while we expect three to regain their lost performance in 2019.

A second area of underperformance was due to geopolitical risks associated with incoming President Andrés Manuel López Obrador of Mexico. It was anticipated that the new president would be unfriendly to business and could empower unions and anti-mining groups. Because of this, we trimmed our exposure to companies with Mexican operations ahead of the June election. However, after the election and before he took office in December, a controversial airport referendum and proposed anti-mining legislation from his party caused stocks to decline. In hindsight we should have been more aggressively cutting Mexico. Our Mexican exposure will remain below normal until we see more favorable leadership.

Market Outlook

What a difference a year makes. 2018 began with the synchronized global growth theme and 2019 looks like it is beginning with a synchronized global contraction theme. Manufacturing results in China, as measured by the Purchasing Managers' Index (PMI)⁵ from both the official Chinese National Bureau of Statistics and Caixin/Markit, a private survey, slipped into contraction territory in December. Japan and Germany logged negative GDP growth in the third quarter. According to a Duke University survey, as reported by Gluskin Sheff⁶, 49% of U.S. chief financial officers believe the economy will begin a recession in 2019 and 82% are expecting a recession in the next two years. Parts of the U.S. Treasury yield curve have slightly inverted, which has not happened since 2008.

During the post-crisis bull market, the S&P 500 has endured four corrections of 15% to 20%, with the first three occurring in 2010, 2011, and 2015/16. The current correction is the fourth in this cycle and appears to be the most ominous forecast for the economy because it coincides with steep selloffs in crude oil and other commodities, along with a rally in U.S. Treasuries and widening corporate spreads. After a tax cut-induced surge, corporate profits are set to decline, which may foreshadow a fall in the largest single source of demand for U.S. stocks. Goldman Sachs reported in October that U.S. corporations were on track to repurchase over \$770 billion of their own stock in 2018.

It is widely believed that there is a 12-month lag for central bank policies to take effect. That means that the economy will feel the full impact of the Fed's 2018 rate hikes and \$30 billion of monthly quantitative tightening (QT) in 2019. In addition, the Fed is set to raise rates further and has increased QT to \$50 billion per month.

We expect to see one of two scenarios in 2019:

- 1) The Fed stays on course, possibly driving the economy into recession. This may bring increased financial risks from highly-indebted governments and corporates.
- 2) The Fed pauses or reverses its tightening cycle. This would likely bring U.S. dollar weakness.

Both scenarios would be favorable for gold. Gold and gold stocks enter the New Year with positive trends that were lacking for most of 2018. In our opinion, it looks increasingly likely that gold may again test the \$1,365 level of resistance that has been in place now for five years. If the markets are seeing enough systemic risks to move gold through this level, we believe it should be a very good year for investors in gold and gold stocks.

Finally, if we are correct in calling for a recession to start in the coming 12 months, would markets crash as they did in 2000 and 2008, or would it be a more orderly bear market? Barring a black swan event and aside from cryptocurrencies, there are not any obvious manias in this cycle. However, there has been asset price inflation in stocks, bonds, real estate, and other asset classes. In totality, this has possibly created the largest asset bubble in history, but without mania psychology, a crash is less likely in our view. An added risk in this cycle is an explosion of sovereign debt. This may bring a policy response from central banks in a downturn that distorts and drives markets, but we believe it is unlikely to precipitate a crash, especially with a more stable post-crisis banking system. Gold investments may see less volatility in a crash-less downturn.

*All company weightings, if mentioned, are as of December 31, 2018, unless otherwise noted.

Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²S&P 500® Index (S&P 500) consists of 500 widely held common stocks covering industrial, utility, financial, and transportation sectors. ³MVIS Global Junior Gold Miners Index (MVGDXJTR) is a rules-based, modified market capitalization-weighted, float-adjusted index comprised of a global universe of publicly traded small- and medium-capitalization companies that generate at least 50% of their revenues from gold and/or silver mining, hold real property that has the potential to produce at least 50% of the company's revenue from gold or silver mining when developed, or primarily invest in gold or silver. ⁴U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. ⁵The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. ⁶Gluskin Sheff + Associates Inc., a Canadian independent wealth management firm, manages investment portfolios for high net worth investors, including entrepreneurs, professionals, family trusts, private charitable foundations, and estates.

Any indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

NYSE Arca Gold Miners Index is a service mark of ICE Data Indices, LLC or its affiliates ("ICE Data") and has been licensed for use by VanEck Vectors ETF Trust (the "Trust") in connection with VanEck Vectors Gold Miners ETF (the "Fund"). Neither the Trust nor the Fund is sponsored, endorsed, sold or promoted by ICE Data. ICE Data makes no representations or warranties regarding the Trust or the Fund or the ability of the NYSE Arca Gold Miners Index to track general stock market performance.

ICE DATA MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE NYSE ARCA GOLD MINERS INDEX OR ANY DATA INCLUDED THEREIN. IN NO EVENT SHALL ICE DATA HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

MVIS Global Junior Gold Miners Index (the "Index") is the exclusive property of MV Index Solutions GmbH (a wholly owned subsidiary of Van Eck Associates Corporation), which has contracted with Solactive AG to maintain and calculate the Index. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards MV Index Solutions GmbH, Solactive AG has no obligation to point out errors in the Index to third parties. The VanEck Vectors Junior Gold Miners ETF (the "Fund") is not sponsored, endorsed, sold or promoted by MV Index Solutions GmbH and MV Index Solutions GmbH makes no representation regarding the advisability of investing in the Fund.

Please note that the information herein represents the opinion of the author, but not necessarily those of VanEck, and this opinion may change at any time and from time to time. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results. Current data may differ from data quoted. Any graphs shown herein are for illustrative purposes only. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck.

About VanEck International Investors Gold Fund: You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary and political developments. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability. The Fund is subject to risks associated with investments in Canadian issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, gold-mining industry, derivatives, emerging market securities, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

About VanEck Vectors® Gold Miners ETF (GDX®) and VanEck Vectors® Junior Gold Miners ETF (GDXJ®): An investment in the Funds may be subject to risks which include, among others, investing in gold and silver mining companies, Canadian issuers, foreign securities, foreign currency, depository receipts, small- and medium-capitalization companies, equity securities, market, operational, index tracking, authorized participant concentration, no guarantee of active trading market, trading issues, passive management risk, fund shares trading, premium/discount risk and liquidity of fund shares, non-diversified and concentration risks, all of which may adversely affect the Funds. Foreign investments are subject to risks, which include changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, and changes in currency exchange rates which may negatively impact the Funds' return. Small- and medium-capitalization companies may be subject to elevated risks. The Funds' assets may be concentrated in a particular sector and may be subject to more risk than investments in a diverse group of sectors.

Diversification does not assure a profit or protect against loss.

Fund shares are not individually redeemable and will be issued and redeemed at their net asset value (NAV) only through certain authorized broker-dealers in large, specified blocks of shares called "creation units" and otherwise can be bought and sold only through exchange trading. Shares may trade at a premium or discount to their NAV in the secondary market. You will incur brokerage expenses when trading Fund shares in the secondary market. Past performance is no guarantee of future results.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider a Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

©2018 VanEck.



Van Eck Securities Corporation, Distributor

666 Third Avenue | New York, NY 10017

vaneck.com | 800.826.2333

VANECK FUNDS ■ VANECK VECTORS ETFS/ETNS ■ INSURANCE FUNDS ■ SMAS ■ ALTERNATIVES