VanEck

Access the opportunities.

VanEck ViewPoint™

Priced to perfection

January 2025

"Although expectations of the future are supposed to be the driving force in the capital markets, those expectations are almost totally dominated by memories of the past. Ideas, once accepted, die hard." – **Peter Bernstein**

If the market does represent the future, US markets have priced in a lot of good news. Undoubtedly, the uncertain outcome of the US Presidential election impacted markets throughout 2024. But, after Trump swept to power, equity markets rallied as he was seen as the more pro-business candidate.

Overall, in 2024, international equity markets, driven by the US have had a strong year. Reflecting the new cycle, US large caps followed by smaller caps both had a strong December quarter, the latter have historically done well following rate cuts made in response to economic weakness.

The consumer discretionary, communication services and IT sectors were among the best-returning international sectors during the quarter. These sectors were seen as beneficiaries of Trump's election victory with the rally petering out post the Federal Reserve meeting. Healthcare, on the other hand, seen as a policy target, was the worst-performing sector globally for the quarter.

Cryptocurrencies defied naysayers and affirmed the resilience of risk-on sentiment in an evolving global economic landscape. Bitcoin broke through the US$100,000 mark during the quarter, buoyed by Trump's pro-digital-currency campaign pledges.

But it has not just been risk-on assets that have done well. Gold, typically associated as a safe haven asset, has also had a stellar year. The gold price had been around US$2,070 per ounce at the start of the year. Now it sits above US$2,600, breaking price records throughout the year.

Closer to home, our banks have driven share market returns with financials being the better returning sector last quarter with Australian equities posting a negative result. While there was initial euphoria for China's policy changes, it petered out, but Australia's resources sector could potentially benefit from any kick-start for Chinese growth in the new year.

Chinese authorities, rightly, might be waiting for the impact, the depth and the size of Trump's expected tariffs before deciding how they will approach 2025.

The reality is no one knows what 2025 has in store.

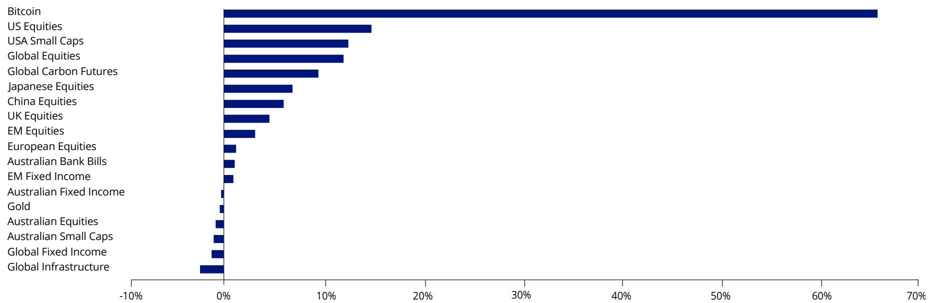
While the US appears fully priced, we think there are opportunities in equities at the sector, market capitalisation and stock levels. Being selective will be important. In terms of bonds, duration may be a way for investors to add value. 10-year yields have been volatile this year, but with the Fed well into its easing cycle and the market expecting the RBA to start easing in 2025, longer-duration assets may be the place to be, they also tend to be a buffer against shocks. Emerging markets, both debt and equity complexes, offer a greater risk premia and past structural reforms have resulted in strong relative fundamentals coming to the fore now.

Gold still has many tailwinds, and we continue to think its miners are undervalued and could outperform the yellow metal through 2025.

Famed investor Warren Buffett turns 95 in 2025 and throughout those many years he has "never met a man who could forecast the market."

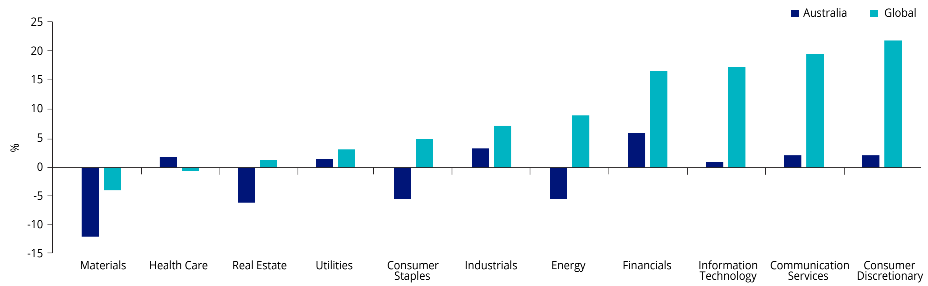
Neither have we. All we know is that 2025 will be unpredictable. This time last year, we wrote about the coming year saying, "A new wave of opportunities will present themselves and smart money anticipates this." We enter 2025 with the same carriage.

Chart 1: Mainstream asset class returns for the quarter



Source: 1 October 2024 to 31 December 2024, returns in Australian dollars. Bitcoin is the MarketVector™ Bitcoin Benchmark Rate, Global Carbon Futures is ICE Global Carbon Futures Index, US Equities is S&P 500 Index, International Equities is MSCI World ex Australia Index, European Equities is MSCI Europe Index, UK Equities is FTSE 100 Index, Australian Equities is S&P/ASX 200 Accumulation Index, Australian Small Caps is S&P/ASX Small Ordinaries Index, Gold is Gold Spot US$/oz, US Small Caps is Russell 2000 Index, China Equities is CSI 300 Index, Global Fixed Income is Bloomberg Global Aggregate Bond Hedged AUD Index, Australian Bank Bills is Bloomberg AusBond Bank Bill Index, Australian Fixed Income is Bloomberg AusBond Composite 0+ yrs Index, EM Fixed Income is 50% J.P. Morgan Emerging Market Bond Index Global Diversified Hedged AUD and 50% J.P. Morgan Government Bond-Emerging Market Index Global Diversified, EM Equities is MSCI Emerging Markets Index, Japanese Equities is Nikkei 225 Index. Past performance is not a reliable indicator of future performance.

Chart 2: Global and Australian equity sectors quarterly performance



Source: 1 October 2024 to 31 December 2024, returns in Australian dollars. Utilities is MSCI World Utilities Index / S&P/ASX 200 Utilities Index, Industrials is MSCI World Industrials Index / S&P/ASX 200 Industrials Index, Materials is MSCI World Materials Index / S&P/ASX 200 Materials Index, Consumer Staples is MSCI World Consumer Staples Index / S&P/ASX 200 Consumer Staples Index, Consumer Discretionary is MSCI World Consumer Discretionary Index / S&P/ASX 200 Consumer Discretionary Index, Financials is MSCI World Financials Index / S&P/ASX 200 Financials Index, Energy is MSCI World Energy Index / S&P/ASX 200 Energy Index, Healthcare is MSCI World Heath care Index / S&P/ASX200 Heath care Index, Telecommunications is MSCI World Telecommunications Index / S&P/ASX 200 Telecommunications Index, Information Technology is MSCI World Information Technology Index / S&P/ASX 200 Information Technology Index, Real Estate is MSCI World REIT Index / S&P/ASX 200 AREIT Index. Past performance is not a reliable indicator of future performance.

The US is the best

US markets are bubbling over with exuberance. Equities are flying, bonds are complacent and credit spreads exhibit zero concern. Even the crypto market has been running. November's Presidential election has led to a merry festive season for investors – one and all!

There are valid factors that kicked off the latest US rally. A non-exhaustive list includes:

- Artificial intelligence exuberance;
- Avoiding the hard landing;
- The Fed loosening, to support the economy; and
- A new President with a pro-investor agenda.

By contrast, there's plenty not to like about investing in other parts of the world such as Europe. Investors seeking global exposure, therefore, do not have a lot of alternative investing destinations.

And, while the US looks priced to perfection, it would take a brave soul to stand in front of the trend. At least until Inauguration Day, it's hard to see much to derail the train.

Beyond that, perhaps the only clear 'end-of-the-party' signal is a bond market riot. But the appointment of one hedge fund bro to the Treasury portfolio seems to have been enough to quell that issue, for now.

