

A Trick-or-Treat Month for Gold in October

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 -1.37% for the one month period ending October 31, 2018 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)¹ returned 1.9% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

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

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-1.37	-17.52	-4.25	2.93
Class A: Maximum 5.75% load	-7.09	-22.23	-5.38	2.32
GDMNTR Index	1.94	-14.94	-4.50	0.08

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

The gold price continued to consolidate around the \$1,200 per ounce level in October. The chances of another down-leg like the one experienced in August when gold dropped to its 2018 low of \$1,160.27 per ounce have apparently diminished. We believe gold's classic behavior as a safe-haven asset was on display, beginning with a positive reaction to fears surrounding the populist Italian government's fiscal plans and comments suggesting that Italy might be better off apart from the European Union (EU). Gold found a further catalyst as the stock market sold off over concerns of higher rates and growing tensions with China. 10-year Treasury yields climbed to a seven-year high of 3.2%, and the S&P 500 Index (SPX)² fell 6.8% for the month. This drove gold to its monthly high of \$1,243.60 per ounce on October 26. Gold bullion exchange-traded products saw their first meaningful inflows since May, and gold closed at \$1,214.76 per ounce for a \$22.26 (1.9%) gain on the month.

October was a trick-or-treat month for gold stocks. First the treat. The stock market took a big hit on October 10-11 when the SPX fell 5.3%. Over the same two days, the NYSE Arca Gold Miners Index (GDMNTR) advanced 7.4% and gold gained \$34.31 (2.9%). The outperformance of the GDMNTR versus the SPX made sense fundamentally, although the GDMNTR move was probably exaggerated by short covering. Now the trick. The GDMNTR gave up much of its gains on October 25 in some puzzling price action.

On that day, the SPX was up 1.9% and gold fell just \$1.55 (0.1%), while the GDMNTR dropped a whopping 4.4%. The fundamental news of importance on the day was third quarter reporting by the majors: Agnico Eagle Mines (4.2% of net assets*) and Newmont Mining (6.1% of net assets*) beat expectations, Barrick Gold (3.5% of net assets*) was in line, while Goldcorp (2.7% of net assets*) disappointed on several fronts. Overall, it should have been a great day for gold stocks. It is possible that the gold stocks were caught up in a wider trend identified in an October 28th article in The Wall Street Journal, where the market has been selling firms that hit or beat expectations at the highest rate since 2011.³ Alternatively, it is possible that the bad news from Goldcorp brought down the entire sector. In either case, it seems the trading was driven by algorithms or other non-fundamental market activity that probably won't last. For the month, the GDMNTR matched gold, gaining 1.9%, while the MVIS Global Junior Gold Miners Index (MVGDXJTR)⁴ gained 0.1%.

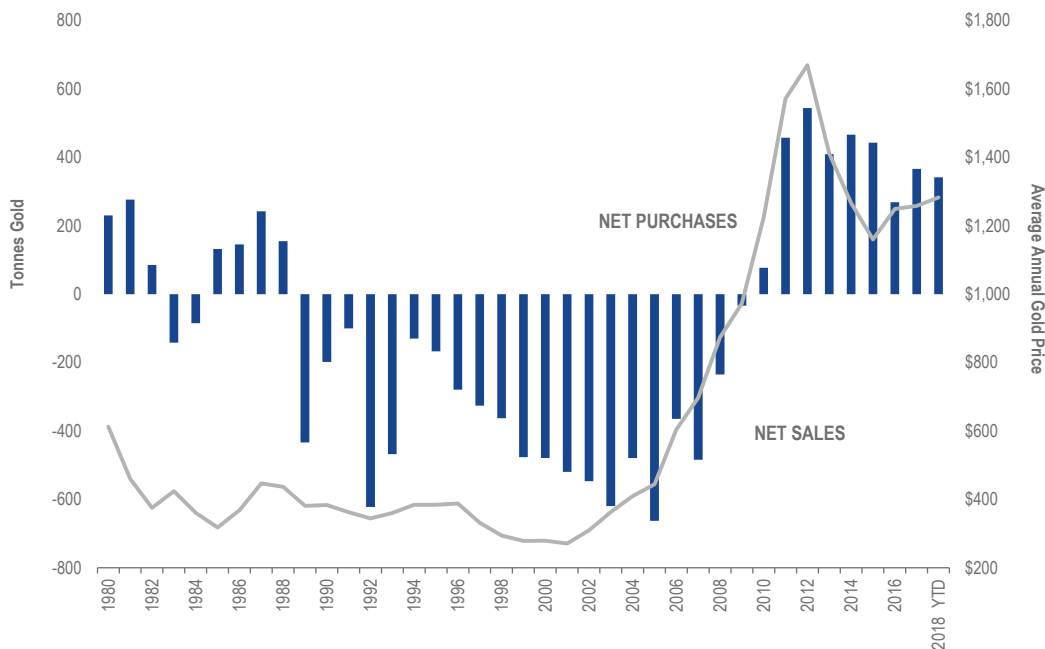
Market Outlook

September 15 marked the 10th anniversary of the bankruptcy filing of Lehman Brothers. We are again in the midst of another cycle of asset price inflation in stocks, bonds, and real estate, brought on by extremely easy monetary policies. Central banks are in the midst of a tightening cycle that is choking off the liquidity that funded the asset price inflation. The Lehman anniversary brought a rash of press

