



July 2024

# Q3 Outlook: Distortions Now, Reckoning Later

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Chief Executive Officer

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# Track Record of Recent Macro Insights

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- Focus on most important, multi-year, investable trends!
  
- Our Views:
  - End 2021: Avoid growth, including crypto - parallels to growthy, disruptive railroad stocks
  - May 2022: Rates will rise further as QE goes to QT
  - Mid-2022: Inflation will last longer; Gold is “second half team”
  - End 2022: Buy Bonds
  - March 2023: “Pounding the Table” on Gold and Bitcoin; Think 40/60
  - End 2023: Focus on monetary policy; India and Bitcoin “Screaming Buys”
  - Early 2024: Sideways 2.0

# Summary

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- The stock market was very distorted at the end of Q2
- Fiscal spending is raging, 2025 reckoning? Small chance of rate spike.
- Global growth picking up
- Blockchain usage continues to grow

# Growth Dramatically Outperforms Value



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### The Ratio Between Large Cap Growth and Value at Dot-Com Bubble Levels



**Source: Morningstar. Data as of July 17, 2024.** Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. It is not possible to invest in an index. Russell 1000 Value Index consists of value-oriented US companies selected from the large-cap focused Russell 1000 Index. Russell 1000 Growth Index consists of growth-oriented US companies selected from the large-cap focused Russell 1000 Index.

# S&P Market Cap Doesn't Always Rule



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## Price Performance in Different Regimes

	<u>2014-Current</u>	<u>2000 - 2007</u>	<u>1996-2000</u>
<b>S&amp;P 500 Index</b>	177%	1%	148%
<b>S&amp;P 500 Equal Weight Index</b>	117%	78%	77%
<b>Nasdaq 100 Index</b>	406%	-52%	714%
<b>Russell 2000 Index</b>	74%	44%	81%
<b>MSCI International Developed Index</b>	19%	36%	55%
<b>MSCI Emerging Markets Index</b>	1%	160%	12%

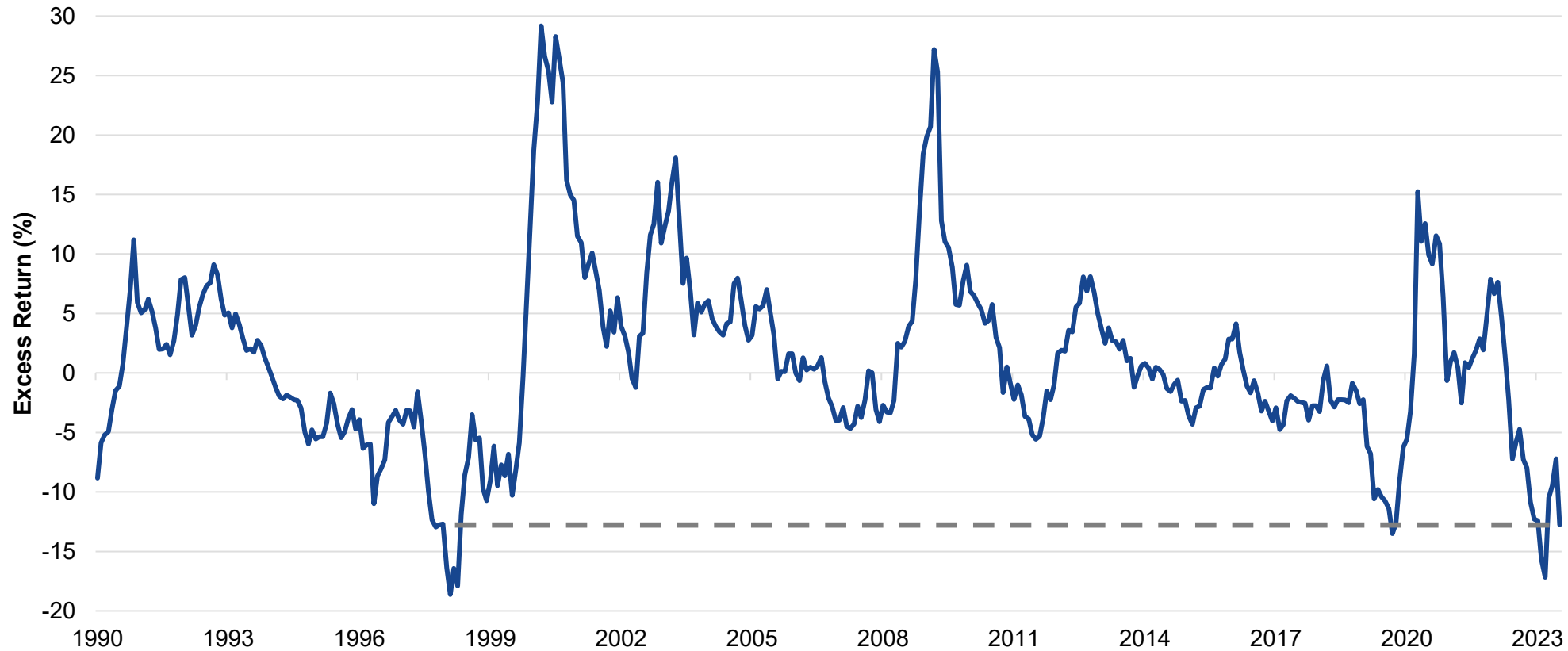
Source: New Edge, Cameron Dawson. RIA. Newedgewealth.com dated June 14, 2024

# Underperformance of Equal Weight Also at Record Levels



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**Narrow Leadership:** S&P 500 Equal Weighted Index Rolling 1 Year Excess Returns vs. S&P 500 Index / 1/1990 – 6/2024