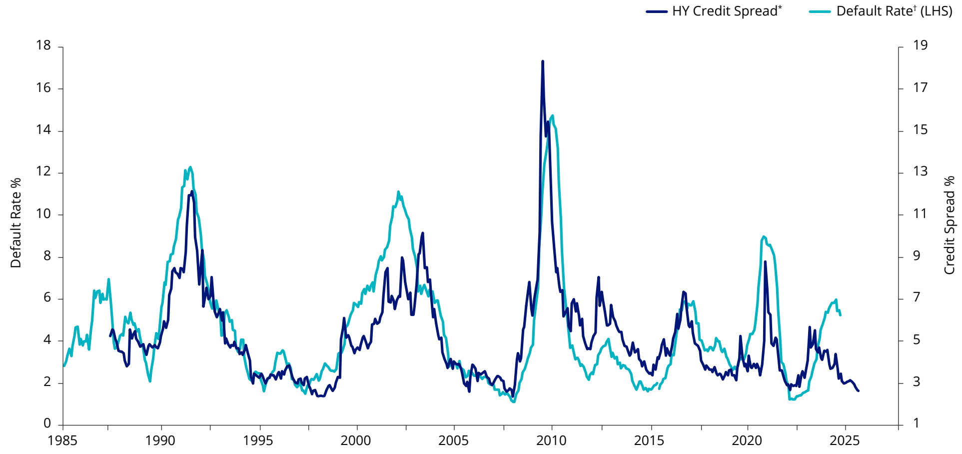
Benjamin Graham aficionados may recall his observation, "Please do not forget that as the common stock level advances, the advantages of common stocks appear to be more attractive and the basic need for owning them becomes more persuasive in everybody's reasoning. Yet in fact, common stocks undoubtedly become riskier as the price advances, and thus the risk increases as the widespread acceptance of common stock develops."

It's not hard to argue that, right now, US markets are pricing all the good bits and none of the bad bits. They're not even asking for a premium for uncertainty – in any asset class. We think it would have caused an investor like Graham to pause. Berkshire Hathaway's cash holding has doubled to over A$500 billion.

The labour market has softened slightly, unemployment is up from its lows, and all the while wage growth has not slowed. Hourly earnings continue to grow at around 4%. This growth rate is not consistent with a 2% inflation target. And US GDP growth is again firming to a rate above potential growth.

Chart 3: US high yield spread and default rate

"Nothing to worry about" say credit markets

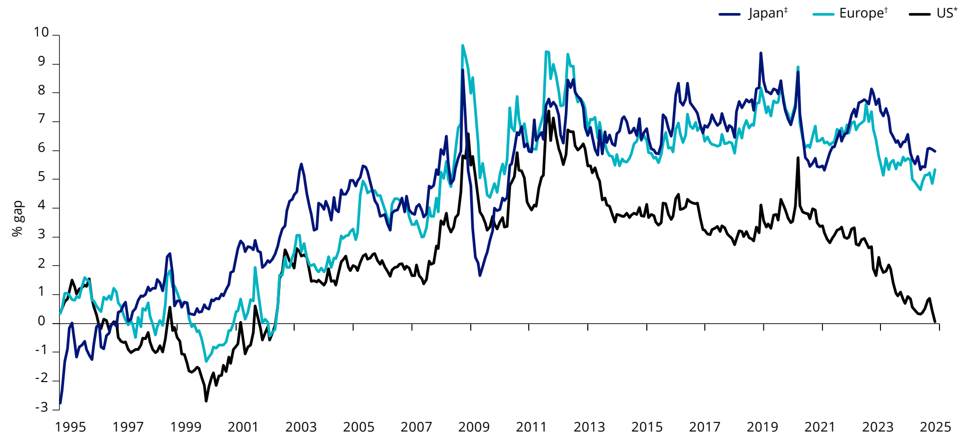


*Bloomberg High Yield Index Option-Adjusted Spread. Pre-1994 Bank of America, Merrill Lynch high yield redemption yield minus 10-year treasury. Leading by 6m. † 12-month trailing US speculative grade default rate.

Source: Bank of America, Merrill Lynch, National Bureau of Economic Research.

Chart 4: Prospective earnings yield minus 10-year bond yield gap

Investors seeking international exposure don't have many destinations



*Forecast earning yield on US MSCI less 10yr treasury. † forecast earning yield on MSCI Europe less 10yr German bund. ‡ forecast earning yield on MSCI Japan less 10yr JGB.

Source: Bloomberg, MSCI, IBES/Datastream, National Bureau of Economic Research.

What could go wrong?

The US is essentially experiencing a 'no landing' scenario, albeit with inflation bottoming out near to, but still above, target.

And yet, markets continue to price around another 50 basis points (bps) of Fed easing over the next year. The market has pulled this back from where it was a couple of months ago.

It's hard to see the reason for any such urgency. Given the behaviour of the economy, it's hard to be certain the neutral rate is even that low.

The optimism on the cash rate propagates out along the curve too. There's little or no risk priced into 10-year yields, especially since the risks are stacked towards both higher inflation and higher real yields.

In turn, credit spreads are at record lows. Though to be fair, it's hard to see a near-term economic slowdown or rate hikes to shake defaults.

Heading further out the risk spectrum, as mentioned above equities are also priced to perfection: the yield spread between risk-free Treasuries and equities is basically zero. This, however, is a US peculiarity, both Europe and Japan feature healthy yield divergences.

So, the question then is, what would Graham be asking himself? Perhaps he'd start by considering, "What could go wrong?"

The short answer is plenty. It starts with geopolitics and cascades down to macro imbalances. But let's focus on the predictable and quantifiable.

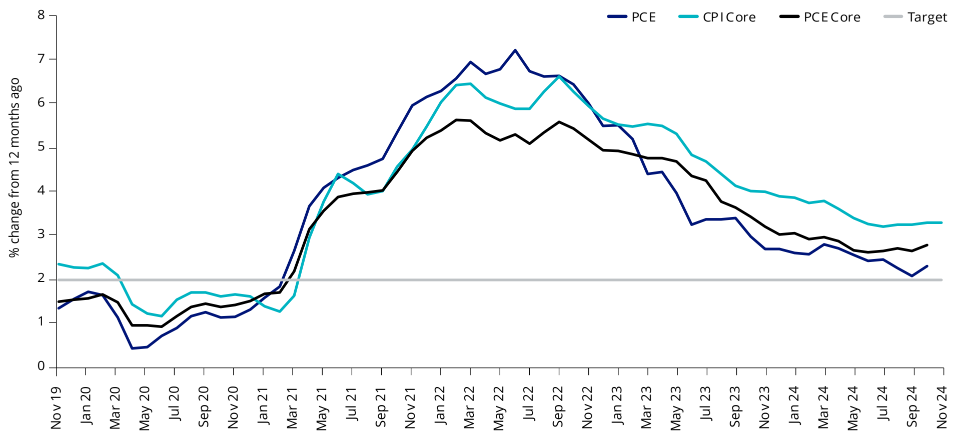
President-elect Trump pulled off a stunning victory. He won the popular vote and the Republicans control both houses of Congress, the Senate and the House of Representatives. He will enter the highest office in the US with a mandate to implement many of the plans he campaigned on.

And yet, plenty of pundits continue to believe he'll step back from some or most of his declared policies. Trump, we think will not be stepping back – and some of these could present some risks to the US economy.

While many fanboys are hailing a new era of American success based on a shrunken government. It is worth analysing some of the proposed policies and observable economic relationships.

Chart 5: US inflation (% change from year ago, monthly, seasonally adjusted)

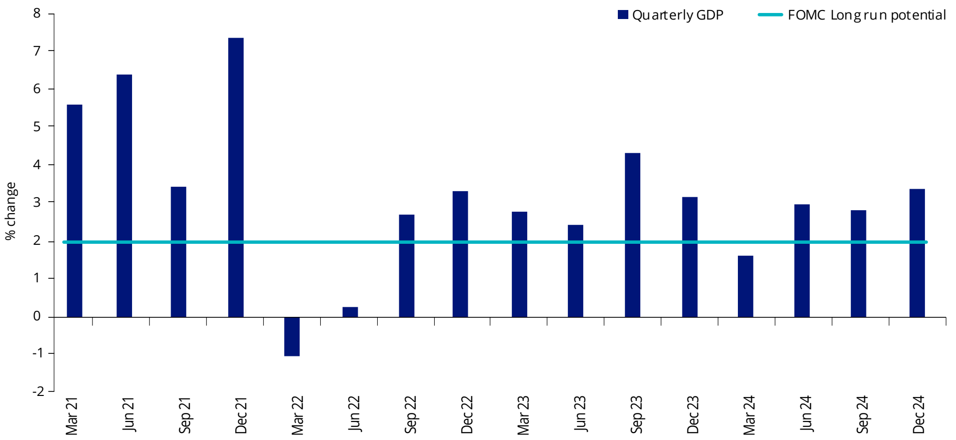
Appears to be bottoming out, above target



Source: Federal Reserve Bank of St. Louis.

