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Gold's Old Ceiling or a New Floor?

By Joe Foster, Portfolio Manager

VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

Fund Review

The International Investors Gold Fund's Class A shares returned 0.22% for the one month period ending May 31, 2018 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned 0.14% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

Average Annual Total Returns (%) as of May 31, 2018	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	0.22	-0.91	-2.09	-3.48
Class A: Maximum 5.75% load	-5.51	-6.60	-3.25	-4.05
GDMNTR Index	0.14	-0.43	-4.38	-6.01

Average Annual Total Returns (%) as of March 31, 2018	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	2.09	-4.80	-6.51	-3.80
Class A: Maximum 5.75% load	-3.73	-10.24	-7.61	-4.37
GDMNTR Index	2.84	-2.33	-9.33	-6.51

†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 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.

Market Review

Gold remained resilient in May, as the U.S. dollar strengthened considerably. The U.S. Dollar Index (DXY)[2] gained 2.4% and closed the month at its highs for the year, driven by new fears of an Italian debt default and EU breakup. Populist parties from the left and right are attempting to form a coalition government that would likely drive Italy further into debt and to promote initiatives that would enable Italy to exit the euro. Italian President Sergio Mattarella blocked the coalition, which effectively suspended their plans. We expect to see the coalition make further attempts to gain power, which should keep the markets on edge for the foreseeable future.

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/19 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.

As the DXY gained, the gold price fell to its low for the year of $1,282 per ounce on May 21. Gold subsequently advanced into month-end as the Italian situation rose to a boil, ending at $1,298.52 per ounce for a monthly decline of $16.83 (1.3%).

It seems that every time new, scary headlines emerge, press articles declare that gold no longer serves as a safe haven.[3] The Italian political crisis is the latest case in point. The evolving situation in Italy is supportive of gold, as shown by its resilience against a strong move in the U.S. dollar. However, anyone expecting a big move from gold fails to understand the fundamentals of the gold market. Gold responds to genuine global systemic risks. These are risks that can have a negative financial impact on just about everyone personally and/or professionally, i.e., risks that bring excessive inflation or deflation, currency, debt, banking crises, or geopolitical events that impact trade and commerce. Localized risks that are the subject of most headlines do not elicit a strong response from gold.

Stock, bond, and currency markets reacted violently to the Italian news. However, the gold market remained calm, which tells us that, so far, this is not the systemic event that the headlines are implying. The chances of an EU breakup are still very small. The euro has survived Greece and Brexit. Gold price action indicates the EU will survive Italy as well. If the situation reaches global systemic proportions, we are sure there will be a strong response from the gold market. Until then, investors should be wary of the implications of the seemingly endless stream of scary headlines.

Gold can also have a different response locally that many American reporters ignore. In euro terms, gold gained €25.62 (2.4%) in May, making a new yearly high. Italians holding gold have a safe haven hedge.

Like gold, gold stocks saw little net movement in May, as the NYSE Arca Gold Miners Index (GDMNTR) advanced 0.1% and the MVIS Global Junior Gold Miners Index (MVGDXJTR)[4] gained 0.4%.

Market Outlook

Many indicators continue to tell us the economy is very late in the cycle. The current economic expansion is now the second longest on record, surpassed only by the tech boom of the '90s. Convertible bond issuance by tech companies is on pace to challenge the levels last seen in 2000. The stock market is struggling to return to its highs, even though S&P 500 companies spent $158 billion buying back stock in the first quarter, a record pace according to a report from the S&P Dow Jones Indices. Delinquency rates for subprime auto loans have surpassed the levels of the global financial crisis. Financial regulation has come full cycle, as Congress passed a deregulation bill in May and the Fed advanced a proposal to ease the Volcker rule,[5] both aimed at reducing crisis-era regulations. The Fed is tightening, but rates are still far below normal at this stage of the cycle. Accommodative monetary policies continue to promote asset price inflation. In May, the Rockefeller Collection auction surpassed all expectations, raising $832 billion, nearly doubling the previous record for a collection, which was set in 2009.

Economic down-cycles are normally a healthy and somewhat painful way of cleansing the economy of bad debts, dead beat companies, and crooks. The extraordinary risk facing the financial system is that central banks have little to no room to stimulate when the current cycle comes to an end. There is no capacity for fiscal stimulus either and sovereign debt service could become very problematic. Fiscally, the developed world is looking more like Italy all the time.

The second half of 2018 should be very interesting for the gold market. The chart shows the gold price has formed a wedge or pennant pattern that has been in place for several years. The positive aspect of this pattern is the trend of higher lows. Fundamentally, gold has been resilient, gaining strength from escalating geopolitical risks and uncertainties. The negative aspect is the ceiling that has formed around $1,365. There has not been a strong catalyst to take gold to a new higher trend line. Investors have been frustrated by this range bound price action, while speculators have been put off by the decreasing volatility. The apex of the wedge occurs in early 2019, therefore, we believe it is inevitable that gold will begin to establish a new trading pattern by year end. Similar patterns can be seen in the GDM and MVGDXJ indices and the price of silver.

Without a second half catalyst, gold will probably drift sideways, falling below the lower trend line and further eroding confidence in the metal. However, in the second half of the year, we could see catalysts that may boost gold to a higher range that draws new attention from investors. To start, the geopolitical risks that have been supportive of gold are likely to continue – tensions in the Middle East and North Korea, and uncertainty surrounding Trump administration policies. With the economy firing on all cylinders and lofty commodities prices, an inflation surprise is possible. Mid-term elections in the U.S. may result in destabilizing shifts in power if the Democrats prevail. Leadership changes in Italy are set to bring added risks to European banks, sovereigns, and the euro. Last but not least, signs that the post-crisis expansion is nearing its end may emerge.

Gold tested the low end of its trading range in May. As gold has shown price weakness ahead of Fed rate increases, we expect gold to continue to drift around the bottom of the range until the expected rate increase on June 12. Futures positioning and flows into gold bullion exchange traded products suggest gold is poised for another post-Fed meeting rally. If gold retests $1,365 in the second half, will it again act as a ceiling or become a new floor? We wish we could know the answer to such questions.

Gold Price (2013 to 2018): Will $1,365 Remain the Ceiling or Gold's New Floor?

Source: Bloomberg; VanEck. Data as of May 31, 2018.

*All company weightings, if mentioned, are as of May 31, 2018, unless otherwise noted.

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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]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. [3]Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence. [4]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. [5]The Volcker Rule refers to a part of the Dodd–Frank Wall Street Reform and Consumer Protection Act, originally proposed by American economist and former United States Federal Reserve Chairman Paul Volcker to restrict United States banks from making certain kinds of speculative investments that do not benefit their customers.

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. 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.

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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, or political, economic or social instability. The Fund is subject to risks associated with investments in Canadian issuers, commodities and commodity-linked derivatives, commodities and commodity-linked derivatives tax, gold-mining industry, derivatives, emerging market securities, foreign currency transactions, foreign securities, other investment companies, management, market, non-diversification, operational, regulatory, small- and medium-capitalization companies and subsidiary risks.

Diversification does not assure a profit or protect against loss.

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