November 2024

Gold vs. Gold Equities: The Disconnect Won’t Last

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INIVX | IIGCX | INIIX | INIYX

Gold and Gold Equities: Post-Election Insights and Investment Opportunities

Following the U.S. presidential election on November 5, 2024, which resulted in Donald Trump's victory, gold prices declined. The so-called “Trump Trade” drove the U.S. Dollar and U.S. Treasury yields higher, while the S&P[1], Dow Jones[2], and the Nasdaq[3] reached record highs throughout the month.

Gold faced significant pressure, closing as low as $2,563.25 on November 15. However, it demonstrated resilience, briefly closing above $2,700 for one trading session later in the month. Despite this recovery, November marked its worst monthly performance in over a year. The metal closed on November 29 at $2,643.15, reflecting a $100.83 drop per ounce or 3.67% decline for the month.

Looking ahead, we believe gold remains supported by both the U.S. and global macroeconomic factors. Expectations of inflationary policies under the new U.S. administration, heightened global geopolitical risks, strong central bank net buying, and anticipated rate cuts by the Federal Reserve suggest potential upward momentum for gold in the longer term.

Gold Equities Under Pressure: Sentiment, Leverage, and Market Dislocations

A weaker gold price led to gold equities underperforming the metal in November. The NYSE Arca Gold Miners Index (GDMNTR)[4] was down 7.09%, and the Small-/Mid-Cap Index, the MVIS Global Juniors Gold Miners Index (MVGDXJTR)[5], was down 7.79% during the month. Gold equities are now lagging gold this year, which is surprising. We believe this is the compounding result of market dislocations in valuing the gold equities over the past several years.

Average Annual Total Returns (%) as of November 30, 2024

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-6.80	24.31	9.72	8.03
Class A: Maximum 5.75% load	-12.15	17.16	8.43	7.39
GDMNTR Index	-7.09	22.44	8.44	8.69

Average Annual Total Returns (%) as of September 30, 2024

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	4.25	48.05	9.56	6.54
Class A: Maximum 5.75% load	-1.74	39.53	8.27	5.92
GDMNTR Index	3.07	50.63	9.89	7.76

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 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/25 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.

We expect periods of rising gold prices to correspond with outperformance in gold stocks. However, while gold spot prices have risen 28% year to date, gold stocks (GDMNTR) were up only 21%. This disparity highlights poor sentiment toward the gold mining sector and the lack of investor interest.

The trading patterns of gold stocks during periods of rising versus declining gold prices further underscore this sentiment. Leverage works both ways, and we consistently emphasize this when discussing the benefits of investing in gold stocks. A movement in the gold price typically results in a significantly more meaningful move on miners' cash margins, resulting in operating leverage to gold prices.

However, in recent years, the market's implied leverage of gold stocks to rising gold prices appears to be significantly lower than during periods of declining gold prices. We have been anecdotally making this observation, frustrated by the overly punitive impact this continues to have on the already oversold gold shares.

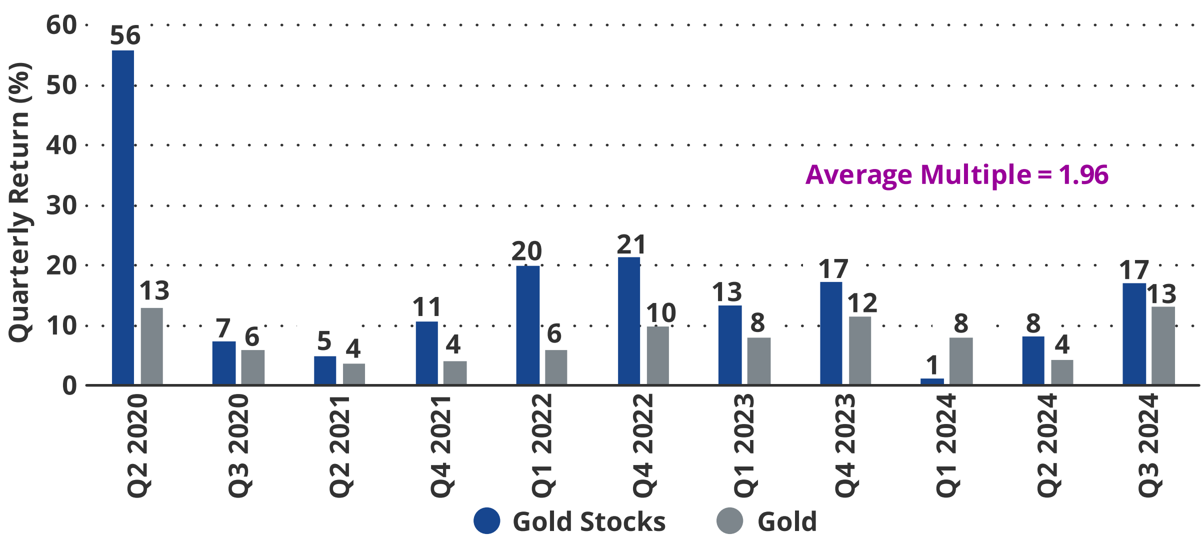
Understanding the Market Shifts of Gold Stocks vs. Gold Prices

