

Markets Are Repricing Inflation—Higher for Longer



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Portfolio Manager

RAAX

VanEck Inflation Allocation ETF

Overview

The VanEck Inflation Allocation ETF (“RAAX”) returned -1.08% versus +4.98% for the Bloomberg Commodity Index. RAAX is up 21.76% year-to-date. September was a great month for traditional energy. Natural gas was up an eye-popping 32%! WTI crude oil was no slouch either, up nearly 10%. These extreme price moves have propelled commodity prices higher and allowed the broad commodity indices to leave most other investments in the dust. And, while September was certainly extreme, it is really just a continuation of what we have been experiencing all year. So far, in 2021, natural gas is up 125% and WTI crude oil is up 62%. RAAX has had a significant allocation to commodities all year and it has been the largest contributor to performance.

Month-End Total Returns (%) as of September 30, 2021¹

	1 Mo†	YTD†	1 Yr	3 Yr	Life (04/09/18)
RAAX (NAV)	-1.08	21.76	34.11	3.09	2.91
RAAX (Share Price)	-1.20	21.74	34.00	3.04	2.90
Bloomberg Commodity Index	4.98	29.13	42.29	6.86	5.19

Quarter-End Total Returns (%) as of June 30, 2021¹

	1 Mo†	YTD†	1 Yr	3 Yr	Life (04/09/18)
RAAX (NAV)	0.14	22.89	40.09	3.01	3.44
RAAX (Share Price)	0.04	22.84	39.57	2.84	3.42
Bloomberg Commodity Index	1.85	21.15	45.60	3.91	3.54

† Returns less than a year are not annualized.

Expenses: Gross 1.35%; Net 0.78%. Expenses are capped contractually at 0.55% through February 1, 2022. Expenses are based on estimated amounts for the current fiscal year. Cap exclude certain expenses, such as interest, acquired fund fees and expenses, and trading expenses.

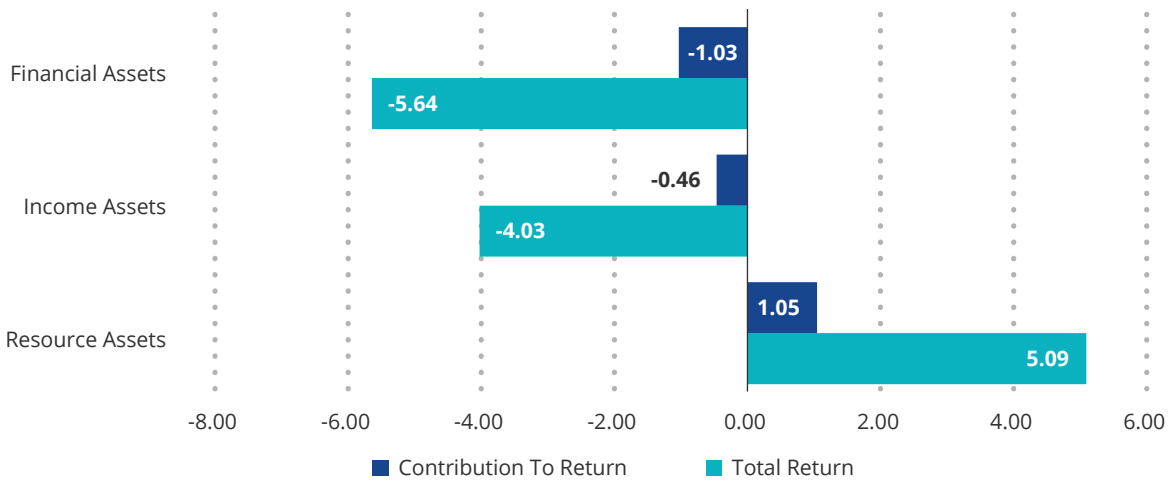
The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the ETF incurred all expenses and fees, investment returns would have been reduced. Investment returns and ETF share values will fluctuate so that investors’ shares, when redeemed, may be worth more or less than their original cost.

