Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU.

Market developments

The second quarter was defined by the trajectory of the conflict in the Middle East and its effect on oil markets. April opened with a partial reversal of March's risk-off sentiment, as a 14-daycease-fire between the US and Iran provided a catalyst for sentiment in early April. Even as formal negotiations in Islamabad collapsed, US President Donald Trump declared a naval blockade of the Strait of Hormuz, and passage was intermittently halted. Risk appetite built through May as markets priced an imminent US-Iran deal and the reopening of the Strait, carrying global equities to new all-time highs led by emerging markets (EM). June showed the classic "sell the news" after "buy the rumor" the previous month: the US and Iran signed a memorandum of understanding that hinted at a possible peace deal, oil flows through the Strait of Hormuz recovered rapidly (estimated at roughly 8.7 million barrels per day (mbd) by the third week of June, still well below the ~20 mbd level prior to the war but roughly triple the May average), and risk assets consolidated with a mild pullback while appetite stayed elevated. Brent traced the whole arc, stabilizing around USD 115 per barrel in April, falling to ~USD 92 in May, and sliding into the low USD 70s by quarter-end. This oil round-trip was the single most important driver of relative performance across EM, first favoring exporters and then rotating decisively toward importers as prices fell. The broader commodities market followed the same peak-and-fade: industrial metals rallied in April and May (copper was notably strong) before correcting sharply alongside oil in June, with copper again outperforming on the way down; precious metals were softer.

Core rates were pulled by two opposing forces. The inflation shock from oil was less severe than feared, and the later collapse in prices capped upward pressure. But US Treasury yields still drifted higher throughout the quarter, with the 10-year ending around 4.465% (from ~4.37% at the end of March). The larger story was the repricing of expectations for the US Federal Reserve (Fed). Markets moved from pricing in essentially no cuts (in April, the odds for an interest-rate cut stood at just ~10.6% by December 2026) to pricing in rate hikes – around 20 basis points (bps) by year-end as of the end of May . By June, with a rather hawkish tone at Kevin Warsh's first meeting as the new Fed chair , this led to a rising probability of a rate hike as early as September or October. US demand stayed resilient (upside payrolls surprises, manufacturing in expansion), reinforcing the move. Europe diverged: 10-year Bund yields fell to ~2.86% and gilts were lower, as euro-area inflation softened materially into June (German and French CPI both declined on the month, pulling year-on-year rates down), alongside signs of cooler inflation across Eastern Europe and other EMs. The resulting US–Europe split (resilient US demand against weaker European services) was a defining macroeconomic feature of the quarter. Among EM central banks, Brazil's Banco Central do Brasil cut rates by 25bps to 14.75%, while Colombia's BanRep hiked a second consecutive 100bps to 11.25%, the clear regional outlier. EM-dedicated bond fund flows turned positive in April after heavy outflows in March, providing a supportive technical backdrop as the quarter progressed.

