# Vontobel Fund – Emerging Markets Investment Grade

**Marketing document for institutional investors in:** AT, CH, DE, DK, ES, FI, GB, IT, LU, NL, NO, SE.

**Market developments**

Global fixed-income markets experienced a significant correction in July, as the truce between the US and Iran proved to be fragile and short-lived. The US and Iran went back to war in the second half of the month and supposedly returned to the negotiation table during the first week of August. Available daily tracking data show near-zero trade flows through the Strait of Hormuz during the second half of July, though an unknown amount of untraceable trade was still taking place. Moreover, the Houthis declared a maritime embargo on Saudi Arabia on July 20 and hit two Saudi tankers in the Red Sea near the Bab al-Mandab Strait, forcing the Saudis to re-route tankers via the Suez Canal and down the Cape of Good Hope, which adds about 25 days for the oil to be delivered. Oil prices have been volatile, with Brent crude starting the month of July in the low USD 70s per barrel, briefly rising past USD 100 per barrel on July 23, and falling back to USD 80 per barrel in early August amid claims from the US administration that a deal to reopen the Strait of Hormuz was imminent. The US Federal Reserve (Fed) kept rates unchanged in July, which was widely expected, but the market didn't seem to welcome Chair Kevin Warsh's press conference. He argued that the market had "already done some of the Fed's inflation-fighting work," as rising long-end bond yields had already tightened financial conditions. The US Treasury curve steepened further after the Fed press conference, possibly implying that market participants have doubts about Fed's willingness to bring inflation back to target in the medium to long term. US 10-year yields ended the month +27 basis points (bps) higher at 4.7%, while 10-year Bund yields rose by 35 bps to 3.2%.

On the other hand, backward-looking inflation data were relatively benign. In June, US consumer prices fell by 0.4% (the first CPI decline in more than six years), bringing the annual inflation print from 4.2% in May to 3.5% in June. Core prices were unchanged in the month (0.0% m/m), bringing annual core inflation down from 2.9% to 2.6%. The Eurozone's consumer prices declined by 0.1%, but annual headline and core inflation were steady at 2.8% and 2.4%, respectively. Inflation surprises were mostly negative in emerging markets (EM), particularly in Latin America and CEE. Brazil's IPCA came below expectations in June and the first half of July, with annual inflation falling from 4.8% to 4.5% during the first half of July. Inflation remained below target in Hungary (1.7% y/y) and the Czech Republic (1.5% y/y) in June, while preliminary July data for Poland show a re-acceleration from an on-target 2.5% in June to 3% y/y in July.

EM hard-currency fixed income indices experienced negative absolute returns due to the US Treasury selloff, while EM local-currency experienced positive returns as EM FX and carry more than compensated for the rates selloff.

Hard-currency-sovereign bonds (EMBIG diversified) dropped by 1.4%. The increase in US Treasury yields explained 1.2% of the decline, while slightly wider spreads explained the remaining 0.2%. EM investment-grade (IG) bonds suffered the most, dropping by 2%, as their longer duration makes them more sensitive to US Treasury selloffs. The EM high-yield (HY) segment outperformed but still dropped 0.9%. EM Asia had the worst performance (-1.8%) while predominantly HY Africa outperformed, dropping 0.7%.

IG underperformance: IG sovereigns with predominantly long-duration bonds were among the worst performers amid the US Treasury yield curve steepening. Malaysia (-3.1%), Uruguay (-2.9%), Chile (-2.9%), Paraguay (-2.8%), Panama (-2.6%), Peru (-2.5%), Philippines (-2.5%), Poland (-2.3%).

Lebanon's defaulted bonds (+7.9%) were the best-performing on the month following an investor trip that revealed better-than-expected progress on reforms toward an eventual debt restructuring.

The oil-related sovereign performance: Although the trend wasn't as evident as the previous month, we did observe several oil-exporting countries outperform in July, even as oil prices lost some of its gains toward month-end. Mozambique (+3.7%) was the second best-performing sovereign. Gabon (+3.5%) was the third-best sovereign – although in this case, its performance was explained by the issuance of a new USD 920 million 2033 Eurobond, initially issued at 12.65% in a private placement, and now trading ~11.5% yield. The issuance proceeds will be partly used to clear bilateral and multilateral external arrears. More importantly, it demonstrates that even CCC-rated sovereigns have market access in today's market. Moreover, the issuance will further support FX reserves of the CEMAC currency union and is therefore positive for the Republic of Congo and Cameroon as well. Other oil exporters like Angola (+1.2%), Nigeria (+0.9%), Iraq (+0.8%), and Venezuela (+0.8%) were also among the top 10 best-performing sovereigns in July.