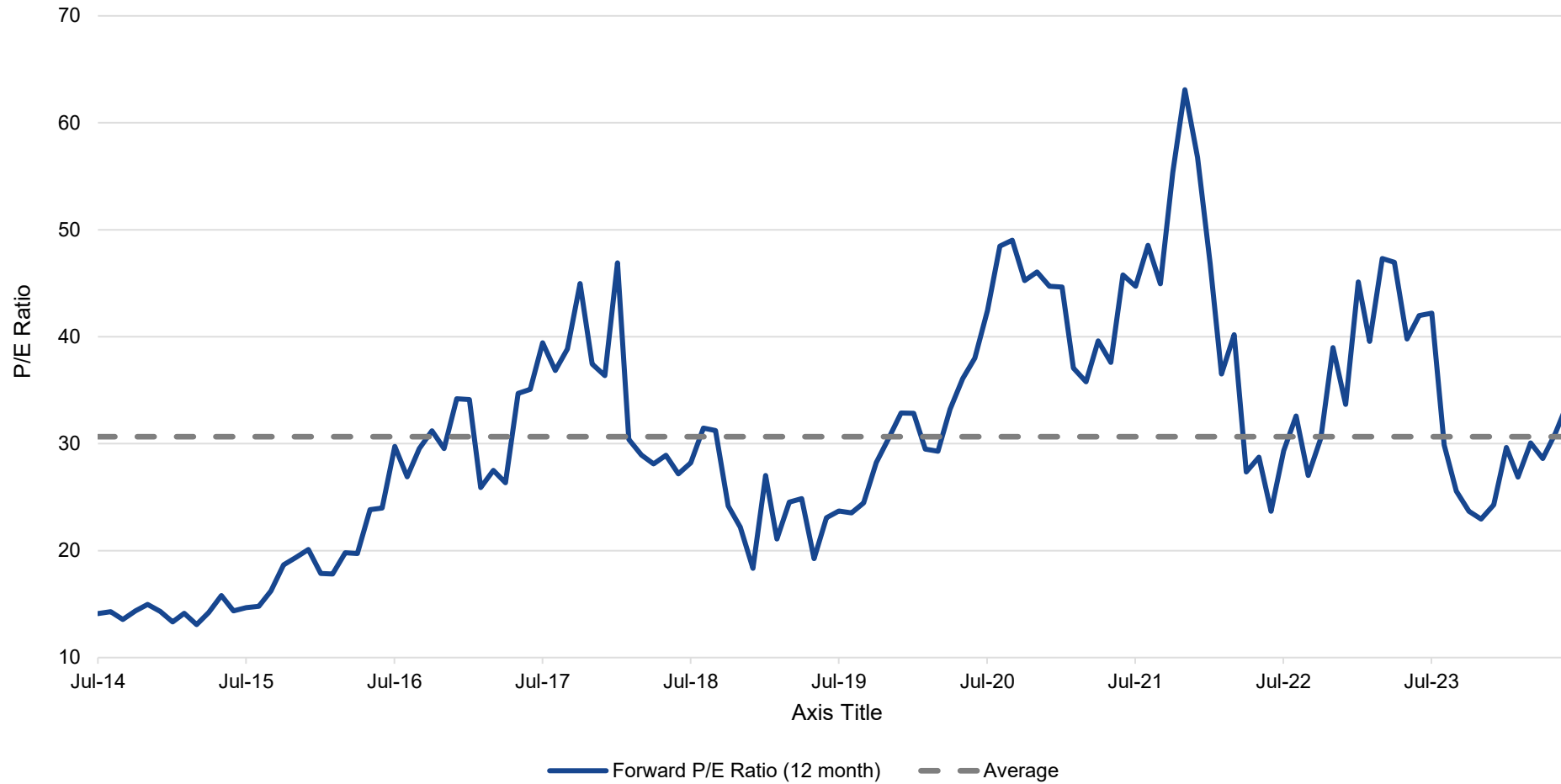


Source: Morningstar. Data as of July 17, 2024. Past performance is not a guarantee of future results. Index performance is not illustrative of fund performance. It is not possible to invest in an index. The S&P 500 Index consists of 500 widely held large cap United States common stocks covering a variety of sectors. The S&P 500 Equal Weighted Index is an equally weighted version of the market-cap weighted S&P 500 Index.

