Research Outlook for 1Q 2014:
"Emergence of Synchronized Global Expansion"

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In this presentation, we discuss certain economic and market factors that we think investors should focus on in the medium term. This presentation is not meant to be an exhaustive economic overview. Outlook as of January, 2014.

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Research Outlook for 2014: *"Emergence of Synchronized Expansion"*

Our positive macro outlook last year relied on Abe-nomics overcoming the fiscal drag in the U.S. caused by sequestration. Now, rather than a tug of war, we are seeing a synchronized global expansion emerging for the first time since the 2008 financial crisis.

- We are most enthusiastic for *emerging market equities* in 2014. Valuations have been attractive for a while, but emerging markets (EM) equities are unpopular, and we believe they are cheap. Valuations do not necessarily help identify the lowest entry points, so EM could continue to underperform, but if sentiment turns in 2014, this asset class could very well be the winner for the year.

- There have been two forces against *emerging market bonds*: First, Federal Reserve ("Fed") tapering/tightening, which is the equivalent of a stress test. There has been a policy reaction by some EM countries that firmed their currencies and re-affirms that they are legitimate destinations for investor dollars. Second, there is always a sequence of political turmoil – Venezuela, Argentina, Thailand, Turkey, etc. – that, in our opinion, needs to be fully priced in (or avoided through active management).

- The U.S. energy renaissance continues to generate *hard asset* opportunities and help the U.S. economy. Oversupply of metals has been forcing companies to restructure. As companies make progress cutting costs in 2014, the sector may become more attractive to investors.

- The world's two largest economies – the U.S. and China – are normalizing interest rates and restructuring credit availability. China's fight against "informal lending" and Dodd-Frank's Volker rule could, without alert central banks, lead to credit contractions. Another risk is the use of "velocity" of money. A rapid normalization of velocity could lead to rising inflationary expectations.

Review of 2013: What Bells Were Rung?

It is said that "they" do not ring the bell at market tops and bottoms. But what bells were rung in 2013? What significant events were there that affected the market?

- **10-year interest rates appear to have broken their 30-year falling trend.** Rates rose higher and faster than the Fed wanted, likely signaling the lows of longer-term rates for this cycle.

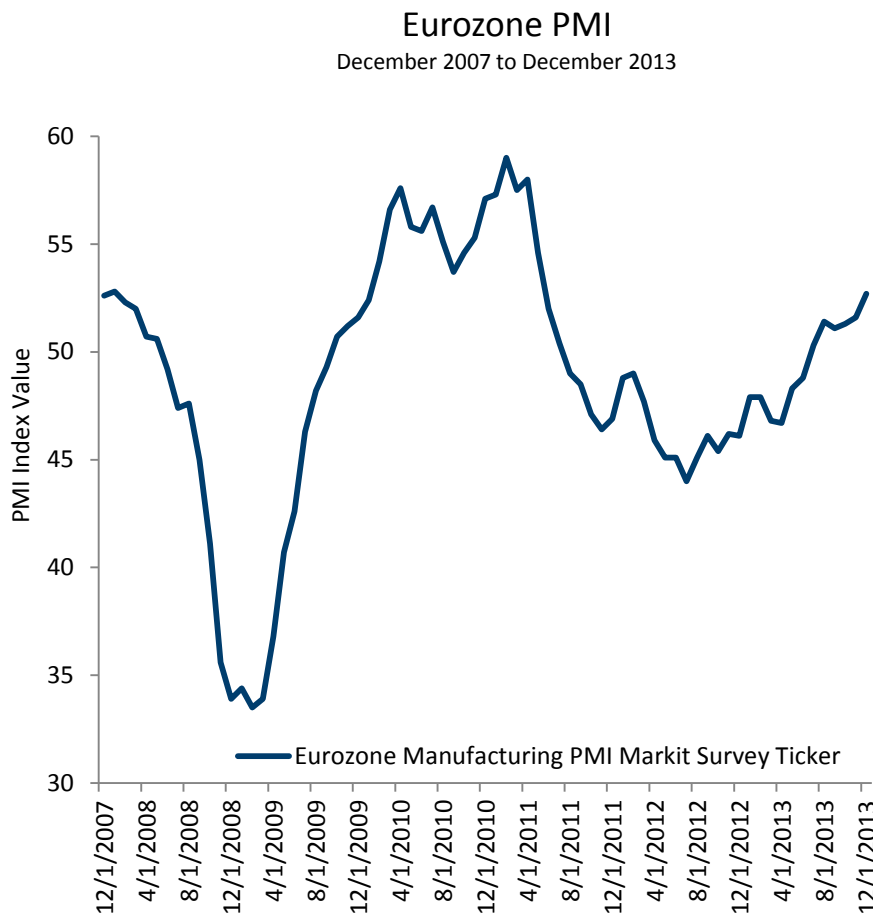
- China allowed U.S. mutual funds to buy Chinese securities. There is no doubt in our minds that China would like to make the **Renminbi (RMB) an international reserve currency**. This change in policy is another step to that end.

