

Opposing Forces Confine Gold



Joe Foster

Portfolio Manager/Strategist

VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

Range Bound

Gold spent most of July range-bound at around the \$1,800 per ounce level as opposing forces pulled gold in opposite directions. Gold was held back by a U.S. dollar that has been surging since the June 16 Federal Open Market Committee (FOMC) announcement in which the U.S. Federal Reserve (Fed) indicated it might begin tightening sooner than the market had expected. At the same time, gold found support from falling interest rates, as the ten-year treasury yield declined from 1.47% to 1.22% in July. Gold finished the month at \$1,814.19 per ounce, for a \$44.08 (2.5%) gain. The NYSE Arca Gold Miners Index¹ gained 3.1%, as the larger producers trended higher with the gold price. However, the MVIS Global Junior Gold Miners Index² declined 1.6%. The smaller companies tend to underperform in weak gold markets. Gold has been in a correction since it reached its all-time high in August 2020 and we expect the junior stocks to struggle until gold shows more positive momentum.

Demand Surprise

The World Gold Council's second quarter report showed that overall demand improved in the first half (although not to pre-pandemic levels), mainly due to the resurgence of Covid in India. This was expected but what was a significantly positive surprise was the level of central bank demand. Central bank net purchases totaled 333 tonnes in the first half, which is in

Average Annual Total Returns (%) as of July 31, 2021

	1 Mo	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	2.20	-18.45	3.09	-3.59
Class A: Maximum 5.75% load	-3.67	-23.14	1.87	8.84
GDMNTR Index	3.08	-17.90	3.76	-3.73

Average Annual Total Returns (%) as of June 30, 2021

	1 Mo	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	-13.09	-7.23	4.67	-3.30
Class A: Maximum 5.75% load	-18.09	-12.57	3.43	-3.87
GDMNTR Index	-13.59	-6.29	5.13	-3.62

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends from index constituents have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on last page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month end.

† 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 1.34%; Net 1.34%. Expenses are capped contractually until 05/01/22 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.

line with elevated levels of net purchases seen before the pandemic when Russia and China were the heavy buyers.³ This year, both of those countries have refrained from buying, while Thailand, Hungary and Brazil have stepped in as the largest purchasers. Thailand's central bank governor indicated that gold addresses the key reserve management objectives of security, return, diversification and tail-risk hedging.⁴

Mixed Signals

Falling rates indicates the bond markets fear economic weakness ahead, whereas U.S. dollar strength is indicative of a healthy economy that is attracting investment flows. These diverging markets suggest high levels of uncertainty. The bond markets reflect anxiety over the growing impact of the Delta variant and concerns that the economy might suffer if the Fed begins withdrawing its stimulus. On the other hand, the dollar's strength suggests rates will climb eventually as the economy improves.

It might be that that the dollar is correctly forecasting the near-term, whereas bonds are taking a longer-term view. Fiscal and monetary stimulus are set to drive the economy for another year or two, regardless of any problems caused by the coronavirus. However, we believe economic growth will face increasing risks once the stimulus begins to wane. The stock and debt markets may face collapse without the government-manufactured liquidity they have come to rely on.

Hidden Inflation

Also, inflation is currently being driven by supply constraints as well as demand from economies emerging from the pandemic. The markets generally believe the Fed's view that this inflation is transitory. However, we believe that record money supply, structurally higher commodities prices, shifts in labor-related demographics and on-shoring of trade means that inflation may persist in the long-term. A recent Wall Street Journal article focuses on supermarkets that are stockpiling inventory to protect margins from anticipated price increases later in the year. This is classic hoarding behavior used in the seventies to cope with inflation that compounds the problem. Consumers may adopt similar strategies. Inflation presents a significant risk, and if the bond market is correctly forecasting economic weakness, then perhaps the current inflation will eventually transition to stagflation.

Irrational Exuberance

Another interpretation of the divergence between the dollar and bond markets is that the traditional economic signals that the market relies on have been distorted by the radical fiscal and monetary policies that began with the global financial crisis and were unleashed on steroids with the pandemic crisis. The world is saturated with liquidity that is available at near-zero rates. Trillions of dollars can drive markets without regard to fundamentals when investors are desperate for returns.

Well Said

Democratic free markets have provided benefits to society in health, wealth, education and freedom for over 200 years. No other system of government comes close to these accomplishments, in our view. The high levels of uncertainty about the future of the economy, and the often unorthodox or anti-market policies being adopted to cope with that uncertainty we believe, are putting continued societal benefits at risk. Here are a collection of quotes that articulate our concerns:

- "Capitalism succeeds not because it is based on greed, but because the freedom to trade and do business with others is in harmony with our God-given nature." Arthur Brooks, Professor of the Practice of Public Leadership, Harvard Kennedy School and Professor of Management Practice, Harvard Business School, in 2015.
- "In the private sector, we often have to remind ourselves to celebrate success because competition forces us to focus on solving problems and striving for continuous improvement." Ron Johnson, U.S. Senator for Wisconsin, in 2021.
- "Easy credit feeds our love of immediate gratification, distorts self-regulation and diminishes prudent market behavior, creating a destabilizing positive-feedback loop." Peter C. Whybrow, English psychiatrist, Award-winning author, and Distinguished Professor in the Department of Psychiatry and Biobehavioral Sciences at UCLA, in 2015.
- "It's fair to say that \$12.3 trillion of stimulus seems to have killed off the U.S. credit default cycle. Almost all fear of bankruptcy has been obliterated from debt markets" Lisa Abramowicz, Journalist on Bloomberg Radio and Television, in 2021.

