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Does Gold Get Back To Work With “Transitory” Retired?

Joe Foster

Portfolio Manager/Strategist

Imaru Casanova

Deputy Portfolio Manager/
Senior Analyst

VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

Gold Reacting To Inflation, Moderated Growth Outlook

Despite posting a small loss on the month (down -0.50% to $1,774.52 per ounce by month-end), gold’s historical status as an inflation hedge and safe haven investment were on full display during November.

Early in the month, Bank of England’s surprise decision to forgo interest rate hikes pushed down U.S. treasury yields and nudged gold higher, with the metal moving above $1,800 per ounce on November 5. Gold furthered its rally on the back of November 10 U.S. inflation data reads which showed the headline consumer price index (CPI) climbing from 5.4% to 6.2% from September to October—the fastest pace since 1990. The news renewed concerns around inflation and added support to the “persistent rather than transitory” argument for inflation. Intraday, gold traded as high as $1,877.15 on November 16..

While stronger-than-expected U.S. retail sales weighed on gold mid-month, it was the November 22 nomination of Jerome Powell (for a second four-year term) as U.S. Federal Reserve (Fed) chair, and current governor Lael Brainard for vice chair, which eventually led to another failed breakout opportunity for the metal this year. The Powell-Brainard combination was perceived as good for markets, providing continuity during a crucial time, reducing uncertainty, lowering risk, and, subsequently, driving the U.S. dollar to fresh yearly highs. Gold fell over $40 following the announcement, dropping back below $1,800 and erasing most of its previous November gains.

Average Annual Total Returns (%) as of November 30, 2021

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-0.37	-10.02	9.47	-3.82
Class A: Maximum 5.75% load	-6.10	-15.19	8.18	-4.39
GDMNTR Index[2]	0.32	-7.25	9.86	-5.19

Average Annual Total Returns (%) as of September 30, 2021

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-8.85	-25.47	2.21	-3.94
Class A: Maximum 5.75% load	-14.09	-29.75	1.01	-4.51
GDMNTR Index[2]	-9.78	-24.18	17.74	-5.07

The tables above 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.

† 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 1.34%; Net 1.34%. Expenses are capped contractually until 05/01/22 at 1.45% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Gold did manage to trade back above $1,800 at least once more, though, as news of the Covid variant – Omicron – sparked a global market sell off over the Thanksgiving holiday in the U.S. On Black Friday, November 26, almost every asset class was down with the exception of gold.

Mixed Bag for Miners

Performance of gold mining equities was mixed with NYSE Arca Gold Miners Index (GDMNTR) recording a small gain (+0.32%) and the MVIS Global Junior Gold Miners Index (MVGDXJTR) falling -1.46%. The sector reported earnings during November. Although most companies met or exceeded expectations, many companies continued to be impacted by Covid-related interruptions that affected their productivity. This, combined with increasing inflationary cost pressures, labor shortages and, in some cases, operational challenges, led to more companies lagging against guidance and consensus estimates compared to last quarter and previous years. However, in aggregate, we believe the sector remains in great shape—enjoying healthy margins at current gold prices and trading at historically low valuations.

Uncertainty Can Be Tough…

Last month, we talked about how gold markets have been struggling with uncertainty as investors seek to interpret the potential outcomes of Fed policy over the longer-term while also contending with higher inflation in the near-term. The good news for gold is that, in November, markets clearly signaled that owning gold in a rising inflation environment is a smart idea. There seems to be little confusion there, too, with gold trading up almost $100 from its month's low on higher-than-anticipated inflation reads in the U.S.

However, the bad news for gold is that the market continues to struggle with how effectively the Fed will be able to combat inflation and to what extent expected tightening plans may slow down or kill economic growth and increase risks in the financial system. While Powell's second-term nomination seems to have provided some confidence that the Fed will be able to successfully navigate through a potential storm, it also appears that the markets are now much more worried about the potential for a storm in general.

According to the U.S. Conference Board, consumer confidence dropped to a nine-month low in November, further exacerbated by the challenges the Omicron variant poses. During a Senate testimony on November 30, Fed Chair Powell said that it might be appropriate to accelerate the central bank's tapering of asset purchases by a few months, given increasing inflationary pressures (and also pending more data and information on the new variant ahead of their next meeting on December 14-15). The stock market sell-off has intensified on Powell's guidance for potentially faster tapering and gold has dropped on his statements too, despite an unquestionably much worse outlook for inflation.

…But At Least Some Things Are Certain

During a congressional hearing at the end of November, Powell stated that inflation has proven more persistent than anticipated, running well above the 2% target for longer than originally expected, and suggesting that "transitory" is likely not the best word to describe inflation right now. The Fed comments did not indicate that rate hikes may come earlier than anticipated, and any acceleration of tapering would still depend on economic conditions. Only one message seemed to lack ambiguity, though: inflation is worse than they thought!

