Sprott

Gold Report

June 2, 2020

Paul Wong, CFA
Market Strategist

The New Normal

Authored by Paul Wong, CFA – Market Strategist; Paul has held several roles at Sprott, including Senior Portfolio Manager. He has more than 30 years of investment experience, specializing in investment analysis for natural resources investments. He is a trained geologist and CFA holder.

Gold bullion[1] continued to deliver strong performance and was up 14.04% YTD through May 31, 2020, and 32.54% YOY. At the same time, gold mining equities (SGDM)[2] have gained 18.26% YTD, and 61.70% YOY as of May 31. This compares to -4.97% YTD and 12.84% YOY returns for the S&P 500 TR Index.[6] Silver posted substantial gains in May and is on the move again.

Month of May 2020

Indicator	5/31/2020	4/30/2020	Change	% Change	*Analysis*
Gold Bullion[1]	**$1,730**	**$1,687**	**$44.00**	**2.60%**	**Bullion consolidating gains**
Silver Bullion	**$17.87**	**$14.97**	**$2.90**	**19.34%**	**Silver beginning its price move**
Gold Equities (SGDM)[2]	**$29.69**	**$28.61**	**$1.08**	**3.77%**	**Gold equities consolidating gains**
Gold Equities (GDX)[3]	**$34.32**	**$32.26**	**$2.06**	**6.39%**	same as above
DXY US Dollar Index[4]	**98.34**	**99.02**	**(0.68)**	**(0.69)%**	Elevated but stable trading range
Total Negative Debt ($Trillion)	**$12.66**	**$12.03**	**$0.63**	**5.23%**	Heading higher over the long term
CFTC Gold Non-Comm Net Position[5] and ETFs (Millions of Oz)	**125.52**	**124.27**	**1.25**	**1.01%**	Strong buying in Gold ETFs continuing

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 10.

Gold Bullion Continues to Climb

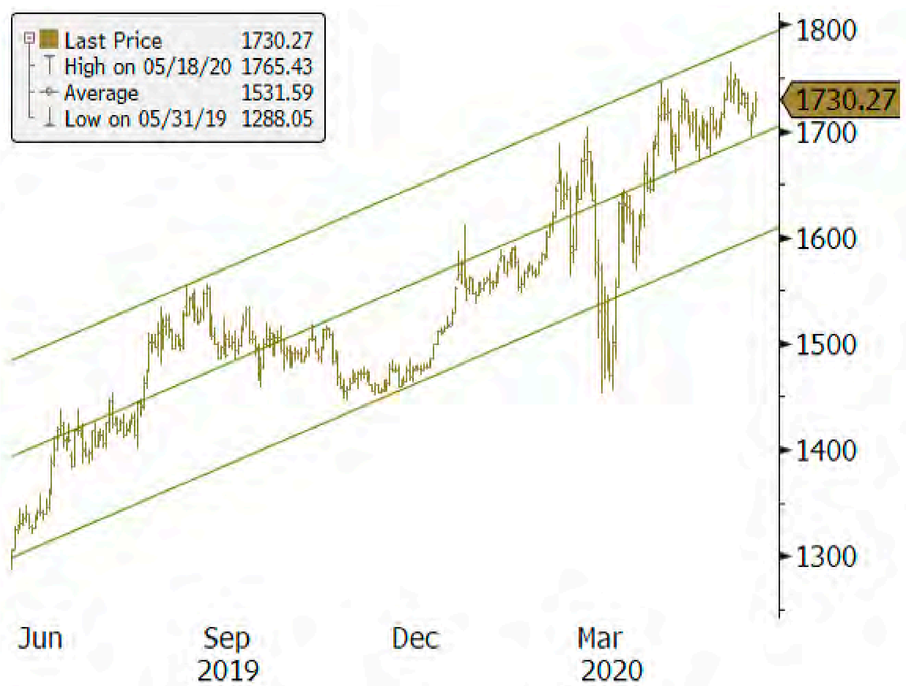
After a rather tumultuous past few months, every asset class appears to be normalizing, including gold bullion. Gold posted steady gains in May with a 2.6% increase. Since the March lows, gold is settling into a stable, rising channel posting higher highs and higher lows. Steady, robust buying in gold ETFs (exchange traded funds) and macro drivers confirm the gold accumulation pattern. The $1,800 price level remains the near term significant overhead resistance level. We would expect some modest consolidation at that level, barring any unexpected development.

