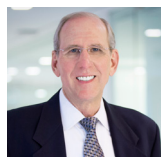


Is Gold on Schedule to Catch Inflation Train?



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INIVX | IIGCX | INIIX | INIYX

Gold shows some resilience

Gold traded in a narrow range in December, finishing at \$1,829.20 per ounce for a \$54.68 (3.08%) gain. The metal posted its \$1,753.66 low for the month on December 15 following the Federal Open Market Committee (FOMC) meeting in which the Federal Reserve (“Fed”) set the stage to begin increasing rates as early as next spring in order combat rising inflation. However, the selling pressure quickly dissipated and gold rallied to the \$1,800 per ounce level the following day. Gold’s resilience suggests the Fed might have a tough time in its battle with inflation.

Lots of action for the miners recently

The larger gold producers gained with the metal as the NYSE Arca Gold Miners Index¹ (GDMNTR) rose 2.18%. Meanwhile, the MVIS Global Junior Gold Miners Index² (MVGDXJTR) was flat for the month. However, amid seemingly calm gold markets, merger and acquisition (M&A) activity picked up substantially in the fourth quarter. Three major companies have announced friendly acquisitions of single asset companies—each commanding a premium of 20% to 30%:

Average Annual Total Returns (%) as of December 30, 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	2.18	-9.37	10.10	-3.50

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.

Three major companies have announced friendly acquisitions of single asset companies—each commanding a premium of 20% to 30%:

- South Africa-based AngloGold (not held) is acquiring junior Corvus Gold (not held) for its properties in southern Nevada.
- Australian-based Newcrest (not held) announced a deal with mid-tier producer Pretium (1.34% of Fund net assets) for its mine in British Columbia.
- Canadian producer Kinross (5.20 % of Fund net assets) is acquiring junior Great Bear Resources (not held) for its development properties in Ontario, Canada.

A smart change for producers

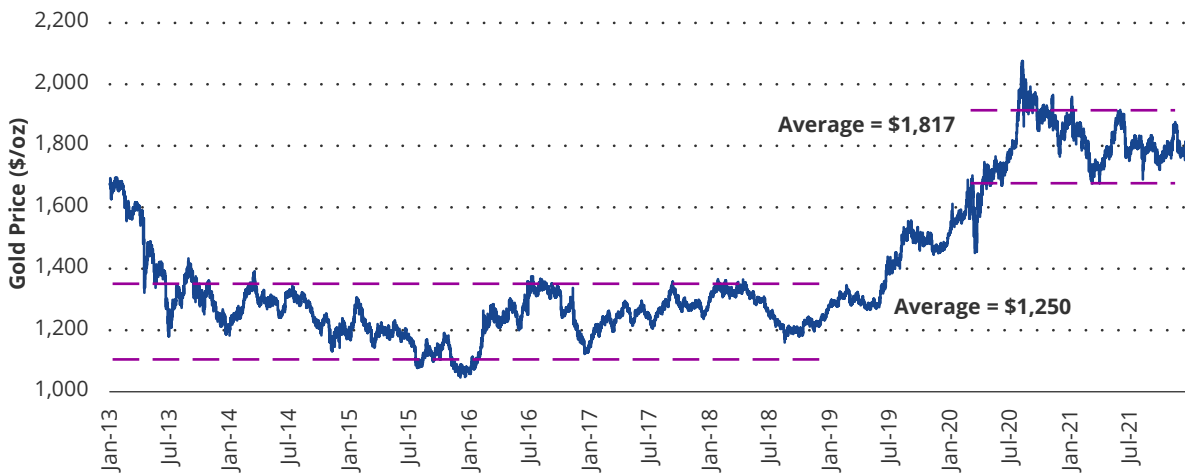
This marks a shift in M&A activity for this gold cycle. Up until now, gold producers shunned M&A with single-asset juniors in favor of exploring and developing their existing properties. This has provided organic opportunities that have enabled companies to maintain production and extend mine lives. However, all mineral deposits have their limits and eventually production enters a phase of decline. We see these acquisitions as long-range planning by the majors to offset this inevitable decline.

In the last cycle, many companies were caught overpaying for acquisitions that failed to deliver as promised. In addition, companies have historically diluted shareholders by issuing stock to pay for M&A. However, this cycle is looking quite different. These three deals had large cash components of 50% to 100%. Also, our fund has owned each of these acquisition targets for years and we are very familiar with each asset. They are high quality and undervalued at current gold prices. We believe these are smart acquisitions that will prove to be accretive.

Was 2021 a disappointing year for gold?

Over the past year, gold has established a new higher trading range. The chart shows the old trading range from 2013 to 2019 that averaged \$1,250 per ounce. The many uncertainties and risks brought on by the pandemic, along with radical fiscal and monetary policies have lifted gold to a new highs as investors sought safety. Since the pandemic crash in March 2020, gold has averaged \$1,817 per ounce.

Uncertainties have driven gold to a new, higher trading range



Source: Bloomberg. Data as of December 31, 2021. Past performance is not indicative of future results.