# NVDA Valuations are High, but Mixed in Historical Context



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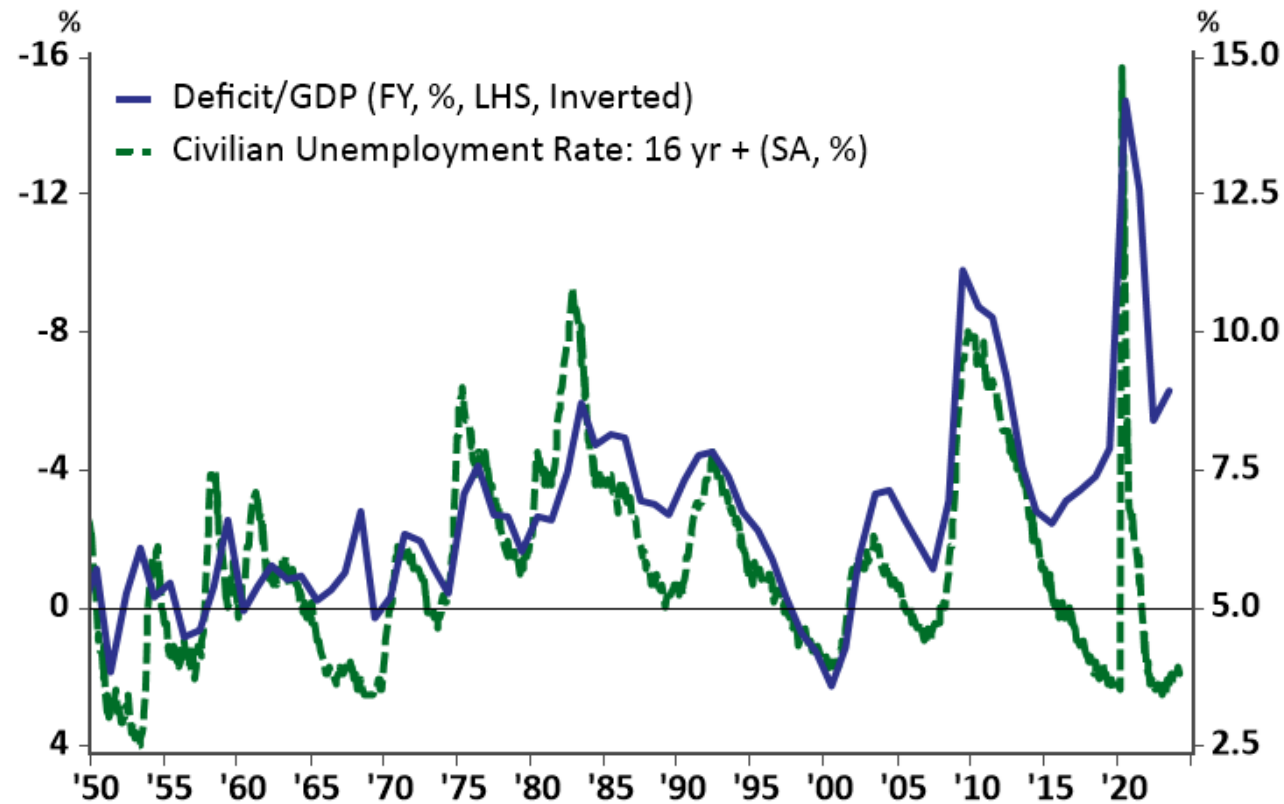


**Source: Bloomberg. Data as of July 23, 2024.** The forward price-to-earnings (P/E) ratio is a valuation method that compares a company's current share price to its estimated future earnings per share (EPS). Not a recommendation to buy or sell any security mentioned herein. Please see important disclosures and definitions at the end of the presentation. Any projections shown are for illustrative purposes only and are not intended as predictions of future results or events.



# U.S. Budget Deficit Never So Large During Economic Boom

## Correlation of Deficits and Unemployment



### Consequences:

- Strong Economy
- Persistent Inflation
- No Fed easing

### Indicators:

- Gold and BTC at All Time Highs
- US Credit Default Swaps
- US debt lagging EM debt
- 10-year interest rates

Source: MacroPolicy Perspectives/OMB, BLS/Haver. Please see important disclosures and definitions at the end of the presentation. Any projections shown are for illustrative purposes only and are not intended as predictions of future results or events.

# 2025 Fiscal Issues – Actions and Proposals of Candidates

## Trump and Congress

- Lowered corporate taxes to 21%
- Reduce immigration to raise wages
- \$2.3 trillion CARES Act in March 2020; \$484 billion in April; \$900 billion Coronavirus relief plan in Dec 2020
- Social Sec: more participants and higher wages help system
- Raise tariffs 10% across the board

## Harris and Congress

- IRA \$800 billion; Chips Act \$280 billion; \$2 trillion American Rescue Plan in 2021
- Proposed wealth tax on individuals with \$100m or more
- Proposed Medicare tax increase from 3.8% to 5% over \$400,000 and drug price cap; Soc Sec no solution
- Targeted tariff increases

# Unavoidable Problem: Can't Coast With These Dynamics

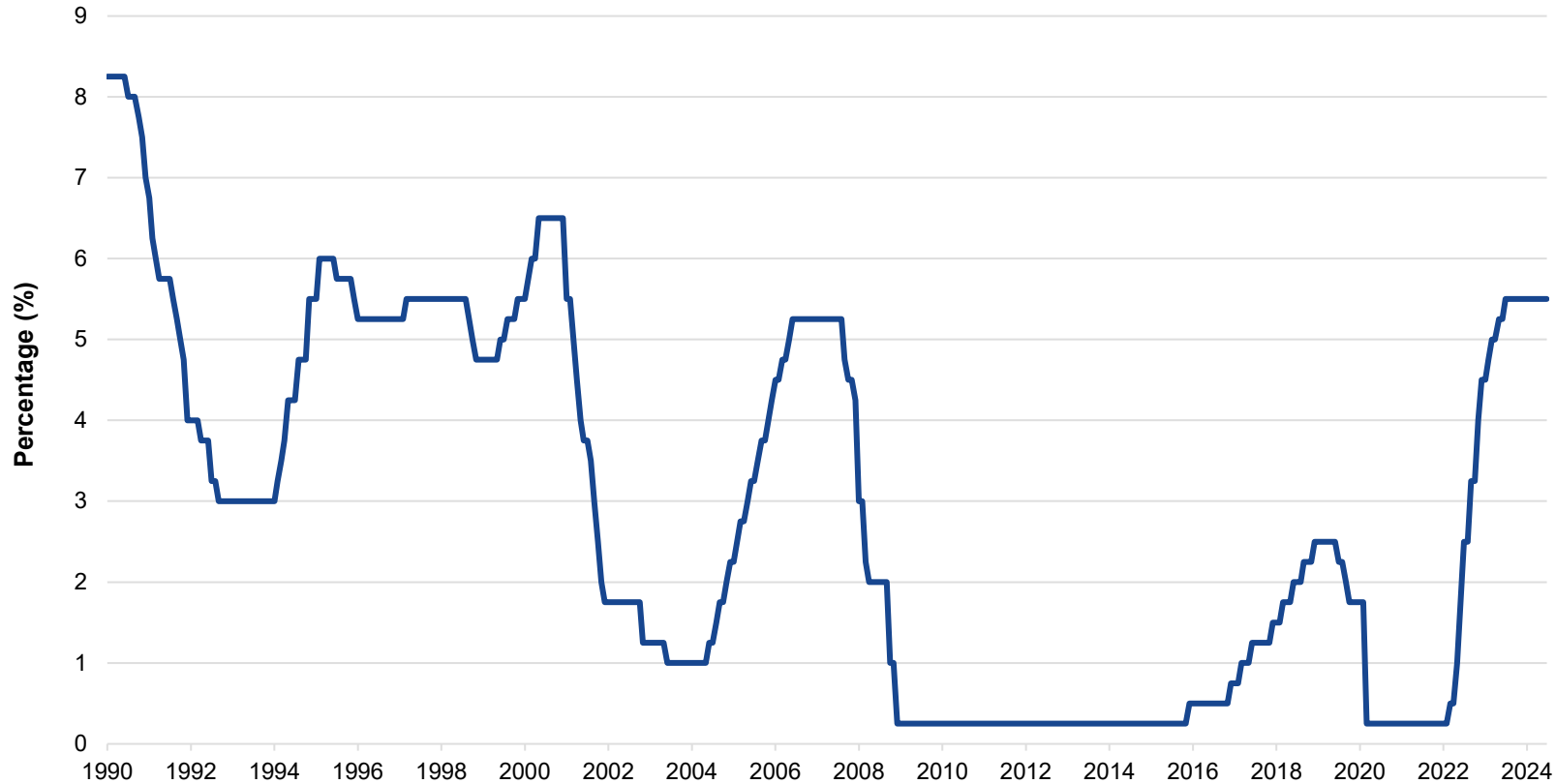
US Debt-to-GDP (Federal Debt held by Public, %GDP)