Although the pandemic-related enormous monetary and fiscal packages have produced a remarkable recovery in the markets, the real economy remains in a fragile recovery state and vulnerable to any negative shock. In the past several weeks, capital markets and the economy have bifurcated. A global pandemic has never hit the global economy before, and as such, it is exogenous to the financial system where monetary and fiscal policies operate.

> "Events of May only reaffirm our bullish outlook for gold and gold equities, and the rest of the precious metals complex, especially silver."

There are still questions as to how effective policy responses will be for this type of unprecedented economic crisis. For capital markets, two months ago was like "Armageddon" and now we've swung back to FOMO (fear of missing out). For the economy, it is still at risk of a second wave of COVID-19 infection and to profound structural changes in consumer behavior that may become permanent. Gold's strength continues to reflect that more monetary and fiscal stimulus is likely in the months ahead.

Figure 1. Gold Bullion Remains in its Rising Channel



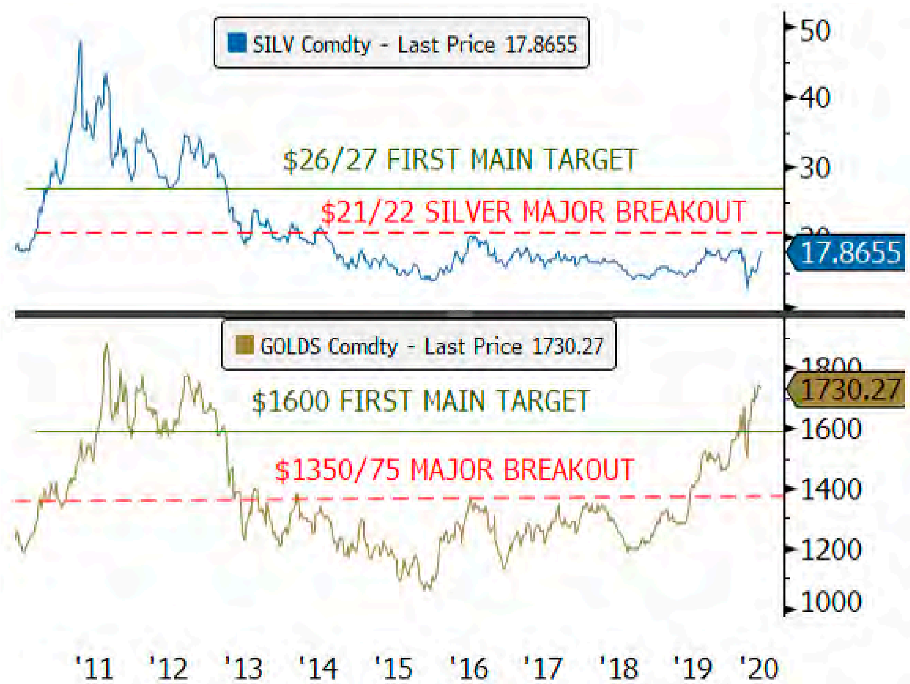
Source: Bloomberg. Data as of 5/31/2020.

Silver Bullion is Coming to Life

Silver bullion has not experienced the same benefit as gold in terms of capital flows from large investment funds. By size and liquidity, the gold market is roughly 15 times larger than the silver market. Silver's performance lag is not unusual; historically, a substantial silver move typically trails an initial major gold move. Silver tends to play catch up after the macro fundamentals are established and gold has advanced, and we are starting to see this now. During the March downturn, silver sold off aggressively and has only recently begun to recover. Though silver has a significant industrial-use component, it still has a monetary value component at its core. In Figure 2, we compare the price performance of gold and silver since 2010. The chart pattern equivalent of the big base breakout of $1,350-$1,375 for gold is approximately $21-$22 for silver. Through this critical level, $21-$22 will open the $26-$27 price level on silver, which is roughly equivalent to the $1,600 price level for gold. At this writing, silver is at ~$18. We see $19 as the minor short-term resistance before silver reaches the significant $21-$22 resistance level. We view a test of the $21-$22 price level as highly likely. A successful break out would mean an incredible silver catch-up trade to gold.

