

Fundamentals Trumped by Trade Fears

By Shawn Reynolds, Portfolio Manager

VanEck Global Hard Assets Fund

GHAAX / GHACX / GHAIX / GHAYX

Performance Review

During the quarter, the Global Hard Assets Fund (the “Fund”) Class A shares returned 4.69% (excluding sales charge). On a relative basis, the Fund underperformed its commodity equities-based benchmark index, the Standard & Poor’s® (S&P) North American Natural Resources Sector Index (SPGINRTR), which returned 12.05% over the same period.

Market Review

Despite an improvement in returns from the first quarter, sentiment around natural resources equities was mixed in the second quarter as it has been through most of the first half of the year. Potential for an international trade war cast a pall on the outlook for sustained global growth while the disparity in performance of natural resource equities and their corresponding commodities has continued to fuel, to some degree, a lack of investment interest in the space.

Within the energy sector, concern, bordering on hysteria, around pipeline takeaway capacity in the Permian Basin of west Texas reached new heights. In particular, the market became highly skeptical of whether large operators, with potentially limited capacity to store or transport their own oil and gas out of the region, would be able to grow

Average Annual Total Returns (%) as of June 30, 2018

	2Q18 [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 11/2/94)	4.69	16.54	-2.73	-4.61
Class A: Maximum 5.75% load	-1.32	9.84	-3.87	-5.17
SPGINRTR Index ¹	12.05	19.80	3.29	-1.08
M2WDCOMP Index ²	8.22	26.84	8.00	-2.04

[†]Quarterly returns are not annualized. Expenses: Class A: Gross 1.53%; Net 1.38%. Expenses are capped contractually until 05/01/19 at 1.38% for Class A. Caps excluding acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

production at expected rates in the near term and whether the current level of drilling and service activity supporting this production growth is actually sustainable or warranted.

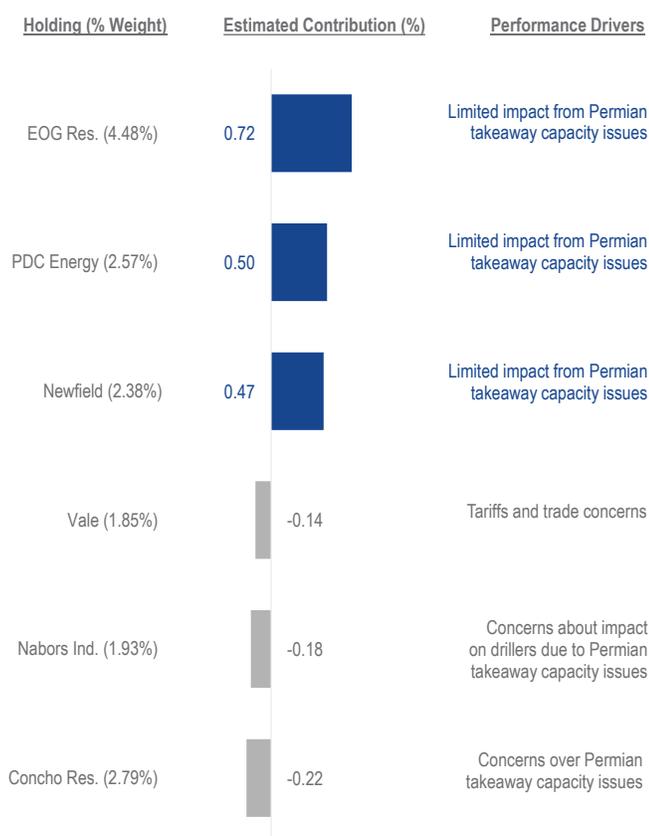
Contrasting concerns over production in the U.S., OPEC’s announcement of increases in their self-imposed production quotas underwhelmed most market participants. Depending on the source quoted, “OPEC+” (OPEC plus Russia and other partners), would be bringing on an additional 500,000 to 1 million barrels per day of production by the end of 2018 in an effort to help maintain a relatively balanced and supportive oil market.

