

Gold Holds as Risks Abound



Joe Foster

Portfolio Manager/Strategist



Imaru Casanova

Deputy Portfolio Manager

VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

Geopolitical Risk, Inflation Fuel Gold's March Moves

March was a month marked by daily – and tragic – developments affecting the world order and increasing the level of risk in the global economy and the global financial system (both factors which were supportive of gold prices). Russia's attack on Ukraine pushed gold to an intraday price of \$2,070 per ounce on March 8, just shy of its August 2020 all-time high of \$2,075. The war in Ukraine and associated sanctions against Russia increased gold's appeal as both a safe haven and an inflation hedge.

Global geopolitical risk is escalating hand-in-hand with intensifying concerns about inflation, most notably due to the impact on energy markets resulting from a reduction of Russian oil and gas exports. In addition, Russia also accounts for a significant share of the global production of many commodities including palladium, gold, metallurgical coal, nickel, and aluminum and iron ore. Russia and Ukraine together account for about a quarter of global wheat and corn trade, putting further inflationary pressure on what were, prior to the war, already increasing food prices.

The headline U.S. Consumer Price Index (CPI)¹ reached 7.9% in February, a 40-year high, up from 7.5% in January, and likely to spike higher in March given recent price pressures. Average West Texas Intermediate (WTI) and Brent crude prices in March were over 18% higher than in February. University of Michigan's Index of Consumer Sentiment² dropped to a decade low, while the survey's year-ahead inflation expectations, as measured by University of Michigan's Inflation Expectations³, climbed to the highest since 1981.

Average Annual Total Returns (%) as of March 31, 2022

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	9.50	16.36	10.04	-0.80
Class A: Maximum 5.75% load	3.21	9.67	8.74	-1.39
GDMNTR Index	11.37	20.88	12.33	-1.36

Average Annual Total Returns (%) as of December 31, 2021

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	1.73	-14.30	9.69	-2.27
Class A: Maximum 5.75% load	-4.12	-19.23	8.40	-2.85
GDMNTR Index	2.18	-9.37	10.10	-3.50

Source: VanEck

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

The "Net Asset Value" (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. Investors should not expect to buy or sell shares at NAV.

[†] 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.

Market Uncertainty, Fed Policy Also Having An Impact

Fueling uncertainty and volatility in the markets and coinciding with gold's 19-month high, on March 8 the London Metal Exchange (LME) was forced to halt trading in nickel after a short squeeze drove the nickel price up over 100% in one trading session. Gold hovered around the \$2,000 level for a couple of days, before declining during the week ahead of the anticipated first rate hike by the U.S. Federal Reserve Bank (Fed).

On March 16, as widely expected, the Federal Open Market Committee (FOMC) raised the federal funds target rate by 25 basis points. Gold bounced back following the announcement, and showed resilience in the second half of March, despite a steady U.S. dollar and significantly higher U.S. treasury rates. Optimistic reports of Russia-Ukraine peace talks put pressure on gold at month-end, though the metal still managed to close at \$1,937.44, up \$28.45 per ounce or 1.5% during March.

Gold Equities Follow Suit (Mostly)

Most gold equities performed well during the month. The NYSE Arca Gold Miners Index (GDMNTR)⁴ gained 11.4%, while the MVIS Global Junior Gold Miners Index (MVGDXJTR)⁵ was up 8.6%. Though gold's positive price trend resulted in outperformance by the equities, many gold companies' valuations remain historically low as they have yet to recover from the oversold levels reached in 2021.

As well, some gold equities have been more directly impacted by the Russia-Ukraine crisis than others. For example, Kinross Gold Corp. (Kinross) (5.60% of fund net assets) has underperformed recently due to its exposure to Russia, where about 12% of the company's gold reserves are located. On March 2, the company announced its plans to suspend operations at its Kupol mine and suspend all activities at its Udinsk development project. Further, on March 29, Kinross announced that it is in negotiations regarding the potential sale of 100% of its assets in Russia. We view the announcement as positive given that most (if not all) of the Russian value was likely wiped out of Kinross' stock price this past month, so removal of this overhang should allow the company to trade on its other strong fundamentals.

