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Special Contributor

Precious Metals and Miners Soar in 2019

Authored by Paul Wong, CFA – Special Contributor; Paul was formerly a Senior Portfolio Manager at Sprott Asset Management and has more than 20 years of investment experience, specializing in investment analysis for natural resources investments. He is a trained geologist and CFA holder.

2019 marked the best performance for the precious metals complex in nearly a decade. Gold bullion closed the year at \$1,517 (gaining 18.31% for the 12 months). Silver bullion ended the year at \$17.85 (up 15.23% in 2019). Platinum climbed 21.56% in 2019, and palladium soared 54.24%. Gold mining equities showed notable strength, finishing 2019 up 43.49% as measured by Sprott Gold Miners ETF (SGDM).¹

Month of December 2019

Indicator	12/31/19	11/30/19	Change	% Change	Analysis
Gold Bullion	\$1,517	\$1,464	\$53.30	3.64%	Gold correction has ended, up leg resumes
Silver Bullion	\$17.85	\$17.03	\$0.82	4.83%	Silver just shy of \$18 level
Gold Equities (SGDM) ¹	\$25.15	\$23.34	\$1.81	7.77%	Gold equities correction over, up leg resumes
Gold Equities (GD _X) ²	\$29.28	\$27.08	2.20%	8.12%	Ditto (above)
DXY US Dollar Index ³	96.39	98.27	(\$1.88)	-1.92%	Down leg beginning
Total Negative Debt (\$Trillion)	\$11.30	\$12.40	(\$1.12)	-8.87%	Trending in line with global yields
CFTC Gold Non-Comm Net Position ⁴ and ETFs (Millions of Oz)	113.65	111.16	2.49	2.24%	Still near all-time high levels, no signs of selling

Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 866.675.2639 for current month end performance. For standardized performance of the fund please see page 9.

After consolidating for the past four months, gold bullion broke out of its corrective range in the last few days of December due to a combination of factors, with U.S. dollar weakness being the most prominent. Yields remain rangebound at the lower-end despite the favorable resolution of the U.S.-China Phase One Trade Deal and renewed hope for a reflationary market. Equity markets overall continued their ramp up into year-end backed by the massive expansion in the U.S. Federal Reserve's ("U.S. Fed") balance sheet.

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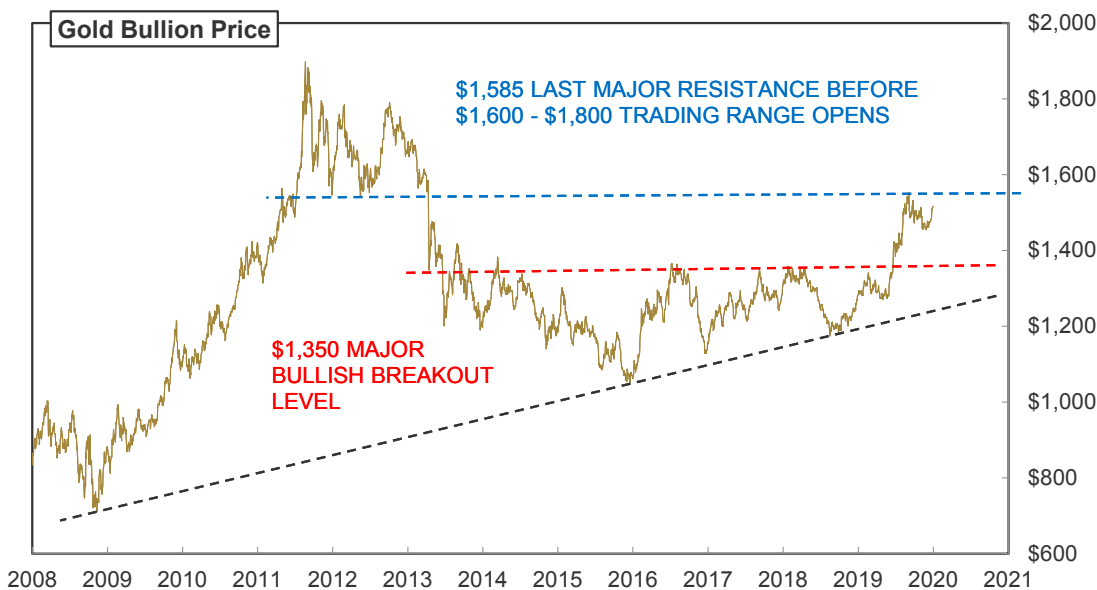
January 6, 2020