Sovereign rating upgrades continued in July with receiving its third B- equivalent rating as Moody's upgraded the sovereign to B3, while Pakistan obtained its first B rating from S&P (Fitch rates the sovereign as B-, while Moody's is still at Caa1).

EM hard-currency corporate bonds (CEMBI BD) returned -0.48% in July, as the rates move weighed on performance while spreads were broadly stable (+1.5 bps to 214 bps). HY bonds outperformed IG, returning -0.03% versus -0.80%, supported by modest spread compression in the segment. Regionally, Africa held up best (-0.26%), followed by Europe (-0.38%) and Latin America (-0.39%), while the Middle East lagged (-0.92%) on tension renewal in the US-Iran conflict. At the sector level, infrastructure was the only segment in positive territory (+0.07%), followed by financials (-0.09%) and real estate (-0.33%). In contrast, TMT and metals &

mining were the weakest sectors (-0.91% and -0.86%).
In CEEMEA, the Iran conflict, now in its sixth month, remains the key macro risk for the region, with strikes on Kuwaiti water and power infrastructure underscoring the Gulf's vulnerability. Yet GCC credit markets have stayed remarkably resilient, with spreads well contained near the tight end of their historical range. Kuwait raised USD 6 billion across a three-part deal on strong demand and signed a USD 16 billion pipeline agreement with Blackstone, Brookfield, and KKR to bypass the Strait of Hormuz, while Saudi Arabia was affirmed at A+ by Fitch and continues to fund at historically tight levels despite sharply slowing growth. In Türkiye, Vestel delivered the standout negative: bonds collapsed after the company hired advisors to restructure its 2029 notes and entered a standstill, drawing downgrades from both Fitch and Moody's, with sister company Zorlu Enerji selling off in sympathy, even as contagion looks contained and JPMorgan actually turned overweight Turkish credit on macro stability and attractive yields. In Africa, primary market access was the story: Afreximbank priced its largest-ever bond (USD 1.5 billion dual-tranche) with strong demand despite the preferred-creditor-status controversy, Dangote issued USD 750 million to fund refinery expansion ahead of a planned IPO, and Prosus tapped the market for USD 1.65 billion alongside a positive outlook change from Moody's.
In Latam, Brazilian restructurings dominated July's news flow. CSN finally launched the long-awaited exchange offer on its USD 1.3 billion 2028s at the end of July. It offered new 11% 2030 notes plus a ~25% cash component, conditioned on 70% minimum participation – a deal we participated in – which pushes out the 2028 maturity wall, though the story remains one of execution risk on the pending asset sales ahead of weak Q2 earnings on August 12. Braskem negotiations became more adversarial, with the company rejecting creditor proposals while bondholders push Petrobras to take a more active role (a consensual solution remains the base case). Raízen, by contrast, stayed on a constructive path, with court approval of its restructuring plan expected imminently and the Argentina asset sale cleared. Elsewhere, Ambipar secured a restructuring agreement with the majority of its USD bondholders, while Azul's post-Chapter 11 relaunch was derailed by the fuel price shock. In Brazilian protein, the country has officially reached 80% of its 2026 beef export quota to China. Once imports hit 100%, an additional 55% tariff will apply to all excess volumes from the third day after the threshold is breached. On the positive side, Mexican chemicals posted record quarters, Petroperú's government-backed financing is disbursing on schedule amid strong refining margins, Aegea's capital increase eased covenant concerns, and Constellation was upgraded to B+ by Fitch.

