Vontobel



# Vontobel Fund – Sustainable Emerging Markets Debt

**Marketing document for institutional investors in:** AT, CH, DE, ES, FI, FR, IT, LI, LU, NO, SE.

**Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.**

**Market developments**

Global fixed-income markets experienced a significant correction in July, as the truce between the US and Iran proved to be fragile and short-lived. The US and Iran went back to war in the second half of the month and supposedly returned to the negotiation table during the first week of August. Available daily tracking data show near-zero trade flows through the Strait of Hormuz during the second half of July, though an unknown amount of untraceable trade was still taking place. Moreover, the Houthis declared a maritime embargo on Saudi Arabia on July 20 and hit two Saudi tankers in the Red Sea near the Bab al-Mandab Strait, forcing the Saudis to re-route tankers via the Suez Canal and down the Cape of Good Hope, which adds about 25 days for the oil to be delivered. Oil prices have been volatile, with Brent crude starting the month of July in the low USD 70s per barrel, briefly rising past USD 100 per barrel on July 23, and falling back to USD 80 per barrel in early August amid claims from the US administration that a deal to reopen the Strait of Hormuz was imminent. The US Federal Reserve (Fed) kept rates unchanged in July, which was widely expected, but the market didn't seem to welcome Chair Kevin Warsh's press conference. He argued that the market had "already done some of the Fed's inflation-fighting work," as rising long-end bond yields had already tightened financial conditions. The US Treasury curve steepened further after the Fed press conference, possibly implying that market participants have doubts about Fed's willingness to bring inflation back to target in the medium to long term. US 10-year yields ended the month +27 basis points (bps) higher at 4.7%, while 10-year Bund yields rose by 35 bps to 3.2%.

On the other hand, backward-looking inflation data were relatively benign. In June, US consumer prices fell by 0.4% (the first CPI decline in more than six years), bringing the annual inflation print from 4.2% in May to 3.5% in June. Core prices were unchanged in the month (0.0% m/m), bringing annual core inflation down from 2.9% to 2.6%. The Eurozone's consumer prices declined by 0.1%, but annual headline and core inflation were steady at 2.8% and 2.4%, respectively. Inflation surprises were mostly negative in emerging markets (EM), particularly in Latin America and CEE. Brazil's IPCA came below expectations in June and the first half of July, with annual inflation falling from 4.8% to 4.5% during the first half of July. Inflation remained below target in Hungary (1.7% y/y) and the Czech Republic (1.5% y/y) in June, while preliminary July data for Poland show a re-acceleration from an on-target 2.5% in June to 3% y/y in July.

EM hard-currency fixed income indices experienced negative absolute returns due to the US Treasury selloff, while EM local-currency experienced positive returns as EM FX and carry more than compensated for the rates selloff.

Hard-currency-sovereign bonds (EMBIG diversified) dropped by 1.4%. The increase in US Treasury yields explained 1.2% of the decline, while slightly wider spreads explained the remaining 0.2%. EM investment-grade (IG) bonds suffered the most, dropping by 2%, as their longer duration makes them more sensitive to US Treasury selloffs. The EM high-yield (HY) segment outperformed but still dropped 0.9%. EM Asia had the worst performance (-1.8%) while predominantly HY Africa outperformed, dropping 0.7%.

IG underperformance: IG sovereigns with predominantly long-duration bonds were among the worst performers amid the US Treasury yield curve steepening. Malaysia (-3.1%), Uruguay (-2.9%), Chile (-2.9%), Paraguay (-2.8%), Panama (-2.6%), Peru (-2.5%), Philippines (-2.5%), Poland (-2.3%).

Lebanon's defaulted bonds (+7.9%) were the best-performing on the month following an investor trip that revealed better-than-expected progress on reforms toward an eventual debt restructuring.

The oil-related sovereign performance: Although the trend wasn't as evident as the previous month, we did observe several oil-exporting countries outperform in July, even as oil prices lost some of its gains toward month-end. Mozambique (+3.7%) was the second best-performing sovereign. Gabon (+3.5%) was the third-best sovereign – although in this case, its performance was explained by the issuance of a new USD 920 million 2033 Eurobond, initially issued at 12.65% in a private placement, and now trading ~11.5% yield. The issuance proceeds will be partly used to clear bilateral and multilateral external arrears. More importantly, it demonstrates that even CCC-rated sovereigns have market access in today's market. Moreover, the issuance will further support FX reserves of the CEMAC currency union and is therefore positive for the Republic of Congo and Cameroon as well. Other oil exporters like Angola (+1.2%), Nigeria (+0.9%), Iraq (+0.8%), and Venezuela (+0.8%) were also among the top 10 best-performing sovereigns in July.

Sovereign rating upgrades continued in July, with Argentina receiving its third B- equivalent rating as Moody's upgraded the sovereign to B3, while Pakistan obtained its first B rating from S&P (Fitch rates the sovereign as B-, while Moody's is still at Caa1).

