

# As Gold Hits High, Miners Remain an Opportunity



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## VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

### Here comes the volatility

August 2024 was a month of significant volatility in global financial markets. On August 5, a sharp sell-off in equities spread across the globe. The primary trigger appears to have been a surprise rate hike from Japan's central bank after decades of near-zero rates, which led to a sudden unwinding of carry trades and a dramatic sell-off in global equities. TOPIX (Tokyo Stock Price Index)<sup>1</sup> saw its largest one-day drop since 1987, falling by 12%. In the United States, the S&P 500<sup>2</sup> and Nasdaq Composite<sup>3</sup> indices also experienced significant declines. The turbulence was exacerbated by fears that the U.S. economic expansion may be coming to an end (following a weaker than expected July jobs report), while the rest of the world's economies are struggling.

### Not immune, but resilient...

Gold and gold equities were not immune to the turmoil, but like the rest of the markets, managed to bounce back after the panic subsided. Supported by expectations of lower interest rates, financial markets stabilized towards month end. During his Jackson Hole speech\*, U.S. Federal Reserve Chairman Jerome Powell said, "the time has come for policy to adjust", reaffirming expectations for a rate cut in September. Gold set new records once again in August, trading above the \$2,500 per ounce level by mid-month, and reaching an all-time high of \$2,524.64 at the close on August 27. Gold was up \$55.79 (2.28%) during the month of August, closing at \$2,503.39 per ounce on August 30.

Gold stocks also bounced back after the early August "everything" sell-off, although the larger caps fared much better than the smaller companies. NYSE Arca Gold Miners Index (GDMNTR)<sup>4</sup> was up 2.44% during the month, while the MVIS Global Juniors Gold Miners Index (MVGDXJTR)<sup>5</sup> was up only 0.42%.

### Average Annual Total Returns (%) as of August 31, 2024

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	2.17	27.96	6.33	3.75
Class A: Maximum 5.75% load	-3.70	20.60	5.08	3.13
GDMNTR Index	2.44	34.26	6.95	5.09

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

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	-4.19	12.77	6.95	2.59
Class A: Maximum 5.75% load	-9.70	6.28	5.69	1.98
GDMNTR Index	-3.71	15.83	7.52	3.87

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.

<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 1.43%; 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.

## Where's the leverage?

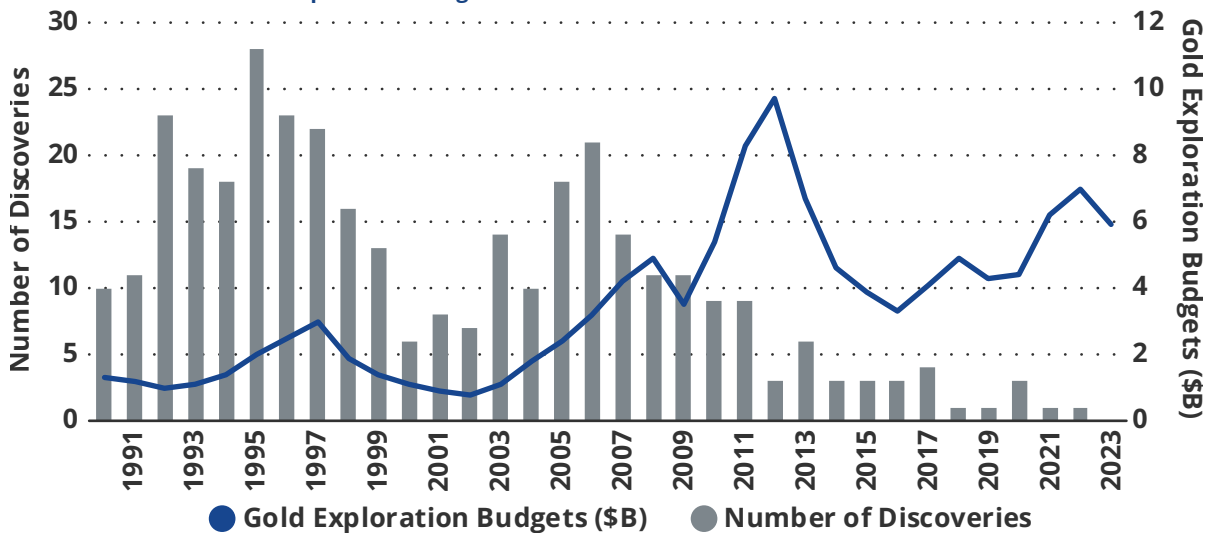
Gold stocks didn't outperform gold bullion in August. This is surprising considering that gold reached new highs, and that the cash flow generation and the valuations of these companies have most certainly improved. We estimate that, on average for the sector, margins expanded by about 8% in August compared to July. This is based on average all-in sustaining costs for the sector of around \$1,400 per ounce and average gold spot prices for July and August of \$2,392 and \$2,470, respectively. Similarly, for those companies not yet in production (smaller caps), the value of their estimated gold in the ground has increased with the higher spot price, yet their valuations were practically unchanged during the month.