Gold Bullion Breaks Through Resistance Level of \$1,500

Gold ended its short-term corrective phase in December by breaking above the \$1,500 level. The early September 2019 highs of \$1,557 are likely to be re-tested. The last significant resistance remains in the neighborhood of \$1,587 (the 61.8% retracement of the 2011 peak to 2015 lows and major chart resistance). Once this level is surpassed, the \$1,600 to \$1,800 trading range for gold will become open.

What stands out in this correction is the surprising resilience of the CFTC positions.⁴ CFTC positioning has been dominated by quant funds/CTAs,⁵ which are model-driven. They began the year by adding, had a selling leg into April, bought aggressively in May and June and have held steady since then. Despite all the noise in the past few months, their models remain positive on gold.

Figure 1. Gold Bullion Likely to Test the Last Major Overhead Resistance Level



Source: Bloomberg as of December 31, 2019.

Gold Equities Continue to Climb

GDX, a measure of gold mining equities performance, held the \$26 level convincingly during the correction and has now broken out above \$28. As the price kept approaching the \$26 level, selling pressure kept fading as there were no real sellers. Through the \$28 breakout, we saw the opposite as buying pressure increased — a positive sign. We are nearing two significant highs: the September 2019 closing high of \$30.95 and the August 2016 closing high of \$31.32. Surpassing the \$30.95 level will set up a cup-and-handle breakout to target the \$36 level, well beyond the \$31.32 high. We then see little resistance until the \$39.35 level. The 50% Fibonacci retracement of the entire 2011 to 2016 bear market is at \$39.55. On a successful breakout, \$39.50 is the next target level for GDX.

Sprott Monthly Report

January 6, 2020

Figure 2. GDX Likely to Test Critical August 2016 Highs of \$31.32

A breakout will establish a large multi-year bullish base pattern, and there will be little resistance until the \$39.50 level.



Source: Bloomberg as of December 31, 2019.

Outlook for Interest Rates

Currently, the consensus view for interest rates is higher, with about 70 interest rate cuts globally in 2019. Given the U.S.-China trade deal, the reflation narrative is back as the market expectation is for an economic reacceleration. We believe there will be a lift in the economic outlook, though it will likely be less than current expectations. We are at the very late stages of this expansion cycle, which is already the longest in U.S. history at 125 months (bottom at June 2009).

On January 15, Trump is expected to sign the U.S.-China Phase One Trade Deal agreement. Phase Two talks will be much more contentious and complicated, involving intellectual property, technology transfers and capital investments. Not much capital investment related to trade will be committed by businesses without Phase Two completed. For perspective, the reflation trade has not occurred in the past decade beyond a short-lived trading action. Despite massive amounts of QE (quantitative easing) programs, fiscal stimulus, enormous debt, record low interest rates and other measures, growth has been weak and inconsistent for a reflationary capital market. We don't see how the events of the past few months will change this outlook except for the market sentiment.

Consumers are Fueling U.S. Economic Growth

Third-quarter U.S. GDP (gross domestic product) was also a positive surprise, but it points out another reason why the U.S. Fed may be very reluctant to lift interest rates anytime soon. For the most part, U.S. GDP growth is being fueled by consumer borrowing and spending rather than an expansion in manufacturing, or capital investment in growth and export growth. We are not disparaging the makeup of U.S.