The Bloomberg Commodity Index is a broadly diversified index that tracks the commodity markets through commodity futures contracts and is made up of exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

¹ Source: Bloomberg. Please note that the returns include the distribution on the ex-date of December 29, 2020 but not the potential reinvestment that occurred on January 5, 2021. Had the returns above included reinvested distributions, the returns would have been higher. Please visit our website at <https://www.vaneck.com/resources/tax-and-distributions/etfs/> for additional information.

This chart demonstrates the total return and contribution to return in September. It shows that, with the exception of traditional energy, last month was challenging for real assets. Higher yields, a strong U.S. dollar and overall market stress, due to slowing economic activity, weighed on most assets.

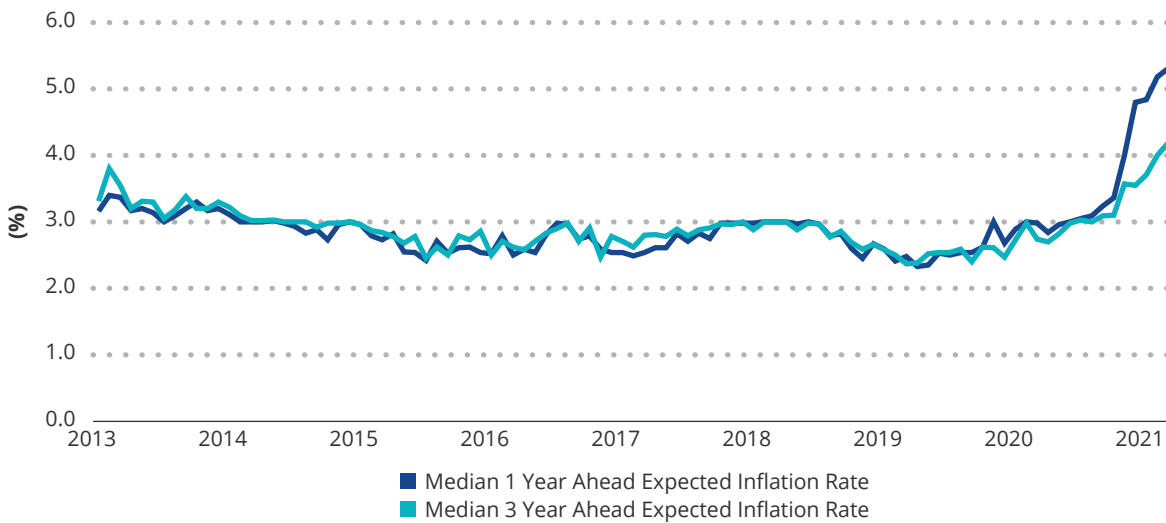
Total Return Contribution (September 2021)



Data as of September 30, 2021. Source: Bloomberg. Past performance does not guarantee future results. Please see index description on last page.

The transitory inflation thesis is under full attack. The latest Survey of Consumer Expectations from the N.Y. Fed shows that consumers expect the inflation rate to be 5.3% next year and 4.2% in three years. These are the highest readings since the inception of this survey.

Inflation Expectations



Source: VanEck. Data as of September 30, 2021. Past performance does not guarantee future results.

