Gold May Offer Safeguards Beyond The Vaccine

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VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Gold Retreats on Vaccine Hope

News of positive test results for several COVID vaccines created euphoria in the stock market and caused gold to fall through the technically important $1,800 per ounce level. Gold began the month with very positive price action. U.S. dollar weakness caused the gold price to break out of a three-month consolidation pattern to its monthly high of $1,965/oz on November 9. However, the breakout failed on the same day when Pfizer announced vaccine test results that were better than expected. Steady redemptions from gold bullion exchange traded products (ETP) beginning on November 12 brought the first month of bullion ETP outflows in 2020. The gold price suffered another drop on November 23 when AstraZeneca released its vaccine trials, then declined to the $1,810/oz level on November 24 when the Trump administration finally allowed President-elect Biden's team to initiate a formal transition. The $1,800/oz level could not hold amid selling pressure in thin Thanksgiving holiday trading. Gold ended the month with a $101.86 (5.4%) loss at $1,776.95.

Gold Companies Down But Not Out

Gold equities fell with gold, as the NYSE Arca Gold Miners Index (GDMNTR)[1] dropped 7.65% and the MVIS Global Junior Gold Miners Index (MVGDXJTR)[2] declined 7.51%. While the gold price is experiencing near-term weakness, gold companies are still enjoying ample free cash flow. Many companies increased dividend payouts with third quarter results. Scotiabank figures the senior and mid-tier producers[3] they cover now have an average yield of 2.0%, which, per Bloomberg data, surpasses the average yield of the S&P 500[4] of approximately 1.5%. More companies are positioned to maintain dividends throughout the gold cycle. Newmont Corp. and Barrick Gold Corp. (7.13% and 6.21%, respectively, of Fund net assets) are laying out new frameworks for distributing excess cash. Yamana Gold Inc. (3.17%) has established a dividend reserve fund. These efforts set the companies apart from gold, which pays no dividend, as well companies in other sectors with lesser yields.

Average Annual Total Returns (%) as of November 30, 2020

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-6.27	48.23	21.87	-3.39
Class A: Maximum 5.75% load	-11.66	39.71	20.43	-3.96
GDMNTR Index	-7.65	29.35	21.57	-4.23

Average Annual Total Returns (%) as of September 30, 2020

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-5.12	61.76	24.13	-1.49
Class A: Maximum 5.75% load	-10.57	52.46	22.67	-2.07
GDMNTR Index	-7.28	47.25	24.57	-2.45

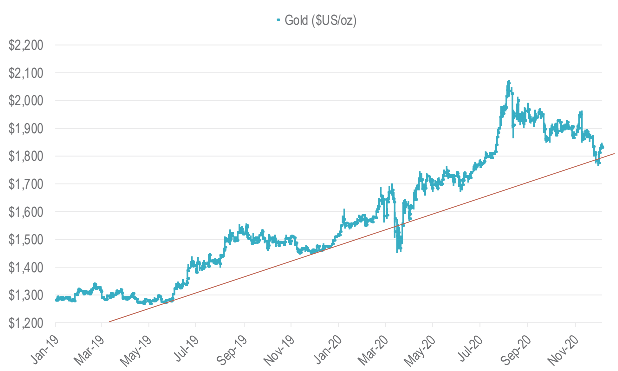
The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment 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 1.49%; Net 1.45%. Expenses are capped contractually until 05/01/21 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.

Bearish Near-Term Technicals?

Gold responds negatively to anything that convinces markets that the economy, the financial health of businesses and households, and life in general, can return to normal without inflation. This risk-free scenario is being priced into the markets with the news that vaccines will become widely available in 2021. This caused gold to briefly dip below the bull market trend that began in June 2019 (see Chart).



Source: Bloomberg. Data as of December 4, 2020.

This selloff and break of $1,800/oz support indicates that the bull market does not carry as much near-term strength as we had assumed. Bullion ETP selling suggests that some investors saw gold solely as a pandemic trade, ignoring longer-term economic, financial and other ramifications. With jewelry and central bank demand weakened by the pandemic, gold will likely remain under pressure until ETP flows turn positive. As such, it looks like the current consolidation might continue through the first half of 2021.

Return to Normal Far From Guaranteed

We find the market's view that the world can emerge from the pandemic as if nothing ever happened to be preposterous. There will be lasting damage as COVID appears set to continue wreaking havoc through the spring. Moody's Analytics estimates state and local governments faced a $70 billion shortfall in 2020 that could balloon to $268 billion in 2021 and $312 billion in 2022. Rosenberg Research figures nearly 30 million American households will be impacted by an end to unemployment support, eviction moratoriums and home loan forbearance in 2021. Many of the unemployed won't have jobs to come back to, while the longer they remain out of work, the more their skills erode.

According to the same research, the savings rate at 13.6% is nearly double pre-pandemic levels. Rather than representing a potential spending bonanza, perhaps high savings levels represents a new conservatism in investing and consumption. Young people coming of age have already experienced two historic crises in 12 years. Perhaps they adopt the values of their Depression-era great grandparents, rather than those of their Boomer or Gen-Xer parents.