Consider this year as an example: From the end of 2023 to the end of February, gold declined by 0.9%, while gold stocks were down 15.3%—a 17x multiple of gold's move. In contrast, between the end of February and October 22, gold gained 34.5%, while gold stocks rose 67.7%, representing a much smaller 1.96x to the metal's gains. Then, from October 22 to the end of November, gold fell by 3.9%, and gold miners as a group decreased by 14.8%—a 3.8x multiple of gold's decline.

These time periods correspond with the highs and lows of the GDMNTR this year. Furthering our analysis, we reviewed the quarterly ratios of GDMNTR moves relative to changes in the gold price over the past few years. The results confirmed our observations: on average, gold's upward trading was not nearly as beneficial to gold stocks, and decline in the metal's price disproportionally punished the sector.

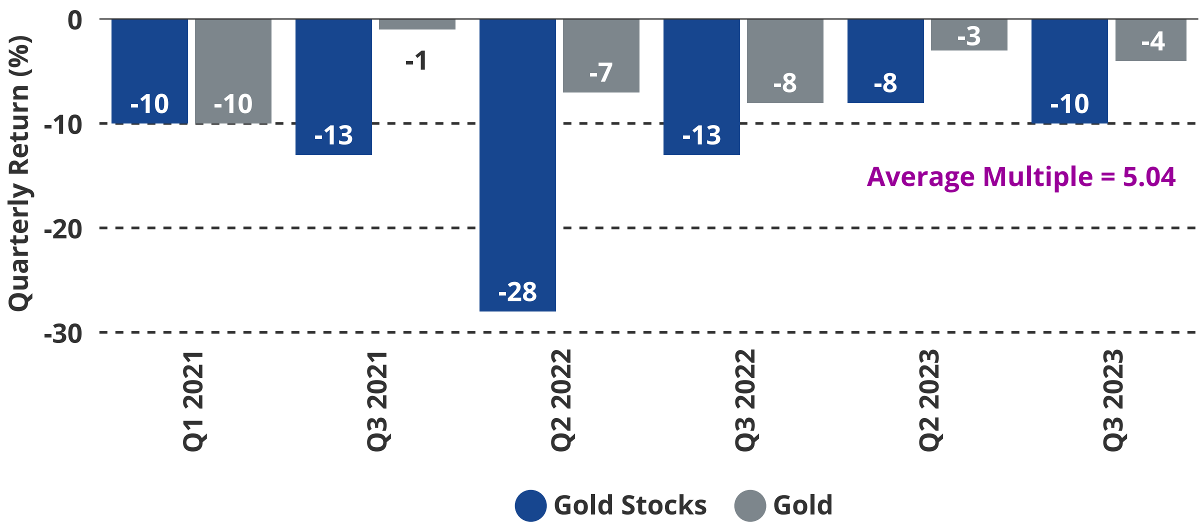
Observe the comparisons of gold stocks versus gold in both "up" and "down" markets:

On average, gold's upward trading was not nearly as beneficial to gold stocks.



Source: Bloomberg. Data as of September 2024. Past performance is no guarantee of future results.

A decline in gold's price disproportionally punished gold stocks.



Source: Bloomberg. Data as of September 2024. Past performance is no guarantee of future results.

Since 2020, positive quarterly moves in the gold price have, on average, translated to outperformance by gold equities with a 1.96x multiple. We excluded the first and last quarters of 2020 from this calculation, as gold prices rose during those periods while gold stocks traded lower. Meanwhile, negative quarterly moves in the gold price led to underperformance of the gold equities by an average factor of 5.04x. We conducted the same analysis on a monthly basis and observed similar results.

Gold Equities as a Compelling Opportunity Amidst Post-Election Weakness

Over the past year, the significant gap between gold and gold equities had been narrowing. However, the post-election weakness in the gold sector has widened it again. With gold producers enjoying record margins and generating substantial free cash flow, we believe this disconnect won't last forever. Currently, the GDMNTR is trading approximately 35% below its September 2011 highs, despite the gold price being higher by 41% since that time.

For investors looking to hedge broader market risks through gold exposure, allocating to the gold mining sector alongside gold bullion presents a compelling opportunity.

All company, sector, and sub-industry weightings as of November 30, 2024 unless otherwise noted.

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[1]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. [2]The Dow Jones Industrial Average (Dow Jones) tracks the performance of 30 major U.S. publicly traded companies and is among the oldest and most widely followed indexes. It is price-weighted, meaning its value is calculated based on the companies' stock prices rather than their market capitalization. [3]NASDAQ Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. [4]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. [5]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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