Monthly commentary / 29.5.2026

Vontobel Fund – Emerging Markets Investment Grade

Marketing document for institutional investors in: AT, CH, DE, DK, ES, FI, GB, IT, LU, NL, NO, SE.

Market developments
Markets continued to 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, the deal remains elusive. Global equity prices (MSCI World) rose by another 4.4% in May, reaching new all-time highs. The move was led by the MSCI EM ex-China, which rose 13.5% on the month, followed by MSCI EM (+9.5%), while the S&P 500 went up by 5.1%. Commodity prices diverged, with Brent crude oil dropping by 19.3% to $92/b, but then recovering in early June as the Iran war risks reignited escalation following US strikes on an Iranian tanker and Iranian retaliation against Kuwait and Bahrain. Meanwhile, copper prices climbed by another 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 bps to 4.43%, while German 10-year bunds dropped 10 bps to 2.93%, and UK 10-year Gilts dropped by 20 bps to 4.81%.
Economic data appears to justify this yield divergence. US nonfarm payrolls surprised on the upside again, with 115k jobs created (only 65k expected), 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 20 bps hike by the Fed by year-end, i.e., not yet a full hike, up from no hikes at all at the end of April, while for the ECB, the market is pricing in 68 bps in hikes by year-end vs. 73 bps (almost 3 hikes) at the end of April. Although the ECB communication has been relatively hawkish, we think the European economic weakness would make it hard for the ECB to deliver three hikes this year.
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 HY sovereigns, which rose by 1.6%, while their 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 ten were high yield.
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 Putin’s remarks about the war coming to an end, which he later clarified was referring to battlefield advances. Zelensky’s chief of staff said that a peace deal by winter was realistic. However, it appears that both side are stepping up attacks militarily to force the other side, rather than ready to make compromises. Market participants chasing high-carry opportunities in an environment of tight spreads is also a likely driver of the outperformance.
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 for early bird tenders and 74 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. 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 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 Faye

dismissed Prime Minister 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 2nd program review was approved, securing an additional $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 $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 5th and 6th IMF program reviews, resuming the program after delays caused by Cyclone Ditwah last year and securing a $695 million disbursement. The authorities appear committed to orthodox policymaking: the central bank raised interest rates by 100 bps 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.

EM hard-currency corporate bonds (CEMBI BD) returned 0.38% in May. Total spreads tightened by 3bps during the month, although this was insufficient to offset the 14bps increase in the 5-year US Treasury yield. As a result, the asset class posted a price return of -0.08%, with the overall positive performance largely driven by coupon income. High-yield bonds outperformed investment-grade, returning 0.45% versus 0.33%, although both segments recorded a similar 3bps tightening in spreads. Regionally, Africa led performance (+0.56%), followed by Asia (+0.45%) and the Middle East (+0.44%). Europe lagged (+0.14%), reflecting weaker macroeconomic backdrop and political instability in Turkey. At the sector level, Transport was the best-performing segment (+1.04%), supported by a recovery in airline-related credits. Real Estate also performed strongly (+0.64%). In contrast, Pulp & Paper was the weakest sector (-0.31%), weighed down by the prolonged downturn in global pulp prices.

May was a busy month, particularly for CEEMEA primary markets, as issuers moved quickly to lock in improved funding conditions, while higher underlying rates also supported fixed-income demand. MENA benchmark issuance accelerated, with USD 13.9bn priced across sovereign, quasi-sovereign and corporate borrowers. The PIF bond sale of USD 7bn was the largest GCC issuance since the start of the war.On rating actions, S&P upgraded Kosmos by two notches to B-, reflecting improving leverage metrics, strong free cash flow generation, and expected debt reduction supported by the planned sale of its Equatorial Guinea assets. Conversely, S&P downgraded Ivanhoe Mines to B- from B, driven by a weaker revised mine plan for Kamoa-Kakula, with lower production and higher costs leading to persistently sub-30% FFO/debt metrics. In Saudi Arabia, the Capital Market Authority (CMA) referred several individuals linked to Cenomi Retail to the Public Prosecution, triggering some technical widening in ARACEN bonds due to association risk, although Cenomi Centers confirmed it is operationally independent, unrelated, and not financially exposed.