[Note: Generally speaking, and with exception to examples such as this, the Fund has been avoiding companies with significant Russian exposure for many years.]

Shifting Demand From Central Banks May Spark Moves

The effect of sanctions on Russia extends to its central bank (Bank of Russia), which has lost access to a large portion of its foreign exchange reserves as Western governments froze assets in order to undermine Russia's violent attacks on Ukraine. Effectively, Bank of Russia's foreign currency reserves were rendered useless, and at a critical time. This shifted the spotlight to gold, which Bank of Russia holds in its own borders and, thanks to strong purchases in recent years, is estimated to represent a bit over 20% of its total reserves (about 2,300 tonnes or \$140 billion dollars' worth). Other central banks around the world were certainly watching as gold, a presumed financial lifeline, emerged uncontested as a safe store of value.

Later in March, the U.S. issued a notice prohibiting gold transactions with Russia. While this certainly complicates any sales, we doubt it will stop Russia from monetizing its gold if it so desired as Bank of Russia later announced it will buy gold from Russian credit institutions.

Amidst these developments, we think it is reasonable to assume that the move to freeze Russia's foreign currency reserves brings attention to the need to diversify into gold, and could have a positive impact on gold demand from central banks and from other institutions and investors globally. According to BGM Group, gold represents less than 1% of global financial assets, and a relatively small percentage of the total reserves of several large economies, including China (3.3%), Japan (3.5%), Switzerland (5.4%), and India (6.9%). A relatively small increase in the percentage of global financial assets allocated to gold, from, say, just under 1% to 2%, could see demand double—and with it, the price of gold. Though speculative, under these scenarios, it is not that difficult to see gold prices moving higher from current levels.

Near-Term, Gold Outlook Likely More War- And Fed-Driven

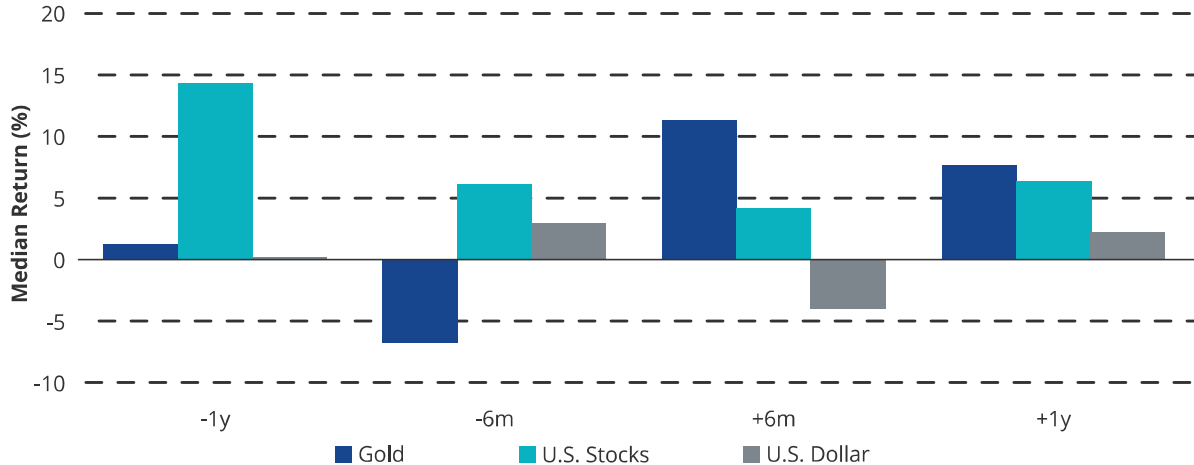
Shorter term, and in our view, the gold price will likely continue to be driven by the effects and risks brought about by the ongoing war, its potential for expansion beyond Ukraine, and residual, negative impacts on the world economy. In addition, gold markets will be watching the Fed in its fight against inflation. The Fed has reiterated that it has the necessary tools to combat inflation and make sure it does not become entrenched. It intends to restore price stability while supporting a strong job market, believing that both the labor market and the economy are strong enough to withstand its tightening policy. Fed chairman Powell now expects inflation to peak in the first half of 2022, and while remaining elevated, he anticipates declining inflation through the second half of the year. The market expects the Fed to hike at least by 25 basis points at each of its six remaining FOMC meetings in 2022, and recent commentary by Fed members suggests 50 basis points hikes are definitely on the table. We estimate these projections have already been priced-in by gold markets.

