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Gold Seeks Clarity Amid Inflation Haze

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VanEck International Investors Gold Fund

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For the month of October, gold eked out a $26.43 (1.53%) gain to close at $1,777.50 per ounce. Gold stocks rallied from oversold levels to a 7.87% gain for the NYSE Arca Gold Miners Index[1] and a 13.21% advance for the MVIS Global Junior Gold Miners Index[2].

Gold markets just trying to make sense of it all...

The U.S. Federal Reserve Bank (Fed) is on track to begin tapering its bond-buying program soon and Fed Fund Futures indicate the market is looking at December 2022 for the next Fed interest rate hike. The gold market seemed confused in October, unable to decide a) whether tighter Fed policy presents a risk to the economy, and b) whether inflation is transitory or long-term. On October 13, the headline Consumer Price Index (CPI) increased more than expected with a 5.4% annual gain in prices paid by U.S. consumers. Gold jumped $32 per ounce on the day. However, two days later gold gave up those gains when retail sales unexpectedly increased.

Average Annual Total Returns (%) as of October 31, 2021

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	8.51	-15.35	5.46	-3.88
Class A: Maximum 5.75% load	2.27	-20.22	4.22	-4.45
GDMNTR Index[2]	7.87	-14.63	6.30	-4.97

Average Annual Total Returns (%) as of September 30, 2021

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-8.85	-25.47	2.21	-3.94
Class A: Maximum 5.75% load	-14.09	-29.75	1.01	-4.51
GDMNTR Index[2]	-9.78	-24.18	17.74	-5.07

The tables above 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.

† 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.

Expenses: Class A: Gross 1.34%; Net 1.34%. Expenses are capped contractually until 05/01/22 at 1.45% for Class A. Caps exclude acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes and extraordinary expenses.

Inflation uncertainty does not seem to be helping

On the morning of October 22, gold was up as much as $30 per ounce when five-year breakeven inflation (as reported by the Federal Reserve Bank of St. Louis) rose sharply, moving north of 3% for the first time in over 20 years. However, by afternoon gold gave up most of those gains after Fed Chairman Powell stated in a panel discussion that he expected "inflation will move back down closer to our 2% goal" and that "if we were to see a serious risk of inflation moving persistently to higher levels, we would certainly use our tools to preserve price stability".

Gold is clearly responding to inflationary pressures. However, this has been offset by a belief in the market that tighter Fed policies will corral inflation and that the economy is robust enough to withstand higher rates. The confusion in how to interpret gold's response during this Fed transition period will require patience. Unlike the market, we believe there is substantial risk that the liquidity-fueled economy and stock market might fail to perform once the Fed moves to drain the liquidity. Also, as explained in our September commentary, we believe structural changes in the economy should lead to a multi-year inflationary cycle.

Silver linings

The silver market performed well early in the year when it became a favorite investment in popular online trading venues. Since then, silver has lost some of its shine, underperforming gold by approximately 14% in the third quarter. However, silver came to life again in October with around a 6% outperformance versus gold. Metals Focus, and independent precious metals research consultancy, finds several reasons for the stronger silver market. First, tightness in supply has been caused by delays in sea freight, which transports much of the silver bullion. Second, bullion imports into India surged in September as the Indian market has reopened following a devastating Covid outbreak. Finally, European demand has increased due to a recovery in industrial demand in Germany, a 21% rebound in Italian jewelry fabrication and strong retail purchases of bars and coins

Miners should start easing off the gas

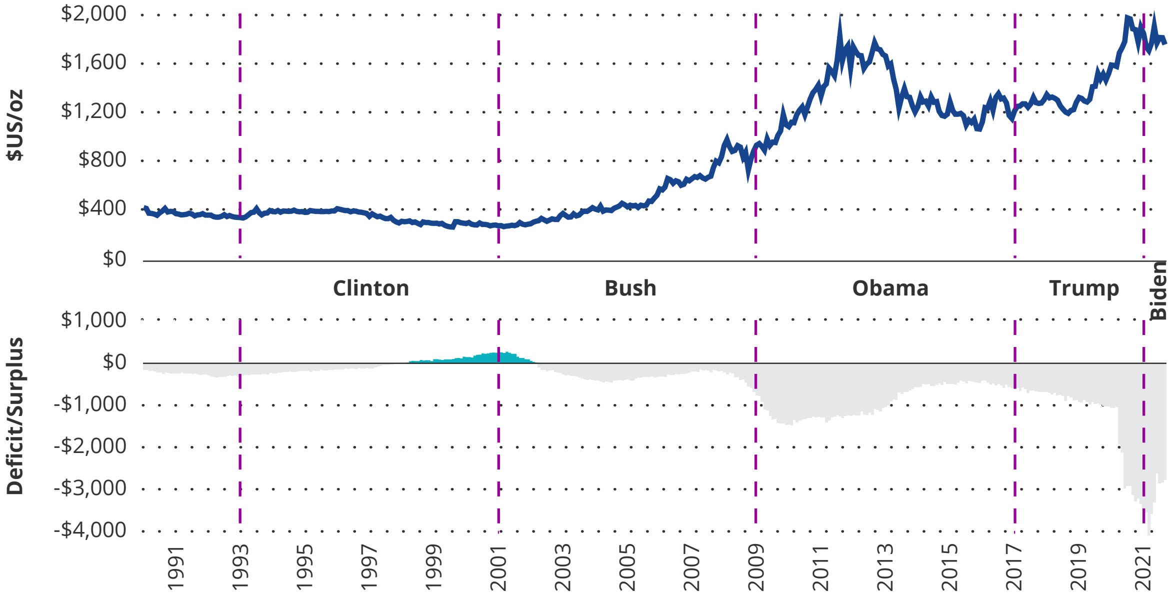
The mining industry continues to pursue various long-term sustainability goals. In our view, the industry's biggest challenge is weening itself off the diesel fuel needed to power haul trucks, loaders, dozers and other large equipment. To that end, and according to company reports, Rio Tinto (not held) and Caterpillar (not held) are cooperating to advance the development of a zero emission, 220-tonne haul truck in Western Australia. Meanwhile in South Africa, Engie (not held) and Anglo American (not held) are tackling the 300 – 500 tonne trucks to develop prototypes powered by hydrogen fuel cells according to company reports. Perhaps net zero isn't just a dream…