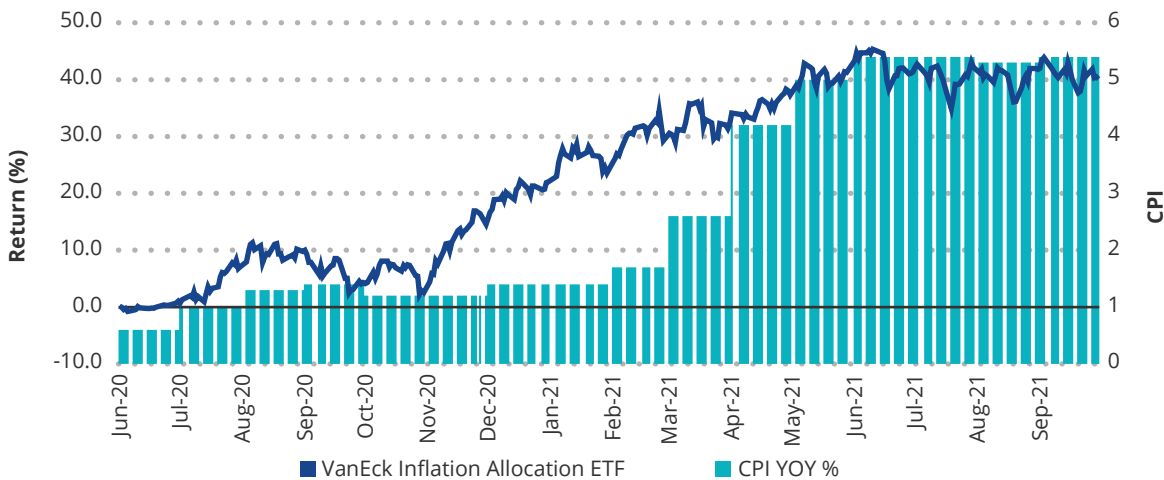
High inflation is typically associated with higher bond yields—and that’s what is happening. The yield on the U.S. 10-year Treasury note has risen from a local low of 1.17% to 1.60%. This yield has been achieved despite a slew of weak economic reports, particularly related to unemployment, which is a key gauge of economic health for both the Fed and the politicians. Typically, additional economic uncertainty puts downward pressure on interest rates.

Inflation is surging due to a combination of both supply chain issues and demand. The demand for goods surged because of government intervention and changing consumption patterns. The fuel for this demand is the rapid increase in the money supply. On the supply side, the impressive level of globalization that historically led to great efficiencies and lower prices has led to some rapid and unexpected consequences. One break in the supply chain can completely derail production, lead to scarcity and, yes, you guessed it, higher prices. There are also structural shifts in society that are compounding these issues, such as the global transition from traditional energy to renewable energy, wealth redistribution to combat inequality and the impact of climate change on various crops.

The good news is that investors can do something about it. They can invest in assets that benefit from higher inflation. These are assets that, historically, and now, have significantly outpaced inflation during high inflationary periods. They include commodities, companies that benefit from higher commodity prices, companies with revenues tied to tangible real assets, such as REITs, or companies that can quickly pass along inflation to their customers, such as infrastructure.

The Inflation Allocation ETF, RAAX, invests in the primary assets that benefit from higher inflation. And, over the past year, it has been overweight commodities and natural resource equities, both of which have been top performers during this inflation-fueled rally. The chart below demonstrates the inflation-fighting properties of this ETF.