Improving Gold Demand

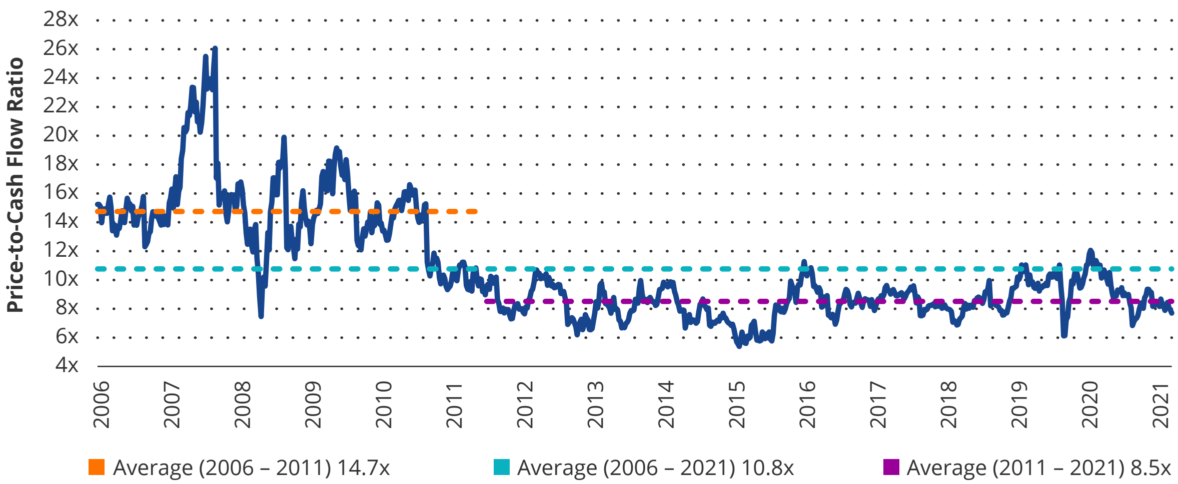
Gold's consolidation around the $1,750-1,800 range is attracting improved physical demand this year from China and India, with net purchases from central banks now approaching pre-pandemic levels. Bullion-backed ETF demand has yet to pick up, but we are seeing inflows since mid-November after two months of persistent outflows. As price action in November demonstrated, gold should respond to increasing or persistent inflation. We believe the Fed's tools to fight inflation could become a substantial risk to the economy and to the stability of the financial system. In a worst-case scenario, exposure to gold should help weather the storm. Even in the best case, exposure to gold, especially through the gold mining equities, could prove beneficial.

Why You Still Want to Own the Miners

The point is always made that gold mining equities work in a rising gold price environment. This is a valid point, as the cash flow generated by gold companies is highly leveraged to the gold price. For example, we estimate that a 10% or so increase in the gold price translates into about 30% more cash flow for gold producers, which is why equities' price moves can be a multiple of the gold price move in any given period. This works both ways, of course, when gold is up or down. The gold price is certainly the most important parameter to watch when investing in gold equities.

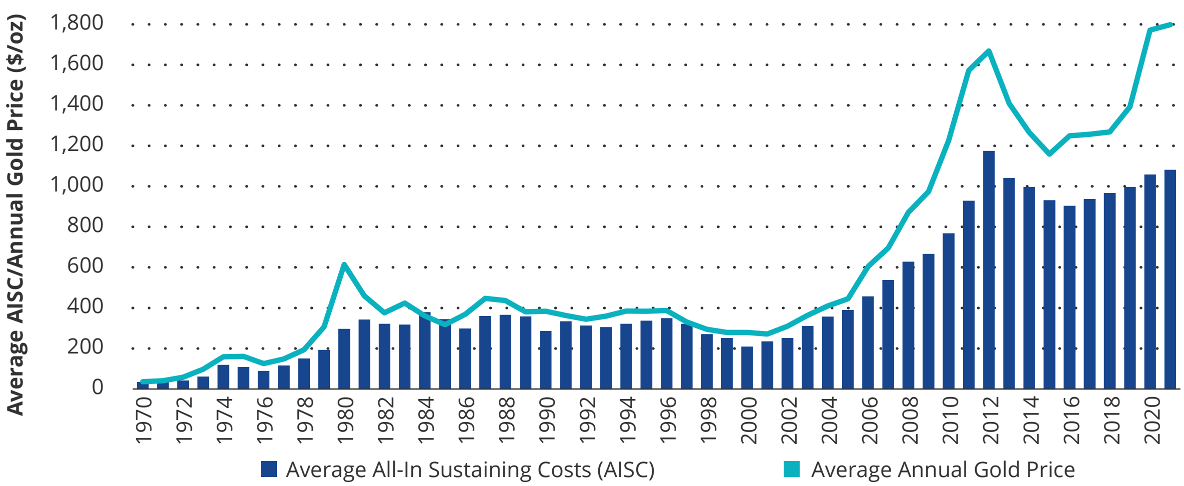
Gold has averaged around $1,800 per ounce so far this year. At these gold prices, companies are generating a significant amount of free cash flow. This is because costs, the second most important variable to watch when it comes to gold miners, are under control. Margins are very healthy and companies have excess cash to invest in their operations and give back to shareholders, even if the gold price stays right where it is today. This brings us to another valid point: Gold equities also work during periods of high and sustainable margins. The gold price and margins are historically high at present, yet stocks are trading at historically low valuations.