Source: BofA Research Investment Committee, CBO, PWBM. Please see important disclosures and definitions at the end of the presentation. Any projections shown are for illustrative purposes only and are not intended as predictions of future results or events.

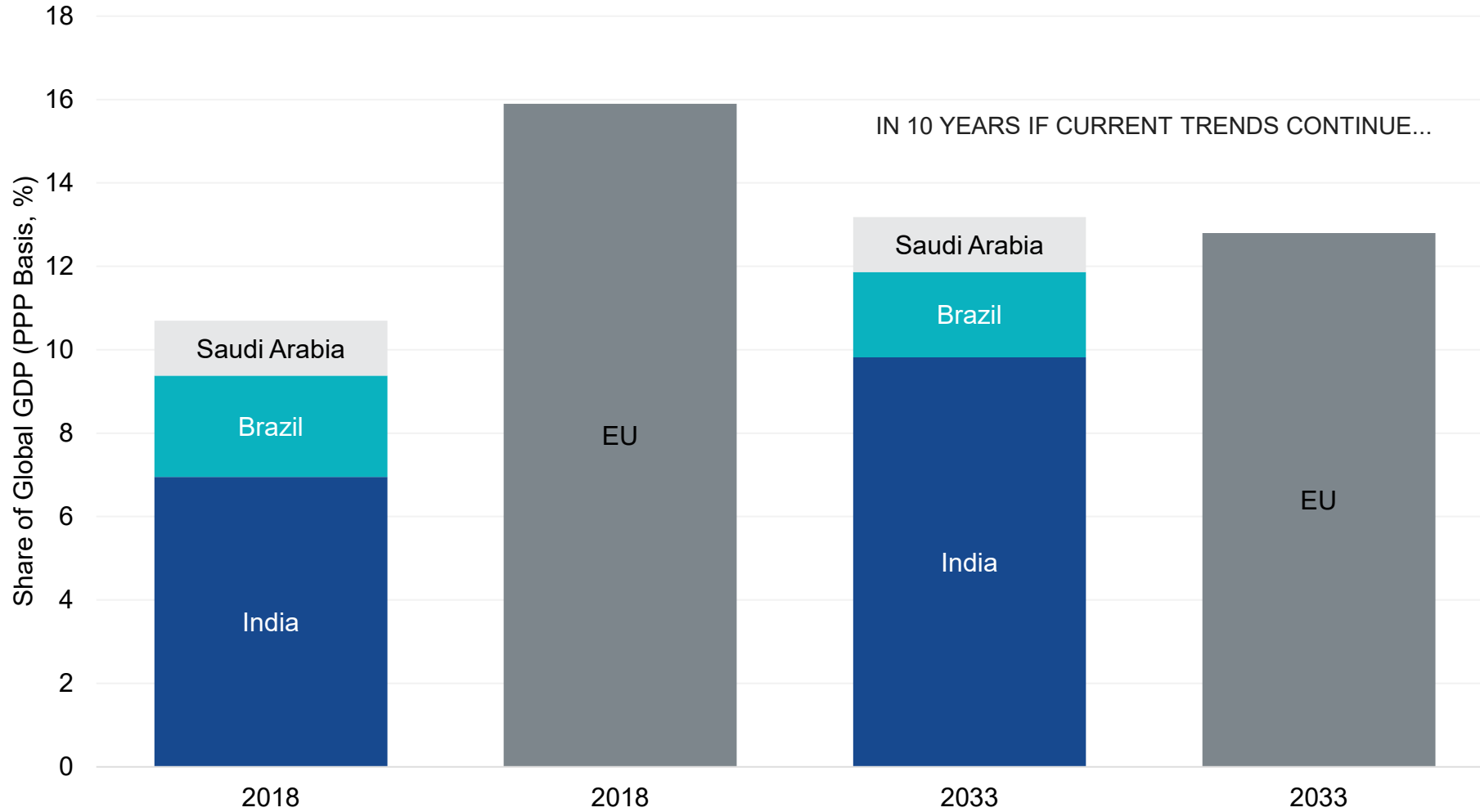
# Fed Funds Rate

**Fed wins: inflation keeps falling without bad recession, keeps tools for a rainy day**



**Source: Bloomberg. Data as of July 2024.** The federal funds rate, or fed funds rate, is set by the Federal Open Market Committee (FOMC) of the Federal Reserve. It is the interest rate charged to various lending institutions such as banks on unsecured loans that are borrowed overnight.