Against this backdrop, gold's price action should be tightly linked to the shifting expectations around the Fed's pace of rate increases and, perhaps more importantly, its perceived effect on the economy and inflation. In other words, while higher interest rates are generally negative for gold, it is real rates (nominal interest rates less inflation) that are more strongly (negatively) correlated with gold. With U.S. CPI around 8%, there is a lot of room to allow real rates to remain negative, even as the Fed hikes, which is generally supportive of gold. The Fed has to navigate in choppy waters, made even rougher by the ongoing war. It needs to be aggressive enough to have a real chance to combat inflation, but careful not to launch the economy into a recession. Both persistent inflation and/or a recession would be positive for gold.

How's Gold Fared In Past Rate Hiking Cycles?

It is worth noting gold's price performance during the last several Fed tightening cycles. Based on the median returns, as shown in the chart below, gold outperformed U.S. equities (as represented by the S&P 500 Index⁶) and the U.S. dollar (as represented by the U.S. Dollar Index⁷) in the six months and the twelve months after the first hike of the cycle, even though it underperformed in the months ahead of it.

Gold has typically outperformed follow the first rate hike of a Fed tightening cycle



Sources: Bloomberg, ICE Benchmark Administration, World Gold Council.

*Median returns based on the past four tightening cycles starting in February 1994, June 1999, June 2004 and December 2015. U.S. dollar performance based on the Fed trade-weighted dollar index prior to 1997 and the DXY index thereafter, due to data availability.

Market sentiment towards gold continued to improve in March. According to the World Gold Council, after persistent outflows throughout 2021, gold bullion exchange traded products have recorded strong inflows, with holdings up over 5% in the month of March, and 8% thus far in 2022.

Stable, Higher Prices Should Continue To Benefit The Miners

Gold has established a new, positive trend, and is now consolidating its gains above the \$1,900 level. This environment of higher and potentially rising gold prices should continue to benefit the gold equities. Gold equities carry strong operating leverage to the gold price, as demonstrated in March. In addition, they carry resource leverage to the gold price. As the gold price increases, resources and reserves tend to grow and, therefore, so do companies' valuations. This comes from several sources:

- Ounces that were not economic to mine at a given price, may become economic at higher gold prices
- Companies increased cash flow can be used to carry out "definition drilling" (drilling projects designed to assess the magnitude and style of mineralization of a company's mine) to convert resources to reserves
- Exploration activity tends to increase which can also lead to further resource discoveries

These were topics of our conversations during our recent meetings with the gold companies at an industry conference. The conversation has now definitely shifted to investing in growth to building, expanding, exploring, and consolidating. While inflationary pressures have pushed industry costs higher in 2022 (roughly +5% on average according to Scotiabank), margins remain very healthy. Gold producers enjoy the benefits of a natural hedge against industry cost increases, in that, as inflation pushes costs higher, it also tends to support higher gold prices. Ultimately, we do expect growing margins, so we are encouraged to see companies also discussing their continued focus on reducing costs and optimizing their operations and portfolios.

All company, sector, and sub-industry weightings as of March 31, 2022 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.

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. ²University of Michigan's Index of Consumer Sentiment is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in the first quarter of 1966. ³University of Michigan's Inflation Expectations measures the percentage that consumers expect the price of goods and services to change during the next 12 months. ⁴NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ⁵MVIS 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. ⁶S&P 500 Index is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States. ⁷The U.S. Dollar Index measures the value of the U.S. dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

Index returns are not Fund returns and do not reflect any management fees or brokerage expenses. Certain indices may take into account withholding taxes. Investors cannot invest directly in the index. Index returns assume that dividends have been reinvested.

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 ETF Trust (the "Trust") in connection with VanEck 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 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, concentration in gold-mining industry, derivatives, direct investments, 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 Gold Miners ETF (GDX®) and VanEck 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, investing in Australian and 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.

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.

©2022 VanEck



Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333