

Gold's Muted Response Speaks Volumes

By Joe Foster, Portfolio Manager and Imaru Casanova, Deputy Portfolio Manager

VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Fund Review

The International Investors Gold Fund's Class A shares returned -9.09% for the one month period ending February 28, 2018 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)¹ returned -9.91% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

Average Annual Total Returns (%) as of February 28, 2018

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.09	-6.66	-6.50	-4.90
Class A: Maximum 5.75% load	-14.34	-11.99	-7.60	-5.46
GDMNTR Index	-9.91	-5.64	-9.60	-7.73

Average Annual Total Returns (%) as of December 31, 2017

	1 Mo [†]	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	7.54	13.03	-8.95	-2.47
Class A: Maximum 5.75% load	1.38	6.48	-10.02	-3.04
GDMNTR Index	4.56	12.21	-11.88	-5.58

[†]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. Investors should be aware that recent market conditions resulting in high performance for the gold sector may not continue.

Geologist Joe Foster has been part of VanEck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

Expenses: Class A: Gross 1.35%; Net 1.35%. Expenses are capped contractually until 05/01/18 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

The tables 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.

Market Review

In an environment that would typically be positive for gold, it appears gold faced selling pressure as investors searched for liquidity to cover margin calls and redemptions. Gold declined in February as increased market volatility and a drop in equity and bond markets failed to support demand for gold as a safe haven². On February 2, the labor market report in the U.S. showed a strong rebound in average hourly earnings that was well above expectations. The U.S. dollar rallied and gold declined. Equity markets dropped, with the Dow Jones Industrial Average (DJIA)³ down almost 9% by February 8 (ending February down 4%), U.S. Treasury yields rose, and the U.S. dollar, rather than gold, was the beneficiary.

On February 14, January's inflation report beat consensus, with headline inflation measured by the Consumer Price Index (CPI)⁴ accelerating to 2.1% year-on-year. U.S. Treasury yields continued their rise and the U.S. dollar weakened. Meanwhile, the equity markets and gold bounced back. Gold reached its high for the month of \$1,353.70 per ounce on February 15.

However, the gold rally was short lived, as the markets priced in hawkish expectations ahead of the release of Federal Open Market Committee (FOMC) minutes on February 21. The Fed minutes themselves did not contain much new information, but confirmed the market's

expectations for three rate hikes this year. In addition, the testimony by new Fed chairman Jerome Powell to the House of Representatives' Committee on Financial Services was viewed as optimistic, stating that he sees gradual rate hikes, and more importantly, an improved U.S. growth outlook. The U.S. Dollar Index (DXY)⁵ was up 1.7% during the month. Commodities were lower during February, which is also negative for gold. Gold closed at \$1,318.38 per ounce on February 28, down 2% or \$26.78 per ounce for the month.

Demand for gold bullion-backed exchange traded products (ETPs) declined in February, with holdings down about 0.3% for the month. This followed a 1.3% increase in holdings in January, resulting in a net 1.1% increase year to date as of February 28. We track the flows into the gold bullion ETPs as we believe investments in those products typically represent longer-term, strategic investment demand for gold and, as such, provide an excellent proxy for the direction of the gold market.

Gold stocks underperformed gold, with the NYSE Arca Gold Miners Index (GDMNTR) falling 9.91%, and the MVIS Global Junior Gold Miners Index (MVGDXJTR)⁶ dropping 6.7% during the month. The junior companies caught up with their larger peers after underperforming in January.

While many gold companies reported positive fourth quarter 2017 operating results, earnings/financial results were mixed and guidance for 2018, in some cases, seems to have surprised the markets. The negative sector headlines put significant selling pressure on the stocks. In many cases, these negative surprises have shorter-term effects, and do not change the companies' fundamental valuations. However, more recently, it appears that selling pressure might be intensified by headline-driven, algorithm-based trading where the longer-term fundamentals are ignored.