# India++ will Pass the EU in 10 Years



Source: VanEck Research; IMF; Bloomberg as of 6/30/2023. Any projections shown are for illustrative purposes only and are not intended as predictions of future results or events.

# Rise of the “new” EM Countries Leads to More Diversified Growth

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Saudi, Brazil and India are regional leaders benefitting from economic reform and digitization initiatives

- Saudi Arabia
  - Liberalization of women’s rights
  - Shift of economy away from fossil fuels
  - Use of capital markets to enhance competition and capital discipline
  - Saudi-Iran peace pact
  
- Brazil
  - Financial reforms driven by the central bank
  - Low inflation
  - Potential for fiscal reform improvement
  
- India
  - 800 million+ smartphone users: biggest annual data consumption of any country
  - Demographics
  - Stable government and openness to foreign businesses

# Demographics, Technology Fueling Indian Growth



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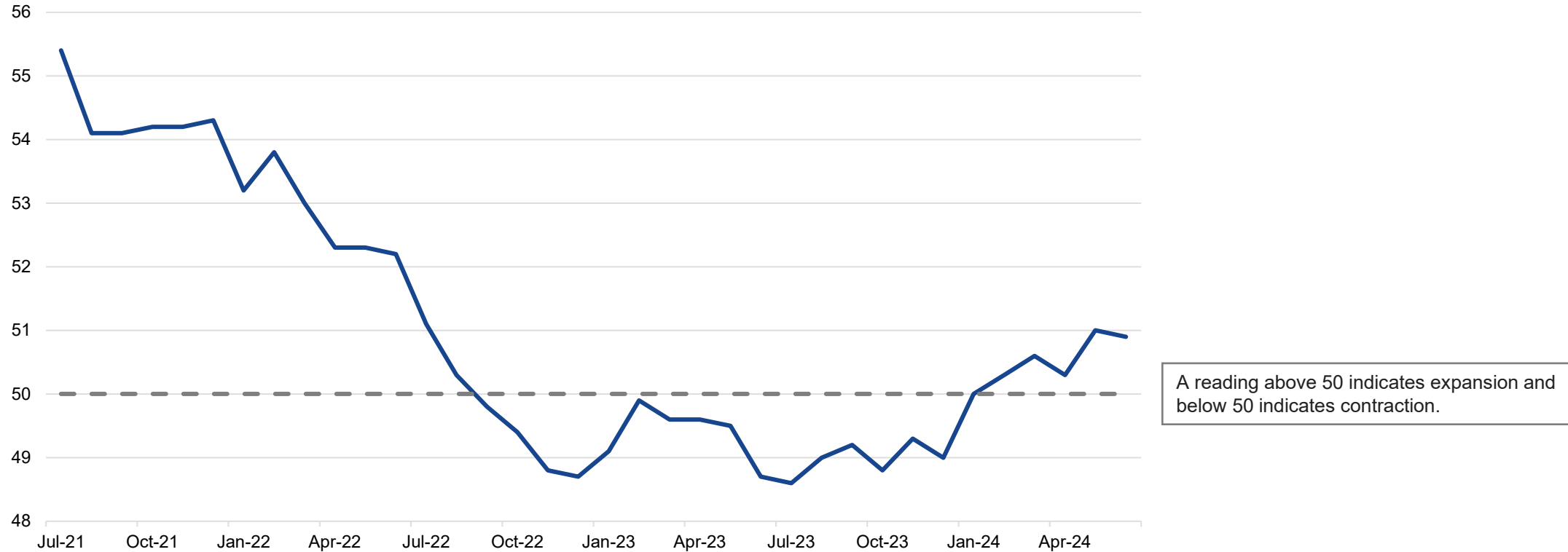
**Bharti Airtel Limited**, commonly known as Airtel, is an Indian multinational telecommunications services company based in New Delhi. Currently, Airtel provides 5G, 4G and LTE Advanced services all over India.



**Source: Bloomberg. Data as of July 23, 2024.** Not a recommendation to buy or sell any security mentioned herein. Past performance is no guarantee of future results. Please see important disclosures and definitions at the end of the presentation.

