Monthly commentary / 31.3.2026

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).

Market developments

March marked the first month of the Iran war, which resulted in a broad-based market selloff.

The blockade of the Strait of Hormuz triggered a sharp spike in oil prices that fundamentally changed the outlook for the global economy and asset prices. The market reaction has been significant but relatively contained, considering that this is the largest disruption to global oil supply in history (approximately 13-15% after considering oil rerouting via pipelines). The magnitude of the disruption is poised to ease in April with the release of 400 million barrels from global stockpiles agreed by the International Energy Agency and its members but given its daily pace of about 3.3 million barrels, it's likely not enough to compensate for the supply shortage. Brent oil prices rose to a peak of $118/b at the end of March but declined to USD 101 per barrel on April 1 as US President Donald Trump communicated his intention to withdraw from Iran during the next two to three weeks even if the Strait of Hormuz remains effectively closed. European gas prices rose by 59% on the month to its highest level since January 2025 yet remain well short of the levels seen in 2022.

10-year US Treasury yields rose by 38 basis points (bps) in March to 4.3% the highest level since July 2025 and the largest one-month jump since December 2024. German 10-year yields rose by a similar 36bps to 3% while UK 10-year gilts sold off even more with yields rising 68bps to 4.9%. By the of March, the market was only pricing in a 14% probability of a rate cut by the US Federal Reserve by December. Chair Jerome Powell said they believe their "policy is in a good place for us to wait and see". Meanwhile, markets are pricing in almost three hikes by the European Central Bank (ECB) by year end. The effects of higher oil prices on European inflation would likely be larger given the continent's dependence on energy imports, but three hikes appear exaggerated to us despite the relatively more hawkish statements by ECB officials. Preliminary March inflation data for the eurozone showed consumer prices rising by 1.2% month on month, which resulted in annual inflation accelerating to 2.5%, up from 1.9% in February.

The dollar safe heaven properties, which had failed to materialize on Liberation Day, reasserted themselves in March, with the US Dollar Index (DXY) rising by 2.4%. Global equities (MSCI World) dropped by 6.6%, with emerging-market (EM) equities (MSCI EM) down by 13.3%. EM hard-currency bond indices were relatively resilient.

EM hard-currency sovereign bonds (EMBIG Div) dropped 3.3% in March, of this decline, 1.9% was explained by the rise of US Treasury yields, while 1.4% was explained by spread widening. High-yield (HY) issuers underperformed due to the spread widening with HY sovereigns dropping by 3.6% while investment-grade (IG) sovereigns dropped by 2.9%. Despite being in the eye of the storm, Middle East sovereigns performed slightly better than EM Europe, dropping 3.9% vs 4%. This highlights a key difference of this war-related risk off event when compared to 2022. Most Gulf countries are very high-quality issuers with plenty of buffers to cope with the disruption of their oil supplies, despite their large oil dependency. Latin America was the best performing region of the month with bonds dropping by 2.4% on average. The region is not only far away but is also home to a number of energy exporting countries such as Brazil, Colombia, Ecuador, Argentina (net exporter since 2024), Trinidad, Suriname, and Venezuela.

As could be expected, oil and gas-exporting countries outside the Gulf such as Venezuela, Angola, and Cameroon, were among the best-performing sovereigns in March. The worst-performing countries were mainly in the segment of low-rated oil importers (Sri Lanka, Kenya, Egypt, Zambia, etc.) and some idiosyncratic situations (Lebanon, Senegal, Ukraine, Mozambique).

Hard-currency corporate (CEMBI BD) bonds dropped 1.8% in March. Their performance was significantly better than that of their sovereign counterpart (EMBIG Div) due to their much shorter duration. 1.3% of the index decline was due to higher US Treasury yields, and only 0.6% was explained by higher spreads. IG bonds fared slightly worse, dropping by 1.9%, while HY bonds fell 1.7%.

Local-currency (GBI-EM) bonds were the most battered among EM fixed income in March, falling 5.5%. An EM FX return of -3.4%, partly explained by a 2.4% recovery of the dollar (DXY) against major global currencies, and partly explained by the underperformance of high-beta currencies, in a pre-war environment characterized by ample use of carry trade strategies. EM rates also contributed negatively, explaining 2.8% of the index decline. This reflects the expectation that the inflationary shock from higher oil and gas prices will translate into more hawkish EM central banks and higher fiscal deficits in countries that implement energy subsidies to cushion the blow to their citizens. Carry continued to provide a positive 0.5% return to the asset class. And importantly, once carry is taken into account, EM FX performed in line with the euro, which would result in far better total return figures for non-USD denominated investors. EM yield curves sold off more aggressively than DM curves. Several local-currency yield curves are now pricing in rate hikes by many EM central banks, a scenario we doubt will materialize unless the war lasts longer than markets currently price in. On a regional basis, Latin America (-4.1%) outperformed other regions due to its lower dependency on imported energy and geographical position away from the conflict. EM Europe fared much worse, dropping 6.9% on the month given its high oil and gas import dependency.