- The **Snowden** effect on technology and privacy. Policy makers from Brazil, to Germany, to China took steps to slow use of U.S. technology. Privacy concerns could lead to nationalization of technology and reduced electronic globalization. From a social perspective, was 2013 the death of privacy?

- Crowd funding, peer-to-peer lending, and bitcoin. **Technology continues to restructure the financial markets**. Electronic trading of equities completely restructured brokers and stock exchanges years ago. Now it is happening with bond markets and derivatives, helped by regulators and ETFs. When will technology restructure the buy side? Alibaba bought a Chinese fund company in 2013. Is Google far behind?

- **The illusion of asset class liquidity**. ETFs, some say, have added to concerns that investors can move money rapidly between asset classes. But the sell-off in munis in the second quarter 2013 came from all sides: Individuals, mutual funds, and ETFs. There was no hiding; there was a cost to those who wanted or needed to liquidate.

Europe and Global Purchasing Managers Indices: Synchronized Growth



Source: Bloomberg, Van Eck research. Data as of November 30, 2013 (chart on left) and December 31, 2013 (chart on right).
Please see important disclosure at the end of this presentation.

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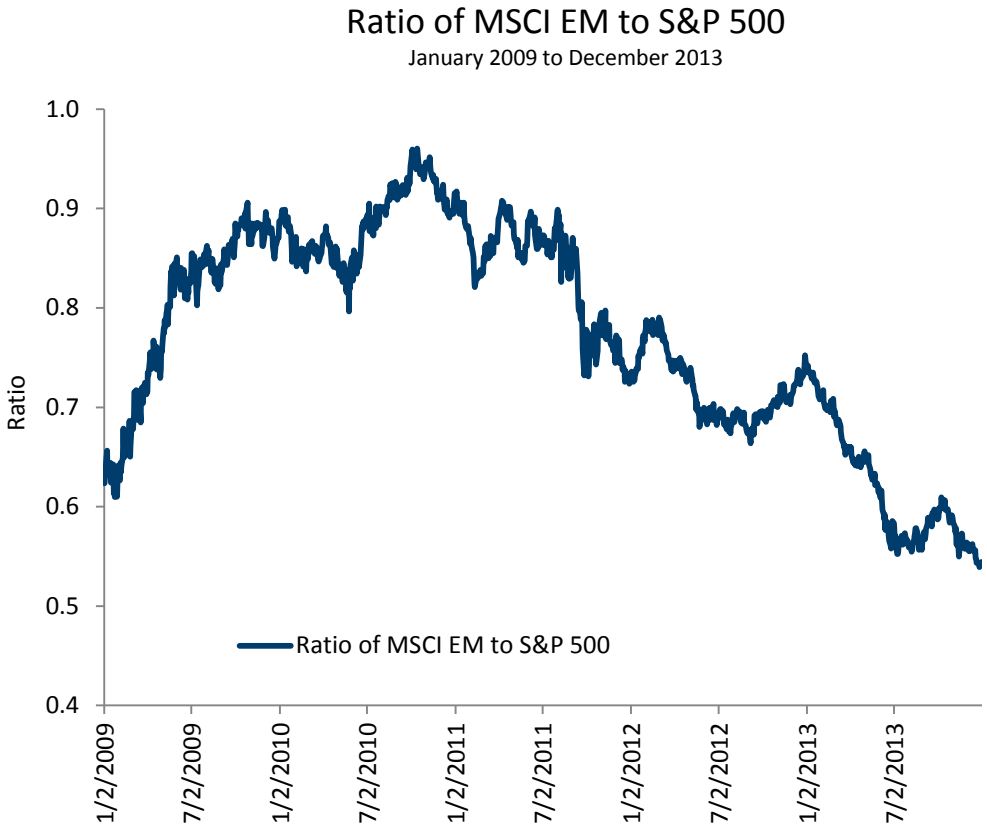
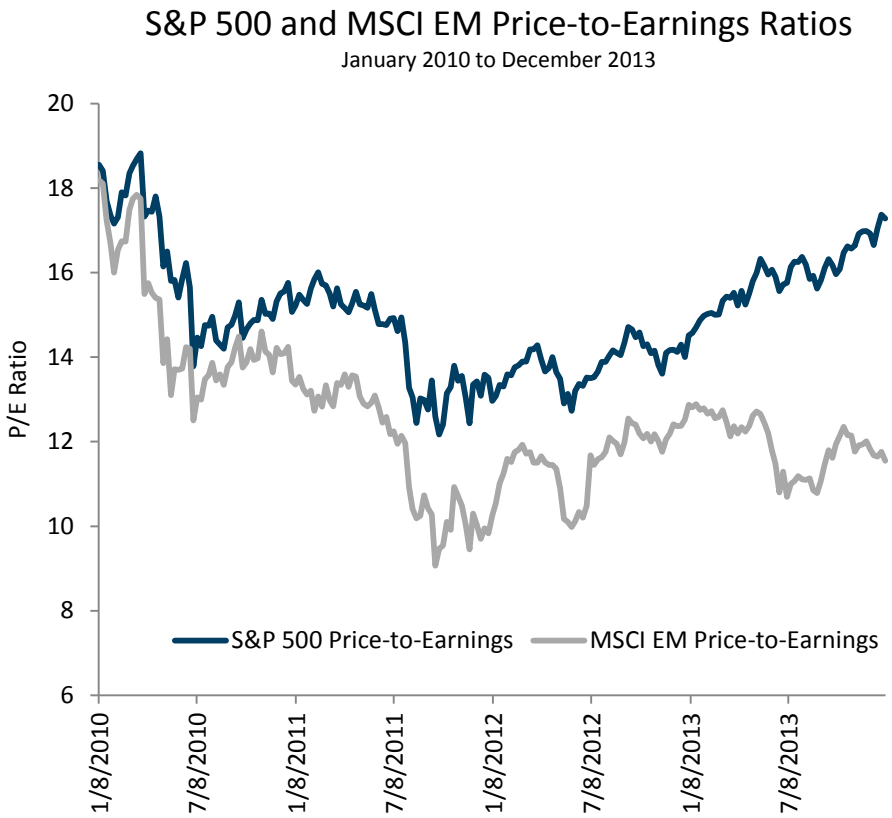
Emerging Markets Equities Have Underperformed U.S. Equities

- Ratio of MSCI Emerging Markets (EM) Index to the S&P 500 shows the relative underperformance of EM equities.





Source: Bloomberg, Van Eck research. Data as of December 31, 2013. Please see important disclosure at the end of this presentation.
A price-to-earnings ratio is a valuation ratio which measures a company's current share price compared to its per-share earnings.