GDP; consumer spending has been and will continue to be the primary component of GDP. Instead, we are pointing out that the U.S. Fed now very likely has an asymmetric outlook for changes in interest rates. The hurdle to raise interest rates in 2020 and beyond is likely to be impossibly high relative to the likelihood of further interest rate cuts. For already over-indebted consumers, to keep borrowing and spending, consumer confidence needs to be maintained.

"In 2020, we think U.S. dollar weakness will provide the second leg for the gold advance."

Sprott Monthly Report

January 6, 2020

In our November commentary, we highlighted the size of the U.S. national debt (\$23 trillion) and the size of the deficit (\$1.1 trillion). We noted how the three main central bank balance sheets have started to all expand again, and the “attempt” at normalizing monetary policy over the recovery ended very quickly when economic reality began to hit. As an example, the U.S. government’s cost to service the debt is about \$425 billion per year, using an estimated 1.90% average annual interest expense for 2019. If interest rates were to rise back to 2018 levels (2.49%), the interest expense would increase to \$570 billion (an increase of \$145 billion). Even with a small increase in interest rates (60 basis points in this example) would meaningfully increase the deficit, which in turn increases the total debt. That’s why it’s called a debt spiral.

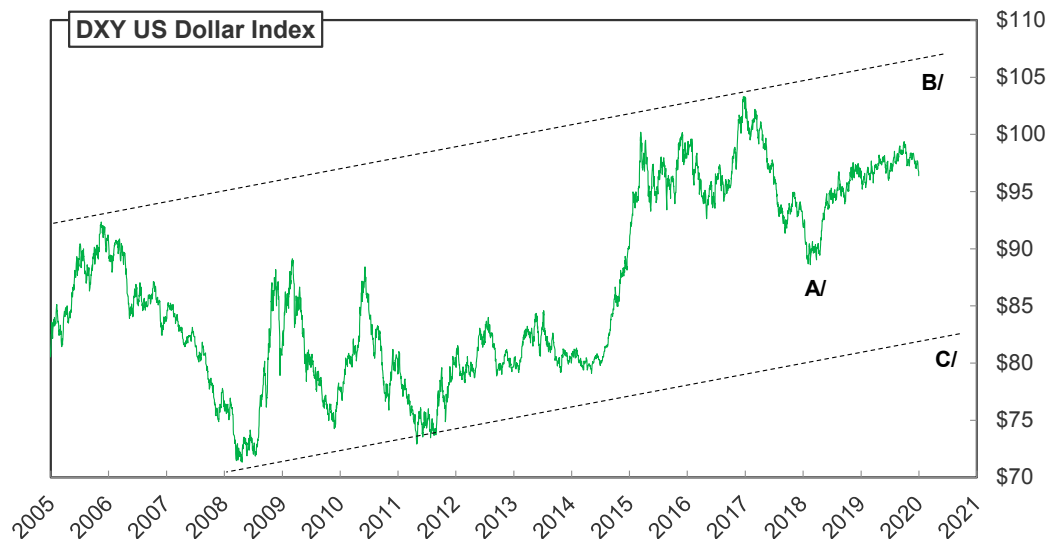
We feel that the most likely scenario to “deal” with the debt situation is to keep nominal interest rates very low and real interest rates near zero or negative in order to maintain the ability to service the interest expense. To address the high debt level, the goal is to raise inflation to inflate away the debt, hence the U.S. Fed’s (unrelenting 2% inflation targeting; the ECB (European Central Bank) and BOJ (Bank of Japan) also have inflation targeting goals.

With respect to interest rates, the outlook for gold is positively skewed. The U.S. Fed will not lift rates if inflation ever gets past their 2% target in the short- and intermediate-term (low to negative real interest rates targeting). For 2020, we see nominal interest rates at the low end of their trading range while the potential for very low to negative real interest rates as much more likely. Again, due to the U.S. Fed, there is an asymmetrical positive outlook for gold from an interest rate perspective. But because 2019 saw one of the relative sharpest drops in interest rates, interest rates will not be the main story for 2020 for gold. It will likely be the outlook for the U.S. dollar.

