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Gold Streamers Soothe Inflation's Bite

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Darn dollar strength...again

Gold fell below an important technical level of $1,800 per ounce in the first week of July, succumbing to relentless strength of the U.S. dollar as global recession fears drove investors to the greenback. Inflation data was, once again, ahead of estimates, as June's U.S. Consumer Price Index (CPI)[1] accelerated to 9.1% – its largest year-over-year gain since 1981. Dollar strength – and a corresponding technical break in gold – was commensurate with expectations for more aggressive inflation-fighting rate hikes by the U.S. Federal Reserve Bank (Fed), rising June U.S. retail sales (of 1%), and better-than-expected July consumer sentiment. Gold traded as low as $1,681 on July 21 before bouncing back above $1,700 per ounce. The metal eventually found some buyers following the Fed's announced 75 basis point rate hike for July, with some strong follow-through the next day as data showed the U.S. economy contracting for a second straight quarter. Gold closed at $1,765.94 per ounce on July 29 for a monthly loss of $41.33 (-2.29%).

The performance of gold equities was mixed on the month. MVIS Global Juniors Gold Miners Index (MVGDXJTR)[2] was up 4.29% while NYSE Arca Gold Miners Index (GDMNTR)[3] was down 4.63%. These divergent moves significantly narrowed the year-to-date performance gap between the smaller miners and large-cap names. However, overall, gold equities continue to lag bullion, markedly, on the year, with gold down only 3.5%, and GDMNTR and MVGDXJTR down 17.9% and 19.7%, respectively.

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

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-1.20	-24.58	2.64	-2.74
Class A: Maximum 5.75% load	-6.88	-28.92	1.43	-3.31
GDMNTR Index	-4.63	-23.54	4.03	-3.86

Average Annual Total Returns (%) as of June 30, 2022

	1 Mo†	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception (2/10/56)	-13.44	-21.98	3.04	-2.60
Class A: Maximum 5.75% load	-18.41	-26.46	1.83	-3.17
GDMNTR Index	-13.80	-17.35	5.76	-3.63

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 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.

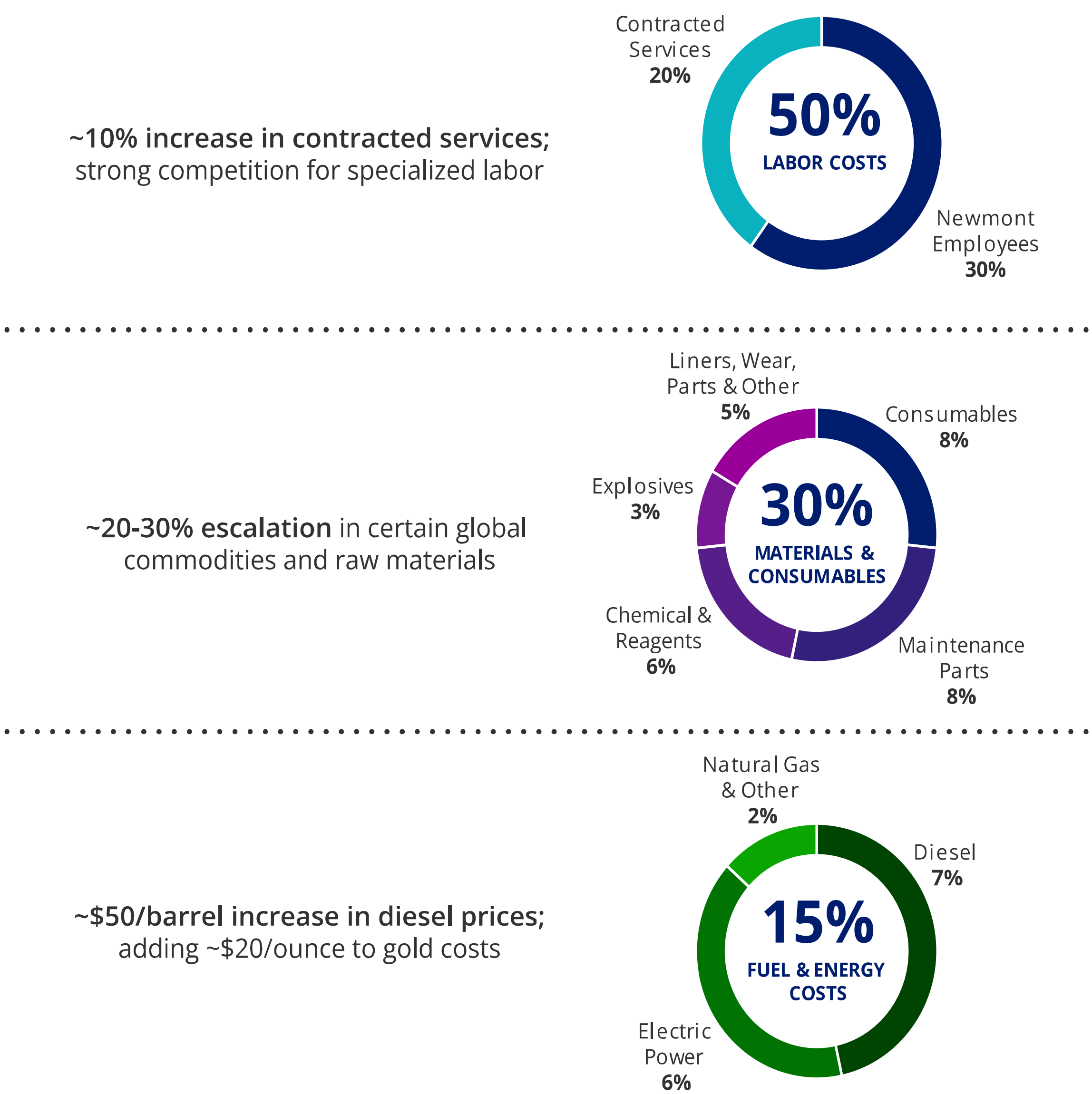
† Monthly returns are not annualized. Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries.