This suggests that the market is not yet valuing in these record gold prices. In their most recent Gold Monthly Statistics, Scotiabank estimates that the gold price reflected in the gold mining equities is on average about a 23% discount to current spot gold price. Scotiabank's report also contains historical data for a variety of valuation metrics for the sector which show that current valuations are at historical lows. Today, the adjusted market capitalization of Scotiabank's universe per ounce of reserves in the ground is at the lowest multiple to the gold price as it has ever been.

## Replacing gold reserves is getting harder

Yet, replacing these reserves is harder today than it has ever been before, which, in theory, should render each ounce more valuable. BofA Global Research (via S&P Global Market Intelligence data), estimates a sharp decline in the number of new gold discoveries, from an average of about 18 discoveries annually from 1990-1999, to 12 annual discoveries in the 2000s, to just 4 in the 2010s.\*\* They estimate there have been only 5 major gold discoveries from 2020 to 2023. Finding large, economic gold deposits is becoming increasingly harder.

### Global Gold Discoveries & Exploration Budgets



Source: BofA Global Research (via S&P Global Market Intelligence). Data as of August 2024.

We expect the gold price to remain supported around current levels with potential to go even higher when western investors decide it is time to search for the benefits gold has historically offered. This should eventually lead to more appetite for gold stocks and a re-rating of the sector to reflect valuation multiples more in-line with those observed in previous gold bull markets.

### Adjusted Market Cap per Ounce of Reserve (Divided by Gold Price)



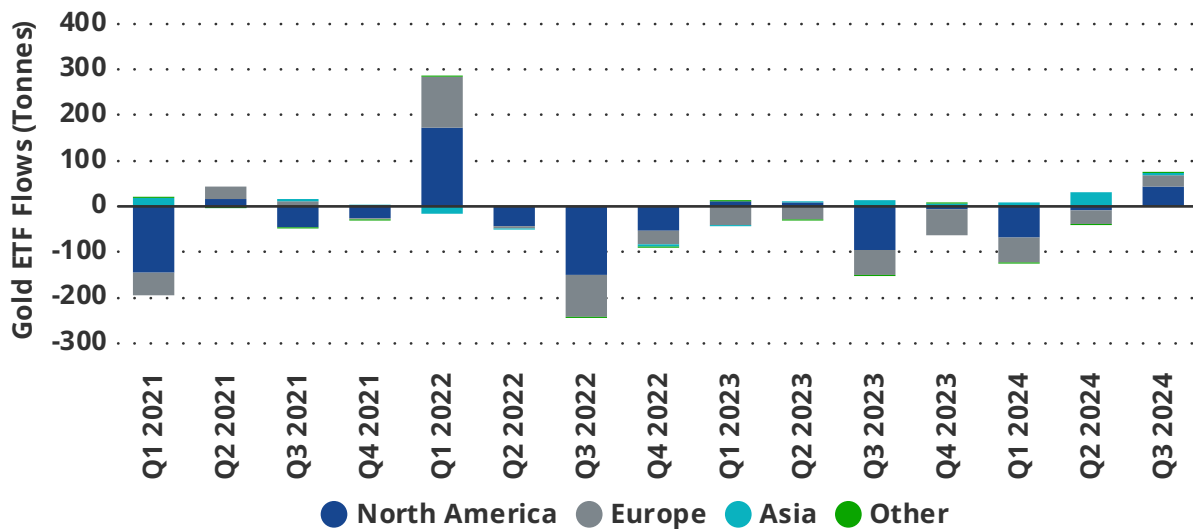
Source: Scotiabank. Data as of August 2024. Figures represent the average of Scotiabank's North American coverage.

### Will we see a rebound in Western investment demand?

Western investors have not yet jumped into the gold markets in full force. However, over the last couple of months, the World Gold Council reported estimated positive fund flows into the North American gold bullion ETF products during July and August and into the European products since May.\*\*\* This is an important reversal in the persistent trend of outflows global gold bullion ETFs have experienced since mid-2022. Is this the initial stages of returning investment demand?

The early August (and early September) equity markets' weakness is signaling increasing concern about the health of the U.S. economy and the risk of a recession. Investors looking for more defensive, recession proof opportunities or simply a place to hide during periods of heightened uncertainty and volatility, may finally turn to the gold sector. The historically cheap, financially strong gold mining equities should stand out as an attractive play to gain gold exposure.

### Gold ETF Flows by Region (Tonnes)



Source: World Gold Council. Data as of August 2024.

\* <https://www.federalreserve.gov/newsevents/speech/powell20240823a.htm>

\*\* <https://www.spglobal.com/marketintelligence/en/news-insights/research/gold-from-major-discoveries-grows-3-although-recent-discoveries-remain-scarce#:~:text=According%20to%20our%20annual%20analysis,2.81%20billion%20ounces%20of%20gold.>

\*\*\* <https://www.gold.org/goldhub/data/gold-etfs-holdings-and-flows>

**All company, sector, and sub-industry weightings as of August 31, 2024 unless otherwise noted.**

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<sup>1</sup>Tokyo Stock Price Index (TOPIX) is a capitalization-weighted index that tracks the largest companies in Japan by market capitalization. <sup>2</sup>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. <sup>3</sup>NASDAQ Composite Index is a market capitalization-weighted index of more than 2,500 stocks listed on the Nasdaq stock exchange. <sup>4</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>5</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.

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Diversification does not assure a profit or protect against loss.

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