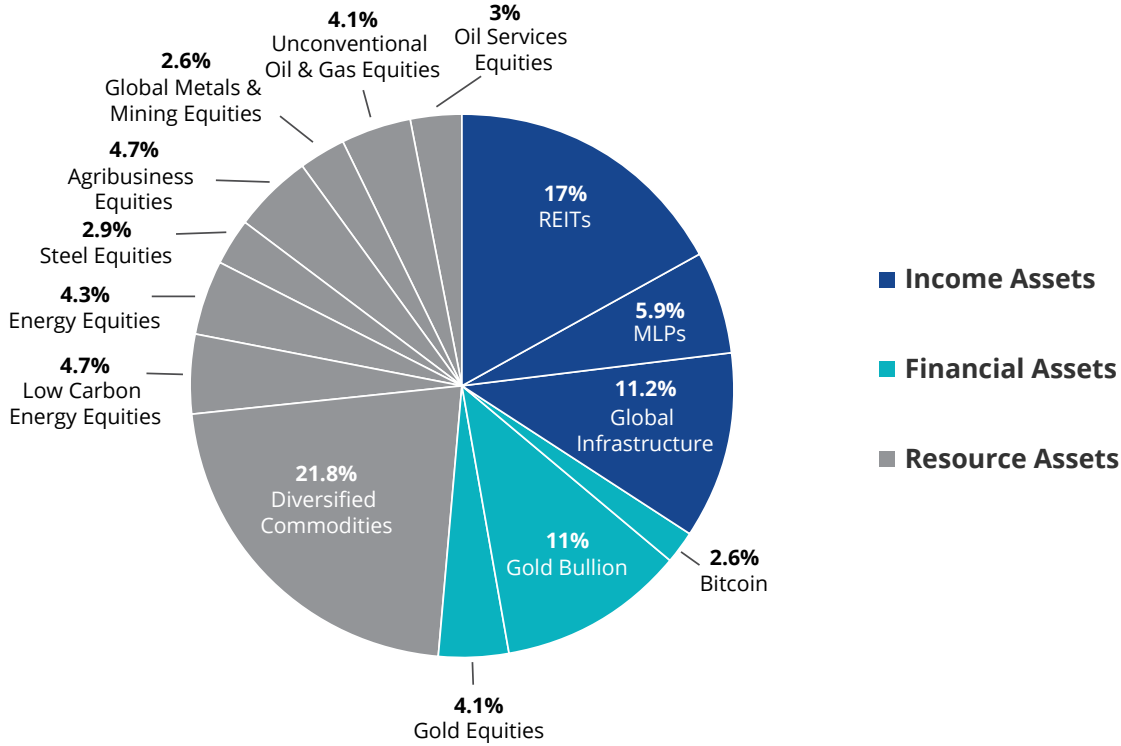
RAAX Performance vs. CPI YoY



Source: VanEck. Data as of September 30, 2021. Past performance does not guarantee future results

The current mix of these assets is below. As you can see, RAAX is most overweight resource assets (48.0%), followed by income (34.1%) and financial assets (17.7%).

RAAX Asset Allocation Across Financial, Income, and Resource Assets (as of September 30, 2021)



Source: VanEck. Data as of September 30, 2021.

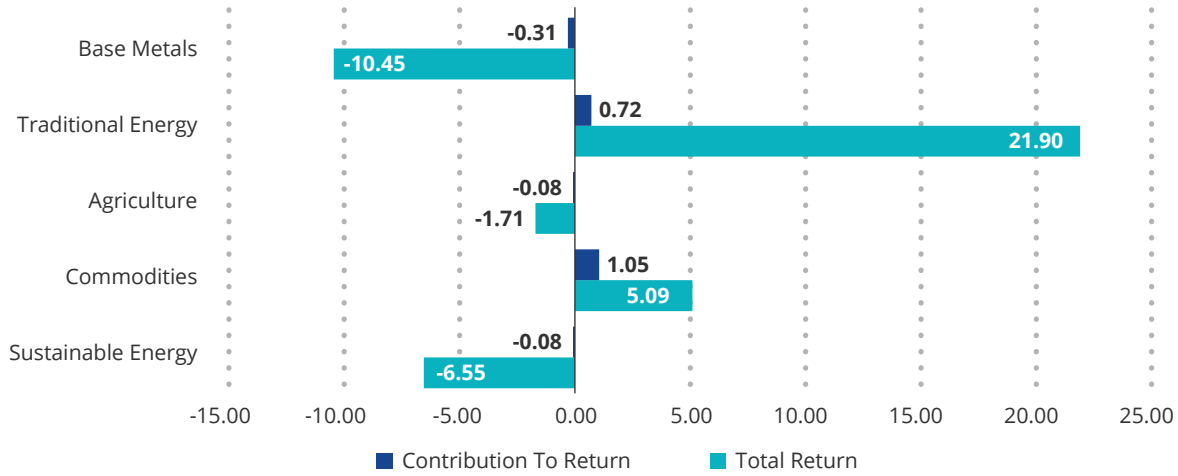
Performance Review

Resource Assets

The resource assets segment of the portfolio returned +2.41% in September and has returned +17.17% year-to-date. The commodity exposure within this segment of the portfolio returned +5.09% and the natural resource equities returned +0.29%. WTI crude oil is now over \$80 per barrel and natural gas is over \$5 per Metric Million British Thermal Unit, both up twofold from one year ago. Energy prices were up significantly as supply and demand imbalances continue. Higher energy costs hit consumers not only directly, but also indirectly across industries as companies attempt to pass along higher input and operating costs.

