April 2022

Strong Dollar Grounds Gold Despite Soaring Inflation

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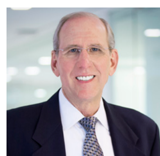

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Gold Gets Caught Up In The Action

Central banks are tightening, the global commodities shock is intensifying, and over the first few days of April the 2/10 treasury yield curve – i.e., the spread between the U.S. 2-year and 10-year treasury yields – turned negative. Historically, these have been harbingers of a slowing economy or recession. Traditional safe havens gold and the U.S. dollar trended higher in early April. Gold tested the $2,000 per ounce level with an intraday high of $1,998 on April 18. While the U.S. Dollar index (DXY)[1] went on to test its 20-year highs, the gold market pulled back when, on April 21, U.S. Federal Reserve Bank (Fed) Chair Jerome Powell sent a strong message at an International Monetary Fund (IMF) gathering where he indicated that more aggressive hikes in interest rates are needed, presumably to fight inflation. Gold was also caught up in a broader commodities selloff when, on April 25, news of China's worsening COVID outbreak threatened to weaken demand for basic materials. We believe the selling pressure on gold was misplaced, as gold has different drivers than other commodities. Chinese gold demand has returned to pre-COVID levels and the volatility and declines in the Chinese stock and real estate markets have sparked investment demand for gold.

Lingering COVID, Rising Costs

For the month of April, gold declined $40.51 (2.1%) to $1,896.93. The NYSE Gold Miners Index (GDMNTR)[2] fell 8.18% and the MVIS Global Junior Gold Index (MVGDXJTR)[3] fell 7.71%. A number of companies have reported first quarter results which, so far, have been mostly below expectations. Aside from nagging operating issues that crop up periodically for all mining companies, it became apparent that two primary reasons for the misses – COVID and cost inflation – may persist in the longer term.

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-8.85	-1.60	8.90	-1.13
Class A: Maximum 5.75% load	-14.09	-7.26	7.61	-1.71
GDMNTR Index	-8.18	4.47	10.87	-1.55

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

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.

Canada and Australia are the regions hit hardest by temporary slow-downs or shut downs due to COVID. Remote operations with on-site camps are most vulnerable to outbreaks. Vaccinations have not become the cure-all as hoped, so it looks like miners will have to deal with COVID problems periodically until the virus is eradicated.

Gold companies have been controlling costs by adopting new mine practices and technologies. Examples include autonomous haulage, efforts to replace diesel with battery electric haul vehicles, renewable energy and new communication and data processing systems. However, with first quarter results it has become apparent that the inflation that has been plaguing many companies and consumers is beginning to impact the gold miners. Scotiabank's tally of the larger producers shows that, on average, 45% of cash costs are attributable to labor, 8% to fuel, 6% to power, 21% to consumables and 20% to other miscellaneous costs. Costs have been increasing in all of these categories to varying degrees, depending on where a mine is located, how much fuel is hedged and how much inventory is on site. We were expecting a 7% rise in all-in-sustaining-costs to $1,150 per ounce, on average, in 2022. If the inflation we are seeing in the first quarter persists, many companies will probably have to increase their cost guidance by between 1% and 5% later in the year. With gold in a bull market hovering around $1,900, we believe that even with inflation, the industry's robust margins are safe and gold stocks remain attractive.

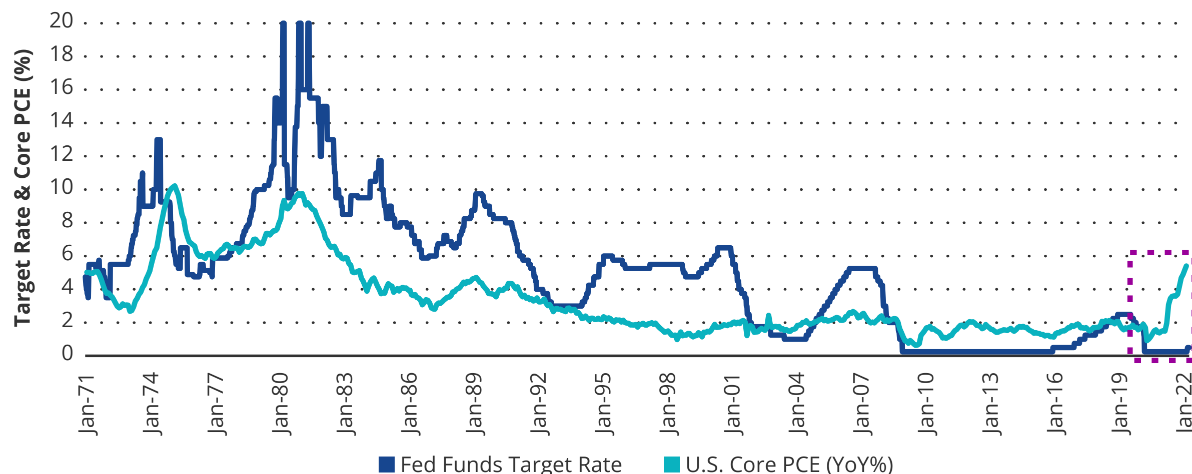
Inflation Rears Its Ugly Head

In the 1970s, a wage-price spiral fueled inflation for years. It now looks as if a new wage-price spiral has begun. The March U.S. Consumer Price Index (CPI)[4] rose 8.5% and the Producer Price Index (PPI)[5] surged 11.2%, the most on record. Meanwhile employment costs also jumped by the most on record, as the employment cost index gained 1.4% in the first quarter. Wide-ranging anecdotal evidence for long-term inflation continues to mount. According to April Wall Street Journal articles:

