

Monthly commentary / 31.3.2026

## Vontobel Fund – Sustainable Emerging Markets Debt

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

### Market developments

March marked the first month of the Iran war, triggering a broad market selloff.

The blockade of the Strait of Hormuz caused a sharp spike in oil prices, fundamentally altering the global economic 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 upon by the International Energy Agency and its members. However, at a daily pace of about 3.3 million barrels, this release is insufficient to fully offset the supply shortage. Brent crude prices peaked 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 within two to three weeks, even if the Strait of Hormuz remains effectively closed. European gas prices rose by 59% over the month to their highest level since January 2025 yet remain well short of the levels seen in 2022.

10-year US Treasury yields rose 38 basis points (bps) in March to 4.3%, the highest 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 end 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-haven properties, which had failed to materialize on Liberation Day, reasserted themselves in March, with the US Dollar Index (DXY) index 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 in 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.

Oil and gas-exporting countries outside the Gulf were among the best-performing sovereigns in March. Venezuela’s defaulted bonds (+7.6%) were once again the best-performing. Other oil exporters such as Gabon (+2.1%), Angola (-0.3%), Papua New Guinea (-0.5%), Colombia (-1.2%), Trinidad and Tobago (-1.2%), and Cameroon (-1.3%) were also in the top 10. In Venezuela’s case, we believe that the debt restructuring is likely too far off for bondholders to reap any of these benefits, though. Gabon officially requested an International Monetary Fund (IMF) program, which also helped the credit. The Maldives (0%) was the third-best performing, as its only benchmark bond matures on April 8, and the country now has sufficient FX reserves to repay the bond. Colombia also benefited from a better-than-expected performance of the traditional right-wing party, Centro Democrático, in the primary presidential elections. The party has been rising in the polls against the far-right candidate Abelardo De La Espriella, and opinion polls indicate that its candidate, Paloma Valencia, would have a good chance of defeating the far-left the governing coalition’s candidate, Iván Cepeda, in a runoff. Lebanon’s defaulted bonds (-19%) were the worst-performing. Israel’s decision to invade southern Lebanon and bomb Hezbollah across the country is likely to result in a significant postponement of economic reforms and debt restructuring and likely result in lower recovery values amid reconstruction needs. Senegal (-11.6%) was the second-worst performer,

giving back the gains of the previous month despite the country managing to repay its amortization timely in March. Investors have become less sanguine regarding Senegal's ability to obtain an IMF program without restructuring external debt first. Low-rated oil importers such as Sri Lanka (-8.1%), Zambia (-6.7%), Kenya (-6.5%), and Egypt (-5.8%) were all among the worst 10 performers of the month. Ukraine (-11.2%) was the third-worst performing sovereign of the month. Hungary's Viktor Orban (who's heading for elections on April 12 and may lose his PM position according to the latest polls) has blocked the EU's disbursement of the first tranche of the agreed EUR 90 billion loan. Moreover, Ukraine failed to meet its end-March structural benchmarks required to obtain the first tranche of its new IMF program approved in February, which included a number of tax reforms to be passed by the parliament. Finally, Mozambique (-10.5%) was the fourth worst-performing sovereign in March, despite being a gas exporter that should benefit from the war in Iran. The latest IMF assessment classified Mozambique's public debt as unsustainable under the current fiscal policy path; a large public wage cut and currency devaluation are needed, but the government is quite unpopular and therefore reluctant to implement these measures. Moreover, the Mozal aluminum smelter, which is important for the country's exports and employment, shut down indefinitely amid failure to reach a new long-term electricity price agreement.

#### Portfolio review

We increased the credit risk in the portfolio, causing the average rating to dip slightly below the IG threshold. As a result, the portfolio closed the month with a BB+ rating, one notch below the benchmark's rating. This move was led by the spread decompression between the HY and IG segments, as well as increased dispersion of valuations within the asset class, which created various relative value opportunities. We primarily increased exposure to underperforming countries in the BB- and B-rated segments while reducing exposure to countries in the A-rated segment. Notably, we added exposure to Pakistan, one of the weakest performers in March due to its high economic sensitivity to rising oil prices. However, we believe the negative market reaction in those bonds was excessive on a relative basis. We also increased exposure to Romania, an underperformer in the IG space but relatively less sensitive to higher oil prices compared to neighboring countries. Additionally, we increased exposure to Argentina and the Dominican Republic. On the corporate side, we purchased bonds from a Chinese financial services provider and a Moldovan agro-industrial company. Conversely, we reduced exposure to Brazil, Latvia, Poland, and Uruguay, where spreads either remained stable or widened only marginally. We also decreased exposure to supranational bonds. Over the month, the portfolio's yield increased significantly, driven by both higher core rates and widening spreads. This allowed us to enhance the portfolio's spread pickup relative to the benchmark.

#### Performance analysis

The fund marginally underperformed its benchmark by 0.10% in March (net, I share class). Many issuers' performances were driven by the anticipated consequences of the ongoing conflict in the Middle East, particularly the expected physical shortages of oil, gas, and refined products. Valuations of oil

and gas exporters/producers diverged from those of net importers. The primary drivers of relative performance versus the benchmark were underweight positions in Bahrain and Egypt, where the fund is unable to invest in sovereign bonds due to the democracy criteria outlined in the sustainability framework. The deliberate underweight positions in Panama and Ukraine contributed positively, while the overweight positions in Ivory Coast and Kenya had a negative impact. Additionally, the portfolio underperformed the benchmark in Romania due to its holdings in EUR-denominated bonds.

#### 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 56bps 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

<b>Fund name</b>	Vontobel Fund – Sustainable Emerging Markets Debt
<b>ISIN</b>	LU2145396086
<b>Share class</b>	I USD
<b>Reference index</b>	J.P. Morgan ESG EMBI Global Diversified Index
<b>Inception date</b>	30.9.2020

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

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	-3.6%	-3.5%	2025	14.1%	13.3%
YTD	-1.2%	-1.8%	2024	6.4%	5.7%
1 year	9.9%	8.9%	2023	11.0%	10.3%
3 yrs p.a.	9.2%	8.4%	2022	-20.0%	-18.9%
5 yrs p.a.	2.6%	1.6%	2021	3.7%	-2.3%
10 yrs p.a.	–	–	2020	–	–
ITD p.a.	3.5%	1.4%	2019	–	–
			2018	–	–
			2017	–	–
			2016	–	–

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