# Global Growth Picking Up

## Global PMI, Last Three Years



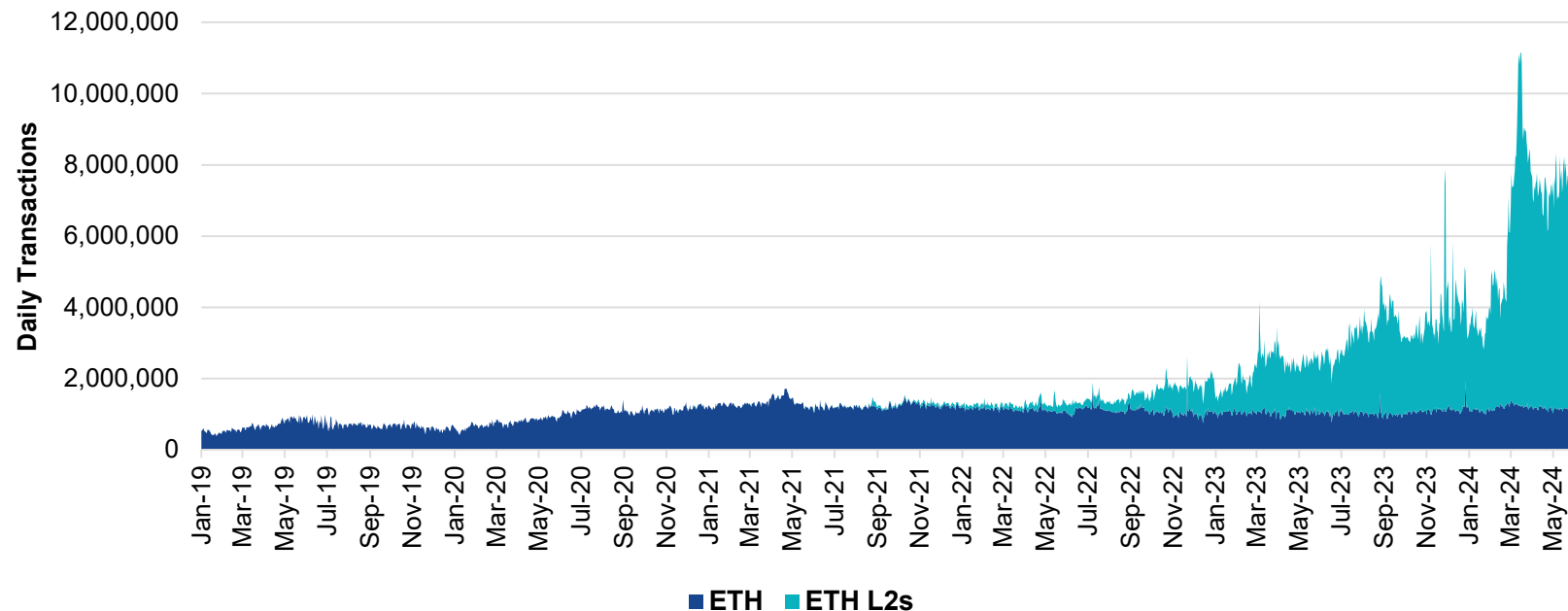
Source: Bloomberg. As of July 2024. Purchasing Managers' Index: economic indicators derived from monthly surveys of private sector companies. Any projections shown are for illustrative purposes only and are not intended as predictions of future results or events. Please see important disclosures and definitions at the end of the presentation



# ETH Growth Built on L2 Scalability and Lower Cost

- Beyond the Ethereum blockchain (known as Layer 1 or L1), there are also connected blockchains called Layer-2s (L2s)
- Layer-2 blockchains are independent versions of Ethereum’s software that increase its ability to scale
- Combined with L2 blockchains, Ethereum can now process up to 500 transactions per second (TPS); Expected to grow >10,000x by 2030
- L2 blockchains charge transaction fees in ETH, the L2 keeps some but a portion is returned to the L1
- ETH holders benefit from Layer-2s because these connected blockchains increase demand for ETH

## Daily Transactions have Grown 708% Since 2019

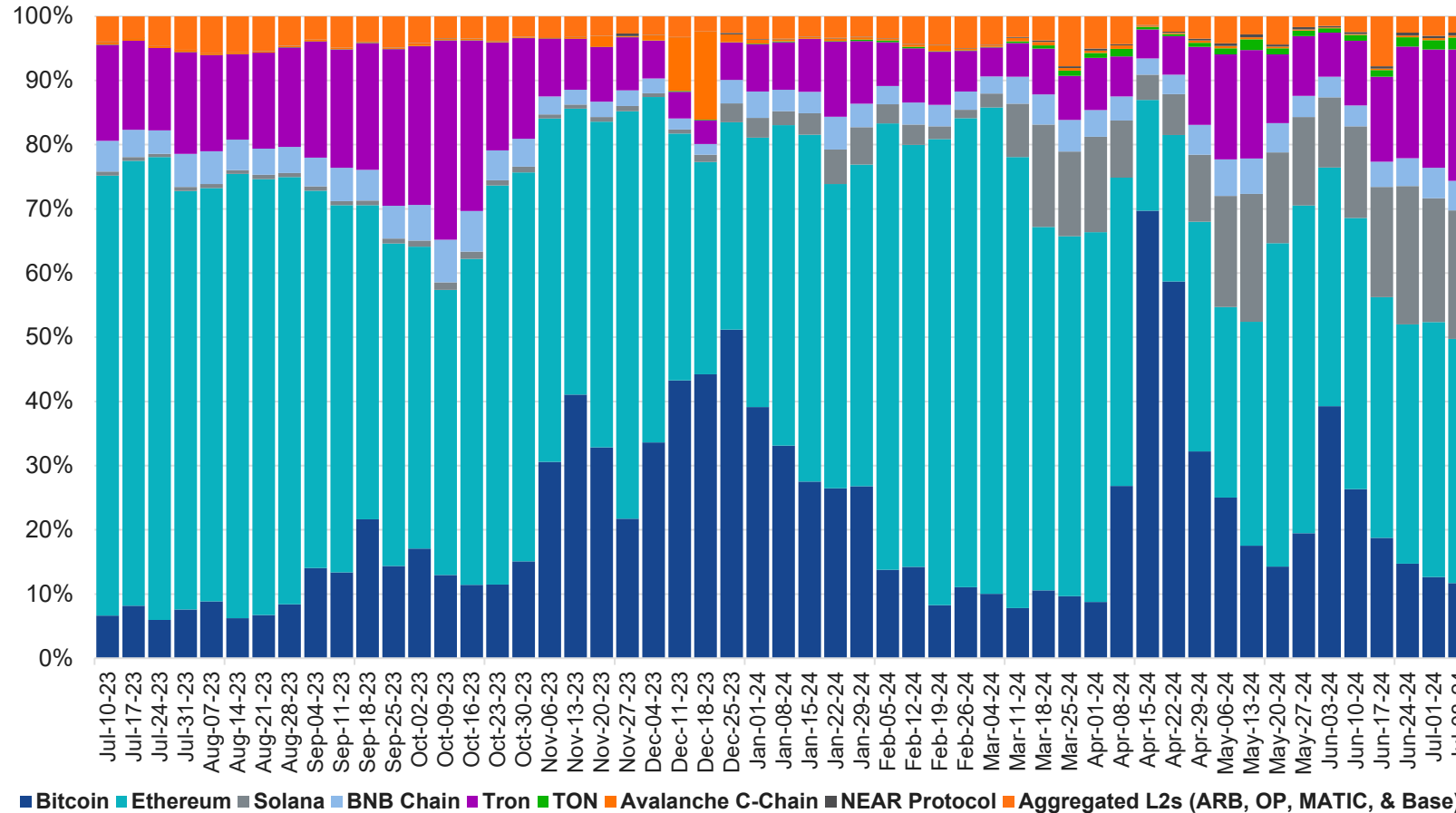


Source: Artemis.xyz as of July 7, 2024.

