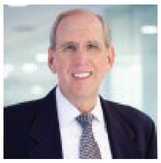
September 2022

Gold's Bearish Trend Ready to Reverse?



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Wild ride for gold in September

The gold market was overwhelmed by the relentless strength of the dollar during September. The U.S. Dollar Index (DXY) spent the month making new 20-year highs, driven by tough talk from the U.S. Federal Reserve Bank (Fed) on inflation and expectations for continued rate increases. The dollar has also been the preferred safe haven globally as China imposed further COVID lockdowns and U.K. tax cuts prompted heavy selling in pound sterling. The gold price fell through long-term support at $1,680 on September 15 and continued to slide amid heavy outflows in gold exchange traded products. The decline ended on September 28 when gilt market volatility caused U.K. pension funds holding liability-driven investment (LDI) funds to get margin calls that threatened to take down the financial system in the U.K. The Bank of England (BOE) had to intervene with emergency purchases of gilts to calm the markets. Gold became the safe haven for a day, rising $31 as the DXY fell. This cut gold's losses to $50.43 (3.0%) to end the month at $1,660.61.

Miners focused on showcasing operating abilities

Gold stocks outperformed gold, with the NYSE Arca Gold Miners Index[1] (GDMNTR) gaining 0.4% and the MVIS Global Junior Gold Miners Index[2] (MVGDXJTR) down 1.0%. We attended the Precious Metals Summit and Gold Forum Americas Conferences in Colorado.

Average Annual Total Returns (%) as of September 30, 2022

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-0.93	-20.21	0.75	-5.94
Class A: Maximum 5.75% load	-6.62	-24.80	-0.44	-6.50
GDMNTR Index	0.43	-16.83	2.07	-6.65

Average Annual Total Returns (%) as of June 30, 2022

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-13.44	-21.98	3.04	-2.60
Class A: Maximum 5.75% load	-18.41	-26.46	1.83	-3.17
GDMNTR Index	-13.80	-17.35	5.76	-3.63

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 05/01/23 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.

These events bring investors together with the vast majority of gold companies globally. While weak gold prices and inflationary pressures were areas of concern, the miners were more interested in showcasing their operating abilities, property attributes, and project pipelines. Managements are less concerned about financial risks due to strong balance sheets and lighter capital requirements than in past down cycles. We were especially impressed with the mid-tier producers. B2Gold (4.84% of net assets) sees continued one-million ounce per year production for the next decade thanks to exploration success at its Fekola Mine in Mali. Alamos Gold (2.81% of net assets) forecasted costs declining from $1,200 to $1,000 per ounce in 2024, thanks to expansions at its Island Mine in Ontario, Canada. Endeavour Mining (6.57% of net assets) is expecting multi-million ounce additions to their three core mines in West Africa.

Cost inflation is not going away for now

Many companies are expecting cost inflation to persist into 2023, with little visibility beyond. With rising costs, some of the majors are reviewing reserve pricing with an eye to raising it roughly $100 from the industry average of around $1,250 per ounce. Producers generally calculate reserves at the base of the long-term gold price trend, which is currently around $1,400. This would also allow companies to avoid write-downs as they run reserve economics using a higher price along with the higher costs.

All producers are committed to continuing dividend payouts and buybacks. In fact, Kinross Gold (5.31% of net assets) boosted its share buyback program. However, if the gold price remains at current levels, we may see some companies trim dividends, particularly those who link dividends to cash, cash flow, or the gold price.

End in sight for gold's bearish trend?

The failure to hold long-term support at $1,680 caused gold to fall into a bearish trend marked in purple on the chart. If the trend continues, gold might fall to its bull market base (blue line) around the $1,400 level in the fi rst quarter of 2023. Physical demand in India and China has been healthy and strong demand from upcoming Indian festival and wedding seasons, along with the lead-up to Chinese New Year should enable gold to remain above $1,400.

Gold entered a bearish trend when it broke its long-term support of $1,680

Source: Bloomberg. Data as of September 2022.

There are a number of catalysts that may enable gold to break out of its narrow trend. An obvious catalyst would be an aggressive Russian escalation in the war with Ukraine, Europe, and the West. Other catalysts include a global financial crisis, a reversal of Fed policies, or debt problems.

As interest rates rise, the odds of a financial crisis increase. Governments have been suppressing yields since the financial crisis in 2008. Such distortions to the financial system are like a time bomb, waiting for unwanted volatility in an inflation-driven tightening cycle. Other than U.K. banks and pension fund managers, who had ever heard of a LDI fund? According to Bloomberg, the size of the LDI market tripled in size to £1.5 trillion in the decade through 2020. Who knew U.K. pension funds were using leveraged derivatives in LDI's to hedge their liabilities? Why were they not adequately stress tested for a rising rate environment? The shock jolted currency and bond markets around the world. The LDI crisis was a black swan event. Perhaps it is also the canary in the coal mine. How many more black swans will be exposed around the globe as rates rise?