Chart 6: US GDP (% change, quarterly, seasonally adjusted annual rate)

Climbing back above potential



Source: Federal Reserve Bank of St. Louis.

Debt trap

The first policy issue is fiscal: while markets are applauding the expected renewal and extension of expiring corporate tax breaks, there is no significant offset for the lost revenue. Wharton Business School estimates that Trump's fiscal proposals will blow out the budget deficit by a further US$600 billion a year over the next decade, or around 2% of US GDP per year.

With a budget deficit already running near 7% of GDP, in an economy not far from full employment, this is unsustainable. First, it will result in an overheating economy, forcing the Fed to hike rates; in turn, this will force the US dollar higher, reducing competitiveness. This could lead to making it hard to "bring manufacturing and jobs" home to the US.

Of course, the President-elect might decide to lean into the Fed, an institution he's already expressed ambivalence towards, including his appointee Chairman Jerome Powell – even while he's cutting rates. But this is not without risks either, undermining Fed independence could push bond yields higher, making the funding of the US budget deficit even more unsustainable.

The US debt to GDP ratio already exceeds 100% (currently 123%). Even without adding to the pile, with deficits as far as the eye can see, this means the ratio will grow whenever nominal interest rates exceed nominal growth. The FOMC's long-range projections are for real GDP growth of a little less than 2% and inflation of around 2%. That is, whenever the interest rate on government debt is above 4% the ratio will increase.

Add a whopping deficit every year and the debt to GDP ratio goes parabolic. Even without the extra policy impost, the Congressional Budget Office was projecting debt to GDP of 166% within 30 years.

This is not just a US problem, of course. It's going to lead to global instability.

On the other hand, optimists point to the newly created Department of Government Efficiency (DOGE), led by billionaires Elon Musk and Vivek Ramaswamy, as holding the key to reining in the deficit by cutting US$2 trillion from government spending.

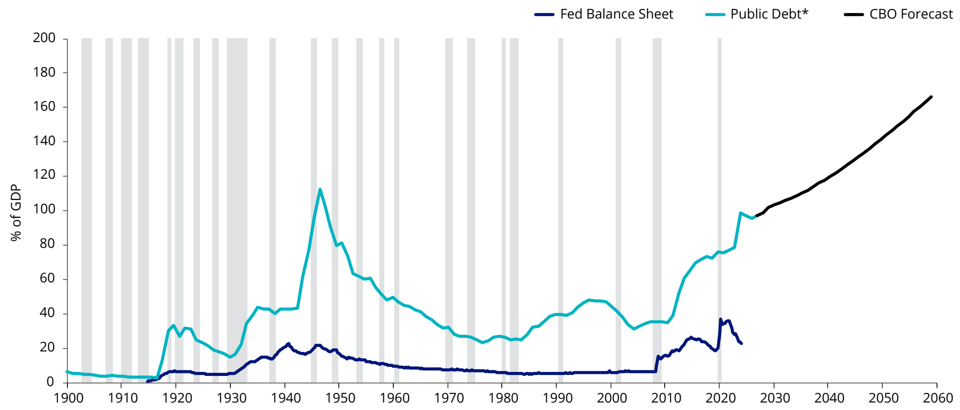
Apart from collecting government subsidies for their various businesses, Musk and Ramaswamy do not have any experience in government and the magnitude of their task looks arithmetically impossible. But these are two determined individuals.

Looking at DOGE's task, last year the US Government spent US$6.75 trillion. Chart 8 shows the break-up of that spending. The vast bulk of the spending is mandatory or politically untouchable – defence and veterans at 23%; already-underfunded social security at 21%; net interest 14% (and this is rising sharply); health and medicare 28% (a potential target, but some cuts here could be politically difficult).

All in all, something like 94% of spending is in too-hard categories. Even the good old "sack all the public servants" wouldn't work: if they sacked every single Federal public servant, it would save around US$300 billion – or roughly 15% of the budget deficit.

Chart 7: Public debt and Fed balance sheet (% of GDP)

With deficits as far as the eye can see, this could become a problem

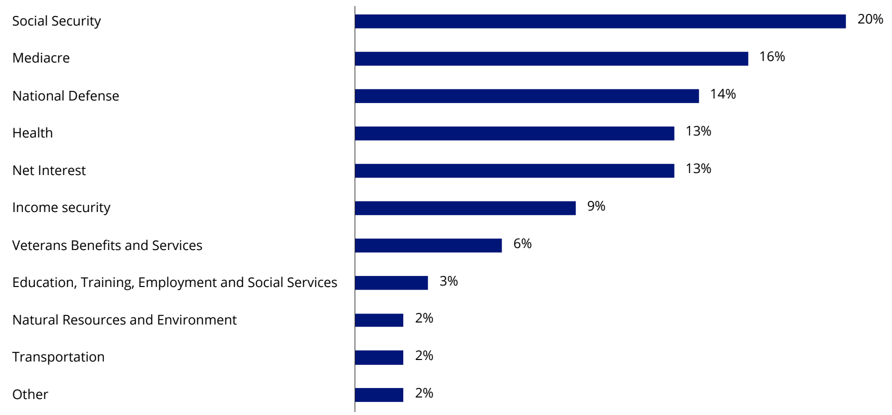


* Public debt held by the private sector.

Source: Congressional Budget Office, Federal Reserve, The Bureau of Economic Analysis, Historical Statistics of the United States 1789-1945. Shading denotes National Bureau of Economic Research-dated recessions.

Chart 8: US fiscal spending by category

DOGE has a big job ahead



Source US Treasury Fiscal Data.

Tariffs and immigration

Perhaps tariffs will fix things? As the President-elect has stated previously "trade wars are good, and easy to win."

Whether tariffs help or hinder depends, in the end, on who pays them. Trump seems to believe all the burden falls on the trading partner. Theoretically, when a large, price-setting nation like the US imposes tariffs the costs should be split between foreign producers, domestic importers and domestic consumers; the actual split is an empirical issue. This is even before any questions of retaliation.

Fortunately, the last trade war (2016 to 2019) has provided plenty of data on how the burden was shared. Unfortunately for the US, the evidence is that, overwhelmingly, the US bore the cost.

Numerous studies show that US businesses bore the brunt of tariff costs, in turn resulting in lower profit margins, lower wages and employment, and higher prices to consumers.

Trump will be hoping for a different outcome this time.

The final major policy impact on the economy is the proposed immigration windback. The President-elect has repeatedly made it clear he not only wants to stiffen borders but also intends to deport up to one million immigrants per year.

At a time when the US is hovering near full employment, this would represent a significant negative supply shock to the economy, especially at the low-cost end of the labour market.

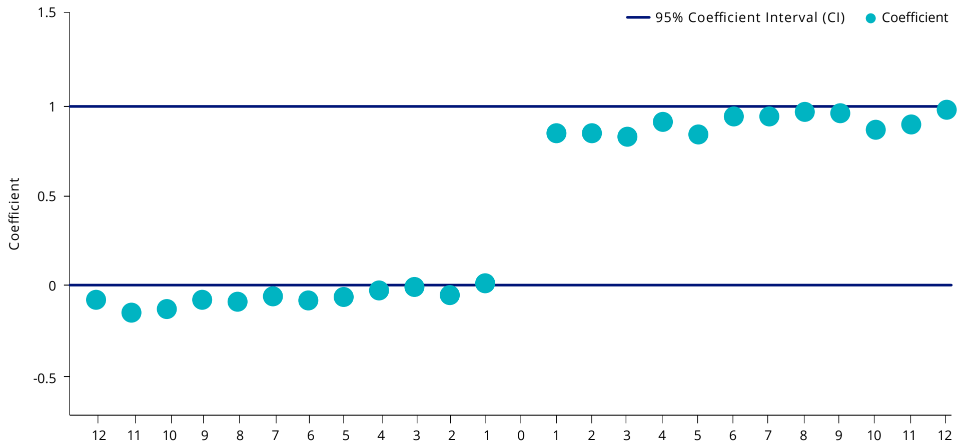
The current pool of unemployed in the US is a little over 7 million, or 4.2% of the workforce. Removing 4 million people, heavily skewed towards the working age population, would bring the unemployment rate down to near 2%, which could trigger a wages boom.