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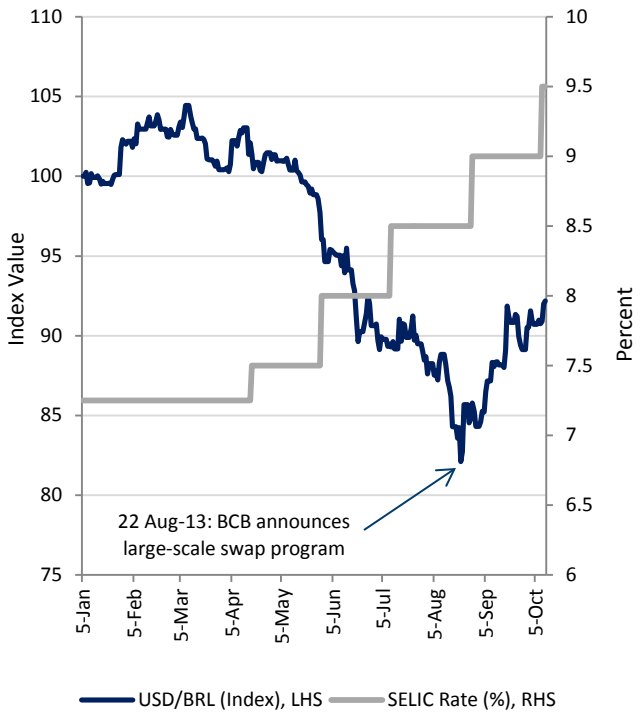
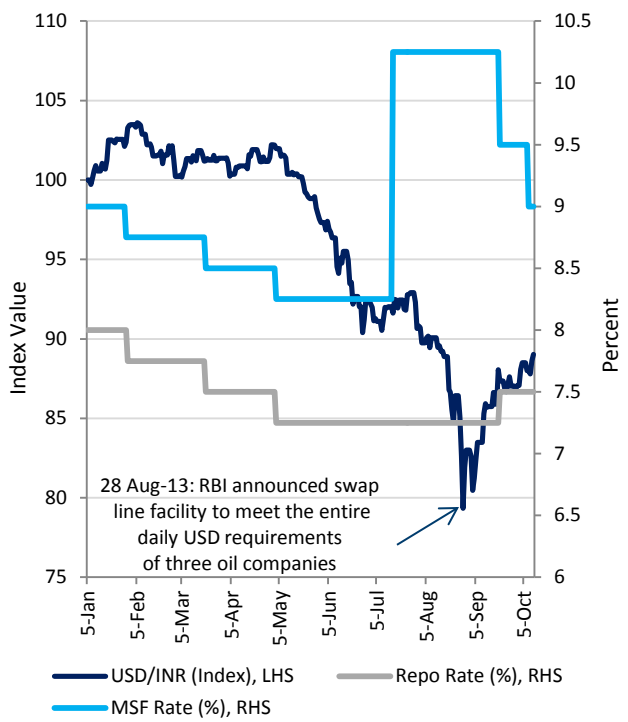
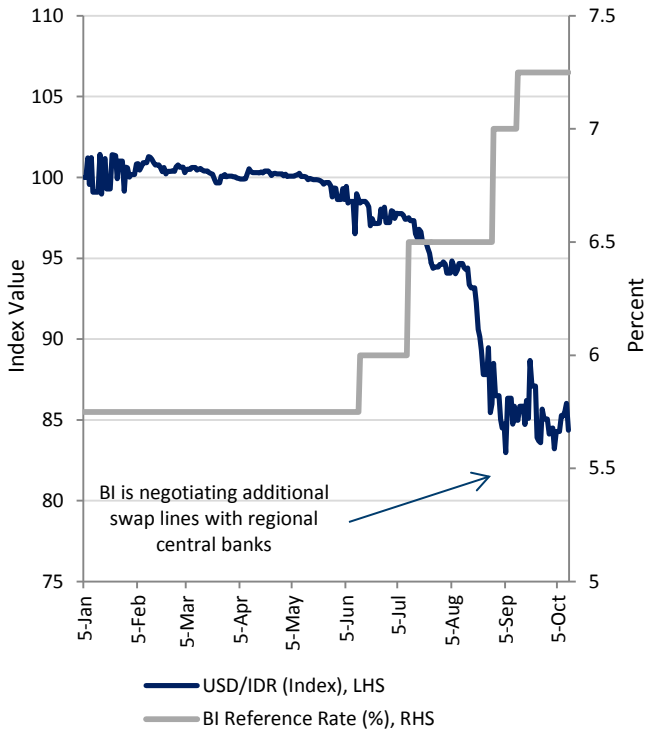
In 2013 EM Countries Generally Survived the Stress Test of Tapering

- Policy responses in EM appear to be working.
- EM central banks addressed mounting foreign exchange pressures through a combination of rate hikes and large-scale swap programs:
  - Brazil Central Bank (BCB) continued to hike the SELIC rate and introduced a large-scale swap facility on August 22, 2013.
  - Reserve Bank of India (RBI) surprised by hiking its policy rate in September, in addition to setting up a swap line facility for major oil companies.
  - Bank of Indonesia (BI) hiked its policy rate and made advances in setting up swap lines with major central banks in the region.







Source: Bloomberg, Creditsites, Van Eck research. Data as of October 10, 2013. Please see important disclosure at the end of this presentation. Please see last page of this presentation for interest rate definitions. BRL represents Brazilian real, INR represents Indian Rupee, IDR represents Indonesian Rupiah, USD represents U.S. dollar.

