

Monthly commentary / 31.12.2025

Vontobel Fund – Emerging Markets Debt

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

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Market developments

December saw mixed trends, with risk assets performing well amid the typical year-end low liquidity. The US Federal Reserve (Fed) cut rates by 25 basis points (bps) to 3.5-3.75%, as expected, though the decision was not unanimous. Two members voted to hold, and one (Stephen Miran) favored a 50bps cut. The market viewed this as a hawkish cut and now expects a likely pause until April. The US labor market continued to show weakness, with unemployment rising to 4.6% in November, up from 4.4% in September. Nonfarm payrolls declined by 41,000 in October and November. On the positive side, year-on-year inflation fell to 2.7%, and core to 2.6%, both below expectations and down from 3.0% in September. US 10-year yields rose 15bps, ending the year at 4.2%. In Europe, the European Central Bank (ECB) held rates steady, as expected, and we believe it's likely to maintain this stance through 2026, although we see some risks of a cut as preliminary figures showed lower-than-expected December inflation. In December, economic surprises (Citi indices) were mostly positive around the world, except in China. Inflation surprises were generally negative (lower than expected), except in the Eurozone, where inflation exceeded expectations, and Latin America, which was neutral. Global equities (MSCI World) rose 0.7% for the month, finishing the year 19.5% higher. European (Stoxx 600) and emerging-market (EM) stocks (MSCI EM) outperformed, gaining 2.7% each and ending the year up 16.7% and 30.6%, respectively. The US dollar (DXY index) fell 1.1% amid divergent monetary policies. Commodities showed mixed results; industrial metals (Bloomberg index) rose 6.1% in December and 16.4% for the year, led by copper (+11.0% monthly, +41.7% in 2025). Precious metals also rallied, with gold up 64.7% in 2025. Meanwhile, Brent crude oil declined 3.7% in December and 18.5% for the year due to global oversupply amid strong non-OPEC production growth. EM fixed-income indices continued to perform well in December.

EM hard-currency sovereign bonds (EMBIG diversified) rose 0.7% in December, ending the year up 14.3%, their best performance since 2019. High-yield (HY) bonds outperformed with a 1.4% gain, while investment-grade (IG) bonds were flat (0.0%). Africa led regional gains with a 2.4% increase, while the Middle East and Asia both remained flat. For the year, HY

bonds rose 18.3%, and IG sovereign bonds returned 10.4%. The top 10 best-performing sovereigns this month and year were all frontier markets. Lebanese defaulted bonds led monthly gains (+4.9%) and ranked second in 2025 returns (78.5%). The Lebanese cabinet submitted the "Bank Resolution Law" and approved the "Financial Gap Law" draft, both crucial to resolving the banking crisis and sovereign default. However, these laws are seen as favoring the banking lobby, potentially increasing public sector liabilities. Cameroon bonds (+4.8%) performed well, likely due to reduced political uncertainty after peaceful October elections and attractive valuations despite low oil prices. Kenyan bonds (+4.7%) ranked third, with International Monetary Fund (IMF) negotiations expected to resume in January 2026. Argentina and Ivory Coast (both +4.2%) were also top performers. Argentina's Congress approved the 2026 budget – the first under President Javier Milei as he had governed using the 2023 budget, which was highly diluted by inflation – maintaining a zero-deficit target with compensatory spending cuts despite added university and disability expenses. The central bank made depreciation more flexible to match monthly inflation, preventing further real appreciation. Argentina secured a USD 3 billion repo to help repay USD 4.3 billion in short-term external debt this month. Ivory Coast successfully completed the fifth IMF program review, and it's expected to maintain a 3% fiscal deficit, over 6% GDP growth, and inflation below 2% for 2026, consistent with 2025.

EM sovereigns saw continued net rating upgrades in December 2025. Ivory Coast was among six EM countries upgraded, achieving its third BB rating. Paraguay and Oman received their second and third IG ratings, respectively. Jamaica (Ba3), Argentina (CCC+), and Ukraine (CCC) were also upgraded. Conversely, Fitch downgraded Colombia (BB) and Gabon (CCC-) due to negative fiscal developments.

Venezuelan defaulted bonds surged nearly 30% in early January after the US captured indicted ex-President Nicolás Maduro in a special military operation. Bond prices had already nearly doubled (+98.5%) through 2025 amid expectations of aggressive US action under President Donald Trump's administration. Vice President Delcy Rodríguez has assumed the presidency, while Maduro's inner circle remains in power. Alt-

though Trump claims the US is running the country, this appears overstated. The US will likely influence oil, counternarcotics, and migration policies. A gradual transition to democracy is expected within two years, though uncertainty remains high.

Senegal (-5.2%) was the worst-performing sovereign in December. Weak demand for a regional bond auction mid-month raised concerns about the country's ability to muddle through. However, in late December, Senegal successfully issued about USD 1 billion in West African Economic and Monetary Union (WAEMU) regional bonds at yields below 7%. The bonds rebounded in January amid reports of ongoing IMF negotiations and the government's plan to increase tax revenue to avoid debt restructuring.

Peru (-1.5%) was the second-worst performer, partly due to quasi-sovereign Petroperu's bonds dropped amid rumors of debt restructuring, which the company denied. On New Year's Eve, the government announced plans to split Petroperu's assets and partially privatize it. The process, overseen by ProInversión, aims to safeguard operations and prioritize debt service using cash flows from the assets. However, the opposition drafted a motion to censure the finance minister over the proposal, risking her dismissal and the plan's cancellation. Long-dated IG bonds of Malaysia, United Arab Emirates, Uruguay, Poland, and Saudi Arabia posted slight losses in December due to rising US Treasury yields.