Market Outlook

It looks like the post-crisis era of ultra-low, below-market interest rates and the multi-decade bond bull market both came to an end in February. In early February the simultaneous fall in both stocks and bonds caught the markets very off guard. Five- and 10-year U.S. Treasury rates jumped up and out of a downtrend that goes back to 1985. The stock market sell-off was a taste of the unintended consequences of Fed policies that encourage investors to take on more risk, driving markets in one relentless direction for nine years. Funds designed to thrive in a low volatility environment were forced to sell in a reinforcing feedback loop, exposing new systemic risks.

Another sign of the end of an era of easy money was the bitcoin crash. From its high of \$19,511 in December, bitcoin declined 70% to its \$5,922 low on February 5. It has since recovered to around \$10,000. Bitcoin has already gone through one crash this year and the value of the emerging technology, while potentially disruptive, is still unproven.

Safe haven investments showed little reaction to the stock market selloff. Gold and the dollar essentially trended sideways, while U.S. Treasuries headed lower. So far investors are treating the stock market volatility as an overdue correction, however we see it as the beginning of a secular shift in markets and investor psychology that brings more volatility and risk going forward. Perhaps the prelude to a bear market and economic downturn.

It looks like a higher interest rate regime is taking hold. It is not yet clear whether it is being driven by inflationary expectations, Fed rate increases, increasing fiscal deficits, or a combination of all three. Protectionist trade policies, wage pressures, and a weak dollar may cause core inflation to trend through the Fed's 2% target, which may bring more aggressive rate policies. Fiscal deficits projected to rise above \$1,000,000,000,000 in a couple of years will cause the Treasury to issue huge quantities of debt at the same time the Fed is reducing its \$4,000,000,000,000 hoard of U.S. Treasuries, mortgage-backed securities, and agency debt. (FYI...12 zeroes equals a trillion).

A new era of higher interest rates brings added uncertainty. As these rates rise, equity risk premiums get squeezed, making stocks less desirable. According to Gluskin Sheff⁷, a 50 basis point rise in rates costs the economy \$250 billion in debt service annually. We do not know how the new Fed management will respond to volatile markets and potentially weaker economic growth. Unwinding the Fed balance sheet (quantitative tightening) is an unprecedented financial experiment. Is the February volatility an indication of how a system dominated by passively managed funds, algorithms, and automation will behave?

We believe the muted response from gold and other safe haven investments suggests complacency continues to dominate the markets. In fact, the University of Michigan Consumer Sentiment Index's mid-month reading for February rose unexpectedly to nearly a 13-year high. As the year unfolds, we expect an erosion of complacency and confidence that benefits gold.

*All company weightings, if mentioned, are as of February 28, 2018, unless otherwise noted.

Nothing in this content should be considered a solicitation to buy or an offer to sell shares of any investment in any jurisdiction where the offer or solicitation would be unlawful under the securities laws of such jurisdiction, nor is it intended as investment, tax, financial, or legal advice. Investors should seek such professional advice for their particular situation and jurisdiction.

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.

¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence. ³The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. ⁴The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. ⁵The U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. ⁶MVIS® 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. ⁷Gluskin Sheff + Associates Inc., a Canadian independent wealth management firm, manages investment portfolios for high net worth investors, including entrepreneurs, professionals, family trusts, private charitable foundations, and estates.

Please note that the information herein represents the opinion of the author, but not necessarily those of VanEck, and this opinion may change at any time and from time to time. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results. Current data may differ from data quoted. Any graphs shown herein are for illustrative purposes only. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of VanEck.

About VanEck International Investors Gold Fund: You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary, and political developments. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk, leverage risk, credit risk, and counterparty risk.

Diversification does not assure a profit or protect against loss.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund's investment objective, risks, charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

©2018 VanEck.



Van Eck Securities Corporation, Distributor

666 Third Avenue | New York, NY 10017

vaneck.com | 800.826.2333