The table presents 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 Net Asset Value (NAV). Index returns assume that dividends from index constituents have been reinvested.

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However, potential declines in production from Iran, Libya and Venezuela, combined, appear to be on the magnitude of at least 1 million barrels per day, suggesting that, globally, we could still be operating in a deficit in the near future. This tightening market has manifested itself in shrinking crude inventories – a key measure monitored by OPEC and most other major oil market participants. OECD inventories ended May below the five-year average and Cushing WTI stocks have continued exceptional draws and are nearly 50% below five-year levels.

Top Quarterly Contributors/Detractors



Source: FactSet; VanEck. Data as of June 30, 2018. Contribution figures are gross of fees, non-transaction based and therefore estimates only. Figures may not correspond with published performance information based on NAV per share. Past performance is not indicative of future results. Portfolio holdings may change over time. These are not recommendations to buy or sell any security.

Within the mining sector, despite reaching the highest prices of the year in early June copper sold off towards the end of the month although still ended the quarter above 2017 average levels. Zinc fared worse with a steady decline throughout the period. The sell-off for many metals came amid fears that recently-enacted tariff policies would impact demand. For the most part, diversified mining companies followed suit. Gold and gold mining companies were also caught up in the sell-off though were impacted, rather, by a strengthening U.S. dollar.

Grains—soybeans and corn in particular—were also hit hard by trade fears. Added to this, improved planting conditions raised expectations for unusually productive (i.e., “bumper”) corn and soybean harvests this fall. Nevertheless, expectations for better fertilizer pricing drove related agriculture equities towards positive performance relative to their corresponding commodities.

Outlook

Predicting the market’s reaction to daily headline news regarding, what we view as, generally minor shifts in the natural resource equity or commodity landscape has become exhausting if not nearly impossible to do at this point. Why the market continues to see such inconsistent interest in the space remains puzzling. The most logical explanation seems to be that the bear markets of 2015 and 2017 are far too immediate in the minds of investors who are over-anxious and looking to avoid being “bitten” again in 2018.

As regularly noted in our quarterly commentaries, one of the main pillars of our investment philosophy is to look for long-term growth opportunities and position our portfolio for the future rather than just react to current market circumstances. Over time, this approach should help us identify companies that are most likely to sustain net asset value independent of commodity price volatility.

To that extent, our focus has not shifted from where we continue to see the most opportunity in the space. We still believe that the energy and mining companies that we invest in are virtually in the best fundamental shape that they have seen in years with supportive growth outlooks and commodity pricing, strong balance sheets with increasing free cash flow, and propensities to return capital to shareholders.

Speaking in more specific terms, U.S. unconventional oil companies with low-cost operations, including those in the Permian, remain particularly attractive to us. We favor these companies most notably for the reasons mentioned above, but also because we believe concerns about such things as takeaway capacity are overblown and ignore the potential significant draw on inventories that may be required if the world looks to the U.S. to help fill the “supply gap” amidst strengthening global demand.

Within the mining sector, despite fears of an international trade war, Chinese demand for diversified metals appears insatiable. The absence of new mining projects and the continuing deterioration of ore grades, particularly in copper, have underscored the need for more additional investment in the space.

Finally, while it is perhaps too early to tell, thus far we have seen little evidence that tariffs are actually causing economic damage and, consequently, are enough of a reason to discount any type of future positive global growth. Within the U.S. and Europe, we still see positive, though moderated, economic growth prospects. Emerging markets’ economies appear, in general, weaker. However, Asian economies have been okay, as have been those of both China and Eastern European countries.

All company, sector, and sub-industry weightings as of June 30, 2018 unless otherwise noted.

All indices listed are unmanaged indices and include the reinvestment of 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. ¹The S&P North American Natural Resources Sector Index (SPGINRTR) includes mining, energy, paper and forest products, and plantation-owning companies. ²The MSCI ACWI Commodity Producers Index (M2WDCOMP) is a free float-adjusted market capitalization index designed to reflect the performance of listed commodity producers across three industry (or sub-industry) categories as defined by the Global Industry Classification Standard: energy, metals, and agriculture.

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