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Gold Soars to Fresh Highs as Regional Risks Rise

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Gold Continues to Reach New Highs

Gold has been supported this year by strong central bank gold buying and robust demand from Asia, especially China. Rising geopolitical tensions in the Middle East have likely also contributed to gold's strength. In May, gold continued to reach new highs, trading at an intraday record price of $2,450 and closing at $2,425.31 per ounce on May 20. Gold eased during the remainder of the month, likely influenced by a stronger dollar and higher bond yields towards month-end. Gold closed at $2,327.33 per ounce on May 31, registering a 1.8% ($41.08) monthly gain.

Miners Are Also Continuing To Outshine

Gold equities continued to significantly outperform gold bullion in May. NYSE Arca Gold Miners Index (GDMNTR)[1] and the MVIS Global Juniors Gold Miners Index (MVGDXJTR)[2] were up 5.98% and 10.62%, respectively. We believe miners' amplified leverage to the metal reflects both: 1) gold stocks playing catch up, coming from oversold levels relative to bullion; and 2) overall strong fundamentals for the sector as evidenced by Q1 2024 financial and operating results, where "in lines" and "beats" outnumbered "misses".

We have repeatedly brought attention to the importance of companies meeting expectations with respect to their share price performance and May is a good example of that. All else being equal, a gold price forecast of $2,300 per ounce for Q2 2024 (in line with the average spot price so far for this quarter) should result in significantly higher earnings and cash flow generation for the industry in Q2 compared to Q1, when the spot gold price averaged about $2,070 per ounce. Another strong earnings season for the sector should support further increases in valuation multiples assigned to gold equities.

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

	1 Mo[†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	7.23	15.11	11.47	5.08
Class A: Maximum 5.75% load	1.07	8.49	10.15	4.45
GDMNTR Index	5.98	17.31	12.18	5.98

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

	1 Mo[†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	18.61	0.82	8.72	3.74
Class A: Maximum 5.75% load	11.79	-4.98	7.44	3.13
GDMNTR Index	19.61	-1.15	8.69	4.22

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.

In Focus: Regional And Country-Specific Risks

We have also highlighted the impact of jurisdiction risk on companies' valuations. Gold mining companies face many risks related to the regions where they operate. Markets have a hard time differentiating between broader jurisdictional risk and risks to mining operations, specifically. Companies operating in a country or region with heightened political instability, for example, will typically trade at a discount even if their businesses have been operating normally and are unaffected by unrest or risk of turmoil.

Managing country exposure within a portfolio of gold equities is a challenging task. With more than 50 elections taking place around the globe in 2024, this task comes into sharper focus. Elections bring with them political, social, and economic uncertainty; they can be politically destabilizing, lead to social upheaval, or significantly change (for better or worse) the growth outlook of a country or region and, therefore, its general investment appeal. The outcome of an election can trigger impactful responses in the financial markets, as investors attempt to assess the potential ramifications of a new government.

Is Mexico Still In Its "Prime"?

The mining sector was closely watching the outcome of Mexico's presidential election in early June. Mexico is the world's largest producer of silver (accounting for about 25% of global silver production in 2023*) and among the top 10 global gold producers (about 4% of global gold production in 2023*). It also produced about 3% and 5% of the world's copper and zinc, respectively in 2023.

Despite many challenges, it is fair to say that Mexico, for a long time, ranked among the world's most prime mining jurisdictions. However, this "prime" rating recently came into question when Andres Manuel Lopez Obrador (AMLO) was elected Mexico's president in 2018. The market's concerns were justified too. Under AMLO's administration, no new mining concessions have been granted and a proposal to reform the country's mining law was approved in 2023.

Some of the most significant changes in the new law (nicely summarized in a recent report by Scotiabank Global Equity Research) include:

- A 30-year limit on mining concessions (compared to a 50-year limit under the old mining law)
- Added grounds for cancelling current mining concessions as well as a more extensive list of requirements to maintain a valid mining concession
- Creation of additional environmental concessions for mining use (no new concessions will be granted in regions without availability of water, in natural protected areas or if there is a risk to the general population)
- Concession allowance on a per-mineral or per-substance basis (compared to previous mining concessions granted for the totality of the underlying resources)

At the end of his six-year presidential term, AMLO has also proposed a significant number of changes (20) to Mexico's constitution, including two proposals that directly impact the mining industry. These include a proposal to no longer grant concessions for open-pit mines and to grant water concessions for domestic-use-only in regions with water scarcity.

Our discussions with the management of several mining companies with operations and/or projects in Mexico gave us reason to be cautiously optimistic, with most companies expecting that a new government (even if still a MORENA party government) would be a welcome change for the mining industry. President elect, Claudia Sheinbaum – a scientist, engineer and academic – was seen as a more pragmatic candidate and likely to have more moderate views compared to AMLO. However, a lot of the optimism also stems from the fact that approval of constitutional changes would require her party to have a super-majority in congress, and this was an outcome most market participants were not expecting. Her landslide victory came with the MORENA party achieving qualified majority in the lower chamber, and very close to also achieving super-majority in the senate. This took markets by surprise, with Mexican equities and the Mexican peso dropping to reflect a more negative outlook for the country.

As far as the mining industry is concerned, Sheinbaum has not specifically discussed her plans for the sector, but she has promised to continue to push forward AMLO's agenda. It is still too early to predict what her approach will be towards mining, but her party's position in congress gives her the power to make changes that could potentially adversely affect the industry. "More of the same" seems the most likely outcome for now, which is disappointing. Comments by the re-appointed Minister of Finance seem to have offered some reassurance to investors. The president elect's acceptance speech appears to have also included promises for an autonomous central bank, adherence to legality and a commitment to boost private investment (both national and foreign). So, perhaps not all hope is lost. We continue to look forward to being able to upgrade Mexico in our rankings, making it a prime destination for mining investment once again.

*U.S. Geological Survey, Mineral Commodity Summaries, January 2024

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

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[1]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.[2]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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