Our U.S. Dollar Outlook Predicts Weakening

We are not making the U.S. dollar the ultimate big call. We see clear signs that U.S. dollar upside momentum topped a while ago and downward pressures are starting to mount. In figure 4 using DXY,² we can see the peak was made back in late 2016. A down leg occurred (Wave A), and a recovery up leg until recently (Wave B). This recovery leg is now rolling over with many negative divergences on the charts. At the very least, we think the medium-term down leg has started (Wave C).

Figure 3. U.S. Dollar: Downward Pressures Are Mounting



Source: Bloomberg as of December 31, 2019.

Sprott Monthly Report

January 6, 2020

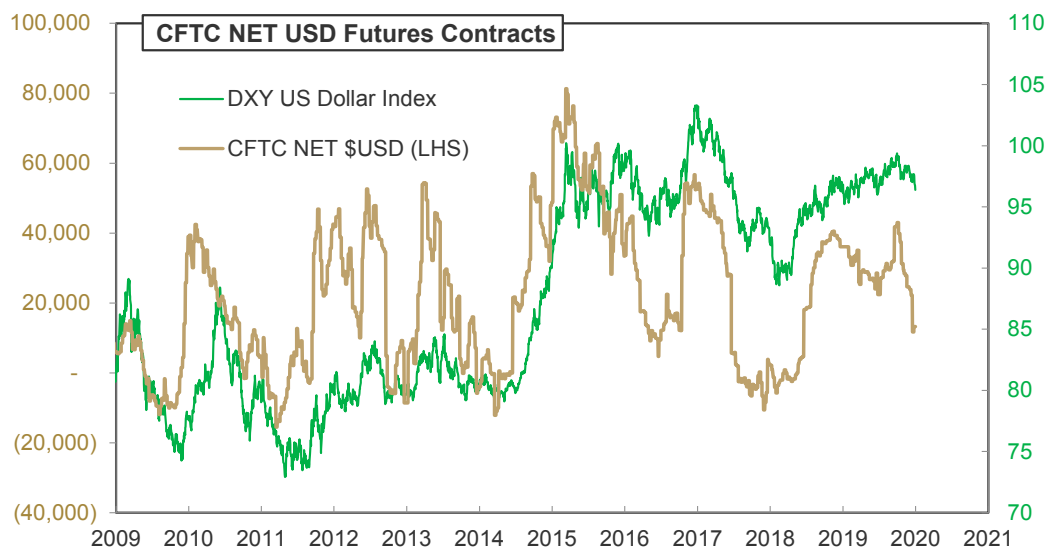
Currencies tend to trade as a relative sum measure of inputs: relative growth, relative yields, relative monetary and fiscal policies. From this perspective, U.S. growth reached its peak back in 2018 and has started to slow. The cyclical component, as measured by late-cycle Capex activity, has also peaked. U.S. yields relative to the G7⁶ topped out back in mid-2018. The U.S. Fed balance sheet has expanded almost \$406 billion since the end of August 2019, while the ECB's balance sheet has increased by \$117 billion, and the BOJ has decreased by \$123 billion. We wonder out loud whether short-term bills can be sterilized like long-duration bonds were back during QE1, QE2 and QE3, since as short term bills, they need to be rolled over? There is still a reserve shortage so that repurchase operations will continue, but perhaps at a lower rate, once year-end demands have peaked.