Expenses: Class A: Gross 1.34%; Net 1.34%. Expenses are capped contractually until 05/01/23 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.

Challenging start to earnings seasons

Newmont (5.56% of fund net assets) kicked off gold miners earnings season with, unfortunately, relatively disappointing second quarter results. The company revised its 2022 full year guidance to reflect the impact of higher costs for labor, materials, consumables, fuel and energy, with all-in sustaining costs for the year now estimated at $1,150 per ounce (up from $1,050 previously). A diagram from their quarterly earnings presentation below helps illuminate the source of some of its cost increases.

Operating costs increased across the board for Newmont



Anticipating an Additional 7% of Cost Escalation, Above Original Guidance Estimate of 5%

Source: Newmont. Data as of June 2022.

The company also revised its 2022 gold production guidance downward from 6.2 to 6.0 million ounces, to account for the impact of COVID related interruptions and delays, supply chain disruptions and a tight labor market – particularly in Australia and Canada. In addition, due to the same pressures, Newmont had to increase its budget for several capital projects and push back their planned startup date which, in turn, impacted their longer term production guidance. Overall, the report did not read particularly well and the company's stock price took a 13% dip on the day it was released.

It's not all that bad, though

Encouragingly, Newmont still generated $1 billion of cash from operations, $514 million of free cash flow and declared a quarterly dividend of $0.55 per share (equating to a 5% dividend yield). As of quarter end, the company had $4.3 billion in cash and a respectable net-debt-to-EBITDA[4] ratio of 0.3x.

Generally speaking, many other gold mining companies have struggled with cost increases as well and we believe that Newmont's update, overall, highlights both the challenges as well as the relative strength and healthy financial position that many companies in the sector find themselves in presently. And, to be fair, despite sector-wide challenges, there have been an abundance of other positive surprises in the second quarter reporting season.

For example, senior producer Agnico-Eagle (8.48% of net assets) delivered a solid earnings-per-share (EPS) beat, on the back of better than expected production and costs for the second quarter, and the company maintained its original operating guidance for 2022. Yamana Gold (4.45% of net assets) and Alamos Gold (2.58% of net assets) also reported solid results, with second quarter costs in-line with estimates, and unchanged guidance for 2022.

Sweet streams are made of this...

While the sector is, in our view, financially strong and able to absorb the current inflationary shocks, there is no doubt that margins are being squeezed. One group of gold companies that we believe are especially well equipped to navigate inflationary periods are royalty and streaming companies. Along with cash and gold bullion, royalty and streaming companies act as a defensive investment vehicle in a weak gold price environment. Exposure to this group of companies can also offer protection against cost inflation (which is the reason we find them particularly attractive at present).

Royalty and streaming companies own a portion of the production or revenues of mines operated by other companies (the operators). These interests are acquired either from a private/third party (old, historical royalties) or directly from the operators (new streams and royalties). The proceeds from the sale of new streams and royalties are used by the operators as a source of capital, for the development of their mining assets, to fund mergers and acquisitions or to provide additional liquidity.

Royalty and streaming companies represent a key player within the financing options of most mining companies. The agreements are generally structured so that royalty and streaming companies do not have to contribute to capital or operating costs of an operation. This protects them from inflationary or any other type of cost increases while, at the same time, allowing them to benefit from life-of-mine extensions as a result of reserve growth fully funded by the operators. As such, we expect royalty and streaming companies to outperform in the current environment.

As of end-July, the fund's holdings in this space included Franco Nevada (9.23% of net assets), Wheaton Precious Metal (4.91% of net assets), Royal Gold (2.15% of net assets) and Osisko Gold Royalties (1.56% of net assets).

What's next?

Strong U.S. dollar performance has been weighing on gold this year. However, the U.S. Dollar Index (DXY)[5] is down 2.5% since mid-July, perhaps giving gold a chance to reclaim its spot as the safe haven asset of choice. We are encouraged by gold's recent resilience, and expect it to continue to trade around these levels in the shorter term. Although the Fed seems committed to its rate-hiking program, Chairman Powell's comments on 2.25%-2.50% as a "neutral range" for the Fed funds rate does raise some questions on how much further they might go.

On the other hand, markets still seem undecided as to whether this program will tame inflation or drive the economy into a recession. Some participants speculate that the U.S. economy is already in a recession; others anticipate that inflation is set to come down. Either scenario seems to support a sooner-than-previously-expected end to the Fed's tightening cycle – which we view as a strong catalyst to the gold price. We do believe the Fed will likely have to stop hiking rates as the economy contracts, but we also think that there is a significant risk that inflation remains at elevated levels for longer than anticipated. This would keep real rates in negative territory and be supportive of higher gold prices.

Gold and gold stocks are oversold. Inflows, albeit small, into the gold bullion backed ETFs in the last days of July and early August may be signaling the end to persistent outflows since April of this year, and the beginning of stronger investment demand.

All company, sector, and sub-industry weightings as of July 31, 2022 unless otherwise noted.

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[1]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. [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]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. [4]Net debt-to-EBITDA (earnings before interest, taxes, depreciation and amortization) is a measure of a company's use of financial leverage and shows how many years it would take for a company to pay back its debt if net debt and EBITDA are held constant. [5]The U.S. Dollar Index 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.

Index returns are not Fund returns and do not reflect any management fees or brokerage expenses. Certain indices may take into account withholding taxes. Investors cannot invest directly in the index. Index returns assume that dividends have been reinvested.

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