In LatAm, the mexico sovereign downgrade by Moody's impacted a limited number of corporates, particularly major banks such as BBVA México, Banorte, Santander México and Banamex, along with state entities like Bancomext and CFE. Otherwise, idiosyncratic headlines were broadly positive, including a USD 1bn capital injection for Aegea and Amaggi's acquisition of FS, viewed as a consolidation move improving scale and credit quality across the group. Raízen also published restructuring proposal materials ahead of a June 8 deadline, with Option A treating creditor claims pro-rata at par and offering better-than-expected recovery values through a combination of takeback debt (FuelCo and SugarCo notes) and pro-forma equity.

In Asia, several idiosyncratic developments supported performance. Vedanta Resources announced it is considering redeeming at par any untendered notes across four USD bond tranches due 2030–33 following its planned tender offer, as part of the refinancing of its USD 5.5 billion debt stack. In India, the US Department of Justice moved to dismiss criminal fraud charges against Gautam Adani, while in Indonesia Fitch upgraded MIND ID to BBB from BBB-, aligning it with sovereign rating. On the negative side, New World Development remained under pressure amid discussions to exit its obligations related to the 11 Skies mall project. The company also announced the deferral of distributions on four guaranteed NWDEVL senior perpetual securities.

Portfolio review

The month was marked by swings in risk sentiment as the macro backdrop remained clouded by mixed diplomatic signals surrounding a potential US-Iran agreement. Nevertheless, investor appetite for EM credit remained strong, with primary markets well absorbed. May was the busiest May since at least 2020, with approximately $71.4bn of issuance priced and generally oversubscribed order books. Flows also remained supportive, whereas pace slowed down compared to previous month with $1.3 bn over the month in hard currency, lagging EM local currency funds with $2bn inflows.

During the month, we reduced exposure in Latin America, where valuations had become less attractive relative to country risk premia, and redeployed capital primarily into MENA and Africa through new issuances.

In Asia, we sold positions that had reached historically tight spreads, including senior bonds of Thailand's KASIKORNBANK and South Korean state-owned Korea Mine Rehabilitation & Mineral Resources Corporation. We increased exposure to Indonesia, taking advantage of attractive concessions in recent USD and EUR sovereign bond issuances. We also participated in the new senior TLAC issuance from Bank of East Asia, which came at levels comparable to Tier 2 bonds.

In MENA, we participated in a new issuance from Saudi Arabia's sovereign wealth fund PIF. In the UAE, we added front-end bonds of government-owned FAB and increased our exposure to ADNOUH, where spreads have not fully recovered to pre-conflict levels and continue to look attractive relative to the issuer's AA rating. We also switched our exposure in Saudi bank BSF from AT1 to Tier 2 debt, as the spread differential had compressed to only around 20bps.
In Europe, we participated in new issuances from Czech utility CEZ and Estonian bank Luminor. We reduced exposure to short-dated bank paper with limited carry and trimmed our Kazakhstan sovereign position.
In Africa, we increased exposure to Morocco through its new EUR sovereign bond issuance. Morocco's macroeconomic outlook remains favourable, supported by a strong agricultural recovery, sustained investment and solid policy buffers. We also took profits on Gold Fields after spreads tightened by 85bps from the levels at which we added the position during the March sell-off.
In Latin America, issuance activity was particularly strong in Mexico, especially among power companies, benefiting from favourable sector dynamics including rising electricity demand, structural undersupply and a more supportive regulatory environment under President Sheinbaum. We selectively participated in the issuance of Cox Mexico, the country's fifth-largest independent power producer, which came at the widest spread among Mexican investment-grade corporates and had gained nearly two points at issuance. We reduced our exposure to Mexican sovereign bonds as spreads approached the tighter end of their historical range and ahead of the upcoming USMCA negotiations. In Colombia, we exited our sovereign exposure as spreads largely reflected a market-friendly election outcome despite potentially binary risks. In Chile, we sold utility company Alfa Desarrollo after spreads tightened to around 140bps and added modestly to Codelco, where valuations remain attractive relative to the rating.
Within supranationals, we switched part of our exposure from Afreximbank to Black Sea Trade and Development Bank after the former significantly outperformed.
As a result of these adjustments, we increased exposure to quasi-sovereigns and financials while reducing exposure to sovereigns and metals & mining. From a ratings perspective, we reduced BBB and A-rated holdings in favour of AA-rated credits. The portfolio continues to offer attractive carry, with a yield pick-up of 79bps over the benchmark, an average spread of 155bps versus 85bps for the benchmark, and a post-hedge yield of 5.89%.

