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Gold's Allure Boosted by Rate, Inflation Outlook

Joe Foster

Portfolio Manager/Strategist

Imaru Casanova

Deputy Portfolio Manager

VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

Markets React to Rising Rates Expectations

Gold continued its year-long consolidation in a range centered roughly around $1,800 per ounce. U.S. interest rates, the U.S. dollar, and the U.S. Federal Reserve (the "Fed") remain gold's dominant drivers. Based on U.S. interest rate futures prices, on January 3 the market was anticipating the first Fed rate increase in May, with 77 basis points (bps) of tightening expected by year-end. Over the course of the month, markets priced in an increasingly hawkish Fed following the release of the minutes from the December Federal Open Market Committee (FOMC) meeting, Fed Chairman Powell's congressional confirmation hearing, and the January FOMC policy meeting. As a result, expectations are now anticipating a March lift-off in U.S. rates and increases that would total at least 100 bps of tightening this year. This caused both interest rates and the U.S. dollar to trend higher, with 10-year U.S. treasuries making fresh two-year highs.

Gold Price's Counter Moves Relatively Short-Lived

All of this is ostensibly negative for gold prices. However, the gold market trended to its high for the month of $1,853 on January 25 in choppy trading. Gold's resilience didn't last, when on January 26 Chairman Powell's comments following the FOMC meeting caused the U.S. dollar index to break out to near-term highs and gold took a tumble—ending the month at $1,797.17 for a $32.03 (1.8%) loss. Gold stocks mimicked gold's trend higher, then fell to end the month with losses of 5.7% for the NYSE Arca Gold Miners Index (GDMNTR)[1] and 8.6% for the MVIS Global Junior Miners Index (MVGDXJTR)[2]

Average Annual Total Returns (%) as of January 31, 2022

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-6.60	-13.76	5.12	-4.09
Class A: Maximum 5.75% load	-11.97	-18.72	3.89	-4.65
GDMNTR Index	-5.66	-11.11	6.06	-4.95

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	1.73	-14.30	9.69	-2.27
Class A: Maximum 5.75% load	-4.12	-19.23	8.40	-2.85
GDMNTR Index	2.18	-9.37	10.10	-3.50

Source: VanEck

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.

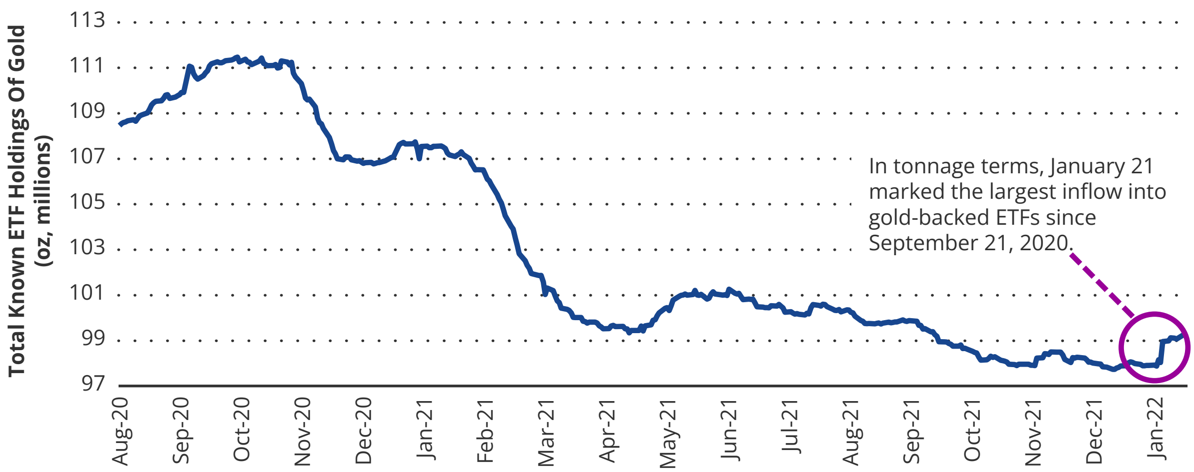
† Monthly returns are not annualized. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

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.

Gold Market Tides May Be Shifting

One of the defining characteristics of the lackluster gold market of the past year has been redemptions from gold bullion exchange traded products. The outflows indicate a lack of investment demand, particularly from institutional investors. However, on January 21, SPDR Gold Shares (GLD), the world's largest gold ETF, recorded its biggest inflow ever in dollar terms, worth $1.63 billion. In tonnage terms it was the largest inflow since September 21, 2020. The deceleration in outflows shown on the chart suggests most of the selling pressure has passed, while the recent large inflow might mean that investment demand is picking up.

Inflation Finally Luring Investors Back to Gold?