The U.S. dollar should weaken if these short-term bills cannot be sterilized (assuming there are no other consequences). As it is, the U.S. Fed has a very distinct divergent policy as it comes to the balance sheet, and we think it will make its way into currency effects. From a fiscal view, the Trump administration actively wants a weak U.S. dollar policy and will undoubtedly continue to pressure the U.S. Fed on the monetary front for a weaker U.S. dollar. The administration will also likely bring about plans to weaken the U.S. dollar before the election. From a policy perspective, the U.S. probably has more maneuvering room relative to the ECB and BOJ to reduce the U.S. dollar if they choose to do so. If growth were to stall, the desire to weaken the U.S. dollar would increase.

In our August report, we touched on how a weakening U.S. dollar would provide a boost to the global economy; and, we also questioned whether a U.S. dollar devaluation would be co-ordinated or something more chaotic. We still do not know the answer yet, but if growth were to unexpectedly slow or worsen, we would likely see it reflected in currency volatility first. The JPM (JPMorgan Chase & Co.) G7 Currency Volatility Index is currently sitting around multi-decade lows. Such lows usually preceded major moves in currencies historically. Volatility, in general, is very compressed across all asset classes as a result of central bank activity. Volatility by its nature is inherently mean reverting — in other words, the pendulum will swing.

CFTC net positioning in the U.S. dollar has already started its downturn. Since the December 11 FOMC (Federal Open Market Committee) Meeting, U.S. dollar positioning has been coming down hard, the number of net longs has reduced by 70%. As a reminder, CFTC positioning has become dominated by CTAs and quants. Over the past 10 years, CFTC positioning has also been a good lead indicator for DXY direction.

Figure 4. CFTC Net U.S. Dollar Positioning has Started to Decrease



Source: Bloomberg as of December 31, 2019.

Sprott Monthly Report

January 6, 2020

Putting it Together for 2020: The Gold Advance Continues

The dramatic turnaround and drop in interest rates was the main narrative for gold in 2019. Looking ahead for 2020, we think U.S. dollar weakness will provide the second leg for the gold advance. Though interest rates may not have the scope for another massive move lower, we believe the upside is limited and will provide a solid floor for gold in 2020. The asymmetric view on interest rate directionality will have a very positive impact on gold pricing beyond the actual yield level. We see real interest rates at either zero or negative for the next few years. The level of negative real yields will likely be determined by the level of economic or financial stress. We are in the most extended U.S. economic cycle in history, with clear signs of the late-cycle peak already in place and mounting downside pressure.

¹ Sprott Gold Miners Exchange Traded Fund (NYSE Arca: SGDM) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Gold Miners Custom Factors Index (Index Ticker: SOLGMCFT). The Index aims to track the performance of larger-sized gold companies whose stocks are listed on Canadian and major U.S. exchanges.

² VanEck Vectors® Gold Miners ETF (GDX®) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the NYSE Arca Gold Miners Index (GDMNTR), which is intended to track the overall performance of companies involved in the gold mining industry.

³ The U.S. Dollar Index (USD, DXY, DX) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

⁴ Commodity Futures Trading Commission's (CFTC) Gold Non-Commercial Net Positions weekly report reflects the difference between the total volume of long and short gold positions existing in the market and opened by non-commercial (speculative) traders. The report only includes U.S. futures markets (Chicago and New York Exchanges). The indicator is a net volume of long gold positions in the United States.

⁵ Commodity Trading Advisors, i.e., quant funds, an investment fund that selects securities using advanced quantitative analysis.

⁶ The Group of Seven (G7) is an international intergovernmental economic organization consisting of the seven largest IMF-advanced economies in the world: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

Sprott Monthly Report

January 6, 2020

Two Unique ETFs to Invest in Gold Stocks

Sprott ETFs provide investors with access to innovative and unique indexes that are designed to outperform passive market cap-weighted offerings.

Sprott Gold Miners Exchange Traded Fund (NYSE: SGDM) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Gold Miners Custom Factors Index (Index Ticker: SOLGMCFT). The Index aims to track the performance of larger-sized gold companies whose stocks are listed on Canadian and major U.S. exchanges.

