Monthly commentary / 29.5.2026

Vontobel Fund – Sustainable Emerging Markets Local Currency Bond

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

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

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% 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 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 dropped 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.

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.

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 ten were HY.

EM hard-currency corporate bonds (CEMBI BD) returned 0.4% in May. Index 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 -0.1%, with the overall positive performance largely driven by coupon income.

EM local-currency sovereign bonds (GBI EM) delivered a 0.85% return in May. Carry contributed a steady 0.4%, while lower EM rates added 0.3%, and EM FX contributed another 0.1%. It is noteworthy that EM FX delivered a positive performance despite the US dollar strengthening by 0.9% against other global currencies, as measured by the US Dollar Index. EM Europe posted the strongest regional performance with a 1.4% gain, Latin American bonds rose by 1%, and EM Asia detracted from performance with a total return of -0.2%.

South Africa (+6.1%) was the best-performing country in the GBI-EM, with the ZAR rising 3% and benchmark bond yields dropping by 33bps. The country's high-beta status and market optimism about the reopening of the Strait of Hormuz partially explain the exceptional performance of this oil importer. The South African central bank hiked rates by 25bps to 7%, focusing on achieving its new 3% inflation target. Consumer prices rose 1.1% month-on-month, as expected, bringing the annual inflation rate to 4%, while core inflation remained more contained at 3.5% year-on-year. The central bank's hawkish rate hike probably helped anchor long-term market inflation expectations. Moody's revised its credit outlook to positive, citing an improving fiscal position and commitment to reforms, while S&P maintained its positive outlook. These agencies rate the sovereign at Ba2 and BB, respectively.

Hungary (+5.5%) was the second-best performer in the GBI

EM. Hungarian assets continued to rally in May following the election of Peter Magyar as the new prime minister and a smooth transition of power away from the long-serving Viktor Orbán. Prospects of Hungary eventually joining the euro also boosted Hungarian assets with the HUF rising by 2.5% against the dollar in May and government bond yields falling by 60bps.

In Peru (+4.3%), the PEN recovered strongly (+3.1%) from its electoral volatility, as opinion polls indicate that right-wing candidate Keiko Fujimori is likely to defeat left-wing candidate Roberto Sánchez in the runoff presidential election on June 7. Elevated copper prices also provided support.

Indonesia (-3.1%) was the worst-performing country in the GBI EM. Market negativity surrounding Prabowo Subianto's populist policies sustained the negative momentum, particularly affecting the IDR, which depreciated by 3% over the month. Notably, the Central Bank of Indonesia raised interest rates by 50bps to 5.25%, twice as much as expected, in an effort to defend the currency and reaffirm its independence.

Turkey (-1.7%) was the second-worst performer, with the lira losing 1.7% and bond yields rising by 137bps. Carry trade strategies performed significantly better than bonds, gaining 1.8% for the month, as the central bank maintained its stable crawling-peg depreciation pace despite politically driven market turbulence. A court ruling removed opposition CHP leader Özgür Özel and reinstated former leader Kemal Kılıçdaroğlu as chairman.

Brazil (-1.0%) was the third-worst performer in local currency this month. The central bank published the minutes from its previous meeting on May 5, which conveyed a hawkish tone, suggesting a likely pause in its easing cycle due to the conflict in Iran. Bond yields rose by 20bps over the month as markets repriced expectations for fewer rate cuts in 2026. Additionally, expectations of weakening terms of trade amid the anticipated decline in oil prices partly explain the underperformance, with the currency weakening by 1.1%.

Portfolio review

The fund's assets were little changed at USD 359 million in May, driven by a combination of positive market performance and some smaller outflows.

We took the following action, among other things: we participated actively in a number of primary issues to profit from the typical issuance premium, reworking our positioning in Indonesia, reducing the FX underweight on valuation grounds, and the BI rate action. We also revised our CEE general positioning, leaning into the medium-term euro accession story in Hungary while adopting a more defensive stance on Poland. In Romania, we moved from RON- to EUR-denominated bonds. We continued trading Colombia around the elections, tweaked Mexico, and reduced the Chile exposure. We added to Nigeria and to Turkey. We maintained our cautious positioning in India and Indonesia.

By regional split, and measured at the FX level, Asia is the largest exposure (44.3%), followed by Latin America (26.9%), Central & Eastern Europe (19.0%), and Africa (11.3%). Currency positioning in frontier markets was at 10.3% of the portfolio. Cash holdings were around 3.3%, and supranational bonds are at 22.1%.

Performance analysis

May turned out to be another month of living between hope and fear driven by the war in the Gulf. Increasingly numb to the everyday noise, markets looked beyond the current stalemate toward a reopening of the Strait of Hormuz for commercial shipping. The risk-on mood transpiring from buoyant equity markets tilted the balance cautiously positive. The institutional share class I gained 1.01% (in US dollars) over March, outperforming the GBI-EM Global Diversified Index (0.85%) and bringing the year-to-date performance of the fund further into positive terrain (+1.58%).

The JPM absolute performance was distributed as follows: EM FX (vs USD) was muted (+0.1%) in and of itself, but taking a strong US dollar into consideration , the EM FX performance actually performed relatively well. Bond prices added another 0.3%. The steady 0.4% coupon return helped May end the month in positive territory.

From a relative standpoint, only our spread policy underperformed (-5bps). The usual culprit was again India, where market-unfriendly measures unveiled at the beginning of April still reverberated. The more diversified exposure in South Africa didn't help either. All in all, the numbers remain limited though.

Our rates policy (+17bps) was the main driver behind the overall good month. With the exception of the positive Argentina and Poland rates performance, few specific performances were noteworthy, with just a very large majority of positions adding to performance.

Our FX policy was overall close to neutral (+3bps): We had positive contributions from our lighter positioning in Indonesia, and our overweight in Egypt, Taiwan, and Peru. Good tactical trading in Brazil helped as well.

The main detractor was the Kazakh tenge, though this came after a blistering run that started in Q4 2025. The CNY and the KRW also contributed negatively to excess return. In Argentina, weak FX performance was offset by rates 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. Since this could strengthen the dollar in the short term, it would likely weigh on performance for a USD-based investor. For non-USD-based investors, this effect is typically strongly mitigated.
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 – Sustainable Emerging Markets Local Currency Bond
ISIN	LU0563307981
Share class	I USD
Benchmark	J.P. Morgan GBI-EM Global Diversified Composite USD
Inception date	25.1.2011

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	1.0%	0.9%
YTD	1.6%	1.3%
1 year	11.5%	10.6%
3 yrs p.a.	8.8%	8.4%
5 yrs p.a.	3.3%	1.8%
10 yrs p.a.	4.0%	3.3%
ITD p.a.	1.6%	1.5%

Time period	Fund	Benchmark
2025	20.4%	19.3%
2024	-3.5%	-2.4%
2023	14.3%	12.7%
2022	-7.8%	-11.7%
2021	-8.2%	-8.7%
2020	8.3%	2.7%
2019	9.5%	13.5%
2018	-7.6%	-6.2%
2017	12.9%	15.2%
2016	11.3%	9.9%

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.
Since fund inception until 28.2.2018, the fund had different characteristics and performance was achieved under circumstances that no longer apply.

Investment risks

- 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.
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