With the exception of traditional energy companies, which returned +12.49%, the performance of natural resource equities was weak last month. RAAX's exposure to companies involved in base metals returned -11.06% due to a general weakness in metal prices. It is believed that the weakness in metal prices last month was due to a correction after previous pronounced gains and hopes for potential supply increases. Sustainable energy companies were down 7.36% due to higher interest rates. Sustainable energy companies are viewed as aggressive growth companies with lofty valuations. Higher interest rates put downward pressure on stocks with higher valuations because of a higher costs of capital. RAAX's exposure to agribusiness equities was down 1.71%, which can largely be attributed to overall weakness in the equity markets.

Resource Assets: Total Return and Contribution (September 2021)

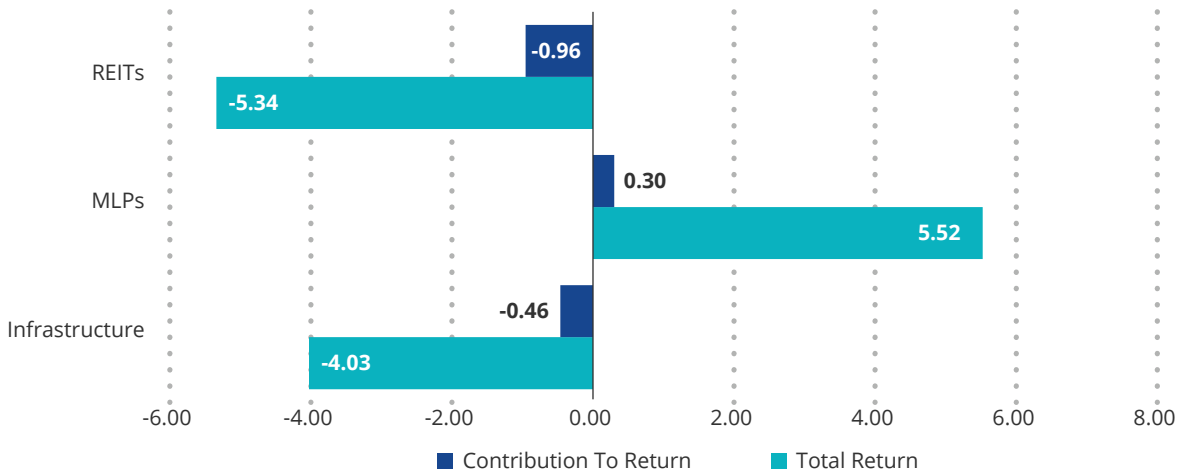


Data as of September 30, 2021. Source: FactSet. Past performance does not guarantee future results. Please see index description on last page.

Income-Producing Assets

The 12-month yield on our basket of income-producing assets is 3.11%. This segment of the portfolio returned -3.18% in September and has returned +21.58% year-to-date. MLPs posted strong returns due to the strength in oil prices. However, the other high yielding assets, such as REITs and infrastructure, were negatively impacted by the surge in interest rates. Generally, higher interest rates force a repricing of assets based on the changing risk regime.