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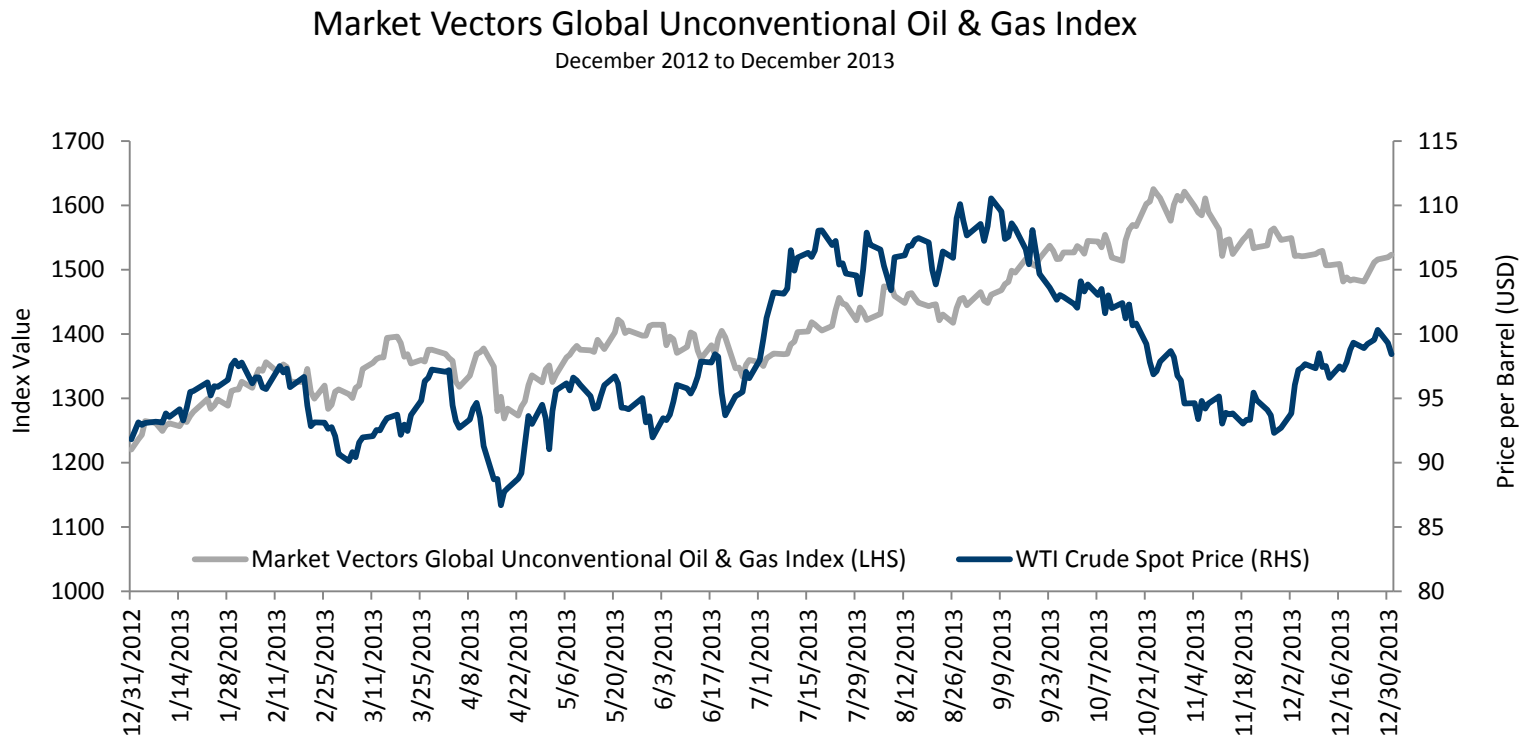
Hard Asset Equities Gained in Sideways Commodity Markets

- We continue to favor hard asset equities over commodities in 2014. Here we show that U.S. shale energy stocks rose in a sideways energy market. Over-supply hurt metals in 2013; producers of precious and base metals need to cut costs and cut expansion plans in order to get rewarded in the stock market. Their efforts may pay off in 2014.



Source: Bloomberg, Van Eck research. Data as of December 31, 2013. Please see important disclosure at the end of this presentation.

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Commodity Stocks as The Most Attractive "Real Asset"

- We believe that the debt levels of developed countries are a significant long-term risk and that investors should seek diversification away from this risk through precious metals, hard assets, and strong non-USD currencies.

- To protect against this fat tail risk*, commodity stocks may be a hedge that do not carry a large opportunity cost – i.e. they have performed well in decades when that risk did not manifest itself – the '80s and '90s. (We include the components of commodity futures because the components are so important, which is why we favor a constant maturity approach).