speculating on the next financial crisis. Possible triggers cited in various articles in The New York Times and The Wall Street Journal include higher interest rates, poor credit quality, Italy's budget crisis, and growing Chinese debt.⁵ As the SPX was making new all-time highs in September, luminaries such as Martin Feldstein, Ray Dalio, Ben Bernanke, and David Rosenberg, as well as institutions such as Société Générale and JPMorgan were warning of an economic downturn and/or a financial crisis sometime in the next three years. According to Mr. Feldstein: "[T]here's nothing at this point that the Federal Reserve or any other government actor can do to prevent that from happening."⁶ In our view, sovereign debt, student debt, and leveraged corporate loans have replaced sub-prime mortgages as the dominant risks to the financial system. In October, the stock market suffered its second significant selloff this year. The SPX highs set in January and September could be the double top that often accompanies the end of a cycle. Will the next tariff, rate increase, selloff, or emerging markets currency crisis be the straw that breaks the camel's back? Nobody can answer this question, but at some point, in hindsight, we believe the answer will be "Yes."

2018 is shaping up to be another year of strong gold demand from central banks. The chart shows central banks on track to purchase over 400 tonnes this year.

Central Bank Demand Key to Gold's Base
(1980 to 2018)



Source: Reuters GFMS, World Gold Council, Bloomberg, VanEck Research. Data as of October 31, 2018.

Banks don't usually act as price catalysts because purchases are discreet and disclosed after the fact in IMF data with a two-month lag. However, we believe central bank demand is one of the underlying reasons the gold price has been able to establish a formidable base over the last five years.

Several interesting aspects of the chart:

- Central banks don't seem to be motivated by profit. The chart clearly shows them selling when prices are low and buying when prices are high.
- The selling from 1992 to 2007 came mainly from Western European banks. The Maastricht Treaty of 1992 established the EU. As a contiguous union, sovereign countries found they had more gold than necessary and decided to sell down their hoard.
- Net sales turned to net purchases after the financial crisis.

When it comes to foreign exchange reserves, choices are limited. Reserves are comprised primarily of fiat currencies, sovereign bonds, and gold. A few banks also hold stocks, equity exchange-traded funds (ETFs), or other debt instruments. According to the World Gold Council, central bank gold is worth \$1.36 trillion and comprises around 10% of global foreign exchange reserves. It ranges from roughly 1% of reserves in Brazil and Korea to 70% of reserves in the U.S. and Germany.

China and Russia have been the largest buyers of gold in the past decade. Kazakhstan and Turkey have also been consistent buyers. China has not reported any purchases since 2016, yet central bank demand remains robust. Buyers that have reentered the market this year include Egypt, Iraq, Mongolia, India, Thailand, Indonesia, Colombia, and the Philippines. In addition, Poland and Hungary have become the first EU members to make significant purchases of gold since the Maastricht Treaty was signed. While Germany, Austria, and the Netherlands have not added to their gold reserves, they have moved the gold they own from storage in the U.S. and London to their own vaults.

Gold is a choice for central banks because it is liquid, has limited supply, carries virtually no liabilities, has no counterparty risk, and provides diversification. Beyond this, central banks hold gold for a range of additional reasons. China sees it as an element in its strategy to gain reserve currency status for the Renminbi. Russia sees it as a hedge against the possible (or hopeful) demise of the U.S. dollar. All countries are cognizant of the potential for another crisis. The return of geopolitical rivalry and changing economic order has more countries on edge. In the not too distant future, perhaps those banks now buying gold at historically high prices will find it a profitable investment after all.

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

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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 the industrial, utility, financial, and transportation sectors. ³The Wall Street Journal: *Strong Earnings Haven't Cured the Stock Market's Blues*, October 28, 2018, <https://www.wsj.com/articles/strong-earnings-havent-cured-the-stock-markets-blues-1540738801>. ⁴MVIS[®] 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. ⁵The Wall Street Journal: *Get Ready for the Next Financial Crisis*, September 15, 2018, <https://www.wsj.com/articles/get-ready-for-the-next-financial-crisis-1536962923>; The New York Times: *Why Italy Could Be the Epicenter of the Next Financial Crisis*, October 12, 2018, <https://www.nytimes.com/2018/10/12/business/italy-debt-crisis-eu-brussels.html>. ⁶The Wall Street Journal: *Another Recession Is Looming*, September 27, 2018, <https://www.wsj.com/articles/another-recession-is-looming-1538088367>

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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.

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