Or, put another way, what happens when you deliver a fiscal boost to demand while facing a negative supply shock? We don't need long memories to work it out because it could be the COVID inflation surge all over again. At least rates will soar more quickly this time.

And all the while the US is priced for perfection. Graham might have seen bond vigilantes on the horizon. At the very least he'd be pricing in uncertainty.

Chart 9: Pass-through of tariffs (Log Import Prices 12 months before and after tariffs applied)

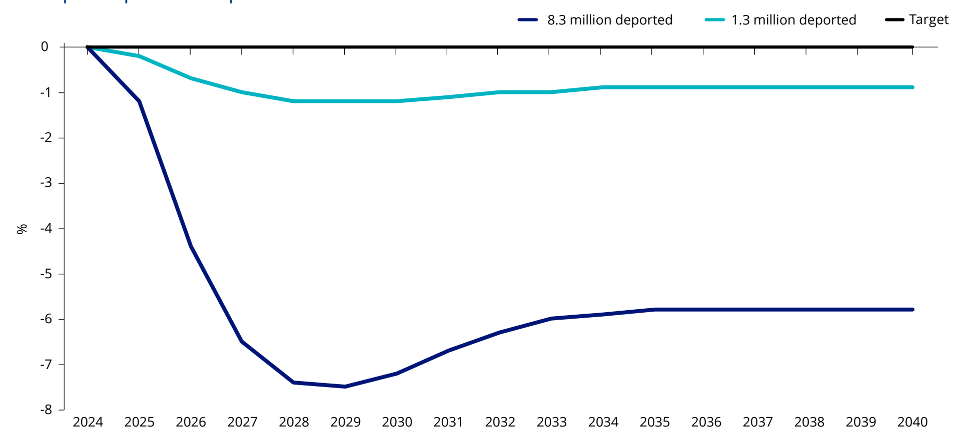
Tariffs- who pays? Approximately 100 per cent of import taxes have been passed on to US importers and consumers.



Pass through of tariffs, price elasticities:
0 = full impact on exporting, 1 = full impact on importing country; months around tariff implementation.
Source: National Bureau of Economic Research Working Paper #26610 Who's Paying for US Tariffs? A Longer Term Perspective by Amiti, Redding and Weinstein.

Chart 10: Projected percent US real GDP change from baseline, 2025–40

Trump's deportation plans could lower US GDP



Source: Peterson Institute for International Economics Working Paper 24-20 by Warwick McKibbin, Megan Hogan, and Marcus Noland, The international economic implications of a second Trump presidency.

Ructions elsewhere

The US is not the only place where markets are perturbed by politics. In Europe, both France and Germany have political headaches. Japan, likewise, faces near-term policy paralysis.

Perhaps ironically, France faces the inverse issue of the US: fiscal tightening is required but is blocked by impotent politics. If it weren't for Maastricht rules, the French situation wouldn't be too threatening, especially in the current climate of global fiscal what-me-worry.

Still, with the prospects of a workable government looking slim (even after probable parliamentary elections) and President Macron vowing not to resign early, French politics looks dire until 2027.

Germany has also seen its coalition government collapse, again around issues of fiscal rectitude, with new elections due in February. The likely victor, the CDU, after initially declaring it would enforce a hardline on fiscal policy, has more recently hinted at a softening line. This would not only open the way for more pro-growth policies in Germany but likely soften the pressure on France.

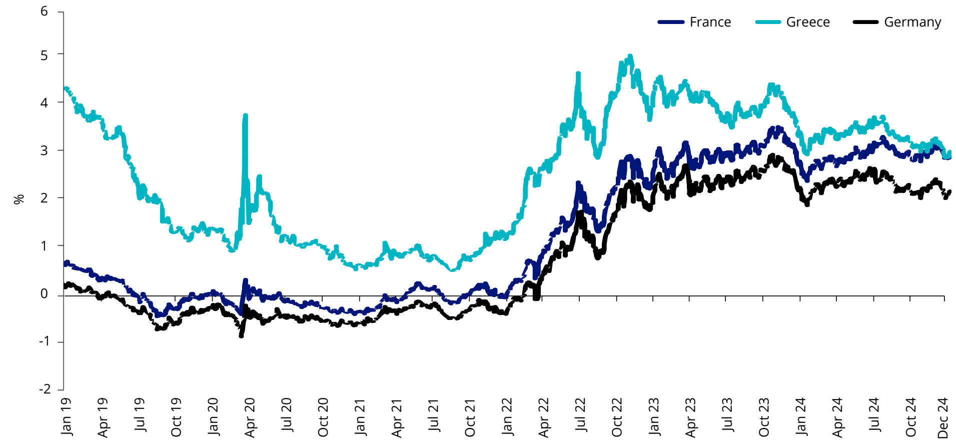
Meanwhile, the European Central Bank continues to gradually reduce rates. While PMIs across the EU continue to weaken since mid-year optimism, lower rates plus rising real wages should see growth pick up through 2025.

Similarly, Japan faces an unstable minority government, after a snap poll called by PM Ishiba backfired. Still, in Japan's case, the pressure, from both opposition parties and the public, is for looser fiscal policy (welfare and cost of living measures).

With GDP growth continuing to firm, the latest print surprising markets on the upside, and real wages rising, we expect the Bank of Japan to continue sneaking in modest rate hikes – whenever the exchange rate allows.

Chart 11: 10-year government bond yields

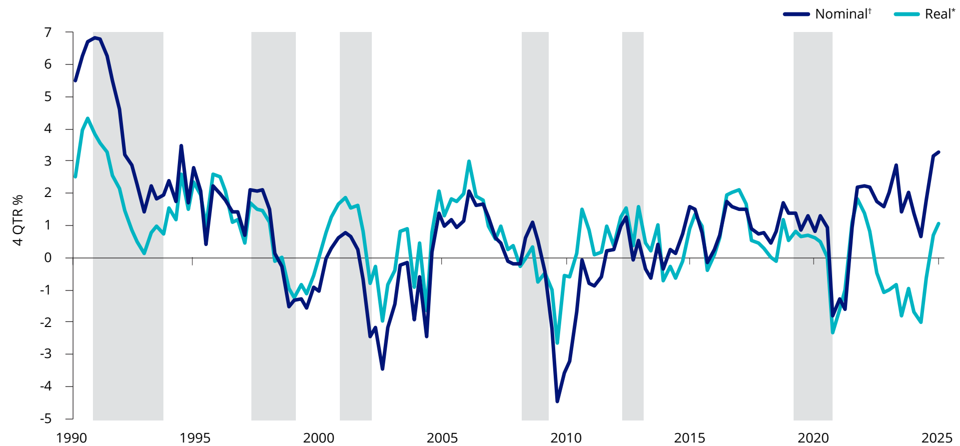
France is looking more like Greece



Source: Bloomberg.

Chart 12: Japan compensation of labour per worker

Nominal wage growth at 30-year highs is lift real wage income



*Deflated by PCE IPD. † Compensation of labour per employed worker. Japan recessions shaded.
Source: Cabinet Office, Ministry of Health, Labour and Welfare of Japan.

China's great wall of worry

China's policy pivot in September got a big round of applause from both the bonds and equities markets. When announced the policy blitz looked comprehensive, covering all major areas, monetary (the new policy rate and rate cuts), market (a coordinated boost), regulatory (including real estate), and fiscal.

