

# Sector Re-Rating a Boon for Gold Stocks?



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## VanEck International Investors Gold Fund

INIVX | IIGCX | INIIX | INIYX

### Gold rallies on geopolitical uncertainty

Gold had a strong October. Following tragic developments in the Middle East earlier in the month, gold demonstrated, once again, its historically-proven role as a safe haven investment, a hedge against market uncertainty, volatility and geopolitical risk, and as an asset offering protection when there is a heightened level of peril and fear. Gold traded at a monthly low of \$1,820 per ounce on October 5, before rallying above \$1,900 a week later and, finally, above \$2,000 on October 27. The price of gold eventually settled at \$1,983.88 by the end of October, posting a 7.32% gain (up \$135.26 per ounce) for the month.

Gold stocks kept pace with gold in the first part of the rally; however, just as gold was approaching \$2,000, surprisingly, they lost steam and gave back half of their earlier gains. NYSE Arca Gold Miners Index (GDMNTR)<sup>1</sup> and the MVIS Global Juniors Gold Miners Index (MVGDXJTR)<sup>2</sup> were up 4.2% and 3.8% during the month, respectively. Gold stocks' significant underperformance further widens the valuation gap between gold stocks and gold.

### Why do we even own gold stocks?

Historically, gold stocks have a strong correlation to the price of gold. Despite experiencing a significant de-rating after the last gold bull market, gold mining stocks have outperformed gold during the current gold bull market (the beginning of which we place around the end of 2015).

#### Average Annual Total Returns (%) as of October 31, 2023

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	4.22	17.39	8.90	2.11
Class A: Maximum 5.75% load	-1.77	10.64	7.62	1.51
GDMNTR Index	4.16	18.24	9.71	2.33

#### Average Annual Total Returns (%) as of September 30, 2023

	1 Mo <sup>†</sup>	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56))	-9.89	10.83	7.71	1.52
Class A: Maximum 5.75% load	-15.07	4.46	6.44	0.92
GDMNTR Index	-8.13	14.56	9.24	1.93

Source: VanEck

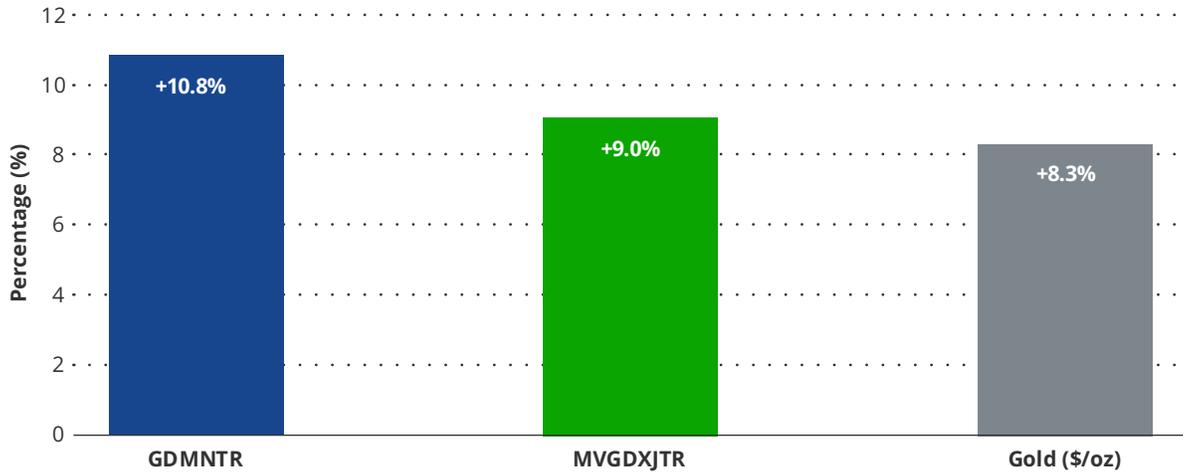
**The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit [vaneck.com](http://vaneck.com) for performance current to the most recent month ended.**

The "Net Asset Value" (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. Investors should not expect to buy or sell shares at NAV.

