

# Gold and Bitcoin: So Happy Together

By Joe Foster, Portfolio Manager

## VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

### Improved Outlook, Higher Rates and Dollar Drag on Gold

Gold spent March consolidating around the \$1,700 per ounce level, falling to \$1,676 on March 8 before recovering to \$1,707 by March 31 and ending the month down \$26.33 per ounce (-1.5%) from its February close. Gold experienced a significant decline early in the month following a strong move higher in long-term Treasury rates after Federal Reserve (Fed) Chairman Jerome Powell promised to keep monetary policies steady in a Wall Street Journal interview. While the Fed has anchored short-term rates near zero, Mr. Powell's comments suggest it will not stand in the way of long-term rates, which have been trending higher since August. 10-Year Treasuries reached a high of 1.76% on March 30. Higher interest rates and an improving outlook for the U.S. economy also caused the U.S. dollar to reach near-term highs. These trends, along with outflows in bullion exchange traded products, have been weighing on gold.

### Jewelry Demand Returns in China and India

Gold should find support from improving Asian demand. China and India are by far the largest consumers of gold in the world. Asian jewelry demand is price sensitive, which means demand typically increases on price weakness. Gold demand in India and China is showing signs of recovery after been decimated in 2020. The World Gold Council and Reuters report that Indian gold imports were up 45% and 72% in December and January, respectively. Metals Focus shows Chinese jewelry sales returning to normal in yuan terms in the fourth quarter of 2020, while tonnages appear to be trending towards normal in the first quarter of 2021.

### Large Cap Gold Stocks Outperform

Gold stocks performance was mixed on the month, as the NYSE Arca Gold Miners Index (GDMNTR)<sup>1</sup> gained 3.48%, while the MVIS Global Junior Gold Miners Index (MVGDXJTR)<sup>2</sup>

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

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	1.62	51.40	11.62	-4.77
Class A: Maximum 5.75% load	-4.22	42.69	10.31	-5.34
GDMNTR Index	3.48	39.10	11.11	-4.99

#### Average Annual Total Returns (%) as of December 31, 2020

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	6.81	41.39	23.19	-3.13
Class A: Maximum 5.75% load	0.67	33.26	21.74	-3.70
GDMNTR Index	4.57	23.69	22.45	-4.17

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](http://vaneck.com) for performance current to the most recent month end.

<sup>†</sup>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 1.49%; Net 1.45%. Expenses are capped contractually until 05/01/21 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.

declined -3.05%. The positive divergence of the large-cap GDMNTR stocks may suggest the gold price weakness has run its course.

### Keeping Tabs on Deficit Spending, Looming Lunch Bill

The Congressional Budget Office (CBO) reports that the 2020 federal deficit totaled \$3.13 trillion, or a record 14.9% of GDP. Perhaps most people don't quite grasp how much a trillion is,

as it gets bandied around so much—million, billion, trillion, whatever. Each trillion in debt is equivalent to \$7,785 for every household in America. The total deficit is currently \$28 trillion. The CBO forecasts a 2021 deficit of \$2.26 trillion or 10.3% of GDP, which doesn't include the \$1.9 trillion spending bill passed in March. President Joe Biden is now asking for trillions more for infrastructure, green initiatives and social welfare. Meanwhile, the Fed keeps buying government debt and limits debt service costs with low rates. In a sane world this would be labelled currency debasement, yet the dollar has been trending higher since January. The market sees all of this deficit spending going towards economic growth with no side effects.

According to a Wall Street Journal op-ed piece by Phil Gramm and Mike Solon, the purchasing power of American families reached record highs in 2020. Total employee compensation was down by \$215 billion, yet government personal transfers rose by \$893 billion. This was before the \$900 billion December stimulus took effect. This suggests that the government's response to the pandemic went far beyond those who were truly harmed.

Somebody once said, "There's no such thing as a free lunch". We believe that sometime in the coming years, the lunch bill will come. Debt and the expansion of the money supply could have any of several consequences:

- If long-term rates lurch higher from here, debt service could become a big problem.
- Problems may arise if the Fed ever stops funding the government. Likewise, if foreigners stop buying Treasuries.
- Once the profligate spending stops, will the economy be able to withstand the increased regulations and higher taxes the administration has planned?
- An inflationary spiral would create problems unseen for decades.

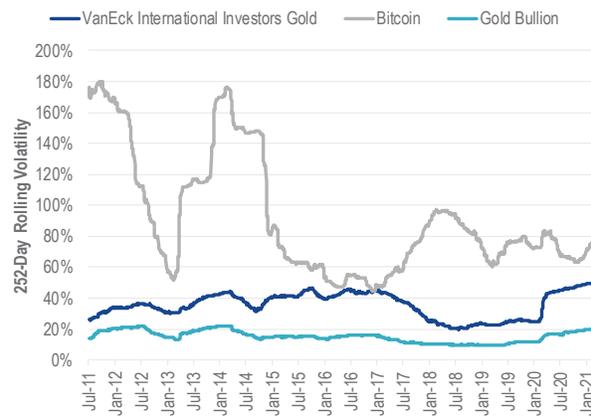
Gold and gold stocks may hedge against these risks.