Average Annual Total Returns/Volatility (%)

	1970s		1980s		1990s		2000s		2010s (YTD)	
	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility
S&P GSCI Total Return Index	21.2	21.4	10.7	13.8	3.9	17.6	5.1	25.3	1.0	19.9
S&P NA Natural Resources Index	13.7	14.0	**15.0**	14.0	**10.4**	15.0	9.2	23.5	6.0	22.5
NYSE Arca Gold Miners Index	14.5	30.7	8.1	34.2	-1.8	33.2	16.5	38.3	-10.8	34.3
S&P 500 Index	5.9	16.0	**17.6**	16.4	**18.2**	13.4	-1.0	16.1	13.8	14.8
BarCap U.S. Agg Bond Index	4.9	4.9	2.4	8.5	7.7	3.9	6.3	3.8	5.8	2.4
S&P GSCI Spot Return	8.9	22.3	-1.4	13.8	-0.6	17.0	10.4	24.9	5.4	19.9
S&P GSCI Roll Yield	4.8	--	2.4	--	-0.5	--	-8.3	--	-4.4	--
S&P GSCI Cash Yield	7.6	--	9.6	--	5.0	--	2.9	--	0.0	--

Commodity Equities ("labeled as S&P NA Natural Resources Index") use a subset of the Goldman Sachs Natural Resources Index constituents from 1970-1999 and the S&P North American Natural Resources Sector Index (SPGINRTR) from 2000-present. Gold Shares ("labeled as "NYSE Arca Gold Miners Index ") use the World Gold Index from 1970-1999; Amex Gold Miner's Index (GDM) from 2000-present. For the BarCap Global Aggregate Bond Index, 1970's data is from February 29, 1976 through December 31, 1979, due to data unavailability.

Source: Bloomberg. As of April 30, 2013. Please see important disclosure and index disclaimers at the end of this presentation.
* Tail risk arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

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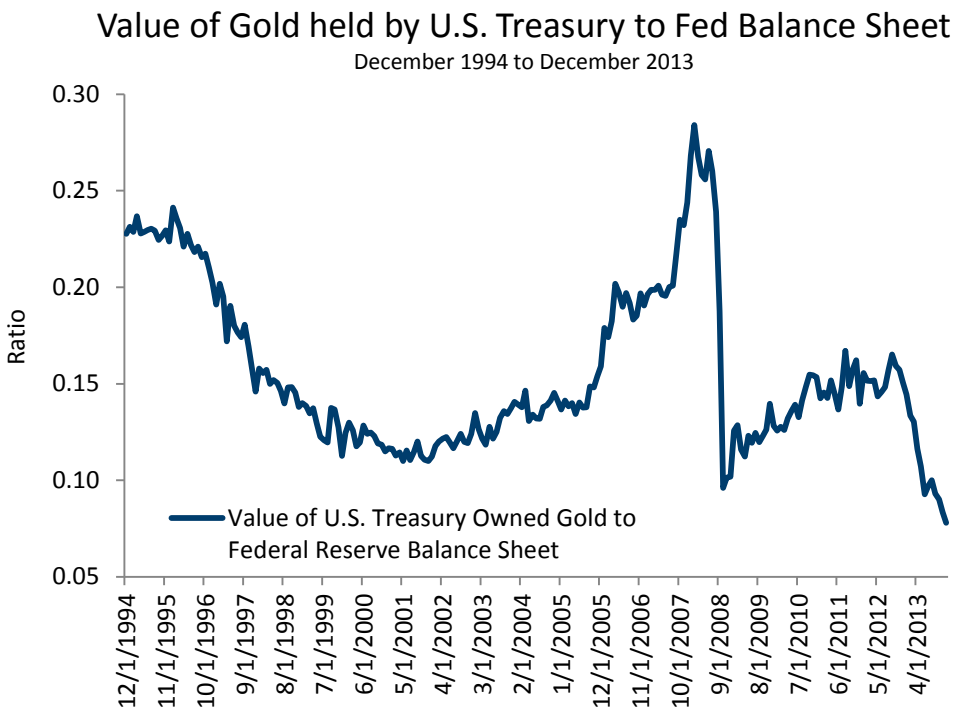
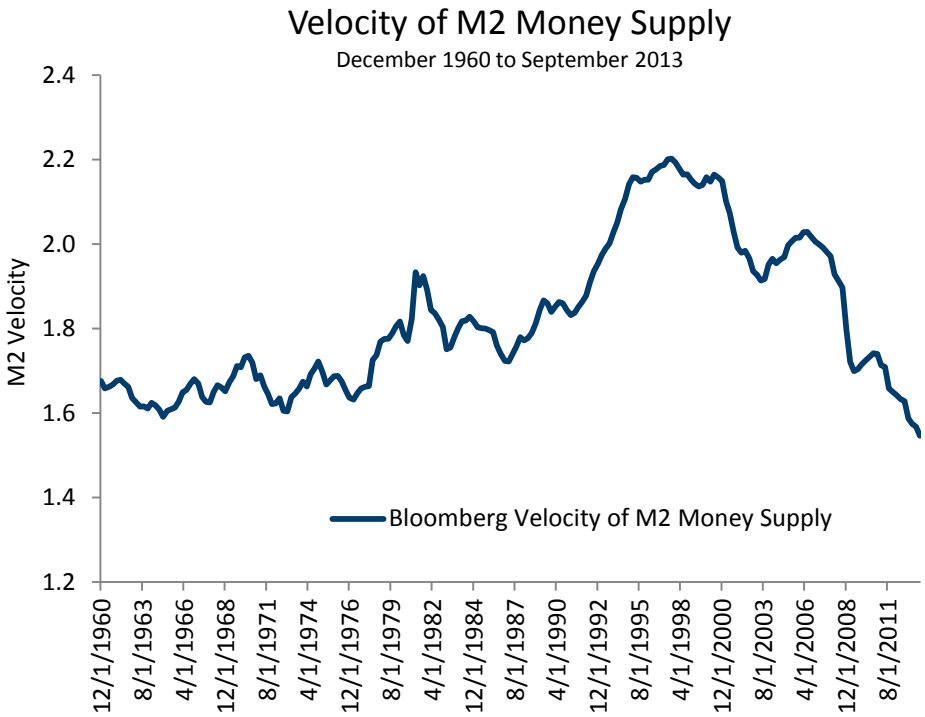
Gold and Velocity