Colombia was the best-performing country in the GBI-EM (+5.8%). Better-than-expected results in the primary elections for presidential candidates resulted in a 2.7% strengthening of the COP and 45bps lower yields in its benchmark bonds. Paloma Valencia from the traditional right-wing party Centro Democrático performed particularly well and chose the centrist Juan Oviedo as her vice-presidential candidate, aiming to court the centrist voters. Centro Democrático has been rising in the opinion polls, although it remains behind the far-right candidate De La Espriella. We believe the center-right candidate Valencia would have a better chance of defeating the far-left Iván Cepeda in the runoff election if she beats Abelardo De La Espriella as the second-most-voted candidate in the first round in May.

South Africa was the worst-performing country in the GBI-EM index, as its government bond yields rose by 119bps (only high-inflation Türkiye experienced a worse rates sell-off), which, combined with a -6.3% FX return and relatively long duration benchmark bonds, resulted in the worst performance in the index. Egypt was the second-worst at -12.6% with almost the entire decline explained by a weaker EGP. Contrary to previous crises, the central bank has allowed the currency to depreciate in the face of portfolio outflows, which, while painful for investors in the short-term, is a very welcome policy for long-term macroeconomic stability, as it implies that Egypt has not burned FX reserves to defend its currency. On the opposite side of the spectrum, Türkiye's -7.5% return was mostly explained by higher rates, while its currency (-1.2%) continued to depreciate at the usual pace of its crawling-peg, but at the cost of roughly USD 55 billion in currency intervention in March, a policy that is clearly unsustainable.

India (-5.8%) had an unremarkable performance on the surface as it was only slightly worse than the index average. However, the Reserve Bank of India has implemented quite draconian restrictions on domestic banks' ability to hedge their currency risk, capping their net open foreign currency positions at USD 100 million and prohibiting dealers from offering non-deliverable forward contracts. This has resulted in double-digit implied NDF yields in the foreign market and higher spreads in supranational bonds denominated in INR.

Portfolio review

The fund's assets decreased by almost 10% in March, driven by a combination of strongly negative market performance and some outflows.

The main actions were the following: reworking our positioning in Indonesia, reducing the FX underweight but moving on the curve to profit from a clear dislocation. We also used the outflow to reduce countries particularly exposed to the Iran war such as Hungary and South Africa and managed around the political situation in Colombia. We further tweaked our Argentina position. After the surprise RBI move we moved to trim our strong weight to more cautious levels.

By country split and measured at the issuer level, Latin America remains by far the largest exposure (31.6%), followed by Central & Eastern Europe (21.0%), Asia (11.3%), and Africa (7.5%). Currency positioning in frontier markets was at 11.8% of the portfolio. Cash holdings were around 3.6%, and Supranational bonds were reduced through the INR trimming to 22.9%.

Performance analysis

As mentioned above, March saw a sharp reversal of the good start we had in 2026. The institutional share class I lost -5.71% in US dollars over March, slightly underperforming the GBI-EM Global Diversified Index (-5.55%) and bringing the year-to-date performance of the fund in negative terrain (-2.39%).

The JPM absolute performance was distributed as follows: EM FX (vs USD) performed rather poorly (-3.35%) but as often a sizable part of it can be attributed to the USD acting as a safe haven. If we take the EUR performance into the equation, we see that only one third of the weak EM FX performance is actually caused by EM currencies being weak. The bulk is caused by the USD being strong. Bond prices compounded the damage, retreating by -2.80%. Only the steady 0.50% coupon return cushioned the blow.

From a relative standpoint, it was mainly our spread policy that underperformed (-31bps). The surprising RBI policy move caused a very substantial 24bps hit in INR, but TRY and even BRL did not help either. The de facto banishment of the NDF market made INR supranational spreads to government bonds widen massively.

Our rates policy was overall neutral, though it hid some very noteworthy performances under the hood. Being very lightly weighted in THB rates added a whopping 25bps and, together with Indonesia, Brazil, and Argentina, compensated for the many countries in CEE and Latam where, alongside a general positive EM local currency view, we were strongly weighted in rates.

In the FX sphere, the excess returns were equally diverse. We had again a very positive contribution from Thailand, where the weak THB added 33bps strongly reversing the negative impact we suffered over 2025 from being underweight. Other positive contributions to excess return came from the BRL, MYR, KZT, and to a lesser degree from the COP, ZAR and CNY. Negative impact to excess return were to be found in a number of frontier countries. BWP pushed down by the ZAR and some more, the UYU but especially the EGP (-17bps) that was particularly singled out in March. Other detractors were the Asian low yielders KRW and TWD and the PEN.

Outlook

We believe there are good reasons for the market's relatively contained correction so far despite the fact that the oil supply disruption is much larger than in 2022.