### Acceptance of Bitcoin No Longer in Question

The gold vs. bitcoin question comes up more than ever now. There have been some interesting developments around bitcoin, showing that it has come into wider use. The bitcoin market has historically been retail oriented, both in terms of

its use in transactions and as an investment. However, over the past year bitcoin has made significant inroads to the institutional realm. Its expanding list of adherents includes corporates, high-net worth individuals, endowments and fund companies. It trades on the CME futures exchange and as a Nasdaq-listed trust worth \$38 billion (as of end-March). According to Bloomberg, several prominent custodial banks have announced plans to service bitcoin. In March, Citibank released a comprehensive 100+ page report on bitcoin. It appears it can no longer be dismissed as a fad or tech curiosity. The chart shows that, while bitcoin is more volatile than gold or gold stocks, the volatility profile is stabilizing, indicative of a maturing speculative asset class.

Bitcoin Volatility Stabilization Evidence of Maturing Asset Class



Source: Bloomberg, VanEck. Data as of March 31, 2021. Volatility is measured here using standard deviation of returns on 252-day rolling time period. Standard deviation is a statistical measurement of dispersion about an average, which depicts how widely returns have varied over a certain period of time. Past performance is no guarantee of future results.

There are, however, major logistical issues facing bitcoin, including the low speed and cost of transactions, how regulatory bodies will treat it, whether some governments will allow it, how it is taxed, how it is collateralized and insured and how to prevent hacks and illicit activity. Bitcoin is a new asset class with high volatility and is part of a stimulus-fueled mania. According to a Cambridge Center for Alternative Finance report, bitcoin has a carbon footprint equivalent to that of New Zealand. Assuming all of this can be ironed out over time, where does bitcoin land in the investment universe and does it affect gold?

### The Gold vs. Bitcoin Debate Continues

Bitcoin's greatest potential is as a decentralized global payment system and substitute for cash. Many investors believe bitcoin is a store of value, and it could certainly become a hedge against currency debasement.

The reason investors focus on gold vs. bitcoin, and not other cryptocurrencies, is the characteristics they have in common. Both have limited supply, sit outside of the mainstream financial system, carry no counterparty liabilities, are uncorrelated assets and have been used as currencies. The anti-establishment ethos of bitcoin users is akin to the lack of trust many gold investors have in the financial system.

There are also stark differences. Bitcoin is not a tangible asset. Like paper currency, it only has value so long as the public believes it has value. Without public trust, it is worthless. Gold is real. It is used in electronics, medicine and aerospace. It is displayed on millions of people around the world every day. It has utility beyond its use as a store of value and is intertwined with human culture and history.

### Landscape Supportive of Gold, Bitcoin Working Together

The dawn of the Renaissance also brought a new payment system and store of value. In the 14th century, private family banks arose in northern Italy that dealt not so much with gold and silver, but slips of paper representing gold and silver. These "bills of exchange" were a kind of paper currency that helped to overcome the insufficient supplies of gold and silver and put more money into circulation among merchants. The system failed when governments became too burdened by debts and moved to cancel the bills of exchange. The merchant banks revived in the 15th century with new vigor under the leadership of Florence's greatest banking family, the Medici, who were the first to create written withdrawals (otherwise known as checks) to increase the speed and flexibility of the banking system (*The History of Money*, Weatherford, 1997). Perhaps in the Renaissance, as now, some were calling for the demise of gold as an archaic store of wealth. However, gold and paper currency have coexisted ever since.

Interest rates have been falling for 40 years. We are entering a post-pandemic era where rates have nowhere to go but up. The potential for excessive inflation is palpable. Investment strategies that worked for the last 40 years are not likely to work in the foreseeable future. This investment landscape of

risk and uncertainty is amenable to both gold and bitcoin. While bitcoin may steal some gold investors at the margin, it is also likely to attract new investors to the safe-haven realm where gold and silver are established. Perhaps gold will find new use as a stabilizer in volatile crypto funds. In any case, it is not a gold vs. bitcoin world. It is a gold *and* bitcoin world, where both can coexist.

**All company, sector, and sub-industry weightings as of March 31, 2021 unless otherwise noted. Source: VanEck, FactSet**

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.

<sup>1</sup>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. <sup>2</sup>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.

Any indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

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 Vectors ETF Trust (the "Trust") in connection with VanEck Vectors 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 Vectors 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, gold-mining industry, derivatives, 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 Vectors<sup>®</sup> Gold Miners ETF (GDX<sup>®</sup>) and VanEck Vectors<sup>®</sup> Junior Gold Miners ETF (GDXJ<sup>®</sup>): An investment in the Funds may be subject to risks which include, among others, investing in gold and silver mining companies, Canadian issuers, foreign securities, foreign currency, depositary 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](http://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.**

©2021 VanEck



Van Eck Securities Corporation, Distributor

666 Third Avenue | New York, NY 10017

[vaneck.com](http://vaneck.com) | 800.826.2333