Monthly commentary / 29.5.2026

Vontobel Fund – Emerging Markets Debt

Marketing document for institutional investors in: AT, CH, DE, DK, ES, FI, FR, GB, IE, IT, LI, LU, NL, NO, PT, SE, SG (Professional Investors only).

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Market developments

Markets extended their rally in May, pricing in an imminent deal between the US and Iran that would result in the reopening of the Strait of Hormuz. However, at the time of writing, such a deal remains elusive. Global equities (MSCI World) rose by another 4.4%, reaching new all-time highs. The move was led by the MSCI EM ex-China, which gained 13.5%, followed by MSCI EM (+9.5%), while the S&P 500 advanced 5.1%. Commodity prices diverged. Brent crude oil dropped 19.3% to USD 92 per barrel before recovering in early June as Iran war risks re-escalated following US strikes on an Iranian tanker and Iranian retaliation against Kuwait and Bahrain. Copper prices climbed 5.0%, in line with industrial metals (+4.8%, Bloomberg industrial metals subindex). Core rates also showed some divergence, with US Treasury 10-year yields rising by 6.5 basis points (bps) to 4.43%, while German 10-year Bunds dropped 10bps to 2.93%, and UK 10-year gilts declined by 20bps to 4.81%. Economic data appears to justify this yield divergence. US nonfarm payrolls surprised on the upside again, with 115,000 jobs created (compared with expectations of just 65,000), and US manufacturing remains in expansion mode, with S&P PMIs at 54.5 in April and ISM manufacturing at 52.7. European manufacturing PMIs are also in expansion at 51.6, but European services PMI remains in contractionary territory at 47.7, in contrast with the more resilient US demand. The market is pricing in a 20bps interest-rate hike by the US Federal Reserve (Fed) by year-end. That’s still short of a full 25bps increase, but it’s up from no hikes being priced in at the end of April. For the European Central Bank (ECB), the market is pricing in 68bps of rate hikes by year-end, down from 73bps (nearly three hikes) at the end of April. Although ECB communication has been relatively hawkish, we believe weakness in the European economy is likely to make it difficult for the ECB to deliver three hikes this year.

Emerging-market (EM) fixed-income indices performed well in this risk-on month:

EM hard-currency sovereigns (EMBIG Div) rose by 1% over the month, led by high-yield (HY) sovereigns, which rose by 1.6%, while their investment-grade (IG) counterparts gained 0.4%. Africa was the best-performing region, up 2.3%, followed by EM Europe (+1.4%), whereas Latin America lagged behind other regions with a gain of only 0.4%. Among the top 10 sovereign performers, nine were frontier markets, and all 10 were HY.

The trend of sovereign rating upgrades continued in May. Argentina received its first upgrade to B- from Fitch, while Ghana obtained its first B rating, also from Fitch, reflecting a rapid improvement following its 2022 default and 2024 restructuring. Nigeria was upgraded to B by S&P, aligning its rating with Fitch. Mexico bucked the trend, being downgraded to Baa3 by Moody’s due to recent fiscal slippages.

Ukrainian bonds were the best-performing sovereign bonds in May (+10.5%). Market optimism appears to have increased following Russian President Vladimir Putin’s remarks about the war coming to an end, which he later clarified were referring to battlefield advances. Ukrainian President Volodymyr Zelenskyy’s chief of staff also said that a peace deal by winter was realistic. However, it appears that both sides are stepping up military attacks to pressure the other, rather than preparing to make compromises. The outperformance is also likely being driven by market participants chasing high-carry opportunities in an environment of tight spreads.

In Africa, Zambian bonds (+7.3%) were the second-best performers of the month, following the announcement of a tender to repurchase the Zambia 2053 state-contingent bond by the Zambian government. The tender initially offered an above-market price of 78 cents per dollar of face value for early bird tenders and 74 cents per dollar of face value for late tenders. However, the market rallied above the tender price on the presumption that the government is attempting to repurchase the bond because they know it will trigger and convert into a 2035 bond with a much higher coupon and a net present value (NPV) significantly exceeding the tender price. This forced the government to increase the tender price range to 82.8–84.4 cents per dollar of face value. Mozambique (+7.2%) bonds recovered strongly from their April lows, which we believe were driven by unjustified fears of imminent default. A private report suggested that a bondholder group was organizing to negotiate a friendly bond extension, including a value recovery instrument. Given Mozambique’s substantial future gas revenues, this could result in an NPV-neutral or even NPV-positive exchange. Gabon (+5%) bonds performed well following the country’s revised 2026 budget, which still includes a large but more reasonable 7% of GDP budget deficit and confirms intentions to obtain an International Monetary Fund (IMF) program (a formal request was submitted in March). High oil prices also support FX reserve accumulation in CEMAC, benefiting Gabon, Republic of Congo, and Cameroon. Kenya (+4.5%) and Egypt (+3.4%) were also among the top six sovereign performers; however, we attribute their performance primarily to their high-beta status and broad market movements.

