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Gold Suffers As Irrationality Trumps Reality

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 -17.31% for the one-month period ending November 30, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned -14.92% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

Average Annual Total Returns (%) as of November 30, 2016				
	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-17.31	53.86	-15.49	-1.59
Class A: Maximum 5.75% load	-22.09	45.09	-16.49	-2.17
GDMNTR Index	-14.92	54.03	-18.15	-5.67

Average Annual Total Returns (%) as of September 30, 2016				
	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	5.85	96.87	-9.72	2.83
Class A: Maximum 5.75% load	-0.25	85.56	-10.79	2.22
GDMNTR Index	3.77	95.20	-12.59	-1.83

†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.

Market Review

The markets have gone into fantasy mode since the U.S. presidential election. U.S. stocks reached new all-time highs, the U.S. dollar has soared, copper has had a parabolic rise, interest rates are up substantially, and gold has tanked. All of these strong moves indicate the market is pricing in a rosy scenario in which projected Trump tax cuts, infrastructure spending, and regulatory reforms ignite robust economic growth that enables the Federal Reserve (the "Fed") to normalize rates. This outlook works against safe haven assets[2] like gold and bonds. While we are hopeful for such an outcome, it will be very hard, if not impossible, to achieve in reality.

We know of no one who forecasted such a market response to a Trump victory. We thought a Trump win would be positive for gold, and it was for about an hour when gold rose $50 per ounce as news outlets began to declare a

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/17 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.

winner. However, gold quickly reversed course along with other markets. Redemptions in gold bullion exchange traded products (ETPs) began the day after the election and continued through month-end. The selling pressure caused gold to fall below important technical levels. For the month, gold declined $104.05 (8.2%) to $1,173.25 per ounce. Gold stocks took their lead from gold bullion, as the NYSE Arca Gold Miners Index (GDMNTR)dropped 14.9% and the MVIS Global Junior Gold Miners Index (MVGDXJTR)[3] fell 15.1%. For the year, gains have been trimmed to 10.5% for gold bullion, 52.9% for GDMNTR, and 78.8% for MVGDXJTR.

While lower fourth quarter gold prices will likely put a dent in the profits of many mining firms, the industry remains in good health. Third quarter results were positive, as Scotiabank's universe of gold stocks reported production is 2% ahead of expectations and all-in sustaining costs (AISC) came in 5% lower than estimates. The bear market forced the industry to reorganize around lower gold prices. With AISC averaging roughly $900 per ounce, companies are well positioned to weather the current downdraft in gold prices.

Indian demand has been weak this year due to rising prices, existing taxes, and import restrictions. The World Gold Council trimmed its demand estimate to between 650 and 750 tonnes, which would be the weakest since 2009 and down from 858 tonnes in 2015. Despite this, we are seeing good seasonal demand, as the Reserve Bank of India reports 86 tonnes of imports in October, which is more than twice the September volume and above the historical October average of 70 tonnes.

There have been some emerging issues in India that are likely to have an uncertain impact on its gold market. A goods and services tax (GST) is set to be implemented on April 1, 2017. GST rates range from 5% to 28% for different categories, with the food category to have a zero rate. A 4% GST has been proposed for gold, but the finance ministry has delayed its decision.

Indian gold premiums spiked in November when the government abolished two high-value currency notes. This is aimed at curtailing counterfeiting, black market activity, and motivating people to hold savings in bank accounts. There has also been unsubstantiated rumors that the government is considering an import ban on gold. We believe it is unlikely the government would take such draconian action because it would encourage rampant smuggling that would circumvent any monitoring or taxation. Many Indians use gold as a store of wealth because there is little trust in the financial system. We doubt that any of the recent policy changes are increasing this sentiment of the system.

Market Outlook

One of the reasons monetary policies have lacked efficacy since the sub-prime crisis is that fiscal policies have been working against the central banks. Since the crisis, governments have implemented higher taxes and increased regulations, rather than policies that would stimulate the economy. We have long believed that regulations have reached a breaking point, where the time and cost of compliance saps profitability and deters start-ups and innovation. Large companies have easier access to the credit markets and can afford to deal with a maze of regulations. This places small, dynamic companies at a disadvantage. The rate of start-up formation (firms less than 1 year old) is at a historic low of 8.0%. Job gains from opening establishments has dropped to the lowest since the Labor Department began the data series in 1992. Large, inefficient companies are able to remain large and inefficient. The U.S. economy is structurally unable to reach its potential, hence the popularity of Donald Trump and Bernie Sanders.

