

Monthly commentary / 27.2.2026

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).

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

Emerging-market (EM) assets performed well in February, supported by favorable global macroeconomic conditions and a rotation away from artificial intelligence (AI) and US assets toward international markets. However, the rally faced challenges in March following the outbreak of war with Iran.

In February, global core rates declined, with US 10-year yields falling 30 basis points (bps) to 3.9%. UK 10-year gilt yields similarly dropped to 4.2%, and 10-year Bund yields fell 20bps to 2.6%. This reflected better-than-expected US inflation data and a likely flight to safety ahead of the anticipated attack on Iran. In the US, January consumer prices rose 0.2% month-over-month, down from 0.3% the previous month and below the expected 0.3%, reducing annual inflation to 2.4% from 2.7% in December. US nonfarm payrolls exceeded expectations with 130,000 jobs added in January, double the forecast, but February saw a surprising decline of 92,000 jobs and a net two-month revision of -69,000. The consensus forecast for US GDP growth in 2026 rose from 2.1% in January to 2.4% in February and 2.5% in early March.

The US Dollar Index rose 0.6% in February amid positive US data and expectations, yet commodities continued to rally for a second consecutive month. Brent oil prices increased 2.5% ahead of US and Israeli attacks on Iran, while gold and copper rose 7.9% and 1.4%, respectively. EM currencies also gained 0.6% despite dollar strength. The market priced in an additional rate cut by the US Federal Reserve (Fed) in February, totalling three expected cuts in 2026, but this was more than fully reversed in early March following the onset of a longer and more intense war against Iran than the market had expected. The Fed is now expected to pause until at least July or September.

In February, the US Supreme Court ruled against President Donald Trump's "reciprocal tariffs." On February 24, the US administration issued a new executive order imposing a 10% global tariff for 150 days, potentially rising to 15%. Notably, countries with large current account surpluses with the US, previously facing higher tariffs, will see significant tariff reductions, though these may be temporary. This change is expected to benefit countries such as China, Vietnam, India, Sri Lanka, Pakistan, and Brazil.

In March, market trends were disrupted during the first week

following the outbreak of war with Iran. Brent oil prices surged nearly 20% to around USD 90 per barrel. European equities (Euro Stoxx 50) lost all their year-to-date gains, falling 5.8% in four days. EM equities declined 6.7% but remained positive year-to-date. US 10-year yields rose 23bps in the first four days of the month, reversing most of February's bond rally, as higher oil prices are expected to have meaningful inflationary effects.

EM fixed income indices performed well in February despite widening credit spreads and a strong dollar. The EMBIG Diversified gained 1.4% despite a 14bps spread widening, driven by lower US Treasury yields boosting the longest-duration EM fixed income index. The CEMBI BD also did well rising by 0.9% on the month. And the local-currency GBI-EM rose by 1.3%, notable given the strong dollar.

Hard-currency sovereign bonds (EMBIG Div) rose 1.4%, matching the Bloomberg Global Aggregate Index – LEGA-TRUH. The investment-grade (IG) component gained 1.9%, supported by lower US Treasury yields, while the high-yield (HY) component increased 0.9% despite HY spreads widening by 20bps. The index showed resilience in early March, declining 0.7% in the first four days – slightly better than the Global Aggregate's 0.8% drop. Latin America and EM Europe led monthly gains at 1.5% each, while Africa lagged at 1.1%, impacted more by HY spread widening.

Senegal (+8.4%) was the best-performing sovereign in February but the weakest over the past six months (-13.3%). These distressed bonds rebounded strongly after the country confirmed it had sufficient funds to cover the amortization of its 2028 eurobond due this month. Additionally, regional debt issuances were heavily oversubscribed in February, indicating Senegal may continue to muddle through without an International Monetary Fund (IMF) program, possibly through 2026. While engagement with the IMF continues, we now believe a program is unlikely without debt restructuring. The situation remains fluid but restructuring or default seems unlikely before 2027.

Venezuela's defaulted bonds rose another 4.8%, supported by higher oil prices and positive cooperation with the US administration. Bolivia (+2.9%) also performed well, as its new government eliminated fuel subsidies and formalized the parallel exchange rate through an official central bank reference

rate. Exchange rate unification is expected in the coming months, together with an IMF program and a likely return to the eurobond market to address upcoming debt maturities. IG sovereigns with long-dated curves performed well, supported by the US Treasury rally: Panama (+3.5%), Poland (+2.3%), Chile (+2.3%), and Uruguay (+2.3%).

Low-rated sovereigns (B- and CCC) underperformed last month as some investors likely reduced risk ahead of the anticipated attack on Iran, which ultimately occurred.

Argentina (-1.9%) was the weakest sovereign last month despite positive developments, including labor reform approval, some currency appreciation, and steady FX reserve purchases by the central bank. Economy Minister Luis Caputo stated they are not yet keen to return to the eurobond markets, opting instead to refinance through domestic issuance and syndicated loans from international banks. Ethiopia also fell 1.9% as bilateral partners deemed the eurobond restructuring deal with bondholders as incompatible with the Common Framework's equivalent treatment policy. The creditor committee chose to sue in English court rather than renegotiate, believing Ethiopia has sufficient capacity to repay its defaulted eurobond.