All is not well in global financial markets

Many financial metrics are flashing red. Five-year charts show major currencies including the Yen, Pound, Dollar, and Yuan are at extremes. Treasury yield charts appear parabolic and the yield curve is inverted. The gold/silver ratio rose above 90 in September. Stock market indices and cryptocurrencies are at critical support levels. All of this can be summarized in the Goldman Sachs U.S. Financial Conditions Index. Notice the dramatic tightening in the financial conditions chart that has reached levels of the pandemic crash and, if it continues on its trajectory, could rival the financial crisis in 2008/2009.

Tightening financial conditions in the U.S. could signal trouble ahead

Source: Bloomberg. Data as of September 2022.

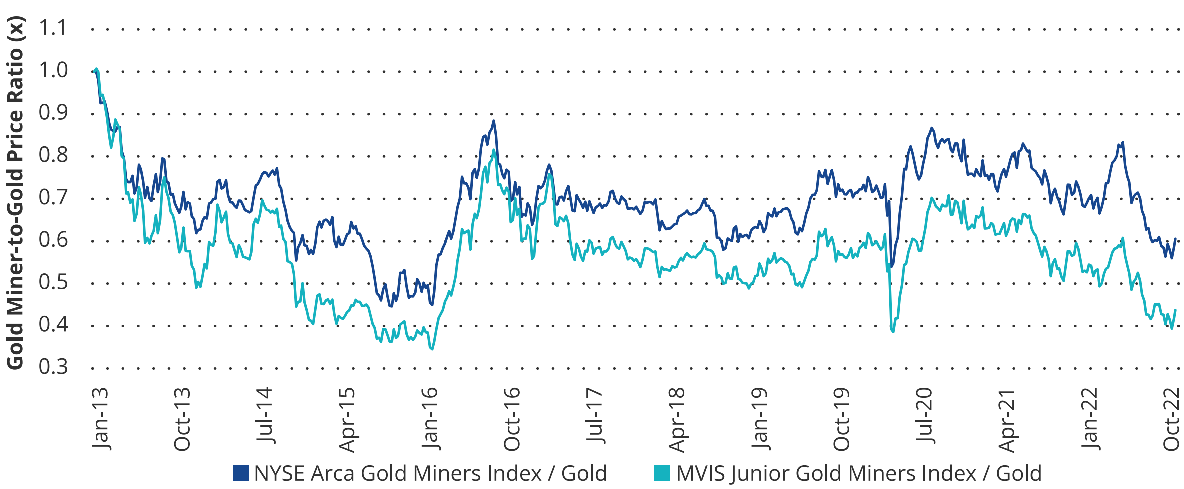
In 2019, the Fed was forced to end its tightening cycle when the repo market blew up and gold broke out of its long-term trading range. On September 21, the BOE announced plans to reduce its gilt holdings, which is analogous to the Fed's quantitative tightening (QT). Just one week later, the BOE was forced to buy gilts to avert a crisis. In September, the Fed started another attempt at QT, allowing $95 billion in Treasuries and mortgage-backed securities to roll off its balance sheet each month. How long until the Fed is again forced to reverse course? The Fed has had it easy so far. It can talk tough on inflation with the strong economy and low unemployment. However, it looks as if the economy is turning. Companies as diverse as FedEx, Scotts Miracle-Gro, Micron Technologies and Nike are missing earnings and downgrading guidance. Ocean shipping rates have plummeted. Most housing indicators are trending lower. The Census Bureau reported two years of flat or declining real household income and the rising cost of essentials are driving consumer spending. Meanwhile, both Consumer Price Index (CPI)[3] and Personal Consumption Expenditures Price Index (PCE)[4] inflation came in above expectations at 8.3% and 6.2% year-over-year respectively.

In addition to a weakening economy, debt service is about to become a major problem. In 2007, before the financial crisis, public debt stood at $6.0 trillion and debt/GDP was 41%. Public debt has doubled in the past decade to $26 trillion. Over the same period, debt/GDP has risen from 78% to 105%. When rates are near zero, so too is debt service. At current treasury rates of around 4%, debt service would eventually amount to $1.0 trillion a year, surpassing Social Security and defense as the largest item in the Federal budget. According to the Monthly Treasury Statement cited in the Wall Street Journal, net interest expense hit $63 billion in August, or $756 billion a year. The Committee for a Responsible Federal Budget estimates President Biden will increase deficits by a further $4.8 trillion over the coming decade, while the Fed is poised to raise rates further. The U.S. is not alone, most countries around the world share similar debt problems.

Miners are probably oversold relative to gold

If a gold catalyst emerges, gold stocks stand to gain from oversold levels. One simple way of looking at gold stock valuations is to divide the equities by the gold price. The chart shows both the NYSE Arca Gold Miners Index-to-gold and MVIS Junior Gold Miners Index-to-gold price ratios are now at the same levels as the pandemic crash. MVIS Junior Gold Miners Index-to-gold price ratio is also near the historic lows set at the bottom of the five-year bear market that ended in December 2015.

Gold miners are trading near their lows relative to gold prices



Source: Bloomberg. Data as of September 2022.

All company, sector, and sub-industry weightings as of September 30, 2022 unless otherwise noted.

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[1]NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. [2]MVIS 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. [3]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. [4]Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

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.

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