Performance analysis
The fund performed broadly in line with the benchmark, delivering a modest outperformance of 0.06% in May. The fund returned 0.42% (net, I share class in USD) versus 0.35% for the benchmark.
Romania was the main positive contributor, as long-dated EUR sovereign bonds outperformed their USD counterparts amid improving market sentiment and short covering. UAE was our second-largest contributor, with credits such as Magellan and Bank of Sharjah senior bonds continuing to recover toward pre-war levels. Chile also contributed positively, supported by our overweight position in corporate bonds relative to sovereigns. This was followed by Saudi Arabia, where we benefited from the outperformance of short-dated AT1 securities. At the issuer level, our overweight position in Far East Horizon also added value, as its bonds outperformed after S&P removed the company from CreditWatch Negative and affirmed its BBB- rating with a Stable outlook, reinforcing confidence in its capital resilience and core leasing business.
On the negative side, Colombia underperformed amid election-related uncertainty. Mexico was the second-largest detractor, reflecting the underperformance of corporate issuers such as Fiemex relative to sovereign bonds.

Outlook
Conflicting signals regarding a potential US-Iran agreement continue to keep markets in a state of cautious optimism, albeit with a bullish bias. Reports earlier in the week that commercial vessels had resumed transit through the Strait of Hormuz pushed crude oil to one-month lows, providing some relief to inflation concerns. However, the durability of this move remains highly dependent on geopolitical developments. As of 28 May 2026, risk premia have begun to re-enter the oil market as hostilities have resumed.
On rates, the 10-year US Treasury yield has retraced nearly 20bps from its monthly peak, providing some relief for duration-sensitive assets. However, this should not be interpreted as a shift in the inflation regime. Recent CPI and PPI data have kept inflation concerns elevated, with Fed funds futures pricing close to a 90% probability of at least one rate hike by January 2027. While such expectations may prove premature given uncertainty around global oil inventories and the timing of any resolution to the US-Iran conflict, recent Fed communication continues to highlight upside inflation risks and the potential for tighter financial conditions over the medium term.
Regarding the EM investment-grade asset class, benchmark spreads have returned to historically tight levels, in line with the broader global IG market. While tight spreads are partly supported by still attractive all-in yields, EM IG continues to benefit from diversification away from the US, resilient credit fundamentals and supportive technicals, particularly strong local demand across Asia and the GCC. On a leverage-adjusted basis, EM IG remains compelling. The asset class offers approximately 77bps of spread per turn of net leverage versus 32bps for US IG, a ratio of 2.4x that is close to the 91st percentile of its historical range. We also expect EM corporate IG spreads to remain relatively well supported, as supply dynamics remain more favourable than in developed markets, with only a modest increase in EM IG issuance compared with the heavier supply pipeline in US investment-grade credit, driven in particular by hyperscalers.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Investment Grade
ISIN	LU2400051400
Share class	I USD
Benchmark	J.P. Morgan EM Blended (JEMB) Hard Currency Credit 50-50 (EMBI GD/CEMBI BD) Investment Grade
Inception date	21.6.2022

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.4%	0.4%
YTD	0.6%	0.7%
1 year	7.5%	7.1%
3 yrs p.a.	7.2%	5.7%
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	6.8%	5.1%

Time period	Fund	Benchmark
2025	10.0%	9.3%
2024	4.8%	2.8%
2023	10.4%	7.4%
2022	–	–
2021	–	–
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–

Past performance is not a reliable indicator of current or future performance.
Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

Investment risks

- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- 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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