<sup>†</sup> 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 1.42%; Net 1.42%. Expenses are capped contractually until 05/01/24 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 Stocks vs. Gold: Annualized Total Return Since Start of Current Gold Bull Market (Dec 2015)**

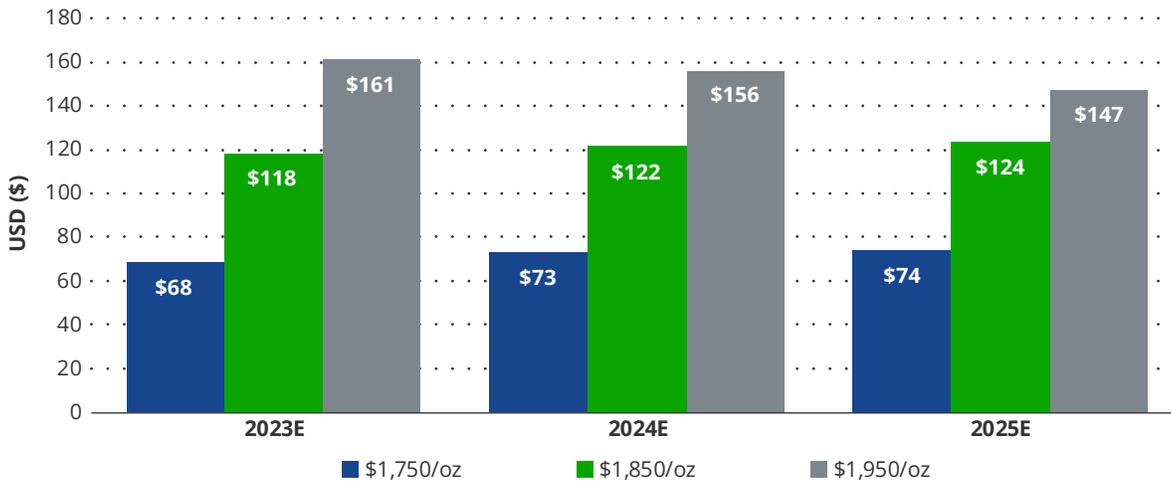


Source: Bloomberg. Data as of October 2023.

This makes sense. Gold stocks are supposed to outperform the metal when gold's price is rising. Their leverage to gold justifies outperformance. For any given move in the price of gold, operating cash flow generated by these companies increases (or decreases) by a much greater percentage.

Take Alamos (8.06% of Fund net assets), for example. The company estimates that a 5% increase in the price of gold (about a +\$100/oz move), would translate into an increase of almost 30% in their free cash flow in 2024.

**Alamos Consolidated Free Cash Flow Outlook**



Source: Alamos Gold. Data as of May 2023.

This is why, despite the risks associated with mining operations, investors choose to add gold stocks to their portfolios—the potential for amplified returns during a sustained gold rally.

So, we are surprised and disappointed to see gold stocks underperform this year. To be clear, gold stocks also underperformed gold last year. However, in 2022, gold was down slightly on the year (-0.28%) and rampant cost inflation not only ate away at profit margins but also caught the sector by surprise, causing most companies to miss cost guidance issued earlier in the year. The market penalized gold stocks severely, both for shrinking margins and for failing to meet expectations. GDMNTR, for example, was down 8.6% in 2022.

