

Global Analyst

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In today's Bulletin, we look at changes in the gold equity market that may indicate renewed interest from investors. We also look at developments from some companies on our list. I am on my way to Quebec City right now, so I'll keep this brief.

SHIFTS IN GOLD MARKET POINT TO NEW INVESTOR INTEREST

Two developments over the past couple of weeks suggest that investors may be turning to gold shares, if only hesitantly. First, we have seen inflows into the major gold miner ETF, the GDX, over the past couple of weeks (see table on page 2). Although last week saw more outflows, the inward flows earlier last month are encouraging, given how dramatically they turned.

Juniors play catch up

And secondly, the junior stocks are beginning to catch-up to the majors, with the GDXJ (the VanEck Junior Gold Miners) actually outperforming the GDX over the past two months, while the real juniors, represented by the S&P/TSX Venture Mining Index, is playing catch up rapidly; on a one-year basis, the return of the juniors is barely one-third that of either the GDX or GDXJ, but again in the last couple of months, the gap is closing significantly. We have not see anything like that for years. This is another sign of renewed interest from individuals.

Recall, that until the last month or so, though both gold and the major gold stocks had strong returns, each up over 40% over the past 12 months, there were consistent and heavy outflows from the GDX, with total outflows, until the shift two weeks ago, well over \$3 billion. Similarly, the juniors had been lagging considerably. Indeed, since the beginning of 2023, the junior index was negative until mid April. Both these factors reflected a lack of interest from individual investors.

Why investors have been on the sidelines

This was puzzling to some. After all, with the gold price at record highs, mining margins wide and expanding, balance sheets strong, and valuations low, one might expect a flood of money into gold stocks. But the disconnect, with the major gold shares barely matching the performance of the metal and the juniors negative, was not so illogical, as we have discussed before.

The gold price has been driven primarily by three groups, each with their own somewhat distinct motivations:

- Central banks diversifying out of the dollar in the face of dollar weaponization
- Chinese investors concerned about a possible yuan devaluation and wary of their banking system
- Wealthy families concerned about the global fiscal situation

All three groups are not concerned about the U.S. economic environment, and, given their motivations, want physical gold, and not mining shares.

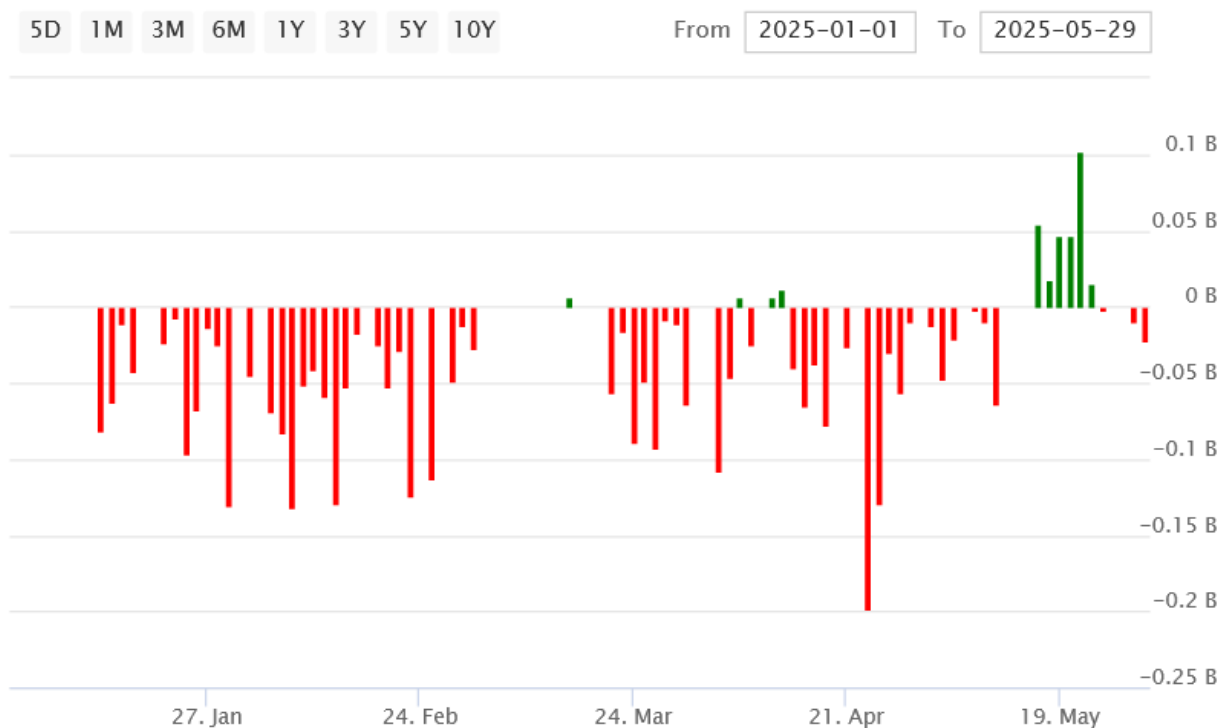
U.S. investors stayed away based on economic factors