Sprott Junior Gold Miners Exchange Traded Fund (NYSE: SGDJ) seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index, the Solactive Junior Gold Miners Custom Factors Index (Ticker: SOLJGMFT). The Index aims to track the performance of small-capitalization gold companies whose stocks are listed on regulated exchanges.

Two Unique Indexes

Each Index is designed using specific Factors that Matter™ for a particular strategy. These customized factors are selected because they have historically proven to be strong predictors of stock performance.

Each Index:

- Seeks to outperform purely passive representations of the gold and silver mining industry.
- Uses transparent, rules-based methodology designed to overweight gold stocks with attractive investment merits relative to the other stocks in the Index.
- The stock selection and index weighting criteria were co-developed by Sprott Asset Management LP, a leading, long-time gold sector investor, and Solactive AG.

SGDM

NYSE ARCA

Sprott Gold Miners ETF

- Stocks weighted in the Index based on quarterly revenue growth and long-term debt to equity.
- Index is reconstituted quarterly.

SGDJ

NYSE ARCA

Sprott Junior Gold Miners ETF

- Stocks weighted in the Index based on revenue growth and price momentum.
- Index is reconstituted semi-annually.

Sprott Monthly Report

January 6, 2020

Sprott Gold Miners Exchange Traded Fund

Performance: Average Annual Total Returns* (%)

MONTH END AS OF 12/31/19	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.²
Sprott Gold Miners ETF (Net Asset Value)	7.59	9.56	43.44	43.44	10.61	8.02	0.62
Sprott Gold Miners ETF (Market Price) ¹	8.11	10.28	44.39	44.39	10.68	8.11	0.70
Solactive Gold Miners Custom Factors Index TR (Benchmark) ³	7.64	9.74	-	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index) ³	10.79	17.06	56.67	56.67	14.45	10.60	2.87
S&P 500 [®] Total Return Index	3.02	9.07	31.49	31.49	15.27	11.70	11.67
QUARTER END AS OF 12/31/19	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.²
Sprott Gold Miners ETF (Net Asset Value)	7.59	9.56	43.44	43.44	10.61	8.02	0.62
Sprott Gold Miners ETF (Market Price) ¹	8.11	10.28	44.39	44.39	10.68	8.11	0.70
Solactive Gold Miners Custom Factors Index TR (Benchmark) ³	7.64	9.74	-	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index) ³	10.79	17.06	56.67	56.67	14.45	10.60	2.87
S&P 500 [®] Total Return Index	3.02	9.07	31.49	31.49	15.27	11.70	11.67

Expenses (%) as of 07/19/2019

Management Fee	0.35
Other Expenses ⁴	0.28
Total Annual Fund Operating Expenses	0.63
Fee Waiver/Expense Reimbursement	0.13
Net Total Expense Ratio ⁷	0.50

Sprott Junior Gold Miners Exchange Traded Fund

Performance: Average Annual Total Returns* (%)

MONTH END AS OF 12/31/19	1 MO	3 MO	YTD	1 YR	3 YR	S.I.⁵
Sprott Junior Gold Miners ETF (Net Asset Value)	12.61	10.60	37.01	37.01	2.43	8.09
Sprott Junior Gold Miners ETF (Market Price) ¹	12.92	11.89	37.50	37.50	2.50	8.19
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark) ⁶	12.65	10.82	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index) ⁶	13.56	18.57	56.08	56.08	7.43	11.83
S&P 500 [®] Total Return Index	3.02	9.07	31.49	31.49	15.27	11.90
QUARTER END AS OF 12/31/19	1 MO	3 MO	YTD	1 YR	3 YR	S.I.⁵
Sprott Junior Gold Miners ETF (Net Asset Value)	12.61	10.60	37.01	37.01	2.43	8.09
Sprott Junior Gold Miners ETF (Market Price) ¹	12.92	11.89	37.50	37.50	2.50	8.19
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark) ⁶	12.65	10.82	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index) ⁶	13.56	18.57	56.08	56.08	7.43	11.83
S&P 500 [®] Total Return Index	3.02	9.07	31.49	31.49	15.27	11.90

Expenses (%) as of 07/19/2019

Management Fee	0.35
Other Expenses ⁴	0.46
Total Annual Fund Operating Expenses	0.81
Fee Waiver/Expense Reimbursement	0.31
Net Total Expense Ratio ⁷	0.50

See following page for footnotes.