For perspective, the current gold/silver ratio is at 97, compared to an average of 68 since 1988. Going back 50 years, 97 sits at the 99.4% tile reading, an extreme measure prone to mean reversion.

Figure 2. Silver Price versus Gold Price Movements (2010-2020)



Source: Bloomberg. Data as of 5/31/2020.

Gold Equities Continue to Advance

Gold equities having been advancing quickly after breaking out past the multi-year resistance of $31 on GDX,[2] as we had predicted. Market breadth widened as the buying spread across almost all gold equities. Buying surged up to the first minor resistance level of $37-$38 on GDX, the upper channel (green lines in Figure 3). We expect the $40 target to be reached in short order, which will likely be followed by some consolidation.

We still see gold miners' earnings steadily being revised higher and consensus commodity forecasts continue to trend below market levels, laying the ground for future positive earnings surprises and strong positive earnings revisions. In Q1 this year, the average price of gold bullion was $1,583. Thus far in Q2, the gold price is averaging $1,702, an increase of $118 from Q1. The ability of gold equities to break through a multi-year resistance barrier on strong money flow dynamics sets the stage for higher targets. The entire trade range from 2013 to early 2020 was an incredibly large base pattern that projects to a GDX price of $50 as the long-term target.

Figure 3. Gold Equities Advancing to First Major Target

Source: Bloomberg. Data as of 5/31/2020.

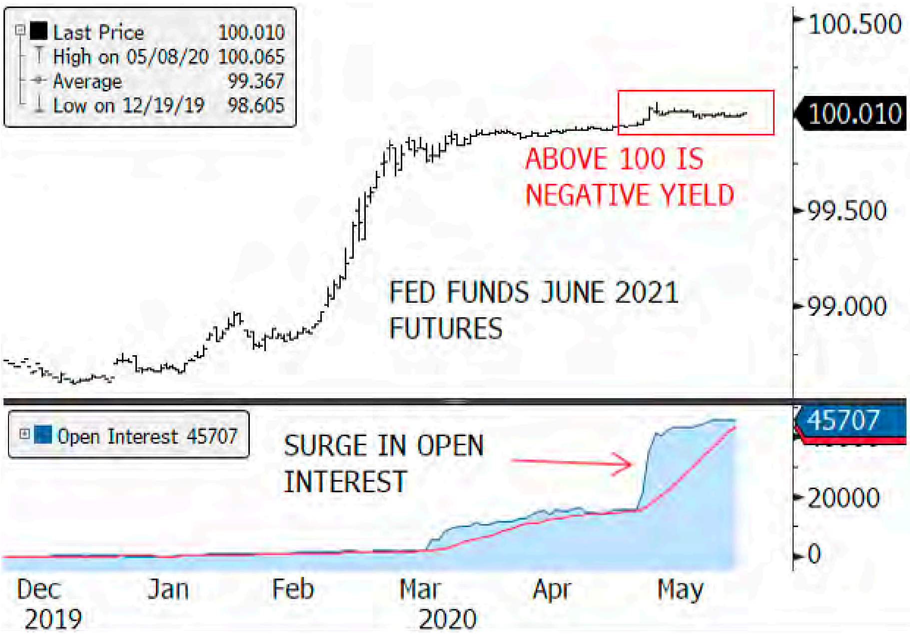
Market Beginning to Price in Negative U.S. Interest Rates

In May, the Federal Reserve's ("Fed") Futures market began to price in the potential of negative Fed Funds rate in the December 2020 and out contracts. U.S. policymakers have pushed back against a negative interest rate policy ("NIRP") but have not ruled it out explicitly. There are significant roadblocks for NIRP, including political and legal, crippling the banking sector and disrupting the repo market (repurchase agreements are a critical part of the financial plumbing system). On a practical level, there is no significant evidence that NIRP even works.