- Will the U.S. central bank be able to engineer a glide path to higher interest rates as economic growth picks up? One wild card is velocity. If it picks up, then inflationary expectations could jump.





Velocity is the rate at which money is exchanged from in transaction to another and is measured as the ratio of Gross National Product to a country's money supply. M2 is a measure of money supply which includes assets that are highly liquid, but not cash, such as savings deposits and money market mutual funds.

Source: Bloomberg, Van Eck research. Data as of December 25, 2013 (chart on left) and September 30, 2013 (chart on right).
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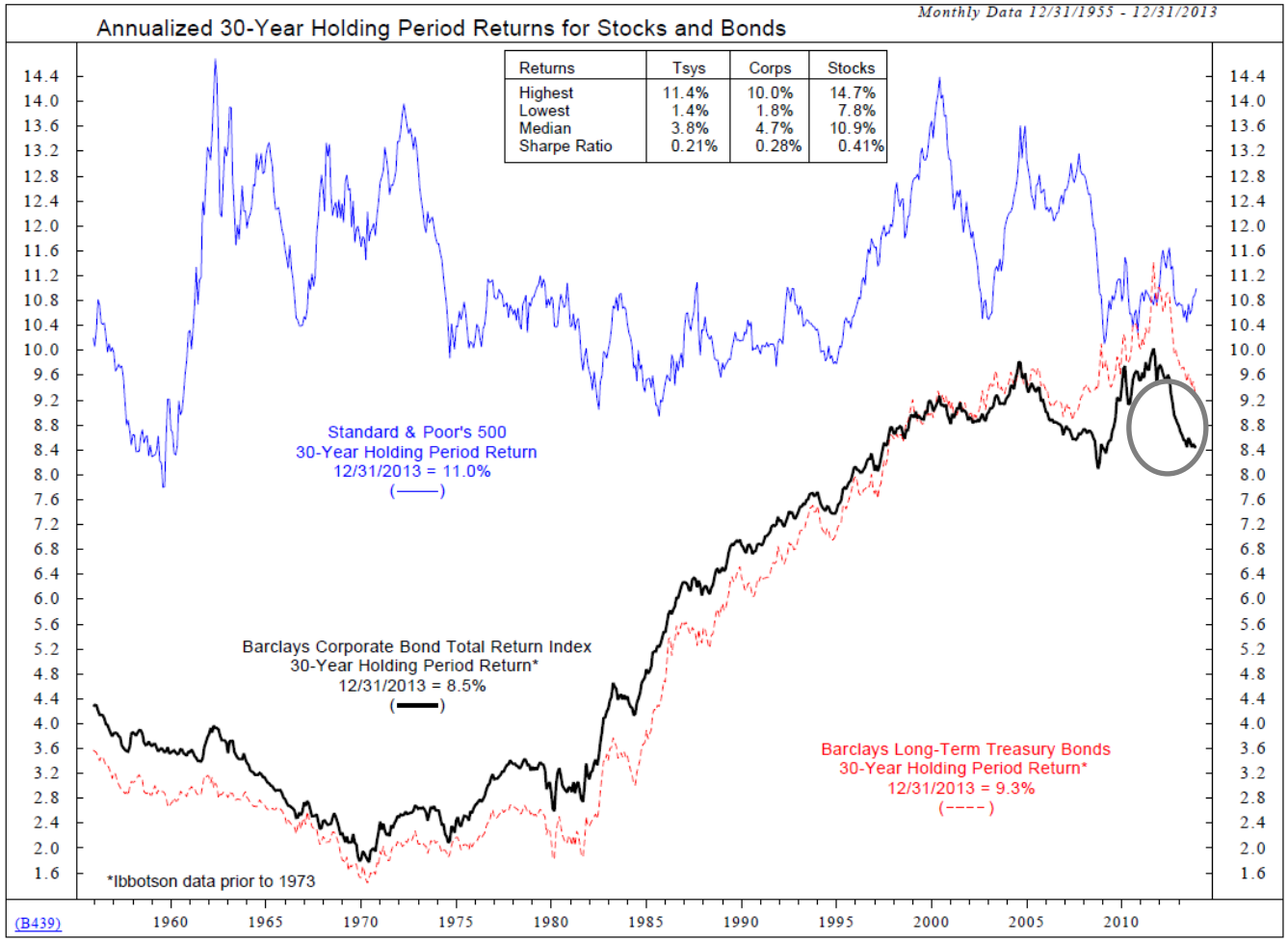
Long Term, Stocks Better Positioned Than Bonds

- This chart illustrates again our view that the era of tremendous bond returns is likely over.



Source: Ned Davis Research Group. As of December 31, 2013. Please see important disclosure at the end of this presentation.
Note: Government bonds and Treasury Bills are guaranteed as to the timely payment of principal and interest.

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The **Barclays Capital Aggregate Bond Index** is a market capitalization-weighted index representing most U.S. traded investment grade bonds. The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturity of the bonds in the index are over one year. 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 **S&P® GSCI Total Return Index** is a world production-weighted commodity index comprised of 24 liquid, exchange-traded futures contracts. The **S&P® North American Natural Resources Sector (SPGINRTR) Index** is a modified capitalization-weighted index which