While the gold price remains at historically high levels, many gold investors, ourselves included, were disappointed by gold's performance. Gold ended the year with a \$69 loss (3.6%) at \$1,829.20. We expected strong gains in a year when headline inflation (as measured by the U.S. Headline Consumer Price Index³) trended to nearly 8% in November, the highest since 1982. However, focusing solely on inflation ignores other drivers that worked against gold:

- Except for some April/May weakness, the dollar trended higher all year, as the U.S. Dollar Index⁴ (DXY) gained 6.4% in 2021.
- Extraordinary fiscal and monetary stimulus following the pandemic outbreak has fueled a mania in the markets. In 2021, records were set in options trading, initial public offerings (IPO's), sales of junk bonds and leveraged loans, inflows to equities and exchange traded funds, home prices, and valuations of crypto assets. In a mania, most investors lack a sense of risks and see no reason to buy a safe haven asset.
- Gold showed a strong reaction to inflation news in May, October, and November. However, in each instance the gold rally was cut short when the Fed discussed or announced changes to its bond purchase plans and rate outlook aimed at fighting inflation. While we believe the belated Fed response to inflation may be too little too late, the markets seem to have blind faith in the Fed's ability to manage the economy.

A "glass half full" approach

While investment demand for gold was weak, physical demand helped support gold prices in its new higher trading range. Central bank demand has returned to pre-pandemic levels as a range of countries that include Kazakhstan, Uzbekistan, Hungary, Thailand, Singapore, and Brazil are seeing a need to diversify their forex reserves with gold. Jewelry demand in India has returned to pre-pandemic levels. UBS reports Indian imports of gold running 30% above 2019 levels. Chinese demand has also been improving, with October gold imports at their highest in nearly two years.

High gold prices in a weak gold market proved to be a boon for the gold companies and a bust for investors. The industry is financially healthy and able to return capital to shareholders in the form of dividends and stock buybacks. However, gold is the primary driver of gold stocks and when sentiment towards gold is low, there's little interest in gold stocks. As a result, the GDMNTR declined 9.37% and the MVGDJTR fell 20.99% on the year. Junior stocks have a tougher time in a weak market and tax-loss selling brought additional pressure late in the year. The underperformance has driven valuations to historic lows, so any pickup in the gold price should bode well for gold stocks.

Also, it may not be over...

For those who think gold missed the inflation train, there are several reasons to reconsider. There have only been two other inflationary periods in the last 50 years. The first was in the seventies, the second from 2003 to 2008. In each of these inflationary periods, gold underperformed commodities in the first half and outperformed in the second half. It seems that markets don't take inflation (or gold) seriously until it proves to be intractable.

There are many reasons to believe 2022 will see the beginning of a wage/price spiral:

- The S&P CoreLogic Case-Shiller National Home Price Index⁵ rose 19.1% in October from a year earlier. This is not yet reflected in the U.S. Headline Consumer Price Index, which lags due to its method of measuring housing costs as owner's equivalent rents⁶ (OER) that are up just 3% this year.
- The priciest housing market in history is forcing many would-be buyers to keep renting. Realtor.com finds asking rents are up 20% for the year ending in November and it expects increases of 7% in 2022.
- Record job openings outnumber unemployed workers by about 4 million and people are quitting jobs in record numbers. In October, there were 67 unemployed for every 100 open positions.
- Wages for all private sector workers grew at an annual pace of 4.6% in the third quarter, yet average hourly earnings after inflation declined 2.7% so far this year. The conference board finds that companies are setting aside an average of 3.9% of payroll for wage increases for 2022.
- An inflation psychology is beginning to take hold, as unions are beginning to get cost-of-living adjustments⁷ (COLAs) written into their wage contracts.
- Americans have lots of money to spend. A November 7 New York Times article estimates they have \$2.3 trillion more in savings than would have been expected in the pre-pandemic path.
- Many food manufacturers say they plan to raise prices further in 2022. General Mills increased its cost inflation estimate for 2022 to between 7% and 8%.
- The seismic shifts in consumption patterns, manufacturing logistics, and green economy needs may continue to bring shortages in the longer term.

Policy remains a key risk

In addition to inflation, the shift in Fed policies to tightening in 2022 brings a new set of risks that could drive gold. The Fed has a history of remaining too easy for too long. This has gotten the economy into trouble as the tech and housing bubbles burst. This time we have an everything bubble and inflation. The Fed is set to end the tapering of its bond purchases by March, clearing the way for rate increases. Meanwhile, it looks like President Biden's plans to spend trillions to "build back better" are failing. Without all the stimulus, markets are at risk, the economy might falter, and debt service costs could escalate.

UBS looked at gold's performance in the six months before and after each of the past three initial rate hikes of each cycle in 1999, 2004, and 2015. They found that gold declined between 5% and 10% in the six months before each initial hike. For the six months following each initial hike, gold gained between 10% and 20%. Perhaps gold's weak performance in 2021 is normal pre-rate hike behavior. 2022 should be an interesting year.

All company, sector, and sub-industry weightings as of December 31, 2021 unless otherwise noted.

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¹NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. ²MVIS 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. ³U.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. ⁴The U.S. Dollar Index (DXY) measures the value of the U.S. dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies. ⁵The S&P CoreLogic Case-Shiller National Home Price Index tracks changes in home prices throughout the United States, covering nine major census divisions and calculated on a monthly basis. ⁶Owners' equivalent rent (OER) measures how much money a property owner would have to pay in rent to be equivalent to their cost of ownership. It is used to measure the value of real estate markets, where it can help direct individuals to either buy or rent based on total monthly cost. ⁷A cost-of-living adjustment (COLA) is an increase in Social Security benefits to counteract the impact of rising consumer prices (i.e., inflation).

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