- “Capitalism doesn’t work unless capital costs something and markets don’t work unless they’re allowed to rise and fall.” Sheila Bair, Former Chair of the U.S. Federal Deposit Insurance Corporation, in 2021.
- “The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists.” Ernest Hemingway in 1935.
- “Overall, the U.S. economy seems likely to expand at a moderate pace over the second half of 2007, with growth then strengthening a bit in 2008 to a rate close to the economy’s underlying trend.” Ben Bernanke, American economist at the Brookings Institution and former Chair of the Federal Reserve, in 2007
- “Inflation has increased notably and will likely remain elevated in coming months before moderating.” Jerome Powell, Chair of the Federal Reserve, in 2021
- “Information is too voluminous, diffuse, and dynamic for central authorities to plan the economy successfully. Even the world’s smartest people and most competent governments don’t possess enough knowledge to micromanage sprawling complex systems. Instead, a diversity of opinions – in science, business and policy – helps us correct errors and climb the ladder of progress and truth.” Brett Swanson’s 2021 synopsis of Friedrich Hayek’s 1974 Nobel Prize Lecture.
- “I’ve spent my career talking about ‘why would you want to own gold?’ It has no income, it costs to store. And yet, when you see the debasement of the currency, you say, what am I going to hold on to?” Sam Zell, Founder and Chairman of Equity Group Investments, in 2021.

We have deep concerns regarding the risks that unconventional fiscal and monetary policies pose to free markets and capitalism. These policies have created excessive debt, ballooning money supply, asset bubbles, inflation, risky investment behavior, and elevated levels of uncertainty. In addition, well intentioned policies and regulations to promote social justice or climate control also risk unintended consequences that might undermine business and society. While we find these witty and concise quotes from economists, writers, and investors who share our view enlightening, investors should take these seriously and consider gold, an asset class with a recognized track record of offsetting pervasive market risk.

All company, sector, and sub-industry weightings as of July 31, 2021 unless otherwise noted.

Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²MVIS 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. ^{3,4}World Gold Council, Gold Demand Trends Report, Q2 2021.

Any indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

NYSE Arca Gold Miners Index is a service mark of ICE Data Indices, LLC or its affiliates ("ICE Data") and has been licensed for use by VanEck Vectors ETF Trust (the "Trust") in connection with VanEck Vectors Gold Miners ETF (the "Fund"). Neither the Trust nor the Fund is sponsored, endorsed, sold or promoted by ICE Data. ICE Data makes no representations or warranties regarding the Trust or the Fund or the ability of the NYSE Arca Gold Miners Index to track general stock market performance.

ICE DATA MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND HEREBY EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE NYSE ARCA GOLD MINERS INDEX OR ANY DATA INCLUDED THEREIN. IN NO EVENT SHALL ICE DATA HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

MVIS Global Junior Gold Miners Index (the "Index") is the exclusive property of MV Index Solutions GmbH (a wholly owned subsidiary of Van Eck Associates Corporation), which has contracted with Solactive AG to maintain and calculate the Index. Solactive AG uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards MV Index Solutions GmbH, Solactive AG has no obligation to point out errors in the Index to third parties. The VanEck Vectors Junior Gold Miners ETF (the "Fund") is not sponsored, endorsed, sold or promoted by MV Index Solutions GmbH and MV Index Solutions GmbH makes no representation regarding the advisability of investing in the Fund.

Please note that the information herein represents the opinion of the author, but not necessarily those of VanEck, and this opinion may change at any time and from time to time. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results. Current data may differ from data quoted. Any graphs shown herein are for illustrative purposes only. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck.

About VanEck International Investors Gold Fund: You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is 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. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities 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. The Fund is subject to risks associated with investments in Canadian 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.

About VanEck Vectors® Gold Miners ETF (GDX®) and VanEck Vectors® Junior Gold Miners ETF (GDXJ®): An investment in the Funds may be subject to risks which include, among others, investing in gold and silver mining companies, Canadian issuers, foreign securities, foreign currency, depositary receipts, small- and medium-capitalization companies, equity securities, market, operational, index tracking, authorized participant concentration, no guarantee of active trading market, trading issues, passive management risk, fund shares trading, premium/discount risk and liquidity of fund shares, non-diversified and concentration risks, all of which may adversely affect the Funds. Foreign investments are subject to risks, which include changes in economic and political conditions, foreign currency fluctuations, changes in foreign regulations, and changes in currency exchange rates which may negatively impact the Funds' return. Small- and medium-capitalization companies may be subject to elevated risks. The Funds' assets may be concentrated in a particular sector and may be subject to more risk than investments in a diverse group of sectors.

Diversification does not assure a profit or protect against loss.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider a Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

©VanEck



Van Eck Securities Corporation, Distributor
666 Third Avenue | New York, NY 10017
vaneck.com | 800.826.2333