includes companies involved in the following categories: extractive industries, energy companies, owners and operators of timber tracts, forestry services, producers of pulp and paper, and owners of plantations. The **S&P® 500 Index** is a market value-weighted index that consists of 500 widely held common stocks, covering four broad sectors (industrials, utilities, financial and transportation). Full list of sector indices include financials, consumer discretionary, healthcare, industrials, consumer staples, materials, energy, info tech, utilities, telecom. The **Purchasing Managers' Indexes (PMI)** are economic indicators derived from monthly surveys of private sector companies. The **Market Vectors Global Unconventional Oil & Gas Index** is a rules-based index intended to track the overall performance of the unconventional oil and gas segment, defined as: coalbed methane (CBM), coal seam gas (CSG), shale oil, shale gas, tight natural gas, tight oil, and tight sands. The **Morgan Stanley Capital International (MSCI) Emerging Markets Index**, calculated with dividends reinvested, captures 60% of the publicly traded equities in each industry for approximately 25 emerging markets.

The SELIC rate is the Brazilian Central Bank's target rate for overnight interbank borrowing and lending. The MSF rate is the interest rate at which the Reserve Bank of India will lend money to commercial banks overnight. The Reserve Bank of India's repo rate is the rate at which it will lend to commercial banks collateralized against government securities. The Bank of Indonesia reference rate is the central banks policy rate used as a benchmark for lending throughout the economy.

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