

Resources Rebound...But Can They Hold?

By Shawn Reynolds, Portfolio Manager

VanEck - Global Hard Assets UCITS

USD R1 Acc: IE00BYXQS972

USD I1 Acc: IE00BYXQS535

USD I2 Acc: IE00BYXQS642

USD I4 Acc: IE00BYXQS865

Market Review

On the whole, natural resources experienced a decent recovery following the coronavirus-induced price collapse that occurred in March and April. Precipitous commodity demand declines across developed economies at the onset of the pandemic were, eventually, partially offset by massive global stimulus measures and re-opening economies, as well as by a general slowing of global production and near-complete supply disruption from several emerging market economies. And, while the first quarter was mainly a story of gold and crude oil, in the second quarter, they were joined by copper and iron ore.

Copper

For copper, the way in which COVID-19 progressed, geographically, shifted demand and supply fundamentals. At the outset of the pandemic, the impact was predominately on demand in China, Europe and the U.S. but, as restrictions in these regions lifted and as the virus spread to other parts of the globe, its impact was more on supply from Brazil, Chile, Peru and Africa. Copper fell to a low of \$4,625 per tonne on March 23. Thereafter, on the back of massive governmental stimulus and noted supply disruptions, it continued on an upward trajectory to end the first half of the year at around \$6,005 per tonne.

Iron Ore

Demand for iron ore remained strong during the second quarter of 2020. While, coming into the year, global inventory levels of iron ore had been relatively low in anticipation of increasing production, the introduction of a number of iron-ore-heavy infrastructure projects in China (post COVID-19 onset) improved

Average Annual Total Returns (%) as of 30 June 2020

	2Q20 ¹	YTD	1 Yr	3 Yr	5 Yr	Life
USD R1 Acc (Inception 24/1/13)	32,92	-19,18	-20,31	-9,72	-10,14	-9,33
USD I1 Acc (Inception 24/1/13)	33,21	-18,82	-19,57	-8,90	-9,33	-8,51
USD I2 Acc (Inception 1/8/13)	33,25	-18,77	-19,56	-8,84	-9,26	-8,91
SPGINRTR Index (USD) ¹	31,31	-26,33	-24,37	-8,02	-6,47	-4,94
M2WDCOMP Index ²	20,42	-26,16	-26,16	-3,47	-2,24	-4,08

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¹Quarterly returns are not annualized. Life performance for the SPGINRTR Index and the M2WDCOMP Index are presented in U.S. Dollars (USD) as of Class I1 inception date of 24/01/2013.

But the metal's demand outlook for the second half of the year. After hitting a low of just over \$80 a tonne on April 1, iron ore finished the first half at approximately \$103 a tonne—an increase of over 28% for the quarter.

Gold

Similar to the first quarter of the year, the gold industry continued to encounter only marginal impacts from the

pandemic. Demonstrating just how much better positioned they were than many other industries to handle the crisis, during the second quarter, miners continued to adhere to the health protocols which allowed them operate safely during onset of the virus. And, while gold stocks did suffer a sharp fall in March as the market crashed on lockdown fears, they continued to be propelled by these health measures, as well as by resilient gold prices. Gold established a new, positive trend during the second quarter of the year, trading around the \$1,700 level and reaching a fresh seven-year high of \$1,786 (intraday) on June 30.

Crude Oil

As noted in our Q1 2020 commentary, crude oil found itself victim of at least two “black swan” events to start the year. In addition to COVID-19, in March, Russia rejected Saudi Arabia’s demand that it and other non-OPEC (Organization of the Petroleum Exporting Countries) members agree to supply cuts. At the time, the price of West Texas Intermediate (WTI) crude oil had already started to fall amid uncontrolled production and, by April 20, began trading in negative territory for the first time in history following a historic drop of nearly 300% in the oil futures market. When it became apparent that OPEC and Russia were going to get back together to come up with a new quota system, though, things quickly started to improve. By the end of June, the price of crude oil was close to where it had been before the Saudi Arabia/Russia “standoff”—even in spite of the skepticism around COVID-19 and continued, robust U.S. shale oil production.

Performance & Positioning

While all of the Fund’s sub-sectors contributed positively to this quarter’s performance, the largest absolute contributions remained from the gold sub-industry. In line with our positioning last quarter, gold exposure remained near the highest it has been, historically.