Sprott Monthly Report

January 6, 2020

Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 888.622.1813 for current month end performance.

* Returns less than one year are not annualized.

¹ Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

² Inception date of 07/15/2014.

³ Effective 7/22/2019, SGDM began tracking the Solactive Gold Miners Custom Factors Index (SOLGMCFT). Historical Index data prior to 7/22/2019 is for the Sprott Zacks Gold Miners Index (ZAXSGDM). Index data on or after 7/22/2019 is the Solactive Gold Miners Custom Factors Index (SOLGMCFT), which was created by Solactive AG ("Index Provider") to provide a means of generally tracking the performance of gold mining companies whose stocks are traded on Canadian and major U.S. exchanges. An investor cannot invest directly in the Index. SGDM was reorganized from ALPS ETF Trust into Sprott ETF Trust on or about 7/19/19. SGDM is a continuation of the prior fund and, therefore, the performance information shown includes the prior fund's performance.

⁴ Other expenses are based on estimated amounts for the current fiscal year and are calculated as a percentage of the Fund's net assets.

⁵ Inception date of 03/31/2015.

⁶ Effective 7/22/2019, SGDJ began tracking the Solactive Junior Gold Miners Custom Factors Index (SOLJGMFT). Historical Index data prior to 7/22/2019 is for the Sprott Zacks Junior Gold Miners Index (ZAXSGDJ). Index data on or after 7/22/2019 is the Solactive Junior Gold Miners Custom Factors Index (SOLJGMFT), which was created by Solactive AG ("Index Provider") to provide a means of generally tracking the performance of junior gold mining companies whose stocks are traded on Canadian and major U.S. exchanges. An investor cannot invest directly in the Index. SGDJ was reorganized from ALPS ETF Trust into Sprott ETF Trust on or about 7/19/19. SGDJ is a continuation of the prior fund and, therefore, the performance information shown includes the prior fund's performance.

⁷ Sprott Asset Management LP, the investment adviser to the Fund, has contractually agreed to waive the management fee, and/or reimburse expenses so that Total Net Expense Ratio After Fee Waiver/Expense Reimbursements (not including distribution (12b-1) fees, shareholder service fees, acquired fund fees and expenses, taxes, brokerage commissions and extraordinary expenses) do not exceed a maximum of 0.50% of the shares average daily net assets through June 30, 2021.

Sprott Monthly Report

January 6, 2020



IMPORTANT DISCLOSURES & DEFINITIONS

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. This must be accompanied or preceded by a Prospectus. Read the Statutory Prospectus carefully before investing.

Sprott Gold Miners ETF and Sprott Junior Gold Miners ETF shares are not individually redeemable. Investors buy and sell shares of the Sprott Gold Miners ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

The Funds are not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Funds are considered nondiversified and can invest a greater portion of assets in securities of individual issuers than diversified funds. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in diversified funds.

Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable. These companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources and may lack management depth.

The Funds will be concentrated in the gold and silver mining industry. As a result, the Funds will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments.

Funds that emphasize investments in small/mid cap companies will generally experience greater price volatility.

Funds investing in foreign and emerging markets will also generally experience greater price volatility.

There are risks involved with investing in ETFs including the loss of money.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day.

ALPS Portfolio Solutions Distributor, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

ALPS Portfolio Solutions Distributor, Inc. is not affiliated with Sprott Asset Management LP.