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# Ethereum (ETH) Market Share Has Fallen

## Open-Source Blockchain Fee Market Share



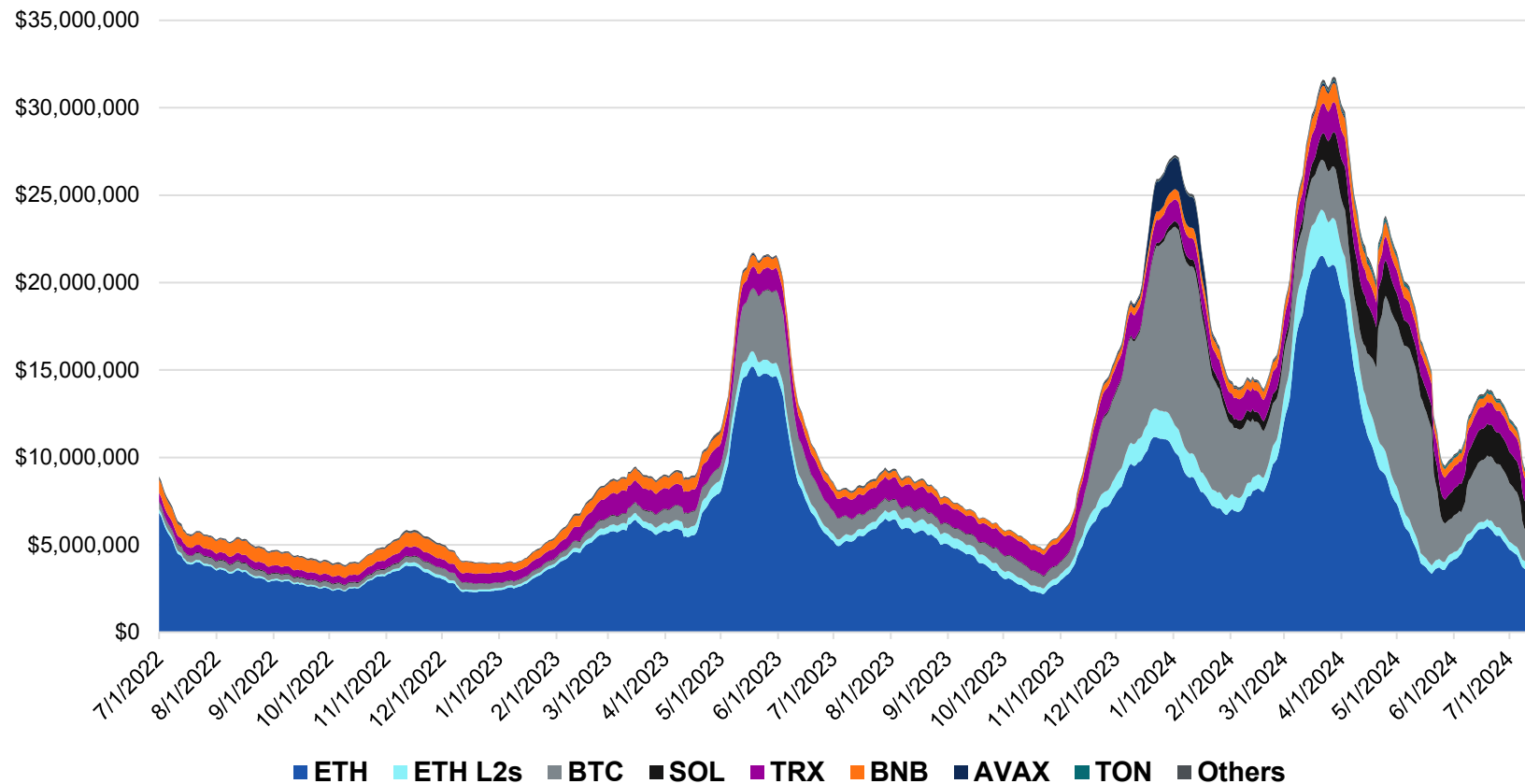
- Ethereum Mainnet market share recently fell to 41% from a recent peak of 80%+
- Competitors Solana & Tron have gained share in recent months thanks to cheap & fast transactions for stablecoins & memecoins
- Despite occasionally breaking above 5%, ETH L2s market share of fees has languished due to recent price cuts

Source: Artemis XYZ, VanEck as of 7/11/2024.

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# Decline in ETH Transaction Fees Hurt Network Economics

## Ethereum Ecosystem Revenues Represent 55% of All Blockchain Revenues in 2024



- **Ethereum is profitable:** Ethereum ecosystem revenues were \$1.9B for 1H2024; up 34% y/y
- **Ethereum is useful:** Ethereum ecosystem average daily DEX volumes were \$3B in 1H2024; up 51% y/y and 54% of DEX volumes across all blockchains
- Ethereum transaction fees averaged \$7.80; In 1H2024 while Ethereum L2 fees have averaged \$0.03
- Ethereum Ecosystem holds \$60.2B in Total Value Locked (TVL), +83% y/y, which is 73.6% of TVL across all blockchains

Source: Artemis XYZ, VanEck as of 7/11/2024.