Perhaps no surprise...gold miners are still trading at attractive valuations



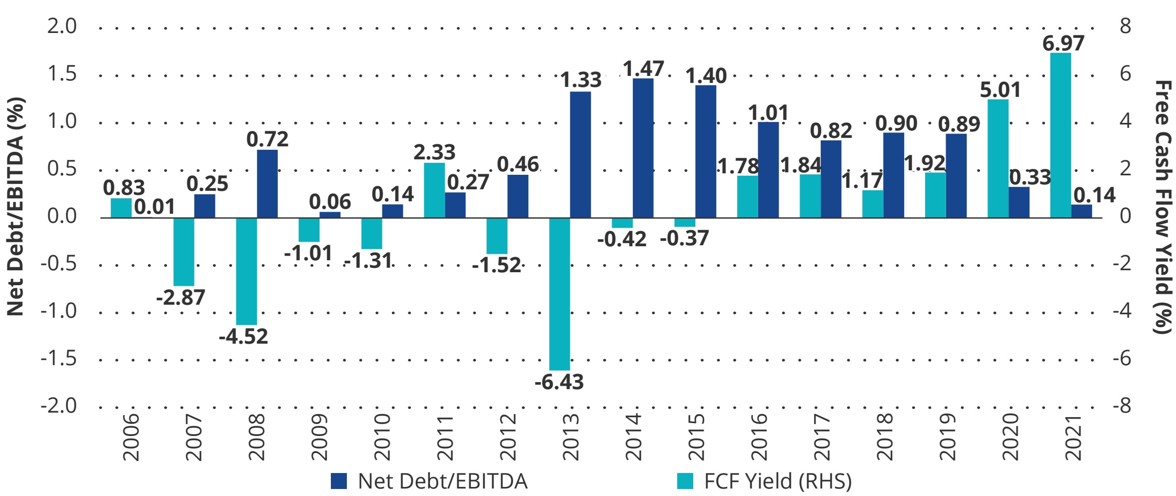
Source: RBC, VanEck, FactSet. Data as of December 2021. Past performance is not indicative of future results.

Cost improvements are adding with higher margins for miners today



Source: Scotiabank. Data as of October 2021. Note: All-In Sustaining Costs generally reflect the full cost of gold production from current operations and typically include adjusted operating costs, sustaining capital expenditures, corporate, general and administrative expenses, and exploration expenses. Past performance is not indicative of future results.

Gold miners: lower debt and higher free cash flow



Source: VanEck, FactSet. Data as of September 2021. Note: EBITDA = Earnings Before Interest, Taxes, Depreciation, and Amortization; FCF = Free Cash Flow. Past performance is not indicative of future results.

Re-Rating Seems Possible Still

The argument could be made that, to earn back their old multiples, gold miners need to demonstrate that they can sustain this level of profitability over the longer-term by continuing to post good results and delivering consistent value creation. We believe that even in a scenario of sustained (rather than increasing) gold prices, miners' performance so far justifies a re-rating that brings valuations more in line with historical averages and reflects the significantly improved position of the gold mining sector. However, it may take the resumption of the gold bull market to achieve substantially higher valuation multiples for the gold mining equities.

Gold miners are also demonstrating increased sustainability efforts and commitments, further improving their re-rating potential. Newmont (6.12% of net assets) announced this month that the company has entered into a strategic alliance with Caterpillar (not held) intended on transform mining by delivering a fully connected, automated, zero carbon emitting, end-to-end mining system. A fleet of 26 electric vehicles is expected to be deployed in underground and open pit operations by 2027, would should support Newmont's net zero carbon goal by 2050.

All company, sector, and sub-industry weightings as of November 30, 2021 unless otherwise noted.

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1U.S. Headline Consumer Price Index (CPI) is a measure of the average change in the price for goods and services paid by urban consumers between any two time periods. It can also represent the buying habits of urban consumers. 2NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. 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.

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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, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, CMOs and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk and leverage risk.

About VanEck Gold Miners ETF (GDX®) and VanEck Junior Gold Miners ETF (GDXJ®): Gold- and silver-related investments, including gold exchange-traded funds (ETFs), are subject to risks including bullion price volatility, changes in world political developments, competitive pressures and risks associated with foreign investments. In times of stable economic growth, the value of gold, silver and other precious metals may be adversely affected. Mining companies are subject to elevated risks, which include, among others, competitive pressures, commodity and currency price fluctuations, and adverse governmental or environmental regulations. In particular, small and mid-cap mining companies may be subject to additional risks including inability to commence production and generate material revenues, significant expenditures and inability to secure financing, which may cause such companies to operate at a loss, greater volatility, lower trading volume and less liquidity than larger companies. Investors should be willing to accept a high degree of volatility and the potential of significant loss. The Funds may loan their securities, which may subject them to additional credit and counterparty risk.

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