We continue to believe that gold producers – particularly those with low net debt – are capable of generating strong free cash flow in such a supportive gold price environment and could be at a distinct advantage in this regard.

Energy positions (including traditional oil and gas as well as renewable energy) also contributed to positive performance during the quarter. Within the traditional oil and gas energy sleeve, the Fund’s exposure continues to be at the lowest levels it has ever been and is focused primarily on companies in top tier locations (i.e. good geology), with consistent leading operational and safety track records, and strong balance sheets.

We established a small position in agriculture company Yara International (0.43% of Fund net assets) in April, whose global

footprint diversifies our current domestic nitrogen exposure. We also exited our only pure-play steel exposure in Steel Dynamics as, for now, the current macro environment remains relatively unsupportive for U.S. flat rolled steel. Aside from these transactions, there were no other major positioning adjustments made during the quarter.

Top Quarterly Contributors/Detractors

Holding (% Weight)	Estimated Contribution (%)	Performance Drivers
Barrick (5.23%)	3.16	Gold price strength
Agnico-Eagle (4.76%)	2.90	Gold price strength
SolarEdge (5.78%)	2.89	Strong European demand
Sanderson (1.26%)	-0.07	COVID-19 challenges
Nutrien (3.05%)	-0.10	COVID-19 challenges
Ormat (2.05%)	-0.26	Utilities sector weakness

Source: FactSet; VanEck. Data as of 30 June 2020. 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.

Outlook

While we see the potential for an ongoing recovery in the natural resources space, there are certainly no guarantees that it will be either hassle-free nor consistent across all sub-sectors. Speaking directly to oil markets (a sector most often used by investors as a gauge for the overall health of the natural resources space), in our opinion, the outlook largely hinges on demand progression which is predominately dependent on the reopening of the global economy. The trend is clearly positive,

but equally, it is apparent that there are huge potential set-backs associated with any resurgence of COVID-19. It is also important to note, too, that we don't see current oil price trends as capable of rescuing the energy industry as a whole. For example, Deloitte recently released a report suggesting that approximately one-third of the U.S. shale industry was technically insolvent at \$35/bbl WTI, suggesting many companies will continue to struggle if prices remain in their recent range.

Broadly speaking, we continue to believe that massive, coordinated global monetary and fiscal stimulus is likely to impact global demand for natural resources beyond the extent of the current virus. We have also seen capital expenditures on new supply pretty much evaporate across nearly all natural resources sectors as there has been, quite clearly, a pause in the investment cycle. As we said at the end of the first quarter, these two factors combined (global demand aided by stimulus and supply impacted by capital expenditure cuts), suggest that the demand/supply imbalance in place today may stabilize quickly, and allow for many commodity prices to return back to, or near, their pre-crisis levels. While it may not be either a perfect or uninterrupted process, we do believe that the long-term directional drivers for a rebalancing are in place.

Additionally, we also persist in the belief that identifying and investing in companies with the strongest fundamentals (quality) remains vital. Because so many of the companies and industries we follow have spent the last several years restructuring their business models and strategy, they entered the crisis with not only secure balance sheets, lower operating costs and improving returns on/of capital (i.e., dividends and share repurchases), but were also strongly positioned to weather the current environment. They have continued to display their strengths while those that forewent the opportunity to get their houses in order when they had the chance, have very publically fallen by the wayside.

I should like to finish by, once again, echoing the sentiments of Jan van Eck, the firm's CEO, and conveying my wishes for the best to all and their families during these enduring difficult times. And to say that we remain extremely grateful for the millions of healthcare and other essential workers out there who continue to battle on the frontlines of this global pandemic on a day-to-day basis. Thank you.

*All company weightings, if mentioned, are as of 30 June 2020 unless otherwise noted. This is not an offer to buy or sell, or a solicitation of any offer to buy or sell any of the securities mentioned herein. Fund holdings will vary.

¹S&P North American Natural Resources Sector (SPGINRTR) provides investors with a benchmark that represents U.S. traded securities that are classified under the GICS[®] energy and materials sector excluding the chemicals industry; and steel sub-industry. 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. 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. 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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