The Fed view is that additional QE (quantitative easing) and yield curve control will likely produce the same desired results across broader financial conditions without the negative consequences of NIRP. While the Fed has pushed back against a NIRP, it has not ruled it out, perhaps to maintain downward pressure on interest rates. The result for countries with negative interest rates that did try NIRP were modest: a mild yield curve bull steepener (lower short rates relative to the long end) and marginally lower-term premiums. The potential damage to the banking system, the repo markets and savers hardly seem to justify negative rates.

The real risk, though, is that the market begins to price in NIRP and it heads towards a self-fulfilling prophecy as policymakers worry about not delivering on the market expectation. The risk becomes that the Fed either folds or the market craters. That was a key theme in 2019 when the Fed eventually cut interest rates in the face of market pressures (the 2019 Powell Pivot). If the market manages to corner the Fed into NIRP, gold bullion would likely explode to the upside, possibly through the 2011 highs of $1,921.

Figure 4. Fed Funds Futures Starting to Price in the Possibility of Negative Interest Rates



Source: Bloomberg. Data as of 5/31/2020.

If the pressure builds for NIRP and it is developing (see Figure 4 surge in open interest), the Fed will likely implement yield curve control sooner, rather than later. The central differential between QE and yield curve control is that QE targets the quantity, not the price of the target asset. Yield curve control targets the price outcome. Ultimately, it is the market's perception of the Fed's resolve that determines the quantity necessary to achieve yield curve control — it can be large or small. Yield curve control is almost certainly coming; it is only a question of when. Despite the astounding scope of QE Infinity, the amount is still not enough if the goal is to lift the U.S. unemployment level from the current depressionary levels of 20%-25%.

The Fed will likely target only the short end of the curve within a range of perhaps 20 basis points or so. With the front end of the curve permanently anchored, the curve can only experience a bear steepener (long yields rise) or a bull flattener (long yields fall). QE will compress the term premium pushing real rates lower with the front end fixed, leaving the long end as the only part of the curve that can provide discounting and signaling capabilities. If so, then everything in time will become increasingly correlated with breakeven yields. If QE and yield curve control "works" and demand rises, then breakevens will widen and push real rates lower (more negative, good for gold). Lower real rates stimulate more consumption and raise prices resulting in a bear steepener or "risk-on" market. In the post-COVID world, by this measure, gold will likely become positively correlated to "risk-on" reflation conditions. This change in gold's correlation to risk-on markets may run counter to the experience of the past decade, but the world has changed so much.

Tomorrow's Corporate Credit Crises

As impressive as the liquidity-driven equity market rally from the March lows has been, the corporate debt market may even be more impressive. Year-to-date 2020, corporate debt issuance has now exceeded $1 trillion, more than all of 2019, with no signs of slowing in the midst of one of the worst economic backdrops ever. The Fed promise of QE purchases of Treasuries, investment-grade debt and even junk bonds in unlimited quantities have kept yields low and have narrowed spreads. Despite that promise, rating agencies, credit analysts, and also the Fed continue to warn of the coming widespread downgrades, defaults and bankruptcies (Figure 4).