North American investors, on the other hand, buy gold when the economic environment is favorable, that is when inflation is high and rising; interest rates low or negative; the economy weakening; and the dollar declining. Until recently, that was seemingly the precise opposite of the macroeconomic environment in North America. And with the S&P moving up virtually every month, there was little reason for investors to look elsewhere, such as the gold stocks, regardless of the price of gold or how undervalued the gold shares might have been.

I say “seemingly” because the U.S. economy has not been as strong as headlines would suggest for some time, while inflation, though it has come down from the post-covid highs, remains well above both where it was pre-covid and the Federal Reserve’s own (arbitrary) target.

GDX Fund Flows Charts

View charts featuring ETF fund flow data.



Custom Range Net Flows: -2.78 B

Source: VettaFi

As the economic narrative shifts and the tariff embroglio raises concerns about corporate profits, investors are starting to look elsewhere. As money comes out of the erstwhile market leaders it will roll over to many markets and sectors, including global stocks, small cap stocks and value stocks, but some of it will move into commodity and specifically gold stocks.

Moves ahead could be explosive

With the gold equity space being so small—about \$600 billion total worldwide, relative to over \$15 trillion market cap for the top five tech stocks—only a small shift into the gold stocks will have an outsized impact. Right now, investors in the U.S. in aggregate hold less than 0.5% of assets in the gold sector, compared with 2% traditionally. Again, we do not have to get back to 2% for the impact on prices to be significant. In previous gold bull markets, the major gold stock indexes tripled, quadrupled and more.

What we have experienced in the gold shares so far in this bull market is but the beginning. With the gold price at record highs, with mining margins high and expanding, with balance sheets solid, and with valuations close to multi-decade lows, it is not too late to buy gold stocks.

Franco makes major royalty acquisition

Franco-Nevada (FNV.NY, 168.80) purchased a pre-existing 7.5% royalty on IAMGOLD's Côte Gold Mine in Ontario for \$1.05 billion, making it (by my recollection) the most expensive royalty ever. The royalty, which covers the adjacent Gosselin deposit as well, is a gross margin royalty, meaning that operating costs are deducted from gross proceeds before the royalty is calculated. The returns are considered reasonable, but its attractiveness is increased because the royalty is uncapped over a long mine life, and in a low-risk jurisdiction.

However, the mine operator has the right to buy back half the royalty—in two tranches of a quarter each—at small profits to Franco. The full royalty, that is, assuming no buy back is exercised, will account for about 4% of Franco's production (though with greater margins than streams).

Slow progress in Panama

Separately, developments in Panama suggest slow progress towards any eventual reopening on the Cobre Panama mine, on which Franco has a royalty. The Industry Minister Molto said a maintenance plan for the mine had started, but emphasized it would not include mine reactivation. He said an environmental review would take three to six months. As we have written before, we expect the mine to eventually reopen and Franco's stream to resume deliveries, though equally expect an extended process before any mine re-start. Franco is a core holding for us. Hold.

Fortuna on the hunt for new projects

Fortuna Mining (FSM.NY, 5.85) made a \$6 million investment into Awale Resources, an exploration company working in Côte d'Ivoire, where Fortuna has its low-cost and

expanding Séguéla Mine. After selling two end-of-life mines, in Mexico and Burkina Faso, Fortuna has said that it is looking for potential acquisitions.

If you are underinvested in the gold sector, Fortuna can be bought here.

Exploration success on Orogen royalty ground

Orogen Royalties (OGN, To., 1.84) received positive news from First Majestic on its Ermitaño royalty in Mexico. First Majestic, the mine operator, reported encouraging exploration on two recent discoveries, with both the Navidad and Winter veins extending along strike and down dip. Drilling continues on the larger property though it is unclear how much on land covered by Orogen's royalties.

With the stock trading at a discount to the value of Triple Flag's acquisition of Orogen's Arthur royalty (formerly Silicon-Merlin), it remains a buy.

Metalla's cash to increase soon with new mine

Metalla Royalty (MTA.NY, 3.22) said that commissioning was underway at the restart of the Endeavor Mine in Australia, with cash flow expected this month. Given the strong price surge in the last few days, we are holding.

TOP BUYS this week, in addition to above, include Kingsmen Creatives (KMEN, Singapore, 0.37); Altius Minerals (ALS, To., 26.34); Midland Exploration (MD, To., 0.31); and Lara Exploration (LRA, To., 1.85).

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