AMG Gold - Mines & Metals Fund

Operational leverage in the gold sector

Key messages

- Precious metal shares are currently valued very favorably, resulting in above-average price potential.
- Significantly higher profitability thanks to an expected higher net margin compared to the previous year speaks in favor of gold mining stocks.
- The two-year cycle suggests upside potential for gold mining stocks.

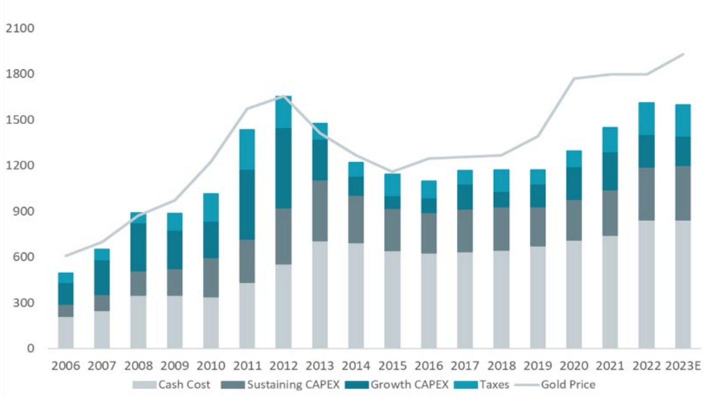
Strong undervaluation of precious metal shares in relation to the current gold price

With a gold price above USD 1,850, precious metal stocks are currently valued very favorably. For investors who are positive about the gold price, this sector offers above-average price potential for the next 12-18 months.

Margin increase for gold producers +25%

In 2020, the gold price rose above USD 2,000 for the first time but has not yet been able to establish itself above this mark despite two further attempts. Despite this, the average selling price for gold producers has risen steadily from USD 1,160 to 1,802 over the last seven years and will continue to rise in 2023. The net margin for gold mining companies is calculated from this selling price minus the cost of producing an ounce of gold. At the current average price for 2023 (USD 1,931), this margin is lower than the highest margin ever achieved in 2020. Compared to 2022, however, the net margin is around 25% higher. This higher profitability has not yet had an impact on share prices and valuations in the gold mining segment - on the contrary: the gold mining share sector is trading at a lower price and valuation than in 2022. The valuation discrepancy is therefore clearly in favor of gold mining stocks, both in a sector comparison within the equity market and against the gold price.

Average total costs (all-in costs), including taxes and duties per ounce of gold (in USD):



Source: BMO Research Universe data, Chart: Serafin

The two-year cycle speaks for price potential

Like most commodity shares, precious metal shares are subject to cycles. The question for investors is where we are in the cycle. We are clearly of the opinion that we are at the bottom and the beginning of a new bull cycle.

GDX (Vaneck Gold Miners ETF) 2016 - 2023

Source: Market Map, Chart: Serafin, Note: Figures in US dollar (USD)

In our view, the correction of August 2020 - following an extremely sharp rise in the 2018-2020 period - came to an end in September 2022. According to our estimates, the sector should make strong gains over the next 12 months. The key to success will be a rising gold price. It must break through the USD 2,075 mark to the upside. We rate the chance of this happening as high.

Bull versus bear market mechanics

The performance differences between the individual portfolio components are large depending on the cycle. The weighting of

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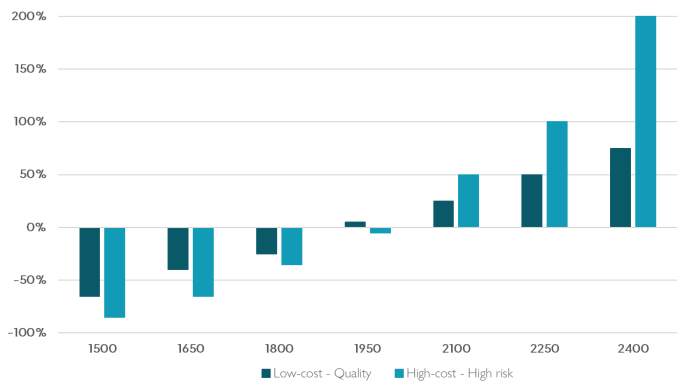
each stock in the portfolio determines outperformance or under-performance. The leverage effect from producers with high costs is much higher in both directions than from producers with low costs.

Margin change with rising or falling gold price



Source & Chart: Serafin, Note: Figures in US dollar (USD)

After strong outperformance in 2020, the AMG Gold - Mines & Metals Fund had a poor "relative" performance over 3 years. This was mainly due to investments in producers of "white" metals and, to a lesser extent, investments in smaller companies, which lost more value during the correction than medium-sized and large gold producers.

Reasons for a higher gold price

1. Confidence in governments is eroding - investors are buying gold as a hedge.
2. Inflation expectations rise significantly - decline in real interest rates, irrespective of whether nominal yields rise.
3. Debt crisis in (Western) countries worsens - investors focus on real assets.

Before the debt crisis escalates, the central banks will support governments as much as possible with interest rate cuts and possibly with renewed QE (quantitative easing). So far, interest rate cuts have always been positive for the gold price. However, this will further exacerbate the debt crisis.

We assume that in a bull cycle gold and shares of gold miners in particular will outperform all other asset classes.

Portfolio Management

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For more information about the AMG Gold – Mines & Metals Fund please visit our website:

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Status of information as of November 2023
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