However, the market euphoria was short-lived, and progress stalled despite newer policy proclamations. One obvious headwind is the outcome of US elections and a threat of tariff escalation by a Trump 2.0 administration. This might incentivise further strategic decoupling between the two countries, and it also explains why Chinese authorities might want to keep some powder dry until President Trump's inauguration. The latter means that a plan that can satisfy the market might only emerge sometime in Q1 2025.

The market, however, wants a big number and a "whatever it takes" policy bazooka – perhaps not fully appreciating that the already announced measures removed major tail risks, especially in local government debt. This includes the reduction of "hidden" debt which buys time and can free resources to boost consumption and finance social programs and investments in other projects.

China is also doing some very successful rebalancing from real estate into new industries, often manufacturing new products at lower prices. This is an encouraging structural shift and not the worst possible outcome for emerging markets that have attractive bond markets and do not shy away from Chinese goods.

We are sympathetic to the market's insistence on more fiscal stimulus, albeit with important caveats. The wisdom of additional monetary easing in China is questionable when the already existing facilities are not fully used, this is a tell-tale sign that money is not always a problem and that China's challenges are structural, requiring more time and a different approach.

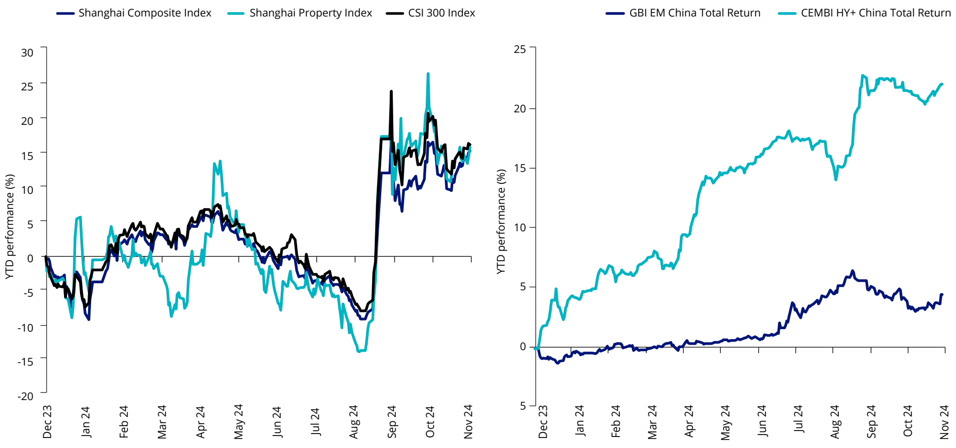
Using the central government's balance sheet to tackle such major issues as unfinished houses would be a game-changer for consumer confidence, which remains at a depressed level.

Shifting to a "moderately loose" monetary policy might pose challenges for the renminbi, in addition to potential "engineered" FX weakness to offset the impact of higher US tariffs (à la 2018). In the past few years, the renminbi showed sensitivity to the interest rate differential between China and the US, and this differential is now back to historic lows. Further deterioration, due to lower rates in China and/or slower easing in the US can put more pressure on the currency potentially impacting broader emerging markets.

But again we would reiterate, that the headlines about emerging markets do not always match the reality.

Charts 13 & 14: China's equities and bonds reaction to policy stimulus

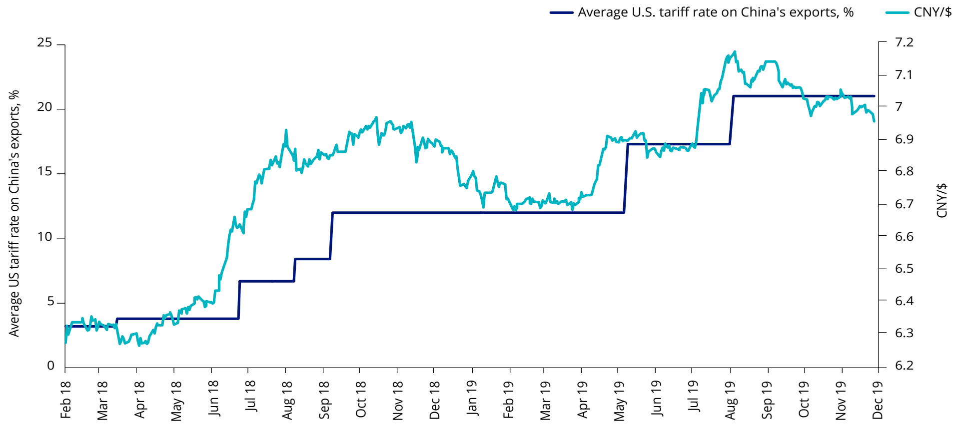
A round of applause, but the euphoria was short-lived



Source: Bloomberg, You cannot invest in an index. Past performance is not a reliable indicator of future performance.

Chart 15: CNY and effective US tariff rate in 2018/2019

"Engineered" FX weakness offset the impact of higher tariffs last trade war



Source: Bloomberg. You cannot invest in an index.

Beyond the emerging markets headlines

All bonds sold off in the fourth quarter of 2024, and emerging markets (EM) bonds continued to outperform developed market bonds as they did when bonds were strong during the third quarter.

The selloff was driven by a roughly 80bps sell-off in US rates. The trigger, or ex-post explanation, was the "reflation" associated with Trump's election victory. Also, arguably too much complacency was priced into US bonds. If you only looked at headlines dominated by tariff concerns, you would have thought EM suffered. But this would be incorrect, as is common for oft-maligned EM.

EM local and hard currency bonds were down less than 2.5% for the quarter, while US treasuries and the global aggregate bonds were down around 3.5%. This is important to keep in mind as headlines continue to focus on tariff risks, raising the question of whether these risks are already priced.

A key factor in EM's stability and outperformance of DM bonds has been China's FX stability. Despite tariff concerns, CNY has been kept stable, insulating EM currencies from the primary transmission mechanism for such pressure. The Mexican peso has been stable since the US election, underlining the possibility that tariff risks may be priced. We'd also note that Mexico is not new to tariff confrontations and President-elect Trump's meeting with Mexican President Sheinbaum went smoothly, in sharp contrast to the disagreeable meeting Trump had with Canadian Prime Minister Trudeau.

Going forward, US rates as well as policy risks emanating from the US election will remain the focus for emerging markets. The Fed is priced to cut 50bps in 2025. The importance of OER (owner's equivalent rent) to the US inflation calculation means that significant inflation surprises to the upside are unlikely. Recent oil price weakness supports this benign inflationary environment. So, any action must therefore come in reaction to policy from the incoming US government, and so far, policy has been vague and arguably a negotiation tactic.

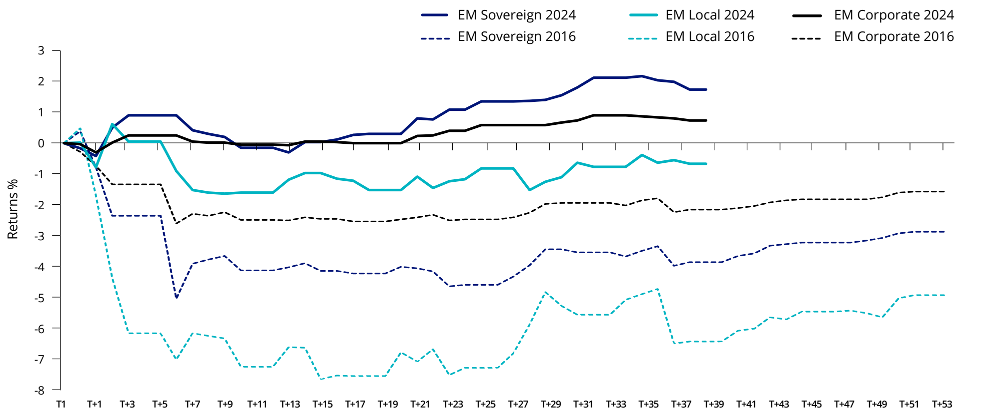
As policy gets fleshed out, there could be more adverse headlines about EM. A particular concern would be if China allows the CNY to weaken above its stable fixings of around 7.2 to the US dollar. As noted above China could be saving a currency adjustment as a reaction to adverse developments in tariff discussions.

The market has been very sensitive to any policy hints from China, but perhaps not seeing the bigger picture that when fiscal policy gets invoked a line is crossed (creating final demand), and the details of how much is needed is a normal process of back-and-forth with markets.