Companies are reluctant to invest in a world with geopolitical, economic, and regulatory uncertainty. As a result, firms have shown a preference to use the cheap credit made possible by central banks for share buybacks and dividends, rather than capital improvements and research. Consequently, productivity has suffered. Over the last five years annual productivity gains averaged 0.6%, well below trend and the weakest since 1978 to 1982, according to *The Wall Street Journal*. Wealth creation suffers and living standards deteriorate in an economy that lacks productivity gains, again, contributing to the popularity of Trump and Sanders.

These are insidious post-crisis trends that we believe can be reversed with the right fiscal and monetary policies. Will these trends be reversed under a Trump presidency? While we believe Trump along with the Republican-majority in Congress will likely enact many measures that benefit the economy, there are a number of obstacles that pose an imminent risk to the rosy scenario that is currently priced into markets:

- **Extreme Debt Levels** – Aggregate household, business, and government liabilities currently total 250% of GDP, a level that historically coincides with anemic 1.5% GDP growth according to Gluskin Sheff.[4] At such debt levels, servicing and/or reducing debt take priority over spending and investment. The 2016 fiscal deficit was $523 billion, 2.9% of GDP. The total government deficit amounts to 77% of GDP and the Congressional Budget Office (CBO) projects it will reach 85% in 2026. The Wall Street Journal estimates of the cost of the Trump tax plan range from $3.5 to $6.2 trillion over 10 years, which would boost government Debt/GDP to over 100%, according to the Tax Policy Center.

- **Late Cycle Constraints** – At over seven years, this economic expansion is the 4th longest since 1902. Pent-up demand for big-ticket items might be exhausted. Trends in a number of leading indicators are following past late cycle trends. The risk of recession in the next four years appears to be increasing.

- **Fed Tightening** – Tightening policies are inherently designed to bring slower growth. Rising rates are also an impediment to the housing and auto markets.

- **Infrastructure Limitations** – Mr. Trump plans $1 trillion of infrastructure spending over 10 years, however, we have already seen how little impact President Obama's 10 year $860 billion "shovel ready" infrastructure program launched in 2009 has had on the economy.

- **U.S. Dollar Strength Limits Growth** – As the U.S. dollar strengthens, it becomes a drag on exports and industrial growth.

- **Fully Valued Stock Market** – The S&P 500® Index[5] is up 229% in a bull market that is over seven years old with lofty P/E (price-to-earnings) valuations of 20x.

It doesn't seem the current market is accounting for the challenges the Trump administration faces. The market response to the U.S. election is, in our opinion, all based on expectations, not fundamentals. Markets have also lost sight of the potential risks that radical monetary policies globally pose to financial well-being. We believe that at some point sentiment will evolve to reflect these inherent risks. It is impossible to predict the catalyst that shifts market psychology but it could come soon after the December 14 Fed rate announcement, as happened last year. Until a catalyst emerges, and as long as bullion ETP outflows continue, gold is likely to struggle. In the longer term, our conviction remains for a strong gold market.

There has been talk in the press about rising inflation expectations. Gold has obviously not responded to this and we think for good reason. It is not reflected in the latest Consumer Price Index (CPI),[6] Producer Price Index (PPI),[7] or Personal Consumption Expenditure (PCE),[8] figures. Core inflation is within the Fed's target levels and headline inflation is catching up to core due to a bottoming in energy and other commodity prices. Gold responds to worrying levels of inflation, and especially inflation that drives real rates lower. We have yet to see signs that inflation is getting out of control, and, therefore, there has been no response in the gold market.

Finally, a couple of historic points of interest: The S&P 500® Index, the Dow Jones Industrial Average,[9] and the Russell 2000 Index[10] hit new all-time highs at the same time in November. The last time this happened was December 31, 1999. The best election to inauguration stock market performance in history was with Herbert Hoover, who was sworn in on March 4, 1929. Both of these occurred just prior to monumental stock market crashes. Just sayin'.

All company weightings as of November 30, 2016 unless otherwise noted.

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.

[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]Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence. [3]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. [4]Gluskin 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. [5]S&P 500® Index (S&P 500) consists of 500 widely held common stocks covering industrial, utility, financial, and transportation sectors. [6]The 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. [7]The Producer Price index (PPI) is a family of indexes that measures the average change in selling prices received by domestic producers of goods and services over time. [8]Personal consumption expenditures (PCE) is the primary measure of consumer spending on goods and services in the U.S. economy. It accounts for about two-thirds of domestic final spending, and thus it is the primary engine that drives future economic growth. [9]The 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. [10]The Russell 2000 Index is an index measuring the performance approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.

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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, 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.

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