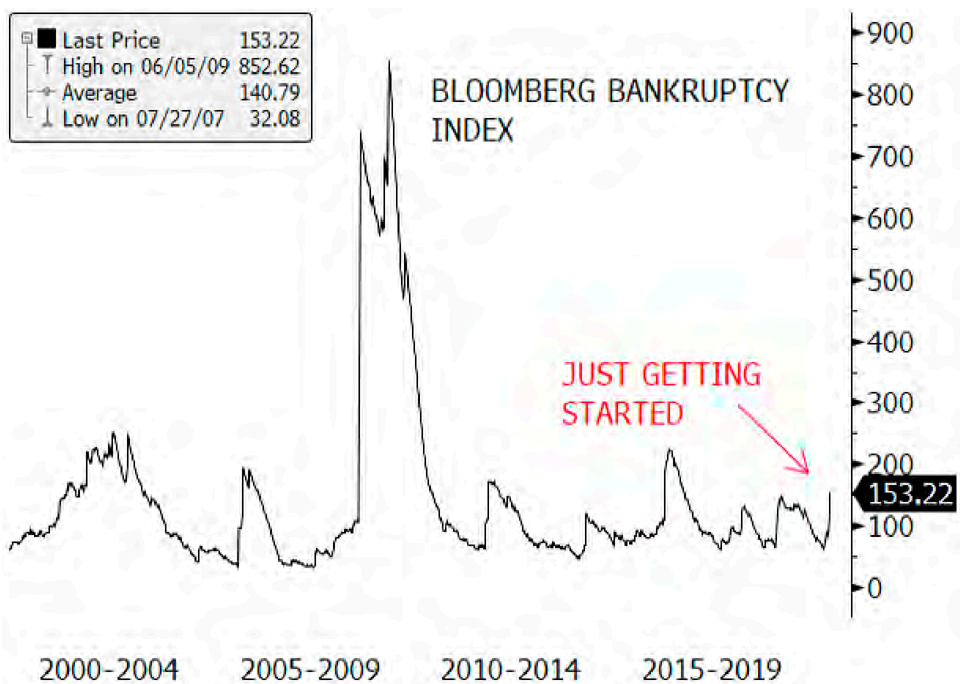
The Fed has stated that it expects the economic damage from the pandemic to be long-lasting and profound. The Fed also warns that as highly leveraged companies fail, it will amplify the economic downturn as companies lay off workers and cut investments. The U.S. is a consumer-driven economy, with 40 million recently unemployed from a total labor force of about 160 million. The backdrop could hardly be worse.

Surviving the Liquidity Crunch

Despite all the apparent risks and warnings, the market is quickly absorbing the corporate debt issuance at a panic buying pace. The alternative is zero or near-zero yielding government bonds. The Fed implementation of yield curve control will keep yields low and encourage more debt issuance. Like the previous decade, high debt levels continue to expand, and then some.

Pre-COVID, much of the proceeds of debt issuance were used to buy back shares. Post-COVID, the debt proceeds will be used to survive the liquidity crunch. Companies that had weak balance sheets and negative market trends are increasing debt to gain liquidity to survive the pandemic crisis, but will be at risk of being a credit event later. Whether the result is the Fed unleashing a new level of moral hazard and creating an army of zombie companies, or that the Fed has already averted a major systemic credit event, the game is not over yet.

Figure 5. Bloomberg Bankruptcy Index



Source: Bloomberg. Data as of 5/31/2020.

U.S.-China Tensions Rising, Yuan Weakening

U.S. and China relations have been a deteriorating spiral recently. Tensions have been rising for the past few years and are now escalating. At first, tension arose over the imbalance of trade. The next area of contention centered around technology. Now, the restriction of capital flows is being implemented. With world trade declining and capital restriction rising during a depression between the world's two largest economies, risk levels can soar quickly.

The best way to view this risk is probably via USD/CNY (official Yuan cross) or USD/CNH (offshore Yuan cross). USD/CNY is still a global bellwether for growth and risk appetite. A weaker Chinese Yuan Renminbi (CNY) would be a risk-off indication. A weak CNY would have a multitude of effects depending on the magnitude: a stronger U.S. dollar (USD) leading to rising USD funding stress, rising deflation via slowing growth, increasing emerging market stress and the subsequent bleed off into the financial system. Despite all the monetary easing, fiscal stimulus, dollar swap lines and expanded credit facilities, a USD funding shortage remains and is highly vulnerable to any liquidity shock event. A revisit of the mid-March liquidity crunch could be a possibility. A more significant risk scenario will be if the CNY is devalued at the same time bankruptcies are occurring. A weakened and fragile financial system facing a liquidity squeeze, credit events and tightening credit would be another market nightmare.

Figure 6. USD/CNY Poised to Weaken Further

Source: Bloomberg. Data as of 5/31/2020.