- Conagra's CEO expects inflation 26% higher than two years earlier, due to higher meat and dairy prices, driver and truck shortages, fuel prices and continuing labor shortages
- West Texas drillers are facing long delays for everything from roughnecks to steel to fracking pumps
- Intel Corp.'s CEO said the chip shortage will last longer than expected
- Railroads attribute service problems to worker shortages and high demand

The Fed's preferred inflation measure is the Core Personal Consumption Expenditures Index (PCE)[6], for which it carries a long-term target of 2%. The chart shows how far behind the Fed is in its inflation fight. When inflation peaked in 1980, 1989 and 2007, the targeted Fed funds rate required to curb inflation stood at roughly double the Core PCE rate. Today, the Fed funds rate is 0.025% - 0.050%, while Core PCE is at 5.2%. This suggests a Fed Funds rate of 10% is in order, a rate that would likely devastate the U.S. economy.

Can Inflation Be Tamed?



Source: St. Louis Federal Reserve Bank. Data as of April 2022.

An April report by HSBC's Stephen King contends that the Fed responds far too slowly to mounting inflation because it attributes inflation to a series of exogenous shocks and it believes its own forecasts that show inflation in decline. Many of the drivers of inflation may have begun as exogenous shocks, but now represent structural changes in the economy. Changes in demographics, labor habits, supply chains, consumption patterns, commodities and manufacturing needs have combined in an inflationary cocktail.

Knocking At Debt's Door

The Fed's task is only made harder by the fact that the U.S. debt-to-GDP ratio was around 30% in 1980, whereas today it is nearly 140%. Aside from a potential debt mess, inflation and rising rates could bring a host of unintended consequences or "black swans". The first might come from Japan, which has the highest debt/GDP ratio in the developed world. Because of this, the Japanese financial system cannot tolerate higher rates.

While the Fed and other central banks are driving rates higher, the Bank of Japan is keeping rates pegged near zero. The U.S. dollar/yen has collapsed to twenty-year lows due to these rate differentials.

Also, Japan is the largest foreign holder of U.S. Treasuries. The currency volatility is causing the cost to hedge the U.S. dollar to surge, which has made U.S. Treasuries unattractive in Japan, despite their much higher yields. According to BMO Capital Markets, Japan has offloaded $60 billion of U.S. Treasuries over the past three months. More volatility in currencies and rates can be expected if Japan continues to sell portions of their $1.3 trillion hoard of U.S. Treasuries at the same time the Fed is reducing its own trillions in U.S. Treasuries through quantitative tightening.

Other countries might feel the sting of a rising U.S. dollar, too. According to the Bank for International Settlements, U.S. dollar debts owed by borrowers outside the U.S. totaled $13 trillion as of the last year's third quarter. These debts become more expensive in local currencies as the dollar appreciates.

Dollar Downer

Inflation, Cold War and World War II are topics learned from history books. Ours was a world that would never allow such turmoil or evil to happen again on a global scale. What happens in Venezuela, Syria or Myanmar could never happen here, in the West. Now we find that civilization is not as advanced as we'd like to believe. The worst of human cycles is now repeating, climaxing with war and threats of nuclear annihilation. Gold is again serving its historic role as financial safe haven and store of wealth. However, many gold advocates wonder why the gold price isn't higher, given all that has transpired.

Gold has been in a secular bull market since December of 2015 when it bottomed at around $1,050 per ounce. Gold's performance so far is no match for the other secular bull markets in the 1970s and the 2000s. The current bull market is driven by similar macro-economic and geopolitical risks, with some drivers made worse by the pandemic. There is one stark difference that may explain the weaker gold performance so far in this bull market. The U.S. dollar was in a secular bear market in both the 1970s and the 2000s. From 1971 to 1978 the DXY declined 45% and from 2002 to 2008 it fell 41%. However, since December 2015, the DXY has gained 5.2% as it has bounced around in a sideways trend that is currently testing its twenty-year high. While gold and the U.S. dollar sometimes trend higher together in periods of acute financial stress, the normal relationship is inverse. We believe the firm U.S. dollar has muted gold's advance in the current bull market.

China and Europe appear to be leading the world into recession and the Fed is leading the charge in rate hikes. This all bodes well for the U.S. dollar, at least for now. Gold also has many drivers. The strong U.S. dollar is creating financial stress abroad, it looks like inflation is becoming unhinged, and there are geopolitical and economic risks that should continue to drive gold. While we believe gold prices are heading higher, until the U.S. dollar trends lower, gold may not see the spectacular gains of past secular bull markets.

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

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[1]The 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. [2]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. [3]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. [4]U.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. [5]The U.S. Producer Price Index (PPI) represents the average movement in selling prices from U.S. domestic production over time and is typical utilized as a measure of inflation based on input costs to producers. [6]Core Personal Consumption Expenditures Index (PCE) is a price index that measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices

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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, or political, economic or social instability. The Fund is subject to risks associated with investments in Australian and Canadian issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, concentration in gold-mining industry, derivatives, direct investments, emerging market securities, ESG investing, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

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