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# Miners On Track Despite Gold's Rollercoaster Ride


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## VanEck International Investors Gold Fund

**INIVX | IIGCX | INIIX | INIYX**

### Gold's Wild Ride In August

Gold finished August trading at $1,813.62 per ounce, nearly unchanged from its July finish at $1,814.19 per ounce. Given a mere 57 cent (0.03%) loss during the month, one might think it was an uneventful 31 days for gold when, in reality, it was actually quite the rollercoaster ride. Gold saw its first big price drop early in the month when July's U.S. jobs report came out and exceeded expectations. The dollar-positive news supported the case for continued strength in the U.S. economic recovery, sooner-than-anticipated tightening by the U.S. Federal Reserve Bank (Fed) and a decline in gold prices to a close of $1,763.03 on Friday August 6.

At the start of Asian trading on the following Monday, at around 7:00 AM local time (Sunday, 7:00 PM in New York) the gold market was flooded with massive sell orders. The selling appeared indiscriminate, as it ignored low liquidity on a day when Japan and Singapore were on holiday. Gold dropped $60 in a matter of minutes, trading as low as $1,690.61 per ounce, causing a breach in important technical support levels and, likely, triggering stop loss orders that further exacerbated the sell-off.

The "flash crash", as the press referred to it, certainly called into question the market's ability to block or prevent what could have been interpreted as either a malicious attack on gold prices or else a serious trading error. While these moves have the potential to be very damaging to the gold market, this latest incident was priced out quickly. By the end of that same week, gold's price returned to levels that we believe reflect current fundamentals.

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

| | 1 Mo | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception (2/10/56) | -5.52 | -22.42 | 5.32 | -4.76 |
| Class A: Maximum 5.75% load | -10.95 | -26.88 | 4.08 | -5.32 |
| GDMNTR Index[1] | -6.65 | -22.08 | 6.05 | -5.32 |

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

| | 1 Mo | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception (2/10/56) | -13.09 | -7.23 | 4.67 | -3.30 |
| Class A: Maximum 5.75% load | -18.09 | -12.57 | 3.43 | -3.87 |
| GDMNTR Index[1] | -13.59 | -6.29 | 5.13 | -3.62 |

**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.

## Climbing Back To $1,800

Following the "flash crash", gold managed to climb back above $1,800 per ounce, supported by mounting concern around the impact of the COVID Delta variant on growth, a Michigan consumer sentiment reading that was the lowest in almost a decade and U.S. retail sales below forecast. On August 27, during his remarks at the annual Jackson Hole economic conference, Fed Chairman Jerome Powell indicated that reducing the Fed's $120 billion in monthly asset purchases could be appropriate in 2021, but signaled no rush in making any decisions related to raising interest rates.

Powell stated that the decision to lift rates was subject to a "substantially more stringent test". This was interpreted as a more dovish than anticipated stance, pushing the dollar lower and driving gold higher through important technical levels as we approached the end of the month-long ride. Gold traded above the 100-day and 200-day moving averages, right back to where it started, to a close of $1813.62 per ounce on August 31.

## Miners Still Feeling The Effects

Unfortunately, there were some stranded passengers on the August rollercoaster ride, namely gold stocks, which did not quite recover from the big drop earlier in the month. Gold equities, as represented by the NYSE Arca Gold Miners Index (GDMNTR) and the MVIS Global Junior Gold Miners Index (MVGDXJTR).[2] were down 6.65% and 5.82%, respectively, during the month. While small cap gold stocks have mostly underperform gold through the year, the gap significantly widened during August. Larger caps had actually been outperforming the metal this year, but gold's pullback in early August sent them much lower, without the corresponding recovery by month end. Year-to-date, gold is down 4.46%, while the GDMNTR is down 9.16% and the MVGDXJTR is down 20.18%.

## Industry Inflation Also An Issue?

During the second quarter reporting season, gold companies highlighted some of the inflationary pressures affecting the sector. Similar to other sectors of the economy, gold mining has been feeling the impact of supply chain disruptions and tightness, along with higher fuel, energy and material prices and, in some regions, higher labor costs. Higher steel (used for construction, grinding media and underground supports) prices are frequently mentioned as an important source of cost inflation. Labor represents, on average, approximately 40% of the sector's operating costs – the largest cost center – and some producers in Australia, Canada and, more recently, Brazil, have reported skilled labor shortages driving up labor costs.

Estimates on expected cost inflation, when provided, vary from company to company. However, Newmont (6.0% of fund net assets), the largest gold mining company in the world, estimates costs could rise 3-5%, with some inflationary effects this year driving the company's costs towards the high end of its 2021 guidance. On the project capital side of spending, the picture looks a little worse too. A few companies, including senior producer Kinross (5.1% of fund net assets), have indicated potential double-digit percentage increases in the capital estimated for their growth projects.

## Combating Cost Pressures

Though the industry is clearly facing inflationary cost pressures, not all companies are feeling the squeeze and most companies are actively looking for ways to offset these cost increases.

