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Time for Gold's Juniors to Grow Up

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Dogged Dollar Strength

Gold came under pressure during May, ending the month with a $59.58 (3.1%) decline to $1,837.35 per ounce. The U.S. dollar was the main headwind, rising sharply to reach 20-year highs on May 12. The dollar has benefited from rising interest rates, the U.S. Federal Reserve Bank's (the Fed's) tough talk on inflation, and a favorable economic outlook compared with Europe and China. The chart below shows gold falling below its bull market trend-line that has been in place for three years now. We will be watching to see if gold either gets back on trend, establishes a new trend, or begins trending sideways in a broad $400 band defined by the highs and lows since the pandemic crash in 2020.

Gold stocks also came under additional pressure from heavy selling across the broader stock markets. During May, the NYSE Arca Gold Miners Index (GDMNTR)[1] fell 9.3% and the MVIS Global Juniors Gold Miners Index (MVGDXJTR)[2] declined 8.8%.

Primed For Recession? Gold's Ready…

It looks like the markets and the economy are beginning to show the earmarks of an imminent recession. Crypto assets, special purpose acquisition companies (SPACs), and technology stocks have intermittently been in crash mode all year. The S&P 500[3] briefly entered official bear market territory, when on May 20, it dipped to a 20% decline from its January peak. Many retailers have cut their 2022 forecasts. Sales of new homes plummeted by the most in nearly nine years and pending home sales have been falling all year.

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-9.52	-21.67	6.39	-0.97
Class A: Maximum 5.75% load	-14.72	-26.17	5.14	-1.55
GDMNTR Index	-9.34	-17.15	8.31	-1.96

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.

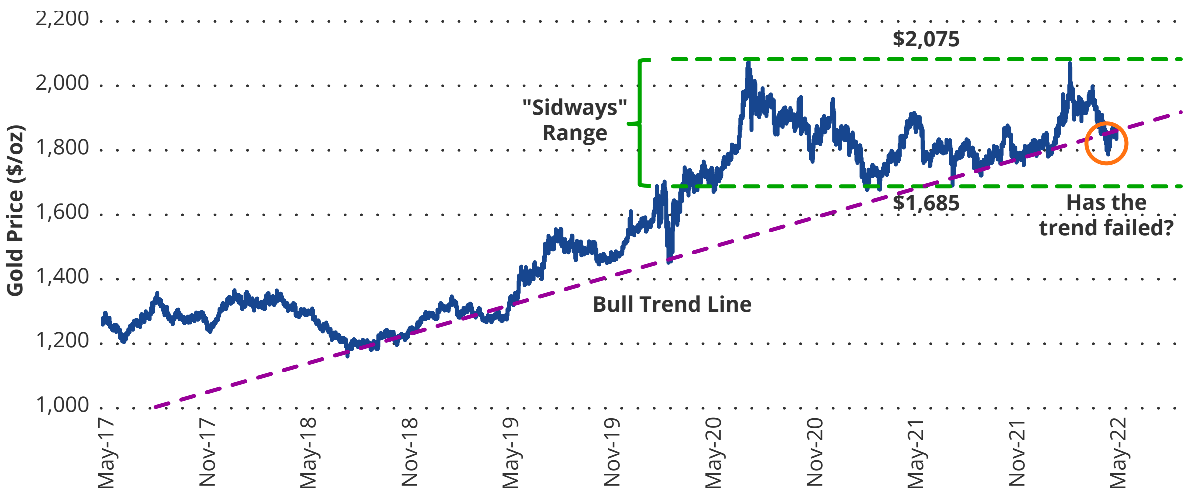
Expenses: Class A: Gross 1.34%; Net 1.34%. Expenses are capped contractually until 05/01/23 at 1.45% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

First quarter U.S. GDP growth was negative and New York State manufacturing activity contracted in May for the second time in three months.

This feels like the dotcom bust in 2000, when technology stocks crashed and the S&P 500 Index ultimately fell 50% from its highs over a two year period. During each of the last four recessions since 1990, the Fed was the light at the end of the tunnel, aggressively stimulating the economy. However, those downturns occurred in a secular disinflation, where each recession began with an inflation rate that was lower than the last. Today, unless inflation miraculously comes under control, the Fed will eventually have to choose between lower inflation and higher growth. It can't have both, and it might get neither if stagflation (i.e., high inflation and no growth) sets in. Stratospheric debt levels compound the challenge.

Gold has touched on its all-time high of $2,075/oz twice (see chart below), driven there first by the pandemic and then by the war. Regardless of the trend gold takes from here, we expect it to test the top of the range again over the coming year, driven by inflation, a Fed policy reversal, geopolitical tensions, a weakening dollar, or other risk-driven events.