**Portfolio review**

We maintained the fund's average credit risk at BBB-, consistent with the benchmark rating. We kept the portfolio's average duration at a small overweight versus the benchmark. We increased exposure to supranational bonds. In Latin America, we added exposure to EUR-denominated sovereign bonds of Costa Rica at an attractive spread to the USD-denominated curve. We increased the overweight to Ecuador. We reduced exposure to Guatemala, Peru, and Uruguay. In Argentina, we sold bonds at the long end of the sovereign curve. We also switched some local to international law bonds in the front end, given the former outperformed. In Brazil, we reduced corporate and sovereign bond exposure. In Africa, we bought sovereign bonds of Ivory Coast and Kenya. In Asia, we reduced corporate bond exposure in China, and sovereign bond exposure in Sri Lanka. Elsewhere, we added corporate bonds in Türkiye, and sovereign bonds in Bulgaria.

**Performance analysis**

The fund outperformed its benchmark by 0.26% in July (net, I share class). The negative absolute performance was mainly driven by core rates moving higher. In relative terms, country allocation and bond selection contributed positively. The largest positive contributor were quasi-sovereign and corporate positions in Brazil. The fund also profited from an underweight to Bahrain, where sovereign bonds are excluded under the sustainability framework. This was partly offset by the negative contribution from non-sovereign exposures in Saudi Arabia and the United Arab Emirates. The selection of quasi-sovereign bonds in Chile and Panama supported relative performance versus the benchmark. The underweight to El Salvador contributed negatively.

**Outlook**

The US-Iran war remains intermittent. The June memorandum of understanding (MoU) proved fragile, with the US striking Iran during the second half of July, and the Houthis becoming more involved in the war by disrupting Saudi oil flows through the Bab al-Mandab Strait. In early August, the US-Iran war was again paused, and Iran said it was finalizing arrangements to jointly manage passage through the Strait of Hormuz with Oman. The US administration also confirmed that, together with Iran and Oman, they were about to announce a 60-day agreement on shipping through the Strait of Hormuz. We don't yet see a stable agreement that would definitively end the US-Iran war, but it appears both sides have incentives to ease oil transit through the strait. That said, we think further trade disruptions are possible, as the US and Iran do not seem close to agreeing on a comprehensive peace deal, including a new nuclear agreement.

The market has mostly priced in a partial reopening of the Strait of Hormuz, with oil declining below USD 80 per barrel during the first week of August. This is good news for inflation and fixed income generally. Moderate oil prices increase the probability that inflation prints will continue to be benign, which could justify a less hawkish reaction from global central banks than the markets are currently pricing in. US futures markets currently price in a Fed hike by October and a high probability of another by March 2027, while for the European Central Bank, markets currently price in a high probability of a hike in September or October and another by mid-2027.

Global equities were resilient in July, with the MSCI World rising by 0.5%. Although regional and sectoral performances were quite heterogeneous, we believe the observed resilience despite the core rates selloff indicates that risk appetite remains elevated. EM HY spreads were also relatively stable in July despite the temporary resumption of the US-Iran war, proving the point we made last month that markets would likely tend to look past additional trade disruptions if the MoU proved to be fragile. That said, we continue to see relative value opportunities arising amid the on-off war. In our view, EM fundamentals remain strong and did not deteriorate significantly with the war shock. In fact, the ongoing credit rating upgrade trajectory for EM sovereigns has continued unabated in Q2 2026 and into July.

The Fed's credibility debate, reopened after Warsh's latest press conference and his apparent reluctance to hike rates, entails interesting consequences for EM. A Fed that continues to fail to deliver on its inflation target, which seems to be the consensus of professional forecasters expecting average CPI inflation at 2.4% by 2028 (although with PCE at 2.1%), would favor EM FX over the medium term. We have been arguing since early last year that relatively lower EM inflation (vis-à-vis developed markets) constitutes a strong tailwind for EM FX going forward. We think this is likely to be the case. That said, there could be short-term surprises. The new chair's preference for providing little forward guidance is likely to result in higher core rates volatility; thus, while not our baseline, we would not rule out a more hawkish-than-expected Fed just yet. Thus, we continue to prefer EM rates over EM FX as a clearer expression of lower medium-term EM inflation relative to developed markets.

**Fund characteristics**

| | |
|---|---|
| **Fund name** | Vontobel Fund – Sustainable Emerging Markets Debt |
| **ISIN** | LU2145396086 |
| **Share class** | I USD |
| **Benchmark** | J.P. Morgan ESG EMBI Global Diversified Index |
| **Inception date** | 30.9.2020 |

**Historical performance (net returns, in %)**

| Time period | Fund | Benchmark |
|---|---|---|
| MTD | -1.4% | -1.7% |
| YTD | 1.9% | 0.7% |
| 1 year | 8.5% | 7.1% |
| 3 yrs p.a. | 8.9% | 8.0% |
| 5 yrs p.a. | 1.8% | 1.2% |
| 10 yrs p.a. | – | – |
| ITD p.a. | 3.8% | 1.8% |

| Time period | Fund | Benchmark |
|---|---|---|
| 2025 | 14.1% | 13.3% |
| 2024 | 6.4% | 5.7% |
| 2023 | 11.0% | 10.3% |
| 2022 | -20.0% | -18.9% |
| 2021 | 3.7% | -2.3% |
| 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**

- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- 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.
- Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
- The sub-fund also includes sustainability criteria in its investment process. This may mean that the sub-fund's performance is more positive or negative than a conventionally managed portfolio.
- Investments in emerging markets entail increased liquidity and operational risks as these markets tend to be underdeveloped and more exposed to political, legal, tax and foreign exchange control risks.
- 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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