Large companies, like Newmont and Barrick (4.9% of fund net assets), tend to benefit from their purchasing power in negotiations with suppliers and service providers, helping to offset at least some of the pressures that may be felt more significantly by smaller producers. In addition, larger companies often pre-order materials well in advance or establish fuel contracts (hedging) to reduce the impact of higher fuel prices on their operating costs. Barrick, for example, indicated that it had pre-ordered a significant amount of steel, so it is not seeing nearly as big of an impact on costs from the higher iron ore prices this year.

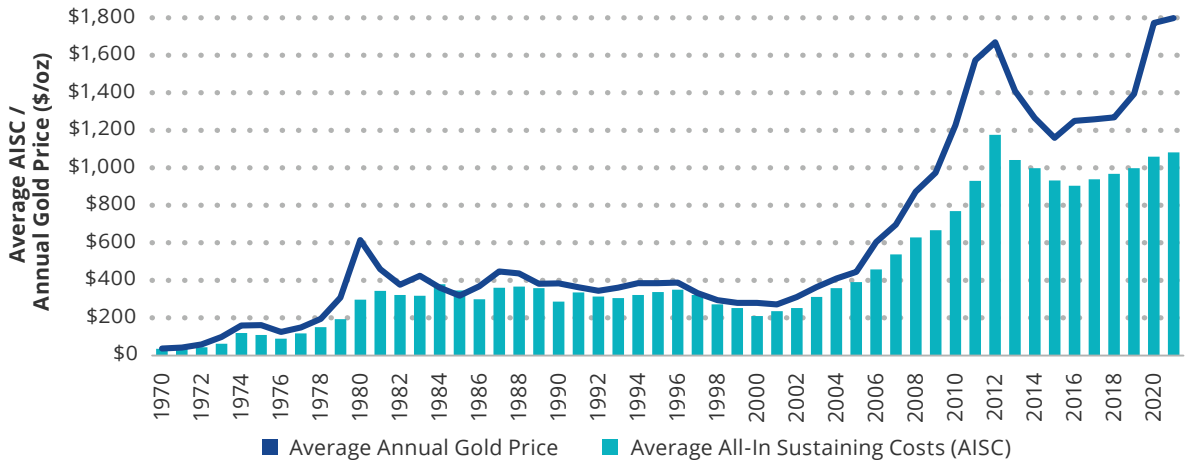
Barrick's CEO, Mark Bristow, stated during their Q2 earnings conference call that his company will not use inflation as an excuse for higher costs; rather, he stated that it is their job to manage costs. This is very positive coming from one of the sector's leaders. While we continue to monitor cost trends closely, we are encouraged not only by the fact that operating cost increases seem contained, but also by companies' pro-active approach to offsetting cost pressures.

## Industry Approach Still Unified, Disciplined

We believe that, in recent years, gold companies have consistently demonstrated a disciplined capital allocation approach focused on delivering attractive return of capital. The sector has reiterated an ongoing focus on cost reduction based on optimization and increasing efficiencies of their operations as part of their commitment to maintaining healthy margins.

Gold companies' operating margins have expanded significantly in recent years. Not only has the gold price reached record highs, but companies have also reduced and controlled costs, allowing margins to increase to record levels.

**Gold Miners Are Succeeding At Controlling Costs, Improving Operating Margins**




Source: Scotiabank. Data as August 2021.

Gold companies are able to generate substantial free cash flow at current gold prices. While markets may be concerned about rising costs, we believe gold companies will remain disciplined and continue to defend margins. As far as capital spending increases go, while this is concerning, it mostly just raises the investment hurdle rates for these projects. Production growth is targeted as long as it preserves or improves margins and translates into higher shareholder returns.

The gold mining sector of today is well positioned to weather these cycles, sustain profitability and demonstrate its appeal for those seeking gold exposure but also to earn its place as an investable universe within the broader equity market.

## Gold Going Forward

When the gold price is declining or consolidating, gold equities tend to underperform. Even when gold rallies, gold stocks can sometimes lag during the early stages of the rally while markets digest the new outlook for the metal. Something similar is happening during this recent bounce back in gold prices. The revenues and earnings generated by the companies at the end of August is essentially the same it was a month ago, yet the stocks are trading at significantly lower prices, creating a value opportunity.

Gold has been consolidating its gains since reaching all-time highs of $2,075 per ounce a year ago. It tried to break out a couple of times this year but failed and, in early August, dipped below its bull market trend bottom of $1,760. Since the current trend began in 2019, gold has always bounced higher when testing the bottom of its range.

Needless to say, we have been disappointed by the failure of gold to hold at such a critical support level and subsequently believe that, in the shorter term, it may spend longer than anticipated consolidating around the $1,800-$1,900 per ounce range. However, the upside is that gold was quick to rebound from this "flash crash" and so a show of continued resilience should help reestablish the bull market trend and allow us to look back on this event as just an insignificant blip.

In the longer-term, once this consolidation has run its course, we still see plenty of tail-risk drivers that have the potential to drive gold to $2,000 per ounce and beyond. We believe inflation is a longer-term problem and will persist into 2022. Economic growth is at risk once the massive fiscal spending has run its course and is further threatened by the potential removal of monetary stimulus. Finally, extreme debt levels and asset bubbles may not be sustainable, creating a risk-off environment that favors gold.

**All company, sector, and sub-industry weightings as of August 31, 2021 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.

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