The New Normal

Events of May only reaffirm our bullish outlook for gold and gold equities, and the rest of the precious metals complex, especially silver. There is a remarkable disconnect between Wall Street and Main Street. Markets have rallied sharply due to the unprecedented amount of liquidity injected, while most investment funds remained underweighted, and are now being forced back into the markets. The economic and financial damage will be long-lasting and will provide ongoing support for the current precious metals rally. However, if yield curve control is implemented, economic recovery will create a more negative real yield condition as nominal rates remain fixed while inflation expectations rise. **We are approaching the possibility of an odd scenario where if the economy does poorly, gold does well. And if the economy recovers, gold does well.**

1 Gold bullion is measured by the Bloomberg GOLDS Comdty Index.

2 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.

3 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.

4 The U.S. Dollar Index (USDX, 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.

5 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.

6 The S&P 500 or Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

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 Gold Report
June 2, 2020

Sprott Gold Miners Exchange Traded Fund

Performance: Average Annual Total Returns* (%)

MONTH END AS OF 5/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[2]
Sprott Gold Miners ETF (Net Asset Value)	3.89	29.41	18.26	61.70	14.11	11.72	3.49
Sprott Gold Miners ETF (Market Price)[1]	3.77	30.62	17.86	61.77	14.19	11.73	3.51
Solactive Gold Miners Custom Factors Index TR (Benchmark)[3]	4.13	29.48	19.33	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index)[3]	6.08	32.93	15.43	71.88	17.01	13.73	5.20
S&P 500® Total Return Index	4.76	3.59	-4.97	12.84	10.23	9.86	9.85

QUARTER END AS OF 3/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[2]
Sprott Gold Miners ETF (Net Asset Value)	-12.78	-20.30	-20.30	5.76	0.35	4.11	-3.32
Sprott Gold Miners ETF (Market Price)[1]	-12.19	-20.76	-20.76	5.54	0.24	4.12	-3.35
Solactive Gold Miners Custom Factors Index TR (Benchmark)[3]	-12.67	-19.51	-19.51	-	-	-	-
Sprott Zacks Gold Miners Index (Legacy Index)[3]	-13.91	-25.24	-25.24	8.18	1.58	5.19	-2.36
S&P 500® Total Return Index	-12.35	-19.60	-19.60	-6.98	5.10	6.73	6.97

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 5/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[5]
Sprott Junior Gold Miners ETF (Net Asset Value)	13.16	23.17	2.84	38.39	4.07	5.68	8.00
Sprott Junior Gold Miners ETF (Market Price)[1]	14.09	25.85	1.91	37.48	3.91	5.57	7.90
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark)[6]	13.07	23.52	3.29	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index)[6]	16.77	31.47	7.63	64.64	10.72	10.12	12.42
S&P 500® Total Return Index	4.76	3.59	-4.97	12.84	10.23	9.86	9.81

QUARTER END AS OF 3/31/2020	1 MO	3 MO	YTD	1 YR	3 YR	5 YR	S.I.[5]
Sprott Junior Gold Miners ETF (Net Asset Value)	-19.24	-32.58	-32.58	-16.70	-12.69	-0.28	-0.48
Sprott Junior Gold Miners ETF (Market Price)[1]	-19.28	-34.64	-34.64	-18.97	-13.46	-0.77	-1.01
Solactive Junior Gold Miners Custom Factors Index TR (Benchmark)[6]	-19.17	-32.41	-32.41	-	-	-	-
Sprott Zacks Junior Gold Miners Index – TR (Legacy Index)[6]	-21.35	-35.61	-35.61	-9.53	-9.84	2.05	1.85
S&P 500® Total Return Index	-12.35	-19.60	-19.60	-6.98	5.10	6.73	6.54

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.

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 Gold Report

June 2, 2020

Sprott | ETFs
Factors *that* Matter™

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 Distributors, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

ALPS Distributors, Inc. is not affiliated with Sprott Asset Management LP.

0620635 05/20_SAM_ART_SGR_ETF

SPT000604 06.30.2021