**Portfolio review**

Primary market activity slowed in July but still reached USD 42 billion, above the five-year July average of USD 35 billion. Despite heightened interest-rate volatility and renewed geopolitical tensions in the Middle East, new issues continued to be well absorbed, suggesting that technical conditions remain supportive for the asset class. EM corporate fund flows remained subdued during the month, while broader EM fixed-income inflows slowed markedly compared with earlier in the year.
During the month, we increased our exposure to supranationals and the Middle East, mainly through new issues, while slightly reducing exposure to other regions.
In Asia, we sold our positions in Australian REITs and switched part of our exposure from government-owned transport operator MTR to state-owned oil and gas company Petronas. We also participated in the new issuance from the government-owned utility Korea East-West Power.
In Europe, we took part in the new issue and tap of Bulgarian sovereign bonds, which have lagged year to date despite stable fundamentals. We also reduced our exposure to Kazakh quasi-sovereigns, including QazaqGaz and Baiterek, as the bonds outperformed the sovereign curve.
In Africa, we took profits on the Moroccan 12-year euro bond issued in May following spread tightening of around 20 bps. At the same time, we increased our exposure to quasi-sovereign OCP, which trades at historically wide levels relative to the sovereign.
In the Middle East, we increased our exposure to the UAE and Saudi Arabia. We participated in an issue from a Saudi government-guaranteed entity that offered an attractive premium over the sovereign curve and added longer-duration exposure to Sharjah following a spread widening of more than 30 bps following the collapse of the ceasefire.
In Latin America, we reduced our overall exposure. In Mexico, we sold Liverpool after it resumed trading inside the sovereign curve and added exposure to Valia and CFE Fibra, which was trading close to its widest spread relative to the sovereign offering a premium of around 80 bps. In Chile, we participated in the sovereign's new euro-denominated issuance while reducing our exposure to Cencosud and Antofagasta after spreads tightened significantly. We also reduced our exposure to Tier 2 bank capital in Peru and to the front end of the Nutresa curve in Colombia.
Finally, we increased our exposure to supranational issuers through participation in dual-tranche issuances from Afreximbank, which offered attractive valuations relative to their ratings.
As a result of these adjustments, we increased our exposure to financials, utilities, and sovereign issuers while reducing our allocation to the consumer and real estate sectors. From a ratings perspective, we reduced our exposure to BBB-rated issuers in favor of A- and AA-rated credits. The portfolio continues to offer attractive carry, with a yield advantage of 75 bps over the benchmark, an average spread of 159 bps versus 92 bps for the benchmark, and a post-hedging yield of 6.23%.

**Performance analysis**

The fund performed broadly in line with the benchmark, delivering a modest outperformance of 0.04% in July. The fund returned -1.31% (net, I share class in USD) versus -1.35% for the benchmark.
From a risk-factor perspective, approximately 4 bps of excess return came from carry. Our slightly longer duration position detracted by 12 bps, while spread compression contributed positively by 12 bps.
Indonesia was the largest contributor to performance, driven by good security selection. We benefited from the outperformance of euro-denominated sovereign bonds relative to their US dollar counterparts, as well as from positions in quasi-sovereign issuers PLN and Danantara. Chile was the second-largest contributor, supported by our overweight positions in corporates such as utilities AES and Engie Chile, as well as mining company Antofagasta, all of which outperformed the sovereign. We also benefited from the strong performance of Brazil's FPSO MV24 following its upgrade to a second investment-grade rating.
On the negative side, our overweight exposure to the UAE detracted from performance, particularly our positions in the long-dated quasi-sovereign ADNOC bond and subordinated bonds is-

sued by government-backed Aldar, which were affected by renewed tensions between the United States and Iran. Peru was the second-largest detractor, mainly because of our position in Red Dorsal, as the bond is highly illiquid.

**Outlook**

The US and Iran war has remained in an on-and-off mode. The June memorandum of understanding (MoU) proved fragile, with the US striking Iran during the second half of July, and the Houthis becoming more involved in the war by disrupting Saudi oil flows through the Bab al-Mandab Strait. In early August, the US-Iran war was again paused, and Iran said it was finalizing arrangements to jointly manage passage through the Strait of Hormuz with Oman. The US administration also confirmed that, together with Iran and Oman, they were about to announce a 60-day agreement on shipping through the Strait of Hormuz. We don't yet see a stable agreement that would definitively end the US-Iran war, but it appears both sides have incentives to ease oil transit through the strait. That said, we think further trade disruptions are possible, as the US and Iran do not seem close to agreeing on a comprehensive peace deal, including a new nuclear agreement.