On the EM hard-currency sovereign side, high-yield (HY) sovereigns led investment grade (IG) throughout the quarter, and frontier credits dominated the top of the performance tables. The recovery was spread-driven and concentrated on idiosyncratic, high-carry stories rather than any single thematic driver. Regional leadership rotated with the oil trade: Africa and frontier names led early, Latin America and EM Europe took over into June, and the Middle East lagged amid the Iran overhang and, later, the decline in oil prices. Ratings momentum was a defining theme, concentrated in HY and frontier names. Argentina secured B- ratings from both Fitch and S&P, Ghana its first B (Fitch), Nigeria a B from S&P (aligning with Fitch), and Uzbekistan Ba2 from Moody's. Mexico was the notable exception, downgraded to Baa3 by Moody's on fiscal slippage. Several country stories arced clearly throughout the quarter: Venezuela round-tripped. It was among the strongest performers early on, as the International Monetary Fund (IMF) resumed formal contact backed by a majority of its membership following US recognition of acting president Delcy Rodríguez. It then found itself among the weakest in June after a report by the Financial Times suggested the restructurable debt stock is materially larger than expected, implying lower recovery values. Ukraine was a consistent outperformer through April and May amid improving external-support visibility (a Pentagon disbursement, an expected IMF mission) and optimism around remarks made by Russian President Vladimir Putin and Ukrainian President Volodymyr Zelenskyy. Sentiment was also aided by investors chasing carry in a tight-spread environment, though both sides continued military escalation. Argentina improved steadily. A second IMF review was approved, unlocking further disbursement. The elimination of Kirchner-era intra-public-sector debt reduced gross debt by nearly 2% of GDP, while two upgrades to B- and fresh multilateral loans (USD 2 billion from the World Bank and USD 550 million from the IDB) alongside a stronger trade surplus, enabling the country to meet Eurobond maturities without market refinancing. Bolivia turned around sharply. It was a laggard in May amid capital-blocking protests before it became a strong performer in June as the protests faded and the central bank devalued the boliviano by almost 40% after years of a fixed, increasingly overvalued, peg. This was a step toward an IMF-supported program, though a large fiscal adjustment with thin political support still lies ahead. Colombia performed well despite an S&P downgrade to BB- and BanRep's aggressive rate hikes and rallied again following the runoff victory of right-wing candidate Abelardo de la Espriella. Mozambique recovered from what we viewed as unjustified default fears, helped by a surprise early IMF repayment and reports of a bondholder group organizing a friendly, potentially NPV-neutral or positive extension given the country's future gas revenues. Zambia rallied on a tender for its 2053 state-contingent bond, with the government forced to raise the tender range as the market anticipated a trigger into a higher-coupon 2035 instrument. Sri Lanka gained steadily on the combined fifth/sixth IMF reviews and the associated disbursement, supported by orthodox policymaking, including a 100bps hike, higher vehicle import taxes, and secured oil supplies, and benefited from the late-quarter tailwinds as an oil importer. Senegal was the quarter's clear underperformer: the rupture between President Bassirou Diomaye Faye and Prime Minister Ousmane Sonko cost the president his legislative majority, complicating fiscal consolidation and prospects for an IMF program. Default or restructuring remains our baseline. The exporter-importer divide crystallized as oil fell into quarter-end. Fragile oil importers (Sri Lanka, Pakistan, Kenya) outperformed, while HY oil exporters (Venezuela, Gabon, Angola, Nigeria, Cameroon) gave back some ground. Even so, the exporters remain among the strongest performers year to date and are in a much stronger financial position than before the war. On the EM hard-currency corporate side, HY again outperformed IG throughout the quarter. Latin America was the consistent regional leader, Africa was strong early on, Europe lagged on Turkish weakness, and Asia's more defensive composition meant it participated less in the rally. At the sector level, transport posted the strongest recovery as airline credits rebounded on lower jet-fuel costs. Real estate also recovered, while pulp & paper and consumer sectors lagged, the former weighed down by weak global pulp prices.

In CEEMEA, Türkiye dominated. The quarter traced a clear arc from Vestel's April downgrade (Moody's to Caa2 on an unsustainable capital structure) to its late-June application for "Financial Restructuring," filed alongside a parallel restructuring application by parent Zorlu Holding, underscoring group-wide pressure from weak cash generation. The sovereign backdrop stayed difficult: Fitch revised its outlook to stable following more than USD 50 billion of FX reserve depletion from CBRT intervention. Arcelik eased its balance sheet by selling a 60% stake in its Hitachi appliances joint venture for USD 205 million. Moldova's Aragvi (Trans-Oil) came under pressure late in June after a Ukrainian media report alleged misconduct by the company's founder and owner. The bonds sold off, the company rejected the allegations as false, retained international legal counsel, and management has been engaging with bondholders. Earlier in the quarter, aviation-fuel stress hit Air Baltic hard (Fitch to CCC-, S&P to CCC+ on a large projected capital shortfall), only partially offset by a loan from the Latvian state. Energean performed well after Israel ordered the restart of its Karish gas field. Primary markets reopened strongly in May, led by MENA (~USD 13.9 billion was priced, including PIF's USD 7 billion issuance, the largest GCC deal since the war began).

In Latam, Braskem was the quarter's most instructive credit. In April, the Iran war's boost to petrochemical spreads lifted consensus EBITDA expectations above USD 2 billion, more than double pre-war levels, and drove the bonds from the low 40s to around 70. Consistent with our caution against extrapolating wartime spreads into a post-war environment, the restructuring process deepened as the conflict de-escalated. In June, the company filed for precautionary injunctive relief (cautelar) and mediation, S&P downgraded the instruments to D, and control passed from Novonor to IG4 Capital (50.1% of the voting shares), alongside Petrobras (47%). A new board was appointed, chaired by Magda Chambriard, with Helcio Tokeshi as CEO. The decision to pursue a cautelar rather than a formal judicial reorganization suggests a preference to negotiate a consensual solution first. Raízen progressed constructively. Elsewhere, Ecopetrol agreed to acquire ~26% of Brazil's Brava Energia as a platform for upstream expansion, and J&F Luxembourg completed an exchange on the Eldorado and Flora notes.