Chinese stimulus is supportive for commodity prices and EM, as well as for global risk. In an environment in which the Fed could still be cutting policy rates and is stimulating via domestic tax cuts. This combination, a growing world with US rate cuts, is bullish for EM. It is, however, contrary to potential tariff-focused headlines.

Chart 16: EM Debt indices post-election reaction to Trump 1.0 and Trump 2.0

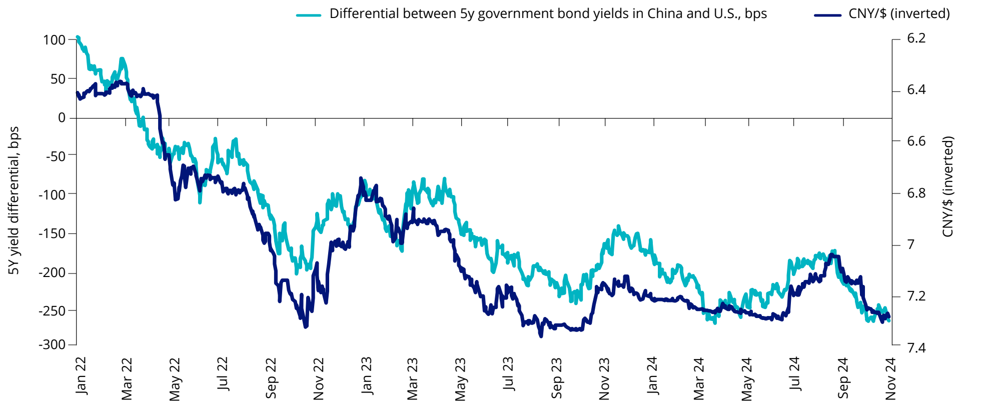
Forget the headlines, EM bonds are holding up well



Source: Bloomberg. You cannot invest in an index. Past performance is not a reliable indicator of future performance. EM Sovereign is J.P. Morgan EMBI Global Core Index, EM Local is J.P. Morgan GBI-EM Global Core Index, EM Corporate is J.P. Morgan CEMBI Broad Diversified Core Index.

Chart 17: CNY and 5-year government bond yield differential between China and US

Any further deterioration will put pressure on the CNY



Source: Bloomberg. You cannot invest in an index.

RBA charts its own course

Last quarter we highlighted that while the other central banks have shifted their focus to growth, inflation remained the risk the RBA is focused on.

After a quarter where GDP undershot expectations and trimmed mean inflation was up, the RBA surprised no one by refusing to even discuss a rate cut.

With yet another quarter where both private sector GDP and GDP per capita fell, for the worst annual growth performance in over 30 years, the RBA steadfastly refuses to lower rates saying they are not yet certain that they will achieve their inflation forecasts. Perhaps, after the Phil Lowe ''no rate rises'' debacle they're just too frightened to forecast at all.

Last quarter's bogeyman of a big spending boost triggered by tax cuts failed to appear. While many think households on life support were always highly unlikely to go on a spending binge, November's Black Friday Sales may have been what tax-cut recipients were waiting for.

The RBA continues to point to weak aggregate supply as offsetting non-existent growth; in particular, they seem keen to see a further weakening of the labour market to get the labour market up to their view of the NAIRU (non accelerating inflation rate of unemployment).

Let's be clear: no one knows where the NAIRU shall be. But if there is such a thing and Australia is below it, inflation (and wages in particular) would be growing faster than what is has been, not slowing down.

With unemployment stable at 4.1% for most of 2024, private sector wages have decelerated from 4.2% to 3.5%. The six-month annualised rate is 3%.

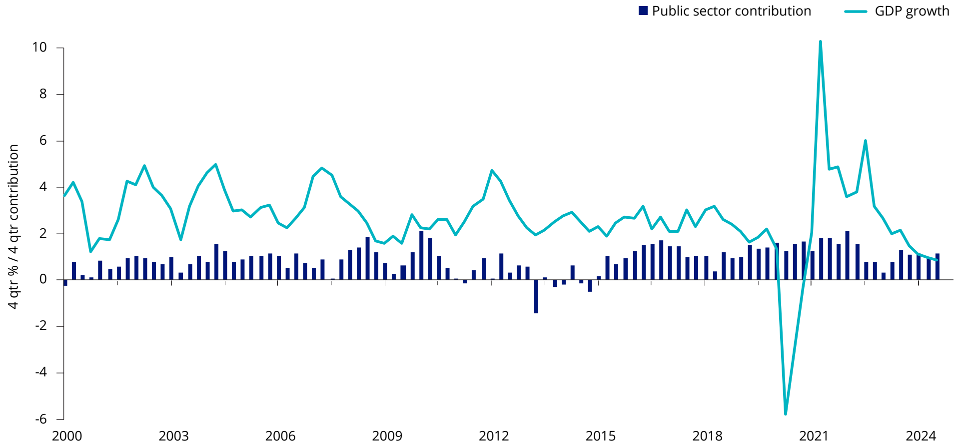
That doesn't look like acceleration, it looks like deceleration. It also looks like "don't base policy on invisible, lagging indicators." Wages are already low enough to hit the inflation target.

Not just households, but also retailers could have used some relief into Christmas. Seasonal adjustment hides that the December quarter is the most important of the year for consumer-facing businesses. A poor December quarter can be the final straw for businesses. There is evidence it could have been a strong November, with NAB transaction data showing overall spending from Black Friday was up 4% year-on-year with two-thirds of purchases made in-store.

Here's hoping the RBA hasn't ensured a wave of insolvencies in H1 2025. Cuts will come in 2025. The question is will they be too late?

Chart 18: Australian real GDP: Total and public sector contribution

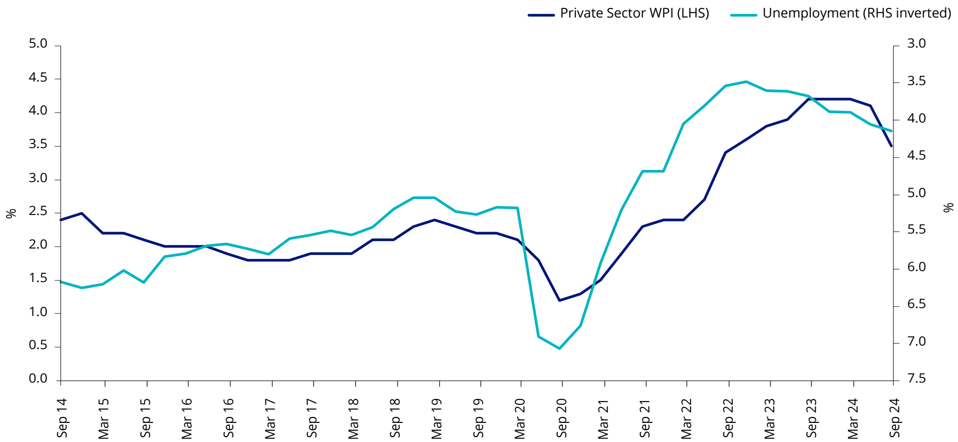
Without public sector spending, GDP growth is on the ropes



Source: Australian Bureau of Statistics.

Chart 19: Wage price index and unemployment (quarterly)

If we're below NAIRU why is wage growth trending down?



Source: Australian Bureau of Statistics.

Gold could be the place to be

Despite an initial drop following the US Presidential election, the price of gold has shown resilience. By late November, spot gold closed above US$2,700 again. For context, at the start of the year, the gold price was around US$2,070 per ounce.

We believe gold continues to be supported by both the US and global macro landscape. Expectations of inflationary policies under the new US administration, heightened global geopolitical risk, combined with strong central bank net buying, and further rate cuts by the Fed, suggest potential upward momentum for gold in the longer term.

Gold equities have lagged the return of the gold price this year, which is surprising. We believe this is the compounding result of market dislocations in valuing gold equities over the past several years.

We expect periods of rising gold prices to correspond to periods of outperformance for the gold stocks. However, gold spot prices are up 27% year to date, while the stocks, as represented by the NYSE Arca Gold Miners Index is only up 11%.

