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# Gold Falls Victim to Market Dislocation

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## VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

### Gold finally gives way to dollar strength

Gold fell below $1,900 per ounce in the final week of September. Gold tested the $1,900 level at the end of June, and again in August, but found support and bounced above it. However, this time, it failed to find support, dropping to $1,849 per ounce on September 29, a $92 loss (-4.7%) for the month. Most of gold's gains for 2023 have now evaporated. After resilient performance in the first half of the year, gold finally succumbed to the pressure of rising yields and an ever-so-strong U.S. dollar in the third quarter of the year.

U.S. 10-year and 30-year treasury yields are just shy of 5% at present and the U.S. dollar (as measured by the U.S. Dollar Index, or DXY[1]) managed to climb a whopping 6.4% from its mid-July lows to the end of September. The historically-strong, inverse correlation between gold and the U.S. dollar was on full display, with gold dropping 5.7% during the same period. What was expected to be a U.S. Federal Reserve (Fed) pause at its September 20 meeting instead turned into a skip and hold; this, after the Fed chairman (and, subsequently, other members) made it clear to markets that they were prepared to hike again if needed and hold policy rates at a restrictive level to continue their fight against inflation. Gold and gold equities sold off along with the rest of the U.S. equity markets and bonds. The NYSE Arca Gold Miners Index (GDMNTR)[2] and the MVIS Global Juniors Gold Miners Index (MVGDXJTR)[3] were down 8.1% and 10.3%, respectively, during the month.

### Demand from the East lends support to the West

The gold price in China also dropped, reducing what had been a record $120 per ounce premium over the international spot price to just around $10. Demand out of China has so far been very strong in 2023, with Bloomberg reporting a year-

**Average Annual Total Returns (%) as of September 30, 2023**

| | 1 Mo† | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception (2/10/56) | -9.89 | 10.83 | 7.71 | 1.52 |
| Class A: Maximum 5.75% load | -15.07 | 4.46 | 6.44 | 0.92 |
| GDMNTR Index | -8.13 | 14.56 | 9.24 | 1.93 |

**Average Annual Total Returns (%) as of June 30, 2023**

| | 1 Mo† | 1 Yr | 5 Yr | 10 Yr |
|---|---|---|---|---|
| Class A: NAV (Inception (2/10/56) | -2.20 | 12.27 | 6.15 | 3.84 |
| Class A: Maximum 5.75% load | -7.82 | 5.82 | 4.90 | 3.22 |
| GDMNTR Index | -2.48 | 11.14 | 7.55 | 3.28 |

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 1.42%; Net 1.42%. Expenses are capped contractually until 05/01/24 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.

on-year increase of 30% in the domestic sales of gold bars and coins as of last week.* This pickup in demand from China, as well as from Turkey – together, representing two of the largest gold consumers in the East – has helped filled the gap left by declining western investment demand, as reflected by persistent outflows from gold-bullion-backed ETFs. Strong central bank gold buying has also supported gold prices.

Investors in China and Turkey are using gold to hedge against economic risks and weakening currencies. Turkey has been experiencing hyperinflation due to unconventional monetary policies. Since the presidential elections in May, the government has taken steps to restore confidence; however, there remains a high level of uncertainty. In China, the slowing economy, along with fallout from its real estate bust and government crackdown on the tech sector, has also created financial uncertainty. Central banks are buying gold to diversify away from the U.S. dollar and as a hedge against market volatility. Its performance during times of crisis, its role as a long-term store of value, and its high liquidity make it an asset of choice.

### Well-positioned vs. "consensus" with gold?

In contrast, Western investors have yet to find a reason to seek shelter in what has been a very robust year for equity markets and, in particular, tech stocks. A "soft landing" now appears more within reach, and with inflation decreasing, markets seem to think there isn't a need for gold. However, equity valuations are very rich, and the prospect of sustained, elevated interest rates poses a significant risk to most sectors and the entire economic and financial system. British pension funds, Credit Suisse, Silicon Valley Bank and Signature Bank were all victims of rising rates. Who is next? Is there another crisis looming?

The weakness in gold markets in these past couple of weeks comes precisely at a time when these risks appear to be front and center for investors, which, to us, creates a notable market dislocation. If or when tides turn – i.e., when markets are hit with a drop in corporate earnings, a deep correction in equity markets, a weaker jobs market or significantly higher unemployment, along with sustained, high interest rates under the stress of above-target inflation – we think gold is well positioned to benefit. In our view, gold equities should benefit to an even greater extent as victims of their own market dislocation. Currently trading at historically low valuation multiples, and significantly lagging gold bullion, the gold mining sector's balance sheets, cash flow generation and capital allocation strategies are as strong as they have ever been.

### Stepping out: gold conference recap

Last month, we attended two of the sector's major conferences, both in Colorado: Precious Metals Summit, in Beaver Creek, focused on explorers, developers and emerging producers; and Gold Forum Americas, in Colorado Springs, which showcases seven-eighths of the world's publicly traded gold and silver companies when measured by production or reserves. We held meetings with the management teams of more than 50 companies during the two conferences.

The mood at Gold Forum Americas was quiet and reflective—perhaps not surprisingly given the recent lack of investor appetite for gold equities and the resulting poor share price performance of many of the companies. However, the message continues to be generally upbeat, with a focus on portfolio optimization, disciplined growth, cost control and delivering against expectations. The companies understand that to achieve a rerating and attract a broad investor base they need to consistently demonstrate to the markets that this sector is investable throughout the metal price cycles, with a strategy that focuses on value creation by reducing costs, increasing mine lives and finding and developing new deposits all while maximizing returns for stakeholders. Build it, and they will come. Markets are efficient; if there is indeed a dislocation between equity prices and the implied value of the gold mining sector based on its sustainable profitability (as we believe), then it shouldn't last too long.

At Precious Metals Summit, one CEO commented that this market feels like the bottom of the bear market in 2015 when gold fell to $1,050. However, the gold price is now in a bull market trend, with gold recently near record highs, and internal rates of return on many projects ranging between 20% and 50% or more. Talk about dislocation! As a result of the strong gold market and weak gold equity market, we are seeing development stage companies fall into one of three categories:

1. Those with strong financial backing willing to raise capital to develop their projects at depressed equity valuations;
2. Those who are bootstrapping their developments – starting smaller projects with less capital and using operating cash flow to expand production in years two or three; and
3. Those with little access to capital who are either going dormant or looking for a buyer with better funding.

Our Fund carries all three types of developers. We look at the quality and scale of projects along with geopolitical risks and management capabilities. Value and performance will ultimately be realized in high-quality, well-run companies. However, it seems that current conditions will certainly require some extra patience!

*https://www.bloomberg.com/news/articles/2023-09-28/china-gold-prices-plunge-the-most-since-2020-curbing-premium?sref=5IvW4QbX

**All company, sector, and sub-industry weightings as of September 30, 2023 unless otherwise noted.**

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[1]The U.S. Dollar Index measures the value of the U.S. dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies [2]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. [3]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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