Senegal (-6.6%) was the worst-performing country on the continent and in EM overall. Political developments complicate a resolution to the distressed situation: President Bassirou Diomaye Faye dismissed Prime Minister Ousmane Sonko, but Sonko's party subsequently appointed him as speaker of parliament. As a result, the president has lost support from his party and the legislative majority, leading him to reshuffle his cabinet with technocrats unaffiliated with any party. This will make it increasingly difficult for the government to implement necessary fiscal consolidation and to secure an IMF program. An eventual default/restructuring remains our baseline scenario.

Argentina (3.2%) and Sri Lanka (+3.2%) both received positive IMF program reviews. In Argentina's case, the second program review was approved, securing an additional USD 1 billion disbursement despite missing some quantitative targets in December 2025. This approval was granted due to the strong pace of FX reserve accumulation observed so far in 2026 and promising prospects for further FX purchases. Additionally, the Treasury eliminated USD 13 billion of Kirchner-era intra-public sector debt owed to the central bank by using the bank's profits, which otherwise could have been transferred to the Treasury. This action reduces the country's gross debt by nearly 2% of GDP. Sri Lanka obtained the combined fifth and sixth IMF program reviews, resuming the program after delays caused by Cyclone Ditwah last year and securing a USD 695 million disbursement. The authorities appear committed to orthodox policymaking: the central bank raised interest rates by 100bps to support the currency, and the government increased vehicle import taxes from 30% to 45% to preserve FX reserves. They have also secured oil supplies through November. Thus, we believe this vulnerable oil-importing country is relatively well positioned to manage the oil shock.

Bolivia (-2.4%) was the second-worst sovereign performer in May, as large protests demanding the reversal of fuel price hikes, large wage increases, and the president's resignation are blocking the capital city. These protests are likely to slow the pace and limit the magnitude of the large and urgently needed fiscal adjustment.

Portfolio review

We maintained the fund's average credit risk at BB+, consistent with the benchmark rating. We reduced exposure to Africa through Angola, Egypt, Ivory Coast, and Kenya. In Egypt, we also started to move back from the belly to the long end of the curve, reversing the previous month's strategy. In Angola, we reallocated some exposure from Sonangol, the state-owned energy company, to sovereign bonds after Sonangol significantly outperformed the latter. We increased exposure to quasi-sovereign bonds in Chile and added EUR-denominated bonds in Romania. In Türkiye, we increased exposure to sovereign and corporate bonds, as we believed the spread widening caused by recent political noise was exaggerated. We participated in the new issue of EUR-denominated Indonesian bonds. We also increased exposure to Sri Lanka, recognizing the proactive and orthodox policymaking the authorities are maintaining in reaction to higher energy prices. We slightly reduced Colombian exposure but maintained an overweight position relative to the benchmark ahead of the first round of presidential elections. In Mexico, we shifted some exposure from sovereign bonds to Petroleos Mexicanos bonds, the state-owned energy company, to capture an attractive spread pickup. In the supranational space, we moved some exposure from the African Export-Import Bank to the West African Development Bank.

Performance analysis

The fund outperformed its benchmark by 0.48% in May (net, I share class). This outperformance is attributed equally to bond selection and country allocation. The primary contributor to relative performance was the position in EUR-denominated bonds in Romania, which outperformed their USD-denominated counterparts. The portfolio's selection of corporate and quasi-sovereign bonds in Brazil also contributed positively. In Africa, overweight positions in Cameroon, Ivory Coast, and the Republic of Congo supported relative performance versus the benchmark. However, the portfolio's selection of corporate and quasi-sovereign bonds in Türkiye detracted from the relative performance. Additionally, underweight positions in Bahrain, Nigeria, and South Africa detracted somewhat from relative performance.

Outlook

Communications from the US administration and Iran indicate that both sides are closer to reaching a deal that could reopen the Strait of Hormuz than they were a month ago. As mentioned in our previous monthly commentary, we believe both parties have sufficient economic and political incentives to reach an agreement. That said, at the time of writing, the Strait of Hormuz remains closed, and stocks of crude oil and petroleum products continue to deplete at an unsustainable pace. However, markets have almost entirely priced in a reopening. Brent crude oil prices remain near USD 95 per barrel, and inflation has picked up significantly, prompting some EM central banks, such as in South Africa, Indonesia, and Sri Lanka, to hike interest rates, while others, like in Brazil, have paused their easing cycles. Overall yields are significantly higher than pre-war levels, making fixed income relatively more attractive, in our view. However, on the hard-currency side, this can entirely be explained by higher risk-free rates, as most EM spreads are now tighter than before the war, with a few exceptions. On aggregate, we believe the risk-reward proposition is less attractive on the hard-currency front following last month's rally. Nevertheless, we still see numerous idiosyncratic opportunities. In fact, we believe the broad market rally has not been sufficiently differentiated among issuers, opening potential relative-value opportunities in the market. Moreover, these tighter spreads are not unique to EM; development-market credit spreads are equally tight, reflecting a global economy that has remained resilient to the oil shock. The US economy, in particular, remains especially robust, with a jobs market that no longer signals an impending economic downturn. In other words, for cross-asset investors, a