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# Investment Implications

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- **Distorted stock market:** be diversified in your equity portfolio. “2021 lite”
- **Fiscal spending:** Likely gradual Fed easing. But small chance of surprising, rapid rate spike. Timing uncertain on that but stay on the shorter end.
- **Global growth picking up:** good for emerging markets and commodities
- **Blockchain usage is growing:** Ethereum has more competitors than bitcoin

# Index Descriptions

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**Consumer Price Index (CPI)** measures the overall change in U.S. consumer prices based on a representative basket of goods and services over time. CPI is the most widely used measure of inflation, closely followed by policymakers, financial markets, businesses, and consumers.. “Core” CPI measures exclude both food and energy, given that their prices are much more volatile.

**Purchasing Managers’ Index (PMI)** is a measure of the prevailing direction of economic trends in manufacturing based on a monthly survey of supply chain managers across 19 industries, covering both upstream and downstream activity. The value and movements in the PMI and its components can provide useful insight to business decision makers, market analysts, and investors, and is a leading indicator of overall economic activity in the U.S.

**S&P 500 Index** is widely regarded as the best single gauge of large-cap U.S. equities. The index is a float-adjusted, market-cap-weighted index of 500 leading U.S. companies from across all market sectors including information technology, telecommunications services, utilities, energy, materials, industrials, real estate, financials, health care, consumer discretionary, and consumer staples.

**Russell 1000 Growth/Value Index** is designed to track the relative performance large cap growth vs large cap value segment of the US equity market.

**Nasdaq 100 Index** comprises equity securities issued by 100 of the largest non-financial companies listed on the Nasdaq stock exchange.

**Russell 2000 Index** tracks the small-cap US stock market.

**MSCI International Developed Markets Index** measures the performance of equity markets across developed countries.

**MSCI Emerging Markets Index** tracks large and mid cap representation across emerging markets countries.

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# Coin Definitions

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**Bitcoin (BTC)** is a decentralized digital currency, without a central bank or single administrator, that can be sent from user to user on the peer-to-peer bitcoin network without the need for intermediaries.

**Ethereum (ETH)** is a decentralized, open-source blockchain with smart contract functionality. Ether is the native cryptocurrency of the platform. Amongst cryptocurrencies, Ether is second only to Bitcoin in market capitalization.

**Solana (SOL)** is a public blockchain platform. It is open-source and decentralized, with consensus achieved using proof of stake and proof of history. Its internal cryptocurrency is SOL.

**Tron (TRX)** is a multi-purpose smart contract platform that enables the creation and deployment of decentralized applications

**Avalanche (AVAX)** is an open-source platform for launching decentralized finance applications and enterprise blockchain deployments in one interoperable, scalable ecosystem.

**The Open Network (TON)**, also known as TON Blockchain, is a decentralized layer-1 proof-of-stake blockchain created by the encrypted messaging platform, Telegram in 2018. The multi-blockchain architecture of TON provides a platform for decentralized applications (dApps) and smart contracts. It consists of a master chain, multiple working blockchains, and sharding protocols.

**Binance Coin (BNB)** is digital asset native to the Binance blockchain and launched by the Binance online exchange.

# Important Disclosures

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Emerging Market securities are subject to greater risks than U.S. domestic investments. These additional risks may include exchange rate fluctuations and exchange controls; less publicly available information; more volatile or less liquid securities markets; and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

Investments in emerging markets bonds may be substantially more volatile, and substantially less liquid, than the bonds of governments, government agencies, and government-owned corporations located in more developed foreign markets. Emerging markets bonds can have greater custodial and operational risks, and less developed legal and accounting systems than developed markets.

Global resource investments are subject to risks associated with real estate, precious metals, natural resources and commodities and events related to these industries, foreign investments, illiquidity, credit, interest rate fluctuations, inflation, leverage, and non-diversification.

Gold investments are 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. Investments in gold may decline in value due to developments specific to the gold industry. Foreign gold security investments 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. Gold investments are subject to risks associated with investments in U.S. and non-U.S. 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.

There are inherent risks with fixed income investing. These risks may include interest rate, call, credit, market, inflation, government policy, liquidity, or junk bond. When interest rates rise, bond prices fall. This risk is heightened with investments in longer duration fixed-income securities and during periods when prevailing interest rates are low or negative.

# Important Disclosures cont.

**Investments in digital assets and Web3 companies are highly speculative and involve a high degree of risk.** These risks include, but are not limited to: the technology is new and many of its uses may be untested; intense competition; slow adoption rates and the potential for product obsolescence; volatility and limited liquidity, including but not limited to, inability to liquidate a position; loss or destruction of key(s) to access accounts or the blockchain; reliance on digital wallets; reliance on unregulated markets and exchanges; reliance on the internet; cybersecurity risks; and the lack of regulation and the potential for new laws and regulation that may be difficult to predict. Moreover, the extent to which Web3 companies or digital assets utilize blockchain technology may vary, and it is possible that even widespread adoption of blockchain technology may not result in a material increase in the value of such companies or digital assets.

**Digital asset prices are highly volatile, and the value of digital assets, and the companies that invest in them, can rise or fall dramatically and quickly. If their value goes down, there's no guarantee that it will rise again. As a result, there is a significant risk of loss of your entire principal investment.**

Digital assets are not generally backed or supported by any government or central bank and are not covered by FDIC or SIPC insurance. Accounts at digital asset custodians and exchanges are not protected by SIPC and are not FDIC insured. Furthermore, markets and exchanges for digital assets are not regulated with the same controls or customer protections available in traditional equity, option, futures, or foreign exchange investing.

**Digital assets** include, but are not limited to, cryptocurrencies, tokens, NFTs, assets stored or created using blockchain technology, and other Web3 products.

**Web3 Companies** include but are not limited to, companies that involve the development, innovation, and/or utilization of blockchain, digital assets, or crypto technologies.

**All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met and investors may lose money. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future results.**

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