Income Assets: Total Return and Contribution (September 2021)



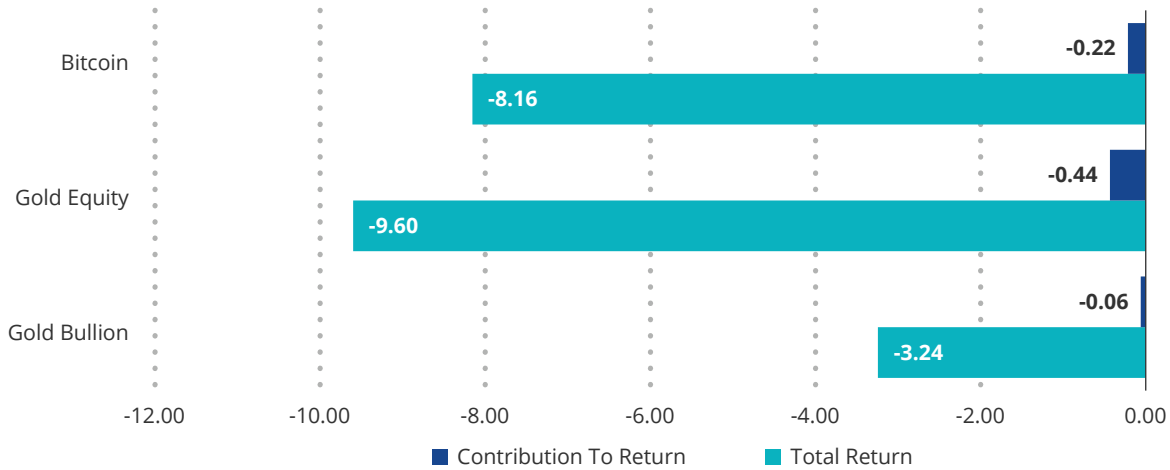
Data as of September 30, 2021. Source: FactSet. Past performance does not guarantee future results. Please see index description on last page.

Financial Assets

RAAX's financial assets, in aggregate, returned -5.64% in September and have returned -13.29% year-to-date. The Fund's allocation to gold returned -5.23%. Within that allocation, gold bullion returned -3.47% and gold mining equities returned -9.60%. Gold was negatively impacted by the rise in interest rates, which led to an overall strengthening of the U.S. dollar. Generally, higher interest rates and a stronger U.S. dollar are negatives for the price of gold. However, in this case, the market is likely missing the overall picture. A driving force behind the rising interest rates was higher future expectations of inflation—and, based on history, gold has been one of the top beneficiaries of higher inflation. Gold has been a disappointing asset to own over the past year after a great run in 2020. Investors should be patient. If inflation sticks around for a while, gold investors will likely prosper.

RAAX's exposure to bitcoin returned -8.16% in September. Bitcoin had a tough month due to increased regulatory scrutiny. The People's Bank of China declared that all crypto transactions were illegal and banned them in the country. This is consistent with other recent moves to increase government control broadly across the Chinese economy.

Financial Assets: Total Return and Contribution (September 2021)



Data as of September 30, 2021. Source: FactSet. Past performance does not guarantee future results. Please see index description on last page.

Below are the current and previous month's allocations. As you can see, there are no material changes to the asset allocation mix.

Monthly Asset Class Changes

	Oct-21	Sep-21	Change
Financial Assets	18.2%	18.2%	0.0%
Bitcoin	2.6%	2.6%	0.0%
Gold Equities	4.5%	4.5%	0.0%
Gold Bullion	11.1%	11.1%	0.0%
Income Assets	34.9%	35.3%	-0.4%
REITs	18.1%	18.1%	0.0%
MLPs	5.6%	5.6%	0.0%
Global Infrastructure	11.2%	11.6%	-0.4%
Resource Assets	46.4%	46.4%	0.0%
Low Carbon Energy Equities	5.1%	5.1%	0.0%
Diversified Commodities	20.4%	20.4%	0.0%
Global Metals & Mining Equities	2.9%	2.9%	0.0%
Steel Equities	3.3%	3.3%	0.0%
Unconventional Oil & Gas Equities	3.3%	3.3%	0.0%
Oil Services Equities	2.7%	2.7%	0.0%
Energy Equities	3.8%	3.8%	0.0%
Agribusiness Equities	4.8%	4.8%	0.0%
Cash	0.2%	0.1%	0.1%

Source: VanEck. Data as of September 30, 2021.