The Trump administration has strong incentives to keep its word regarding the relatively short duration of the conflict. Politically, an inflation spike driven by higher oil prices could be very costly ahead of the mid-term elections in November, especially given that Trump campaigned against “forever wars.” At the time of writing (first week of April), Trump appears to be looking for ways to de-escalate the conflict. From a military perspective, there are concerns that the US and its allies could deplete their stockpiles of anti-ballistic missile ammunition and interceptors before Iran runs out of missiles – i.e., unless most Iranian missile launchers are destroyed first. From a resource point of view, some countries and entire industries could face physical shortages of oil, helium, and other commodities. In fact, several countries are already implementing policies to reduce their energy consumption to delay a possible depletion of their oil stocks if the Strait of Hormuz is not reopened in the short term. Moreover, we believe Iran has sufficient incentives to reopen the Strait of Hormuz once the US seizes hostilities. In fact, on April 2, it was reported that Tehran is working together with Oman on a joint protocol to ensure safe maritime passage through the Strait of Hormuz.

There are key differences compared to 2022 that we believe justify today’s more modest market correction. After the pandemic, both monetary and fiscal policy were extremely loose. While fiscal policies remain lax in the developed world, monetary policy globally has been tight for the past four years. The 2022 oil shock played a role in the inflation spike of that year but was not the sole cause. Other factors, such as extremely loose monetary policies, supply constraints, and rapidly recovering aggregate demand after the pandemic, also contributed to the inflation overshoot. In 2022, interest rates had to adjust sharply from historically low levels, while the required adjustment today would be much smaller even if the current oil shock persists. This difference in the macroeconomic backdrop suggests that the market correction currently required is smaller than the one seen four years ago, despite the larger oil supply shock.

This resilience of EM bonds is justified by the fact EMs have larger buffers today than during the 2022 oil shock. Four years ago, many EM economies had not yet fully recovered from the pandemic’s impact. Tourism-dependent economies were in particularly bad shape, and most HY issuers had lost market access. Although debt burdens remain heavy for many EMs, external accounts are looking healthier for most countries. This improvement is reflected in the significant accumulation of FX reserves.

EMs have not lost market access this time around, while many issuers are postponing new issuances until market conditions improve, others, including low-rated sovereigns like Angola, and Egypt, have been able to issue Eurobonds even during these volatile markets. In fact, B-rated sovereign spreads remain below 400bps, having only retraced to their September 2025 levels, which are below their long-term average. Thus, market conditions would need to deteriorate significantly for HY issuers to face the same loss of market access experienced in 2022.

An important factor preventing such an event is that EMs have already gone through a full cycle of defaults between 2020 and 2023. Fragile sovereigns and corporates have already defaulted and restructured their debts and have repaired their balance sheets. As a result, we believe the asset class is now more resilient to turbulence compared to four years ago.

EM issuers have also undertaken significant liability management operations over the last two years. In 2025, sovereign debt managers issued a record amount of hard-currency bonds, which included a large amount of liability management operations and hence significantly reduced or eliminated maturity walls for the next two years.

Local-currency is likely to rebound strongly in a de-escalation environment. As mentioned earlier, local-currency bonds have been hit hard during the current market turmoil. This is partly due to a stronger dollar, which has once again rallied in a risk-off event, as it typically does. Additionally, since the US has been a net energy exporter since 2014, we believe it stands to reason that the US dollar would fare better than the euro and the currencies of energy-importing EM markets.

However, the story is not all about the dollar. EM rates have also increased more sharply than US Treasury and German Bund yields. The GBI-EM yield to maturity increased by 56 bps in March to 6.4%. This increase is much more likely a result of carry trade positioning, driven by technical factors and de-risking, rather than fundamentals. Thus, while the GBI-EM was hit harder, it should also rebound more strongly upon a de-escalation event, if it occurs in a relatively short time frame. While adding duration during an inflation shock is typically a risky proposition, we believe it is less risky to do so in EM than DM, given the stronger correction in EM rates.

Overall, we believe EM fixed income is in a better position today than four years ago. This, combined with still high equity valuations and abundant global liquidity, justifies a more moderate market reaction so far, despite the uncertainty surrounding the duration of the war and the significant magnitude of the oil supply disruption. If a de-escalation event materializes in the short term, we believe the asset class is well positioned for a strong rebound amid a likely resumption of most of the pre-war global market trends including diversification away from US-centric portfolios.

Fund characteristics

Fund name	Vontobel Fund – Sustainable Emerging Markets Local Currency Bond
ISIN	LU0563307981
Share class	I USD
Reference index	J.P. Morgan GBI-EM Global Diversified Composite USD
Inception date	25.1.2011

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	-5.7%	-5.5%
YTD	-2.4%	-2.2%
1 year	12.1%	11.8%
3 yrs p.a.	7.3%	6.8%
5 yrs p.a.	3.5%	2.1%
10 yrs p.a.	3.2%	2.6%
ITD p.a.	1.3%	1.3%

Time period	Fund	Ref. index
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.
- 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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