Portfolio review

The average credit risk of the portfolio remained stable. Broadly speaking, we reallocated some exposure from Africa to Europe. We further decreased our holdings in B-rated issuers while increasing exposure to CCC-rated bonds. Our exposure to Mexico grew through investments in sovereign bonds and bonds issued by Petroleos Mexicanos, the state-owned oil and gas company. Additionally, we established a position in bonds issued by a Kazakh fintech company. We increased exposure to the United Arab Emirates via quasi-sovereign bonds from Abu Dhabi and bonds from the Emirate of Sharjah. We also purchased sovereign bonds from Poland and Bulgaria. In Argentina, we raised our exposure, shifting some holdings from international-law to local-law bonds to capitalize on an attractive spread pickup. We increased exposure to Colombia with sovereign bonds and bonds of Ecopetrol, the state-owned oil and gas company. In Africa, we reduced exposure to Ivory Coast, Morocco, Nigeria, and South Africa. We switched to shorter-duration bonds of Gabon, while doing the opposite in Cameroon. We reduced corporate exposure to the Brazilian oil services sector and to a Saudi financial institution. In the supranational space, we switched from bonds of Africa Finance Corporation to those of the West African Development Bank.

Performance analysis

The fund marginally underperformed its benchmark by 0.01% in December, closing the year with an absolute performance of 14.87% and an outperformance of 0.57% relative to its benchmark (net, I share class). The fund's country allocation had a slightly positive impact on relative performance, while

bond selection was neutral. Overweight positions in Argentina, Cameroon, and Ivory Coast contributed positively, whereas underweight positions in Egypt, Nigeria, and Panama detracted from relative performance. The overweight position in Peru's state-owned oil and gas company, Petróleos del Perú, negatively affected relative performance, as the company's bond prices declined amid uncertainty regarding a potential reorganization hinted at by the government. The fund received a special payment on its sovereign bond holdings in Grenada, contingent on fiscal revenues generated from the government's citizenship-by-investment program. A positive contribution to relative performance also came from bonds issued by Acelen, the operator of the Mataripe refinery in Brazil, which is owned by Mubadala, Abu Dhabi's sovereign wealth fund. Additionally, quasi-sovereign bonds in Saudi Arabia contributed positively.

Outlook

We continue to believe that risk assets, including EM fixed income, are poised to perform well in 2026. Although valuations are less attractive than six months ago, several factors support our optimism. Trade uncertainty has eased, with most agreements settled, tariff rates having peaked, and remaining deals likely to materialize or receive US exemptions, as with Brazil. While the US economy is slowing, recession risks seem lower, and a rebound in the second half of 2026 is possible as the economy adjusts to higher tariffs.

The Trump administration's reinforcement of the Monroe Doctrine is unlikely to trigger a risk-off event, as it primarily targets smaller states like Venezuela, Lebanon, Iran, and Cuba, and is unlikely to confront major powers such as China. While it merits monitoring, it does not currently justify reducing risk, in our view.

In 2026, we expect the ongoing trends of EM sovereign rating upgrades and renewed inflows into the asset class to continue driving EM hard-currency bonds, as seen in H2 2025. In Q4 2025, these trends accelerated, causing further spread compression, especially among low-rated sovereigns, which saw the highest number of rating upgrades. In Q4 alone, 16 benchmark sovereigns received credit rating upgrades, some of them from multiple agencies, while only three were downgraded. This marks the highest net upgrades in a single quarter in over a decade.

Inflows into EM fixed income, a key driver of this year's performance, are expected to continue through 2026. EM fixed income attracted USD 31.8 billion in 2025, reversing the USD 27.1 billion outflows in 2024. However, the asset class experienced outflows of USD 30.7 billion in 2023 and USD 90 billion in 2022. These figures suggest that global allocations to EM fixed income remain well below historical levels, leaving room for further growth and strong demand for EM bonds. On the supply side, sovereign net financing needs are projected to decline in 2026, reducing gross issuance, while corporate bond net supply is expected to remain negative for the fifth consecutive year. Thus, we believe we have a supportive environment from global macro and EM fundamentals, as well as from technicals.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Debt
ISIN	LU0926439729
Share class	I USD
Reference index	J.P. Morgan EMBI Global Diversified Index
Inception date	15.5.2013

Historical performance (net returns, in %)

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	0.7%	0.7%	2024	13.8%	6.5%
YTD	14.9%	14.3%	2023	14.3%	11.1%
1 year	14.9%	14.3%	2022	-19.9%	-17.8%
3 yrs p.a.	14.3%	10.6%	2021	1.0%	-1.8%
5 yrs p.a.	3.9%	1.8%	2020	1.4%	5.3%
10 yrs p.a.	5.7%	4.4%	2019	14.8%	15.0%
ITD p.a.	4.5%	3.7%	2018	-6.5%	-4.3%
			2017	17.0%	10.3%
			2016	12.7%	10.2%
			2015	-0.3%	1.2%

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

- Distressed securities have a high credit and liquidity risk as well as a potential restructuring and litigation risk. In the worst case, a total loss may result.
- 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.
- Using derivatives creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- 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.
- 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.
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