Gabon (-1.6%) declined after a strong January following the announcement of a potential IMF program, though no formal request has been made. The IMF mission was in the country at the time of writing but has not issued a formal statement yet. Liquidity in the CEMAC currency union remains tight, with member states pressuring Gabon to adjust public finances through an IMF program. Mozambique (-1.3%) also fell after a negative IMF statement urging urgent fiscal adjustment.

Kenya dropped (-0.8%) due to stalled IMF program negotiations, expected to continue during the IMF Spring Meetings. Pakistan underperformed (-0.6%) amid ongoing conflict with the Taliban government in Afghanistan.

Portfolio review

We maintained the fund's average credit risk unchanged at BB+, the same average credit rating as the benchmark. We shifted some exposure from quasi-sovereign and corporate to sovereign bonds, where we noticed excessive, relative spread compression. We reduced quasi-sovereign exposure in Colombia, Chile, Qatar, and Uzbekistan. In Colombia, we also moved some exposure to shorter bonds while decreasing exposure to EUR-denominated sovereign bonds. We added new EUR-denominated bonds in Indonesia at an attractive spread to the USD-curve. We also bought quasi-sovereign exposure in Indonesia. Additionally, we built a position in EUR-denominated sovereign bonds of Costa Rica. We added quasi-sovereign exposure in Saudi Arabia and the United Arab Emirates. In Africa, we increased exposure to Cameroon and Kenya while reducing exposure to Angola, Gabon, Ghana, and Mozambique. In Ghana, we also decreased corporate exposure. We increased exposure to Hungary, switching from EUR-denominated to shorter USD-denominated sovereign bonds. In Argentina we switched to longer bonds to capture attractive yields and spread pickup. We did the opposite in Bulgaria, moving into shorter bonds after the spread curve became too flat. Overall, we slightly reduced the portfolio's average modified duration.

Performance analysis

The fund marginally underperformed its benchmark by 0.01% in February (net, I share class). The negative impact from bond selection was largely offset by favorable country allocation and a small positive contribution from the overweight in modified duration. The fund's Brazilian corporate exposure was a drag, primarily due to the sugar and ethanol producer Raizen. The company recently experienced deteriorating operational performance in an already weak sector, which exacerbated its strained solvency metrics. The fund also missed some performance due to its underweight position in Venezuela, where bond prices increased. Positive contributions came from the overweight position in Senegal, where bonds performed well. Additionally, exposure to a pan-African oil producer contributed positively to relative performance. The fund also benefited from underweight positions in the Dominican Republic and Egypt, where bond spreads widened from low levels.

Outlook

The war against Iran has significantly increased market uncertainty, as the duration and magnitude of the shock to the global economy are proving to be greater than initially estimated. The Strait of Hormuz is effectively closed, as insurers refuse to cover the risk for vessels that typically transport around 20% of global oil and LNG supplies. This has caused Brent oil prices to rise by more than 25% in one week, surpassing USD 90 per barrel, and increasing nearly 47% year-to-date at the time of writing. While the US has proposed escorting vessels and is currently developing a plan to provide insurance through the Development Finance Corporation (DFC), this initiative is not yet operational. President Trump and other officials have stated that the conflict will likely continue for four to five weeks or until their four objectives are achieved: destroying Iran's missile capabilities, its navy, its ability to develop nuclear weapons, and its capacity to finance terrorism abroad.

Although this is a 2022-style shock, characterized by simultaneous risk-off sentiment and inflationary pressures, which would negatively impact both equities and bonds, it is likely to be a relatively short conflict, unlike the multi-year invasion of Ukraine by Russia. Therefore, we believe the relatively mild market correction experienced so far is appropriate given the conflict's temporary nature. A more prolonged war would likely worsen the outlook, whereas a conflict lasting roughly a month, followed by a swift resumption of oil transit and a reversal of the oil price spike, would probably align with a moderate market correction, a relatively quick rebound, and a return to previously prevailing market trends: global economic resilience, slow but orderly disinflation, and a rotation toward international assets, including EM equities and fixed income. We would describe our approach to the current situation as a careful balancing act, given the uncertainty about whether the market will correct further, by how much, and when it will begin to rebound. We are cautiously adding small amounts of risk in selective market segments while simultaneously reducing risk in others and incorporating some portfolio hedges. We remain relatively optimistic that the conflict is unlikely to last much longer than US officials have suggested, considering the severe consequences it could have on the global economy, as well as the physical supply constraints of ammunition.

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	1.4%	1.4%	2025	14.9%	14.3%
YTD	2.6%	2.1%	2024	13.8%	6.5%
1 year	13.6%	13.2%	2023	14.3%	11.1%
3 yrs p.a.	14.3%	11.0%	2022	-19.9%	-17.8%
5 yrs p.a.	4.6%	3.0%	2021	1.0%	-1.8%
10 yrs p.a.	6.0%	4.4%	2020	1.4%	5.3%
ITD p.a.	4.7%	3.8%	2019	14.8%	15.0%
			2018	-6.5%	-4.3%
			2017	17.0%	10.3%
			2016	12.7%	10.2%

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 significant 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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