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Monthly Gold Commentary

December 2024

Gold stocks seek to reconnect with gold in 2025

Imaru Casanova

Portfolio Manager

Month end performance as at 31 December 2024

GDX | VanEck Gold Miners ETF

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)	Since inception (%p.a.)
GDX (NAV)	-8.79	-13.87	10.17	10.17	3.43	4.29	7.31	-0.03
GDX (Share Price)	-8.90	-13.85	10.63	10.63	3.42	4.35	7.34	-0.03
GDMNTR (Index)	-8.58	-13.86	10.64	10.64	3.79	4.62	7.69	0.40
Difference (NAV - Index)	**-0.21**	**-0.01**	**-0.47**	**-0.47**	**-0.36**	**-0.33**	**-0.38**	**-0.43**
GDXJ | VanEck Junior Gold Miners ETF								
GDXJ (NAV)	-8.31	-10.60	14.87	14.87	1.92	1.59	7.39	-3.39
GDXJ (Share Price)	-8.03	-10.16	15.67	15.67	1.91	1.67	7.45	-3.38
MVGDXJTR (Index)	-8.06	-10.45	15.71	15.71	2.51	2.18	7.77	-3.02
Difference (NAV - Index)	**-0.25**	**-0.15**	**-0.84**	**-0.84**	**-0.59**	**-0.59**	**-0.38**	**-0.37**
OUNZ | VanEck Merk Gold ETF								
OUNZ (NAV)	-1.42	-0.36	26.84	26.84	12.68	11.19	7.78	6.48
OUNZ (Share Price)	-1.48	-0.35	26.75	26.75	12.48	11.24	7.92	6.47

Source: VanEck, as at 31 December 2024. Past performance is not indicative of future performance.

Gold performance amid economic shifts and market dynamics

Higher US Treasury rates and a stronger US dollar (US Dollar Index; up 2.60% during the month) continued to pressure gold in December, though less significantly than in November. Gold declined by 0.71% during the final month of the year, outperforming the S&P 500 (down 2.38%), but lagging the NASDAQ Composite (up 0.56%). On 18 December, the US Federal Open Market Committee cut the federal funds rate by 25 basis points, which helped gold rebound from its monthly lows. However, the committee signalled fewer rate cuts in 2025, reducing the market's implied probability of additional easing. After reaching an all-time high of US$2,787 per ounce at the close on 30 October, gold consolidated around the US$2,600 level, averaging US$2,644 per ounce during November and December. Gold closed the year at US$2,624.50 per ounce on 31 December, achieving a yearly gain of US$561.52 per ounce, or 27.22%.

Gold's exceptional performance in 2024 marked its best annual gain in 14 years. Looking back over the past 25 years, gold only performed better in 2007 (+30.94%) and 2010 (+29.57%). This achievement is remarkable given the strong performance of the US equity markets and the US dollar in 2024, with the NASDAQ Composite up 29.57%, the S&P 500 up 25.02%, and the US Dollar Index rising 7.06%, respectively. We believe this gold price action reflects a significant shift in the dynamics of the gold markets over the past two years. Central banks worldwide have emerged as a major driver of gold demand and gold prices, buying record amounts of gold bullion since 2022. Importantly, we think this new gold market reality also helps explain the significant (and to us perplexing) underperformance of gold equities relative to the metal itself.

Central banks' strategic shift toward gold reserves

Global central banks have been buying gold bullion as part of their reserves management, driven by a variety of factors that have gained greater relevance beginning in 2022. Factors include concerns about systemic financial risks, gold's role as an effective portfolio diversifier, its liquidity, its performance as an inflation hedge and its resilience during times of crisis. Additionally, gold serves as a geopolitical diversifier, a safeguard against sanctions and a component of de-dollarisation policies. As a group, central banks' recent impetus to increase gold reserves appears independent of the strength of the US economy, the performance of the US equity markets or fluctuations in the US dollar and treasury rates. It is also worth emphasising that central banks exclusively purchase gold bullion, not gold equities.

Shifting gold dynamics: central banks vs. investors

Prior to this record level of gold buying by central banks over the past three years, the primary driver of gold prices historically was Western investment demand, which has mostly declined since 2020. We gauge investment demand by tracking the flows into and out of global gold bullion ETFs. Investors who are buying gold bullion ETFs are often the same ones who purchase gold mining equities as a leveraged play on gold, aiming to broaden their exposure to gold as an asset class. However, these investors have been mostly absent during the recent gold rally, contributing to the widening valuation gap between gold and gold equities. While central banks have been actively buying gold, many investors have been enjoying the benefits of a relentless broader equity bull market, reducing the perceived need to own gold or gold equities.