Has gold's bull trend been bucked?



Source: Bloomberg, VanEck. Data as of May 31, 2022

What's Gotten Into Junior?

While gold and gold stocks have come under pressure in the past month, the gold price remains at a level where gold companies are able to thrive. Since gold broke out to higher levels in June 2019, gold has gained 40.7% while GDMNTR has had a total return of 56.1%. However, we have been disappointed by the performance of junior gold stocks[4].

MVGDXJTR has underperformed the GDMNTR by 5.4% this year and by 12.7% since June 2019. Using our definition of a junior (less than 300,000 ounces per year of production), the MVGDXJTR is comprised of 43% juniors and 57% mid-tiers. We reckon that a pure juniors index would show weaker performance than the MVGDXJTR.

Junior stocks normally underperform early in a cycle, but they typically catch up in a month or two and ultimately they outperform their larger peers. There are several possible reasons for the subdued performance in the current bull market:

- As we pointed out in our April commentary, unlike past secular gold bull markets, the dollar has been strong. This has probably kept the gold price from the spectacular advances seen in the 1970's and 2000's bull markets. There is not as much market excitement for gold and the juniors so far in this cycle.
- Many commodities are also in a bull market where oil and gas or "green metals" (i.e., metals predominately utilized for clean-energy technologies, such as copper, zinc, cobalt and lithium) stocks have taken investors' attention away from the gold juniors.
- There have been fewer junior acquisitions because the larger producers have not pursued growth like they have in earlier cycles. Producers are also favoring organic opportunities to acquisitions.
- As fewer junior developers are being acquired, more are advancing their properties to production. Unfortunately, there have been too many juniors that have stumbled badly as operators.

Most junior boards and their managements operate under the antiquated mergers and acquisitions model of waiting for a larger producer to offer a generous premium that triggers lavish change of control provisions. For them, creating value for shareholders ends at the property line. We believe long-term value creation goes beyond the property line, but there are few (if any) junior managements with the vision and energy to combine companies. This must change in our view.

Some Things Are Clear

During May we embarked on our first overseas research trip since lockdown in 2020. Returning to the field to see properties and interact with companies in their working environment is insightful and we look forward to more trips soon. We visited three juniors, each with projects that we believe will ultimately yield over a million ounces in reserves. Many juniors have attractive projects that are being advanced towards production. There are 24 of them in our active gold strategy which, combined, account for approximately 20% of the strategy's total exposure. However, if we are to stay invested, stock performance has to improve. We need to see companies do more to attract investors to the sector. They must raise their profile and a sure way to do that, in our view, is through consolidation.

We know of junior companies in the same district that would achieve synergies and scale by combining to form larger multi-million ounce resources. Companies across a region could merge multiple properties that create a path to an emerging mid-tier producer. Such opportunities can be found in the Great Basin (Nevada/Idaho/Utah), British Columbia, Quebec, Guyana, Brazil, and Western Australia. The potential advantages of scale includes:

- Broader investor base
- Increased trading liquidity
- Inclusion in exchange traded funds
- Diversified asset base
- Increased news flow
- Easier/cheaper access to capital
- Reduce costs by eliminating corporate redundancies
- Ability to attract talent and skills needed to design, develop, and operate mines

No-Premium, Please!

In many cases, the most value can be created through a merger of equals (MOE), also known as a "no-premium deal". Scotiabank analyzed eight mergers amongst majors and mid-tiers since 2019 and found that all five zero-premium deals outperformed the other three deals where a premium was paid. In the twelve months after the deal announcements, the no-premium deals averaged a 6% gain, whereas the premium deals fell 32% on average. The reason for the outperformance is that MOE's are judged on fundamentals, whereas premiums invite arbitrageurs and speculators that can lead to short selling, stock overhangs, and selling pressure long after the deal closes.

On May 31st, the market got another example of a poorly structured deal when major producer Gold Fields Ltd. announced the all-stock takeover of mid-tier Yamana Gold at a 33.8% premium to the 10-day Volume-Weighted Average Price ("VWAP"). The premium nearly evaporated by the end of heavy trading on May 31, as Goldfields had fallen 23.4% and Yamana Gold was up just 3.7%.

For combinations that make sense, the juniors can raise their profiles and realize the same synergy and value creation from MOE's that we have seen amongst the larger companies.

All company, sector, and sub-industry weightings as of May 31, 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]The S&P 500® Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sector; as an Index, it is unmanaged and is not a security in which investments can be made. [4]"Junior" mining companies typically produce, on average, approximately less than 0.3 million ounces of gold per year whereas "Mid-Tier" and "Senior" (or "Major") mining companies produce, on average, approximately 0.3-1.5 million ounces and 1.5-6.0 million ounces of gold per year, respectively.

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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