The market has mostly priced in a partial reopening of the Strait of Hormuz, with oil declining below USD 80 per barrel during the first week of August. This is good news for inflation and fixed income generally. Moderate oil prices increase the probability that inflation prints will continue to be benign, which could justify a less hawkish reaction from global central banks than the markets are currently pricing in. US futures markets currently price in a Fed hike by October and a high probability of another by March 2027, while for the European Central Bank, markets currently price in a high probability of a hike in September or October and another by mid-2027.

Global equities were resilient in July, with the MSCI World rising by 0.5%, and although regional and sectoral performances were quite heterogeneous, we believe the observed resilience despite the core rates selloff indicates that risk appetite remains elevated. EM HY spreads were also relatively stable in July despite the temporary resumption of the US-Iran war, proving the point we made last month that markets would likely tend to look past additional trade disruptions if the MoU proved to be fragile. Fundamentals have remained resilient despite the geopolitical shock, with sovereign rating upgrades continuing to significantly outnumber downgrades. EM corporates also entered the period from a position of strength, with improving EBITDA growth, leverage well below US peers and stronger liquidity metrics. Technicals remain supportive, with investor positioning in EM corporates still relatively light and flows continuing to favor sovereign and blended funds over corporates. Brent prices above USD 70 per barrel also remain supportive for oil-related EM issuers.

Regarding the EM IG asset class, benchmark spreads have returned to historically tight levels, in line with the broader global IG market. While tight spreads are partly supported by still attractive all-in yields, EM IG continues to benefit from diversification away from the US, resilient credit fundamentals and supportive technicals, particularly strong local demand across Asia and the GCC. On a leverage-adjusted basis, EM IG remains compelling, in our view. The asset class offers approximately 77 bps of spread per turn of net leverage versus 32 bps for US IG, a ratio of 2.4x that is close to the 91st percentile of its historical range. We also expect EM corporate IG spreads to remain relatively well supported, as supply dynamics remain more favorable than in developed markets, with only a modest increase in EM IG issuance compared with the heavier supply pipeline in US IG credit, driven in particular by hyperscalers.

**Fund characteristics**

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| **Fund name** | Vontobel Fund – Emerging Markets Investment Grade |
| **ISIN** | LU2400051400 |
| **Share class** | I USD |
| **Benchmark** | J.P. Morgan EM Blended (JEMB) Hard Currency Credit 50-50 (EMBI GD/CEMBI BD) Investment Grade |
| **Inception date** | 21.6.2022 |

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

| Time period | Fund | Benchmark |
|---|---|---|
| MTD | -1.3% | -1.4% |
| YTD | -0.3% | -0.3% |
| 1 year | 3.7% | 3.6% |
| 3 yrs p.a. | 6.2% | 5.1% |
| 5 yrs p.a. | – | – |
| 10 yrs p.a. | – | – |
| ITD p.a. | 6.3% | 4.7% |

| Time period | Fund | Benchmark |
|---|---|---|
| 2025 | 10.0% | 9.3% |
| 2024 | 4.8% | 2.8% |
| 2023 | 10.4% | 7.4% |
| 2022 | – | – |
| 2021 | – | – |
| 2020 | – | – |
| 2019 | – | – |
| 2018 | – | – |
| 2017 | – | – |
| 2016 | – | – |

**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**

- 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 generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Asset-backed and mortgage-backed securities and their underlying receivables are often non-transparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- The sub-fund also includes sustainability criteria in its investment process. This may mean that the sub-fund's performance is more positive or negative than a conventionally managed portfolio.
- 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.
- 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.

defined characteristic. ESG investing may forego market opportunities available to strategies which do not utilize such criteria. There is no guarantee the criteria and techniques employed will be successful. Note: Unless otherwise stated in Fund documentation or included within the Fund's investment objective, information herein does not imply that the Fund has an ESG-aligned investment objective, but rather describes how ESG criteria and factors are considered as part of the overall investment process.

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Vontobel Asset Management AG
Gotthardstrasse 43, 8022 Zürich
Switzerland
T +41 58 283 71 11
info@vontobel.com | vontobel.com/am