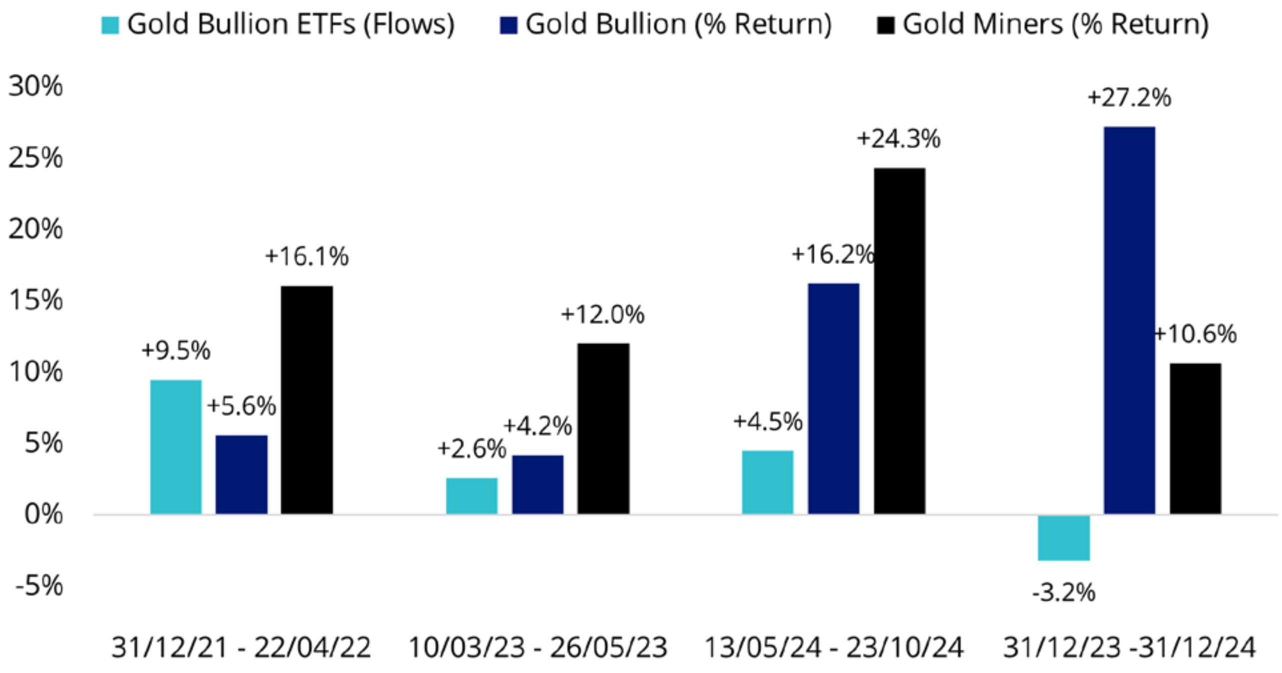
Gold ETFs and prices: a growing disconnect

We have highlighted the breakdown of the long-standing correlation between gold bullion ETF holdings and the gold price, with the gold price increasing even as investment demand declined. From April 2022 to the end of 2024, gold bullion ETF holdings fell by 22%, while the spot gold price increased by 36%. This disconnect is largely attributed to significant gold buying by the official sector in recent years.

In contrast, a strong correlation persists between gold bullion ETF holdings and the performance of gold equities relative to gold. From April 2022 to the end of 2024, the NYSE Arca Gold Miners Index (GDMNTR) has declined by 1.7%, underperforming gold by nearly 38 percentage points in a rising gold price environment. This underperformance reflects investors mostly abandoning gold as an asset class, even as central banks and non-Western investors drove gold prices higher. However, during brief periods over the past two years when global gold bullion ETF holdings increased, indicating a temporary return of Western investors, gold equities outperformed gold as expected.

The chart below illustrates the performance of gold bullion, gold bullion ETFs and gold miners across key periods from 2021 to 2024, highlighting the disconnect between gold prices, ETF flows, and miner returns during different market phases.

Gold Miner outperformance (vs. Bullion) may depend on the level of investment demand (Gold Bullion ETF flows)



Source: Bloomberg, VanEck. Data as of December 2024. "Gold Miners" represented by NYSE Arca Gold Miners Index (NTR). Past performance is not indicative of future results.

The performance gap in 2024 between gold and gold equities

As we look back at the performance of gold and gold equities in 2024, the most resounding question will be: "Why did gold stocks fail to keep pace with gold, with a 10.64% gain (GDMNTR) compared to the metal's 27.22% increase?". While the gold mining industry fundamentals certainly played a role, our best answer to this question is, "Because central banks don't buy gold stocks".

Gold equities remain approximately 40% below their 2011 peaks, even as gold prices have risen roughly 40% since then. When investors decide it's time to add gold to their portfolio, for many of the same reasons central banks have been buying—market participants may no longer be able to ignore the compelling case for owning gold equities.

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