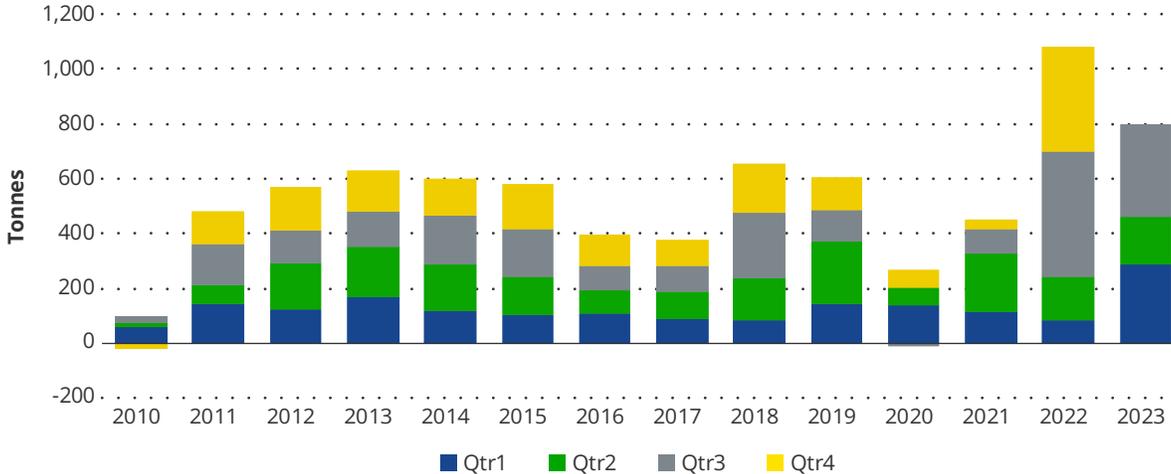
This year, things are a bit different. Gold is up almost 9% and, so far, companies' 2023 results don't point to guidance revisions (if any) nearly as punitive as last year. So, what could be causing this performance gap?

## Potential causes for the growing gap between gold stocks and gold

Here are a few factors we think could be at play:

1. Central Bank demand – One of the main drivers of gold prices this year has been strong central bank net purchases—potentially set to even beat record levels reported for 2022.

### Central Bank Net Purchases of Gold



Source: World Gold Council. Data as of September 2023.

- In contrast, investment demand, usually the main driver behind a gold price rally, has actually declined significantly this year (down 7% year-to-date), as measured by ETF holdings of gold bullion. Without another center of demand for gold stocks to offset the lack of investment demand, poor market sentiment and apathy towards gold has impacted the gold stocks to a much greater extent. In other words, central banks buy gold they don't buy gold stocks, if they did, perhaps the stocks would also be finding more support in this environment.
2. Industry operating cost inflation – While industry cost inflation has subsided, operating costs guided for 2023 are still higher than in 2022. Analysts' estimates for the sector's average all-in sustaining costs in 2023 vary from about 5-8% higher relative to 2022. While the gold price has helped sustain margins relative to last year, the market seems to be dissatisfied with the lack of significant margin expansion. These concerns were likely exacerbated in October, following negative 2023 guidance revisions by Newmont (3.64% of Fund net assets), the largest gold mining company in the world.
  3. General equity market exposure – The broader equity markets were down during the month. The S&P 500 and the NASDAQ were down 2.1% and 2.8%, respectively, in October, with particularly weak performance in the latter part of the month when the gold equities also fell. At times, in the early stages of a broader market sell-off, gold stocks also sell off.
  4. Country-specific risks – Two country specific news items at the end of October may have also impacted perception of sector risk and further deepened negative sentiment towards gold mining stocks. The Panamanian government announced that a recently enacted law is being challenged, effectively putting at-risk a revised and approved contract for the Cobre Panama copper mine operated by First Quantum Minerals (not held in Fund). Separately, Bloomberg reported, on October 27, that Burkina Faso had revised its mining code, increasing the top end of its sliding scale royalty scheme from 5% for gold prices above \$1,300/oz, to 7% for gold prices above \$2,000/oz.

## Concerns may be overblown

While, no doubt, all of these concerns are valid – especially as they relate to operating costs – at present, we see gold companies as greatly undervalued. Historically, the sector has never traded at lower valuation multiples. The companies' continued focus on cost control, portfolio optimization and disciplined capital allocation to drive growth and maximize returns, responsibly and sustainably, along with our outlook for higher gold prices, support our expectations for a re-rating of the sector. Gold stocks are outperforming in the first few days of November; perhaps the re-rating has already begun.

### Gold Stocks: Premium/Discount to Gold Price



Source: Scotiabank. Data as of September 2023.

**All company, sector, and sub-industry weightings as of October 31, 2023 unless otherwise noted.**

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<sup>1</sup>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.<sup>2</sup> 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.

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Diversification does not assure a profit or protect against loss.

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