Portfolio review

During Q2, we reinvested tender proceeds and cash into short-dated bonds maturing ahead of the fund's maturity date. One of the most interesting opportunities came in Indonesia, where fiscal and policy uncertainty under President Prabowo Subianto triggered a broad technical sell-off. Bank Indonesia responded with around 100 bps of hikes to stabilize the currency. We used the dislocation to add Freeport Indonesia, a cash-generative mining credit whose short-dated paper widened on sentiment rather than fundamentals. Beyond that, we continued to find attractive compensation in short-dated sovereign paper, adding Colombia and Romania alongside Dominican Republic. On the corporate side, we added a selection of well-established issuers with defensive business models and clear deleveraging or refinancing paths like SURA Asset Management, MISC Capital Two, ReNew Power, or BPRL International Singapore.

As of the end of Q2, we maintained our average rating of BBB-. The portfolio offers a yield to maturity of 5.02%.

Performance analysis

The fund's I (USD) share class returned 1.65% in Q2, with the net asset value (NAV) increasing from 112.52 to 114.38. Performance was well-balanced. Top contributors included Binghatti and Damac, which benefited from the recovery of the Dubai real estate sector, whereas NTPC, the Indian public sector energy company, was the main detractor.

Outlook

The US and Iran have come to preliminary agreement, with a full peace deal still pending, and the conditions under which commodities and other merchandise will transit through the Strait of Hormuz are not yet determined. However, trade flows have been recovering at a good pace, roughly tripling through the first three weeks of June. We believe that further trade disruptions are possible, which would result in upside risk for oil prices and inflation. But in the unlikely event of a return to full-blown war, the market reaction to such risk events would probably be more muted than the already sanguine reaction of the last few months, in our view. So far, inflation has been much tamer than in 2022 despite the similarity of the oil shock. Less expansionary fiscal policy, tighter monetary policy, lower savings rates at a global level, and less tight labor markets may all have contributed to a slower pass-through. Moreover, oil prices have come down by roughly 40% in the last two months, and lower-than-expected inflation data coming from Eastern Europe and other EM countries suggest that this inflation cycle will likely be much more short-lived than in 2022. That would bode well for fixed income, particularly via local-currency rates.

Risk appetite remains elevated, and we believe this will likely remain the case over the summer. EM hard-currency sovereign and corporate spreads are now back to the early February pre-war levels. Therefore, upside coming from spreads is now probably more limited on aggregate, but there are still plenty of relative value opportunities, in our view. Fundamentals appear strong and did not deteriorate significantly with the war shock. In fact, the ongoing credit rating upgrade trajectory for EM sovereigns has continued in Q2 2026. Although there have been a couple of downgrades due to fiscal concerns (Mexico and Colombia), the upgrades have outpaced them by far: Argentina received to upgrades to B-, South Africa and Uzbekistan got their third BB equivalent rating, Maldives avoided default and was upgraded to CCC-, Nigeria and Ghana were upgraded to B by S&P and Fitch, respectively, and the Bahamas obtained its third BB- equivalent rating. Thus, we believe that tight spreads are here to stay for longer.

We believe that elevated risk appetite also favors carry trades in local-currency, although in this case, we must acknowledge that the AI-driven strength of the US economy has been a headwind to EM local assets in the last two months. Unlike last year, when EM local assets posted a stellar performance of almost 20%,EM local has underperformed hard currency this year. However, this has not been an obstacle for a few high-carry LatAm currencies to deliver double-digit returns in the first half of the year. Also, while hard-currency spreads are historically tight, local-currency real rates are near one standard deviation above their 10-year median. While the return of US exceptionalism has tactically weighed on the asset class's relative performance, we believe it remains strategically well positioned. Elevated risk appetite is likely to outweigh potential dollar strength for carry strategies.

Fund characteristics

Fund name	Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2
ISIN	LU2581745853
Share class	I USD
Benchmark	–
Inception date	14.5.2024

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.3%	–
YTD	1.2%	–
1 year	4.5%	–
3 yrs p.a.	–	–
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	6.5%	–

Time period	Fund	Benchmark
2025	7.4%	–
2024	–	–
2023	–	–
2022	–	–
2021	–	–
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–

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