The poor sentiment towards the gold mining sector and the lack of investor interest, is evident in the way the gold stocks trade in a rising versus a declining gold price period. Leverage works both ways, and we emphasise this every time we highlight the merits of investing in gold stocks. A move in the gold price, generally corresponds to a more meaningful move in the cash margins realised by the miners, thus their operating leverage to the gold price.

However, in recent years, it seems like the market implied leverage of gold stocks to the gold price when the metal price is rising is lower than the implied leverage when the price drops. We have been anecdotally making this observation, frustrated by the overly punitive impact this continues to have on the already oversold gold shares. We think this dichotomy represents a value opportunity for gold miners as they have been potentially oversold when the price of gold falls and under-bought when the gold price has been appreciating.

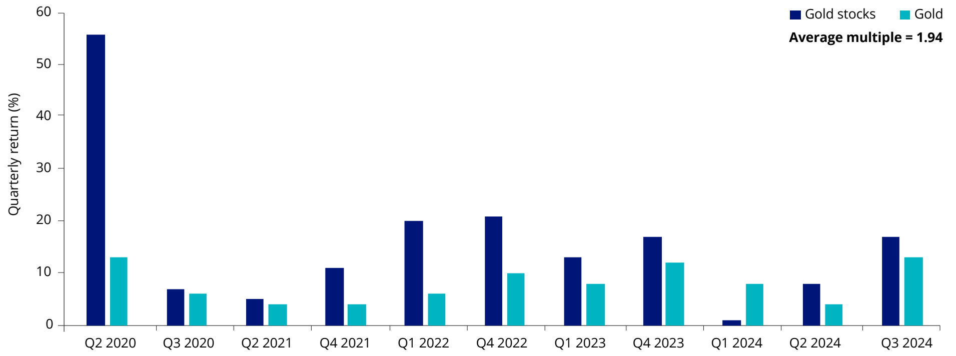
Take this year, for example. Gold was down 0.9% from the end of 2023 until the end of February, while gold stocks were down 15.3%. That represents a 17x multiple to the gold move. In contrast, from end of February to October 22 gold was up 34.5%, while the stocks were up 67.7%, only doubling (1.96x) the metal's gains. From 22 October to the end of November, gold dropped 3.9%, but the shares of gold miners as a group fell by 14.8% (3.8x gold's move).

Since 2020, positive quarterly moves in the gold price translated to outperformance by the gold equities by an average 1.94x multiple. We excluded the first and last quarter of 2020 from this calculation. In those two quarters, gold was up while the stocks traded down. Meanwhile, negative quarterly moves in the gold price led to underperformance of the gold equities by a factor of 8.72, on average.

The significant gap between gold and gold equities had been narrowing over the last year, but the post-election weakness in the gold sector has widened it once again. With gold producers enjoying record margins, leading to record free cash flow generation, we expect this disconnect won't last forever. Investors looking to hedge broader market risk through gold exposure, we think should also consider an allocation to the gold mining sector. They may be among the few equities not priced to perfection.

Chart 20: Gold stocks versus gold bullion in gold bullion "up" markets

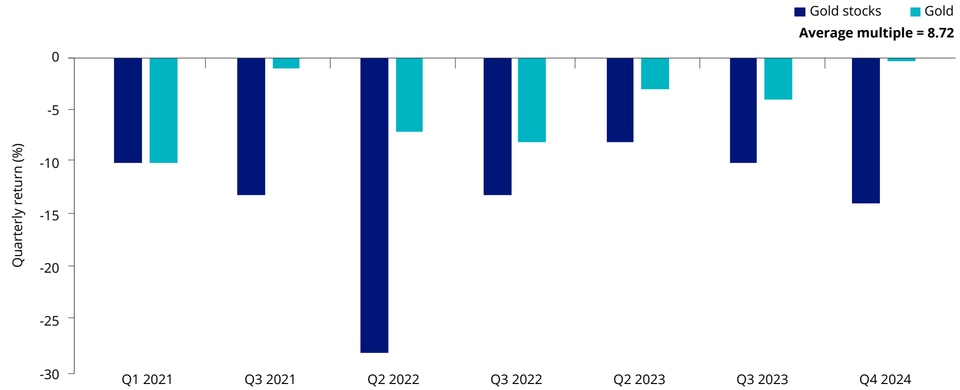
On average, gold's upward trading was not nearly as beneficial to gold stocks.



Source: Bloomberg. Data to end of December 2024. Returns in US dollars. Past performance is no guarantee of future results. Gold stocks is NYSE Arca Gold Miners Index, Gold is LBMA PM Gold Price.

Chart 21: Gold stocks versus gold bullion in gold bullion "down" markets

A decline in gold's price disproportionally punished gold stocks.



Source: Bloomberg. Data to end of December 2024. Returns in US dollars. Past performance is no guarantee of future results. Gold stocks is NYSE Arca Gold Miners Index, Gold is LBMA PM Gold Price.

Bitcoin's daring ascent

While emerging market central banks have been hoarding gold, emerging markets investors have been a driving force of private bitcoin ownership. There is evidence that individual investors in regions of Africa, South East Asia and South America have the highest percentage of ownership and awareness of cryptocurrencies compared to the rest of the world.

The US is also emerging as a key pillar in global crypto, buoyed by the landmark launch of bitcoin exchange-traded products in early 2024.

In terms of corporate adoption, we expect companies to continue accumulating bitcoin from retail holders. Currently, 68 public companies in the US hold bitcoin on their balance sheets, a number that could reach 100 by 2025.

Bitcoin has also become a political issue. In emerging markets, for example, Brazil's congress will vote on a US$18 billion bitcoin reserve (5% of international currency reserves), Polish Presidential candidate Mentzen has pledged to establish a bitcoin reserve if elected in 2025 and in Suriname, Presidential candidate Maya Parbhoe has promised to adopt bitcoin as the country's national currency, replacing the Suriname dollar and issuing national bitcoin bonds.

But it's not just emerging markets. As noted above, one of Trump's policy platforms was his pro-digital-currency stance. There is no doubt the election of Donald Trump has already injected significant momentum into the crypto market.

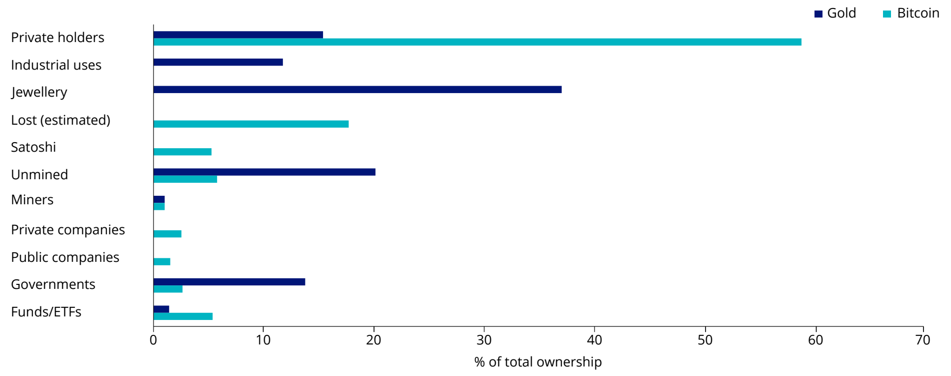
The bitcoin market has also responded favourably to his administration's appointments of crypto-friendly leaders to pivotal positions, including Vice President JD Vance, National Security Advisor Michael Waltz, Commerce Secretary Howard Lutnick, Treasury Secretary Scott Bessent, Securities and Exchange Commission (SEC) Chair Paul Atkins and Federal Deposit Insurance Corporation (FDIC) Chair Jelena McWilliams.

These appointments potentially signal the end of anti-crypto policies, such as the systematic de-banking of crypto companies and their founders, and the start of a policy framework that positions bitcoin as a strategic asset.

Many are predicting that by 2025, either the federal government or at least one US state, the states most tipped are Pennsylvania, Florida, or Texas, will establish a bitcoin reserve. Federally, this could occur through an executive order utilising the US Treasury's Exchange Stabilisation Fund (ESF), though bipartisan legislation remains a wildcard. Simultaneously, state governments may act independently, viewing bitcoin as a hedge against fiscal uncertainty or a tool to attract crypto investment and innovation.