Here we are, 18-months into a high inflation cycle that is not relenting. Some segments of the market were quick to respond to the inflationary pressures, such as commodities. Other assets are just starting to react, such as interest rates. While gold, which is arguably the most popular inflation protection asset, has yet to respond. If high inflation continues, and we believe that it will, then we expect all the assets in RAAX to shift into inflation-fighting mode and continue to propel the performance of the fund higher.

IMPORTANT DISCLOSURES

CPI – US CPI Urban Consumers YoY NSA Index measures US consumer prices (CPI) as a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

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The MVIS Global Agribusiness Index is a modified market cap-weighted index tracks the performance of the largest and most liquid companies in the global agribusiness segment. Its unique pure-play approach requires that companies have to generate at least 50% of their revenues from agri-chemicals and fertilizers, seeds and traits, from farm/irrigation equipment and farm machinery, from agricultural products (incl. Grain, tobacco, meat, poultry and sugar), aquaculture and fishing, livestock, plantations and trading of agricultural products. The MVIS Global Coal Index is a modified market cap-weighted index tracks the performance of the largest and most liquid companies in the global coal segment. Its unique pure-play approach requires that companies have to generate at least 50% of their revenues from coal operation (production, mining and cokeries), transportation of coal, from production of coal mining equipment as well as from storage and trade. The NYSE Arca Gold Miners Index is a modified market capitalization-weighted index composed of publicly traded companies involved primarily in the mining for gold. The Index is calculated and maintained by the New York Stock Exchange. The MVIS U.S. Listed Oil Services 25 Index is intended to track the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, which include oil equipment, oil services, or oil drilling. The MVIS Global Unconventional Oil & Gas Index is intended to track the performance of the largest and most liquid companies in the unconventional oil and gas segment. The pure-play index contains only companies that generate at least 50% of their revenues from unconventional oil and gas which is defined as coal bed methane (CBM), coal seam gas (CSG), shale oil, shale gas, tight natural gas, tight oil and tight sands. The DBIQ Optimum Yield Diversified Commodity Index Excess Return is an index composed of futures contracts on 14 heavily traded commodities across the energy, precious metals, industrial metals and agriculture sectors. The NYSE Arca Steel Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the production of steel products. The S&P Global Infrastructure Index is designed to track companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities. The Ardour Global IndexSM Extra Liquid Index tracks a market-cap-weighted index of low carbon energy companies defined as deriving at least 50% of their revenues from alternative energy. The LBMA Gold Price Index: is a regulated benchmark administered by ICE Benchmark Administration (IBA) who provide the auction platform, the methodology and the overall independent administration and governance for the LBMA Gold Price. The LBMA Gold Price continues to be set twice daily (at 10:30 and 15:00 London BST) in US dollars and other currencies. The MSCI US IMI Real Estate 25/50 Index is designed to capture the large, mid and small cap segments of the U.S. equity universe. All securities in the index are classified in the Real Estate sector as per the Global Industry Classification Standard (GICS®). The index also applies certain investment limits to help ensure diversification. The Energy Sector Index seeks to provide an effective representation of the energy sector of the S&P 500 Index. The Index includes companies from the following industries: oil, gas and consumable fuels; and energy equipment and services. The MSCI ACWI Select Metals & Mining Producers Ex Gold and Silver Investable Market Index (IMI) aims to focus on companies in the industrial and rare earth metals (excluding gold and silver) that are highly sensitive to underlying prices of industrial and rare earth metals. The index includes companies that are primarily engaged in the production or extraction of metals and minerals, in the mining of precious metals excluding gold and silver (e.g. platinum), or in the production of aluminum or steel.

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 the Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

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