reflation investment regime appears to be the most likely scenario rather than a stagflation regime, which is positive for risk assets. Indeed, if the Strait of Hormuz reopens promptly, we believe this market interpretation will turn out to be correct. However, the risk of further significant delays in reaching a deal, which could result in quantitative constraints on fuel supplies for the global economy, remains a possible scenario, one that is no longer being priced in with significant probability. If such a negative scenario were to materialize (though it is not our baseline), markets could shift from a reflationary to a stagflationary interpretation of the facts, necessitating a significant correction in risk assets. In this environment, we focus our efforts on continuing to make the most of relative-value opportunities while aiming to keep aggregate risks in check.
On the local-currency front, we believe valuations are now more interesting than they were pre-war, as nominal yields have increased significantly more than inflation expectations, causing real yields to spike to nearly one standard deviation above the long-term median. As such, we believe aggregate local-currency valuations are more attractive than hard-currency ones, where spreads remain below their long-term median. Moreover, several inflation data points for May, published so far in early June, suggest that inflation may peak at a lower level than the market had anticipated. Czech consumer prices rose by just 0.1% in May (versus 0.3% expected), reducing the annual inflation rate from 2.5% to 2.1% (2.3% expected). Lima's (Peru) monthly inflation was negative, lowering the annual rate from 4.0% to 3.9% (4.2% expected). Inflation in Thailand and the Philippines was also significantly below consensus, with Thailand's annual rate declining from 2.9% to 2.8% (an acceleration to 3.1% was expected), and the Philippines' rate falling to 6.8% from 7.2% the previous month, contrary to an expected acceleration to 7.8%. If this trend continues, it would likely confirm our view from two months ago that nominal EM rates had sold off excessively compared to developed-market (DM) rates. We see a resumption of US exceptionalism, driven by the AI boom, as the main risk for local currency assets, as this could strengthen the dollar in the short term. This is why we currently maintain a low beta exposure to EM FX but an elevated beta exposure to EM rates in our local currency strategies.
We do not view the strength of the US economy as a potential risk to inflation dynamics in EM, and believe that EM FX can still outperform non-US DM currencies, just as it did in May, when EM FX delivered positive returns (measured in USD) despite a strengthening dollar, supported by elevated real rates and proactive EM central banks that do not hesitate to hike rates in response to inflationary global shocks. Furthermore, we see numerous high-carry, low-beta idiosyncratic opportunities in local-currency frontier markets, which we believe are likely to remain relatively insulated from most global market developments.
On the fundamental side, we find strong support for the asset class in the continued trend of sovereign rating upgrades over the past three months, despite the oil shock. There have been two downgrades in major Latin American countries (Mexico and Colombia) due to their lack of fiscal discipline. However, several smaller HY countries across all continents have been upgraded during this period. It is noteworthy that orthodox policymaking is prevailing in some of the most vulnerable countries, such as Sri Lanka and Pakistan, whose governments are wary of reversing the significant progress made over the last four years. Meanwhile, on the technical side, demand for new issues remains strong, and inflows into the asset class quickly resumed after the initial phase of the war. In April, USD 6.8 billion returned to EM bonds, effectively offsetting the USD 6.9 billion that exited in March, and the asset class received an additional USD 3.3 billion in May, according to EPFR data.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Debt
ISIN	LU0926439729
Share class	I USD
Benchmark	J.P. Morgan EMBI Global Diversified Index
Inception date	15.5.2013

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	1.5%	1.0%
YTD	3.6%	2.6%
1 year	15.0%	13.7%
3 yrs p.a.	15.3%	10.9%
5 yrs p.a.	4.2%	2.6%
10 yrs p.a.	5.3%	4.0%
ITD p.a.	4.7%	3.8%

Time period	Fund	Benchmark
2025	14.9%	14.3%
2024	13.8%	6.5%
2023	14.3%	11.1%
2022	-19.9%	-17.8%
2021	1.0%	-1.8%
2020	1.4%	5.3%
2019	14.8%	15.0%
2018	-6.5%	-4.3%
2017	17.0%	10.3%
2016	12.7%	10.2%

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Investment risks

- Distressed securities have a high credit and liquidity risk as well as a potential restructuring and litigation risk. In the worst case, a total loss may result.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-fund's investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-fund's performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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