In the longer term, there are unknown side effects from the overall clinical, psychological, social and economic shocks of the pandemic. The legacy of COVID-19 could transform political attitudes, global supply chains, demand patterns, work habits, risk tolerance and business practices.

While the news of vaccines is welcomed by all, a return to normal is far from guaranteed. Many risks remain that we believe can drive gold to new highs.

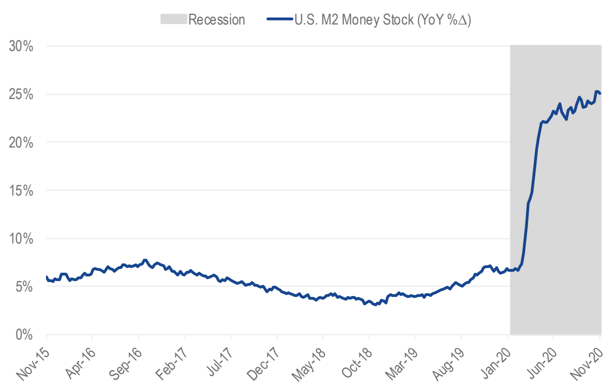
Let Us Count The Ways...

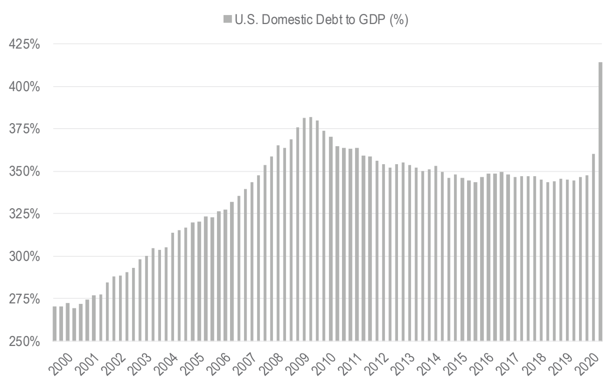
Beyond the pandemic are a host of risks that could threaten the financial system. Foremost is the massive debt that has been issued since the global financial crisis and that has accelerated with the pandemic. A few of the characteristics of the global debt load that cause concern:

1. The Institute of International Finance (IIF) estimates global debt rose to $272 trillion through the third quarter and will reach a record 365% of global GDP by year-end. Advanced nations have seen a 50 percentage point increase in nine months to 432% of GDP. The IIF says it isn't clear how debt levels can be brought back down without significantly hurting economic activity.
2. According to Bloomberg, since the onset of the pandemic, some of America's most esteemed companies have become zombies – unable to earn enough to cover their interest expense. Zombies totaling 20% of the country's 3,000 largest companies added almost $1 trillion in debt. The unintended consequence of the Fed's propping up of the bond market may be directing the flow of capital to unproductive firms, depressing employment and growth for years to come.
3. The U.S. Education Department's latest estimate shows student loan losses have reached $435 billion, equal to 32% of student loans outstanding. This is approaching the $535 billion lost on subprime mortgages in 2008.
4. The world's inventory of negative yielding bonds reached a record $17.05 trillion in November. Rosenberg Research reckons this represents 26% of the world's investment grade debt.

The Real Wild Cards: Bubbles, Inflation

Perhaps the most worrisome and least predictable of the financial risks is the effect of the liquidity that has been pumped into the financial system by the Fed's quantitative easing and the government's deficit spending. The massive scale is captured in the change in M2 and total debt charts:





Source: U.S. Federal Reserve Bank of St. Louis. Data as of Q1 2020 (Top) and November 23, 2020 (Bottom). For bottom chart, domestic debt reflects debt securities and loans for all sectors.

Even more stimulus from both the Fed and the Treasury is expected once President-elect Biden takes office. Far too much money in a financial system carries the risk of unintended consequences, such as asset bubbles, currency volatility, or inflation. Already we are seeing bubbles develop in large tech stocks, initial public offerings (IPOs) and residential real estate. The velocity of money (rate of turnover of the money supply) is currently extremely low, which keeps inflation in check. A return to normal velocity with stronger economic growth might trigger an inflationary cycle.

Gold Should Still Be in Your Portfolio

Aging demographics over the next 20 years will require funding of Social Security and many pensions whose obligations far exceed their ability to pay. The traditional 60% stock / 40% bond portfolio no longer works when interest rates are at zero. Many investors are seeking alternatives to generate the returns that are missing in their bond allocation. Gold, private equity and bitcoin are among the limited number of alternative asset classes to choose from. Gold is the only one with an established history as a store of wealth and hedge against tail risks.

All company, sector, and sub-industry weightings as of November 30, 2020 unless otherwise noted. Source: VanEck, FactSet.

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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. [3]"Seniors" and "Mid-Tiers" are gold mining companies that produce, approximately,1.5-6.0 and 0.3-1.5 million ounces of gold per year, respectively while "Juniors" are gold mining companies that typically produce less than 0.3 million ounces of gold per year. [4]S&P 500® is a capitalization-weighted index of 500 U.S. stocks from a broad range of industries.

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Diversification does not assure a profit or protect against loss.

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