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Trump Uncertainty Could Be "Huge" for Gold

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 -7.20% for the one-month period ending October 31, 2016 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)[1] returned -7.31% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

Average Annual Total Returns (%) as of October 31, 2016

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-7.20	70.09	-12.40	1.41
Class A: Maximum 5.75% load	-12.54	60.26	-13.43	0.81
GDMNTR Index	-7.31	65.65	-15.02	-3.18

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 strong price movements that followed the U.K. Brexit vote on June 23 had set gold on a new positive trend, breaking the downtrend that had been established during the 2013-2015 gold bear market. On October 4, however, gold fell $44 per ounce, a 3.4% drop for the day, and gold closed below $1,300 per ounce for the first time since June 24. As it had for most of the year, the downward pressure followed comments by some Federal Reserve (the "Fed") members that were interpreted by the market as increasing the likelihood of a Fed interest rate hike occurring in December. In addition, and importantly, Chinese markets were closed the first week of October for the Golden Week holidays. With gold's biggest buyer out on vacation, gold was left very vulnerable, which we believe emboldened short sellers. Gold closed as low as $1,251 per ounce on October 14, but bounced back modestly to end the month at $1,277.30 per ounce, down $38.45 or 2.9% for the month.

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.

At the beginning of November, markets attached about a 78% probability to a December Fed rate hike, as implied by the federal funds futures markets. This probability stood at 59% at the end of September, despite U.S. macro data releases that were very mixed, as has been the case throughout the post-crisis recovery. There were certainly some positive economic surprises in October: PMI (Purchasing Managers' Index) readings from both the ISM (Institute of Supply Management) and Markit Group in the manufacturing, non-manufacturing, and services sectors showed some expansion and an increase in August factory orders for U.S. goods.[2]

In contrast, however, weak data were reported for U.S. employment, the preliminary University of Michigan Consumer Sentiment Index[3], the Empire State Manufacturing Index[4], housing starts, and the U.S. Consumer Confidence Index[5]. While 3Q gross domestic product ("GDP") headline growth was above consensus, personal consumption missed expectations by a wide margin. By mid-October regional Fed growth forecasts were being downgraded. The Federal Reserve Bank of New York's 4Q 2016 GDP Nowcasting Report, for example, shows 1.4% growth as of October 20 versus 2% growth in late August. In this environment, a rate hike does not appear to us as the obvious next move by the Fed, but the market is pricing it in and both gold and the U.S. dollar reflected this in October. While gold was down 3%, the U.S. Dollar Index (DXY)[6] was up 3% during the month.

Despite the drop in the gold price in October, demand for gold bullion backed exchange traded products (ETPs) held firm. Inflows have no doubt slowed down compared to earlier in the year (0.4% increase in holdings in October compared to 12% and 6% increases in February and June respectively), but demand continued during the recent sell-off. We believe this is positive since investments in gold bullion ETPs typically represent longer-term, strategic investment demand. In contrast, the latest Commitment of Traders report shows a significant decline in COMEX[7] net long positions, which reached record levels this year. We think COMEX positioning reflects more speculative and shorter-term demand for gold, and the recent decline suggests perhaps some of those weaker players liquidated positions during the October sell-off.

Gold stocks underperformed the metal, as expected when bullion prices fall. The NYSE Arca Gold Miners Index (GDMNTR) fell 7.3%, and the MVIS Global Junior Gold Miners Index (MVGDXJTR)[8] dropped 8.8% during the month. This decline trimmed gains for the year to 79% for GDMNTR and 110% for MVGDXJTR as of October 31, while gold bullion gained 20.3% during the same year-to-date period.

Market Outlook

The gold price is on a slightly different track now compared to our previous expectations. A correction was not surprising, given gold's outstanding performance this year. But we thought that the $1,300 level might hold and gold would continue on the new trend established this year, potentially exiting 2016 around the $1,400 level. Although our shorter term outlook has been curbed by the recent price action and we now think that gold may not reach $1,400 in 2016, we believe strong seasonal demand out of Asia and continued uncertainty following the results of the U.S. presidential election could lend support to gold in the near term. In the first week of November gold managed to rally back above $1,300. The Fed decided to keep rates unchanged at its November 2 Federal Open Market Committee (FOMC) meeting, but this was widely expected, so we estimate the positive move was most likely driven by markets' concern over the outcome of the U.S. elections. Markets views quickly shifted, once again, and on November 8, Election Day in the U.S., gold closed at $1,277. Following Trump's stunning victory, gold rose back above the $1,300 price level on the morning of November 9.