Support still in place for higher gold prices

While we've spent ample time lamenting the weak gold market of the past year, a longer view provides a more positive perspective. From 2013 to 2019 the gold price was stuck in a range between $1,150 and $1,360 per ounce. Gold busted out of this range in mid-2019 when the Fed began cutting rates. The gold market never looked back. While gold is off its highs of over $2,000 per ounce, current levels of around $1,800 is a lofty price and one in which the miners are able to thrive. The gold price has held its ground despite Fed tightening expectations, higher yields, U.S. dollar strength, competition from other asset classes and persistent net selling from gold bullion exchange traded funds. This suggests that gold is underpinned by a core of investors who see the need for investments that can help protect their wealth from unwanted risks.

The U.S. Treasury Department reported the fiscal 2021 deficit was $2.77 trillion, compared with the previous year's $3.1 trillion. The Congressional Budget Office figures the deficit will total $1.15 trillion in 2022. The chart below shows that the last three administrations have shown no resistance to wanton deficit spending. While living within one's means is a basic law of economic survival, it seems an overreliance on debt is the favorite tool of fiscal and monetary policy. Perhaps the Daily Dirtnap is right in its August 10 edition - "Nobody sees debt as a problem that affects them personally, so nobody cares". With rates near zero, money is nearly free and debt service is minimalized. However, once either the Fed or the markets decide it's time for rates to rise, a debt trap might close on the U.S. economy.

Plunging the depths of U.S. deficits



Source: Ned Davis, CBO, Federal Reserve of St. Louis (FRED), VanEck. Data as of September 30, 2021.

Digging into the details: a look at how we view the world of gold miners

We divide the gold miners into three categories: "majors" producing over 1.5 million ounces per year; "mid-tiers" producing 300,000 to 1.5 million ounces; and "juniors" producing less than 300,000 ounces. We further subdivide the juniors into "producers", "developers" and "explorers". Our active gold funds are currently weighted at roughly 59% majors and mid-tiers and 31% juniors. Junior developers comprise 24% of the same funds. We avoid junior explorers as we consider them, generally speaking, too risky and highly speculative.

Just over half of the companies in the fund are junior developers. These are companies that have a property that we believe is capable of becoming a profitable mine, producing at least 100,000 ounces per year. Corvus Gold (not held) and West African Resources (4.37% of fund net assets) are examples of successful developers. Corvus is in the process of being acquired by Anglogold Ashanti (not held) for its properties in southern Nevada. The stock gained 42% in 2020 and 36% through October 14, 2021 when we exited. Last year, in the midst of a pandemic, West African completed construction of a 200,000+ ounce per year operation in Burkina Faso. The stock gained 166% in 2020 and 42% through October 2021. These two examples show how junior developers can pay off when they are either acquired by a producer or successfully start an operation. Those who go to production can also face start-up risks. Pure Gold Mining (0.87% of fund net assets) completed its mine in Ontario Canada with its first gold pour on December 30, 2020. The stock gained 220% in 2020, however, start-up problems with mine development and grade reconciliation caused the company to miss expectations and the stock has given up most of those gains, declining 61% in 2021.

Of the 26 developers held by our active gold funds, four are in construction, one is arranging financing, two are in permitting, while the remainder are in various stages of gathering data, drilling to expand or delineate resources and conducting studies to support permitting and plans for production. These companies collectively have a market cap of $9.5 billion and we estimate will ultimately reach at least 75 million ounces of reserves. We further estimate that over the course of the next seven years, they will start combined production of 5.7 million ounces per year that requires construction capital of $12.5 billion. Compare this with Newmont (5.93% of fund net assets), the largest gold company, which produces approximately 6 million ounces of gold along with 1.3 million ounces of gold equivalent per year from other metals. Newmont has 94.2 million ounces in reserves and trades with a market cap of 43.5 billion.

This analysis shows reserves and production contained within our developer portfolio is on the same scale of a super major. However, the estimated market cap plus construction capital of $22 billion is just half of Newmont's market cap, in part, because Newmont does not carry start-up risk from mines already in operation. Much of the value of a junior developer is realized as it becomes a takeover target or when it goes into production and achieves a rerating. This can only be achieved by building a team with the skills and experience to reach commercial production.

All company, sector, and sub-industry weightings as of September 30, 2021 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] 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. 3Fed funds futures are financial contracts that represent the market opinion of where the daily official federal funds rate will be at the time of the contract expiry. 4The U.S. Headline Consumer Price Index (CPI) is a measure of the average change in the price for goods and services paid by urban consumers between any two time periods. It can also represent the buying habits of urban consumers. Junior" gold mining companies typically produce, on average, approximately less than 0.3 million ounces of gold per year. 5A measure of expected inflation derived from 5-year U.S. Treasury constant maturity and 5-year U.S. Treasury inflation-indexed constant maturity securities. The latest value implies what market participants expect inflation to be in the next 5 years, on average

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