Source: Bloomberg. Data as of February 2, 2022. Not a recommendation to buy or sell a security. Past performance is not indicative of future results.

More to Watch Beyond Gold Investment Demand

While bullion ETF investment demand has been lackluster, the World Gold Council's (WGC) Gold Demand Trends report for 2021 shows every other source of gold demand has been gaining.

- Jewelry – Jewelry consumption grew 52% over 2020 to match the 2019 total. Indian demand nearly doubled in 2021 to a six-year high with a strong fourth quarter driven by pent-up demand in the festival seasons. Jewelry demand in the U.S. gained 26%, the strongest in 12 years. The WGC attributes this to a lack of competition for discretionary spending, given the ongoing lull in spending on travel and entertainment.
- Bars and Coins – Bar and coin demand had a 31% annual advance to an eight-year high. This was driven by China, the U.S., and Germany. China's bar and coin demand increased 44% to a three year high. The U.S. and Germany both set new records. Bar and coin demand stands in stark contrast to the outflows in the bullion ETF's. Each is driven by different types of investors. Coin demand represents mainly retail investors, while bar demand reflects high-net worth investors. These investors are closer to "Main Street", where inflation and pandemic-related risks are front and center. Bullion ETF's are dominated by institutional investors who are closer to "Wall Street", where gold is weighed against myriad investment choices that have gained prominence.
- Industrial Manufacturing – Gold used in technology grew 9% to reach a three-year high. Electronics applications include LEDs, printed circuit boards, dynamic random-access memory (DRAM) chips, and wireless technology that includes automotive, satellites, 3D imaging sensors, and smartphones.
- Central Banks – Central bank demand increased 82%, lifting global reserves near a 30-year high. The largest buyers in 2021 were Thailand, India, Hungary, Brazil, Uzbekistan and Singapore. The trend to increase gold in foreign currency reserves is truly global.

Fed Easing Party's Over…

Soon quantitative easing (QE) will be over and the Fed will begin raising rates. While Washington will always spend copious amounts of other people's money, it looks like the multi-billion dollar stimulus packages are over, too. Through QE, the Fed has crowded out the private sector, funding over 50% of the entire government borrowing requirements since 2010. The Fed also holds over 30% of all federally insured mortgage-backed securities. All of this stimulus has distorted markets and the pricing signals they send to investors. For example, the yield curve has flattened at a time of increasing inflation expectations, which is the opposite of what happened in past inflationary cycles. The last time real rates were as deeply negative as in 2021 was 1974, a year when the S&P 500 Index (SPXTR)[3] fell 37%. However, in 2021, the same stimulus-fueled index gained 29%.

Markets Might Need a Shoulder to Lean On

The realization of an economy without stimulus caused many major stock indices to decline in January. The New-Year's volatility looks like a precursor to a year of extraordinary uncertainty as the financial system attempts to transition back to normal. The transition, if successful, will take years of 25 basis point rate changes and disposal of trillions in treasuries and mortgage-backed securities. We doubt the system can get back to normal without more and possibly extreme market volatility along with some unintended consequences.

So far, gold has sidestepped the market's volatility. Its January performance was boring, just hanging around $1,800 as it has done for over a year now. In such a market, perhaps boring is good. However, we expect to see more from gold in 2022. We expect it to outperform as the risks around a tightening Fed play out and as other inflation drivers continue to mount.

No Shortage of Supply Shortages

The Wall Street Journal reports port congestion is expanding to the East Coast while the queue of vessels waiting to enter southern California ports reached a record in January. U.S. firms' semiconductor chip inventory has declined further to less than five days. McDonald's Corp. said it expects the rate of cost increases for food, paper and other materials in the U.S. to roughly double this year. Also, most foreign business investment is not going into increasing production. The United Nations Conference on Trade and Development showed the number of new projects to expand capacity falling in 2021 to remain far below their 2019 level. Foreign investment is being used to purchase existing business, rather than greenfields projects that expand manufacturing.

Pandemic's History Lesson: Inflation

The last pandemic that was comparable in terms of lethality broke out over a century ago and was accompanied by World War I, but it's arguably the only pandemic we have for comparison. The spending on the war can probably be roughly equated to the spending to fight the coronavirus pandemic. Inflation surged to 18% in 1918, 14.6% in 1919, and 15.6% in 1920. While we don't expect double digit inflation in this post-pandemic cycle, if inflation simply remains elevated for several years, the financial system will not be able to return to normal for an extended period. This could be shaping up to be an environment where gold and gold stocks are able to shine.

[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. [3]S&P 500 Index (SPXTR) is a stock market index tracking the performance of 500 large companies listed on stock exchanges in the United States.

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 a Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of a Fund's performance. Indices are not securities in which investments can be made.

The U.S. dollar index is an index of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

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