With the contentious presidential election finally over, we can now assess the impact that the Trump victory will have on the country and more importantly, how it potentially increases risk to the financial system.

Although Trump emerged successful in the election, there remains tremendous uncertainty surrounding his morals, temperament, and judgment. Internationally, high levels of trepidation around his foreign policies are not likely to subside quickly and his anti-trade stance could damage economic growth. In our opinion, Trump's aggressive immigration policy was no doubt one of the key drivers of his appeal, but could lead to potential civil unrest, extreme costs, and logistical challenges once implemented. If Trump is able to implement some of what he promoted during the campaign trail, infrastructure spending could push the national debt to unsustainable levels and deficit spending should continue. While the risks of a Trump presidency are substantial, the potential for pro-growth tax and regulatory reforms may partially mitigate risks.

Independent of policy specifics, there exists a growing chance our newly elected president will likely preside over the next recession. After eight years of expansion there are signs that the economy has entered the "late cycle" phase. The Fed's efforts to tighten policy could create a further drag on growth. A recession layered onto the existing risks we see in a Trump presidency, in our view, makes a systemic financial crisis more likely.

A Fed rate hike in December appears almost fully priced-in already. The common argument is that higher rates are negative for gold given that it is a non-yielding asset. Yet, following the first rate hike of the current tightening cycle in December 2015, gold has advanced more than 20% so far this year. In fact, Scotiabank analyzed the previous six tightening cycles since 1982 (when a suitable gold index became available) and it found that gold prices advanced in the year following the first rate increase in half of the cycles, whereas gold declined in the other half.

Scotiabank points out that the only other point at which the Fed raised rates in a low-inflation environment was in 1986, when rates were increased to help defend a sharply depreciating U.S. dollar. It was one of the rate-rising periods when gold performed well. This is shaping up to be a similar period demonstrated by gold's already strong performance after the first rate increase in December 2015. The economic and financial backdrop of the current rate cycle is unlike any other in recent history, and we expect gold to continue to perform well. In our opinion, the stress that rising rates have the potential to place on the global economy and financial system are very bullish for gold.

Our view on the long-term gold price is unchanged. We see the recent weakness as a consolidation phase within what we believe is the early stages of the next bull market for gold. We continue to believe dislocations created by the unconventional policies being implemented by central banks around the world are likely to increase global financial risks. We believe that investors will continue to be driven to gold as a safe haven[9] given the further loss of confidence in central banks on a global scale and perhaps domestically, the uncertainty following Trump's presidential victory.

All company weightings as of October 31, 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]Purchasing Managers' Indexes (PMI) are economic indicators derived from monthly surveys of private sector companies. The two principal producers of PMIs are the Institute for Supply Management (ISM), which originated the manufacturing and non-manufacturing metrics and which produces them for the United States, and the Markit Group, which produces metrics based on ISM's work for over 30 countries worldwide. ISM and Markit Group separately compile Purchasing Managers' Index (PMI) surveys on a monthly basis by polling businesses which represent the makeup of the respective business sector. ISM's surveys cover all NAICS categories. The Markit survey covers private sector companies, but not the public sector. [3]The University of Michigan Consumer Sentiment Index is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964. Each month at least 500 telephone interviews are conducted of a continental United States sample. [4]The Empire State Manufacturing Index is based on the monthly survey of manufacturers in New York State and conducted by the Federal Reserve Bank of New York. The index is based on survey responses to a questionnaire sent out on the first day of each month to an unchanged pool of about 200 top manufacturing executives, generally the president or CEO. The questionnaire seeks their opinion on the change in a number of business indicators from the previous month, and also the likely direction of these indicators six months into the future. [5]The U.S. Consumer Confidence Index (CCI) is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending. [6]The 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. [7]COMEX is the primary market for trading metals such as gold, silver, copper and aluminum. Formerly known as the Commodity Exchange Inc., the COMEX merged with the New York Mercantile exchange in 1994 and became the division responsible for metals trading. [8]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. [9]Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence.

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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. VanEck International Investors Gold 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.

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