Chart 22: Gold versus bitcoin ownership

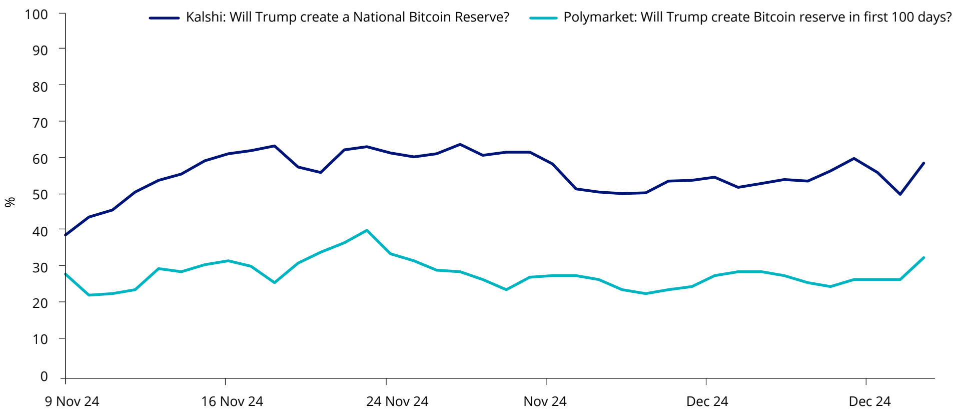
Room for corporates and governments to grow



Source: World Gold Council, Goldhub, USGS, GFMS Gold Survey, Thomson Reuters, VanEck estimates as of December 2024.

Chart 23: Betting markets are gaining confidence in a US strategic bitcoin reserve

A US bitcoin reserve would legitimise bitcoin as a global reserve asset.



Source: Cointelegraph, Watcher Guru, Kalshi, Polymarket.

VanEck's range of Exchange Traded Funds on ASX

Equity opportunities

VanEck Fund	ASX code	Index	Management fees (p.a.)*
Australian Broad Based			
Australian Equal Weight ETF	MVW	MVIS Australia Equal Weight Index	0.35%
Geared Australian Equal Weight Fund (Hedge Fund)	GMVW	Geared exposure to MVW	0.35%^
Australian Small and Mid Companies			
Small Companies Masters ETF	MVS	MarketGrader Australia Small Cap 60 Index	0.49%
S&P/ASX MidCap ETF	MVE	S&P/ASX MidCap 50 Index	0.45%
Australian Sector			
Australian Property ETF	MVA	MVIS Australia A-REITs Index	0.35%
Australian Banks ETF	MVB	MVIS Australia Banks Index	0.28%
Australian Resources ETF	MVR	MVIS Australia Resources Index	0.35%
Sustainable Funds			
MSCI Australian Sustainable Equity ETF	GRNV	MSCI Australia IMI Select SRI Screened Index	0.35%
MSCI International Sustainable Equity ETF	ESGI	MSCI World ex Australia ex Fossil Fuel Select SRI and Low Carbon Capped Index	0.55%
International			
MSCI International Quality ETF	QUAL	MSCI World ex Australia Quality Index	0.40%
MSCI International Quality (AUD Hedged) ETF	QHAL	MSCI World ex Australia Quality 100% Hedged to AUD Index	0.43%
MSCI International Small Companies Quality ETF	QSML	MSCI World ex Australia Small Cap Quality 150 Index	0.59%
MSCI International Small Companies Quality (AUD Hedged) ETF	QHSM	MSCI World ex Australia Small Cap Quality 150 100% Hedged to AUD Index	0.62%
Morningstar International Wide Moat ETF	GOAT	Morningstar® Developed Markets ex Australia Wide Moat Focus Select Index™	0.55%
Morningstar Wide Moat ETF	MOAT	Morningstar® Wide Moat Focus NR AUD Index™	0.49%
Morningstar Wide Moat (AUD Hedged) ETF	MHOT	Morningstar® Wide Moat Focus NR AUD Hedged Index™	0.52%
MSCI International Value ETF	VLUE	MSCI World ex Australia Enhanced Value Top 250 Select Index	0.40%
MSCI International Value (AUD Hedged) ETF	HVLU	MSCI World ex Australia Enhanced Value Top 250 Select 100% Hedged to AUD Index	0.43%
MSCI Multifactor Emerging Markets Equity ETF	EMKT	MSCI Emerging Markets Multi-Factor Select Index	0.69%
FTSE China A50 ETF	CETF	FTSE China A50 Index	0.60%
China New Economy ETF	CNEW	MarketGrader China New Economy Index	0.95%
Global Sector			
Gold Miners ETF	GDX	NYSE Arca Gold Miners Index® (AUD)	0.53%
Global Healthcare Leaders ETF	HLTH	MarketGrader Developed Markets (ex-Australia) Health Care AUD Index	0.45%
FTSE Global Infrastructure (AUD Hedged) ETF	IFRA	FTSE Developed Core Infrastructure 50/50 Index Hedged into AUD	0.20%
FTSE International Property (AUD Hedged) ETF	REIT	FTSE EPRA Nareit Developed ex Australia Rental Index AUD Hedged	0.20%
Global Defence ETF	DFND	MarketVector Global Defence Industry (AUD) Index	0.65%
Thematic			
Video Gaming and Esports ETF	ESPO	MVIS® Global Video Gaming and eSports Index (AUD)	0.55%
Global Clean Energy ETF	CLNE	S&P Global Clean Energy Select Index	0.65%

*Other fees and costs apply. Please see the respective PDS.

^The Fund charges a nil management fee. This is the indirect cost represented as a percentage of the gross asset value. If the average gearing level is 50%, the indirect cost will be 0.70% of the net asset value.

VanEck's range of Exchange Traded Funds on ASX

Income opportunities

VanEck Fund	ASX code	Index	Management fees (p.a.)*
Australian Equity Income			
Morningstar Australian Moat Income ETF	DVDY	Morningstar® Australia Dividend Yield Focus Equal Weighted Index™	0.35%
Australian Fixed Income			
Australian Corporate Bond Plus ETF	PLUS	iBoxx AUD Corporates Yield Plus Mid Price Index	0.32%
Australian Floating Rate ETF	FLOT	Bloomberg AusBond Credit FRN 0+Yr Index	0.22%
Australian Subordinated Debt ETF	SUBD	iBoxx AUD Investment Grade Subordinated Debt Mid Price Index	0.29%
1–5 Year Australian Government Bond ETF	1GOV	S&P/ASX Government Bond 1–5 Year Index	0.22%
5–10 Year Australian Government Bond ETF	5GOV	S&P/ASX Government Bond 5–10 Year Index	0.22%
10+ Year Australian Government Bond ETF	XGOV	S&P/ASX Government Bond 10–20 Year Index	0.22%
Global Fixed Income		**Index/Performance Benchmark**	
1-3 Month US Treasury Bond ETF	TBIL	Bloomberg U.S. Treasury Bills: 1-3 Months Unhedged AUD Index	0.22%
Emerging Income Opportunities Active ETF (Managed Fund)	EBND	50% JPM EMBI Global Diversified Hedged AUD and 50% JPM GBI-EM Global Diversified	0.95%
Capital Securities		**Index/Benchmark**	
Global Capital Securities Active ETF (Managed Fund)	GCAP	RBA Cash Rate + 3% per annum	0.59%

Alternative opportunities

VanEck Fund	ASX code	Index	Management fees (p.a.)*
Alternatives			
Global Listed Private Equity ETF	GPEQ	LPX50 Index	0.65%
Global Carbon Credits ETF (Synthetic)	XCO2	ICE Global Carbon Futures Index	0.45%
Gold Bullion ETF	NUGG	Tracks the price of gold	0.25%
Global Listed Private Credit (AUD Hedged) ETF	LEND	LPX Listed Private Credit AUD Hedged Index	0.65%
Bitcoin ETF	VBTC	Tracks the price of bitcoin	0.49%

*Other fees and costs apply. Please see the respective PDS.

Contact us

vaneck.com.au
info@vaneck.com.au
+61 2 8038 3300

VanEck-Australia
VanEck_Au
VanEckAus
VanEckAustralia

Important notice