Monthly commentary / 31.12.2025

# 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**
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%.
EM hard-currency corporate bonds (CEMBI BD) rose 0.5% in December, with HY bonds outperforming (0.9%) their IG counterparts (+0.2%) amid rising US Treasury yields and spread compression.
EM local-currency bonds (GBI-EM) led EM fixed income in December, rising 1.5%. EM FX contributed 0.9% amid a 1.1% decline in the US dollar against major currencies (DXY index). Consistent carry added 0.5%, while slightly lower rates contributed 0.1%. Regionally, EM Europe (+2.2%) outperformed, followed by Asia (+1.3%), with Latin America flat (0.0%). In 2025, the asset class posted a 19.3% total return, the highest among EM fixed income and the best performance since 2009.
South Africa (+6.3%) was the top-performing sovereign in local currency in December, with its currency appreciating 4.5% and bond yields falling 29bps. This momentum was driven by improved growth expectations, restored fiscal discipline, a credit rating upgrade, and a new lower and credible 3% inflation target that was confirmed by the Treasury in November. Alongside a stronger current account supported by high metal prices, South Africa led the index with a total return of 41.3% in 2025.
Turkey (+5.0%) was the second-best performer in local currency as bond yields fell 170bps in December. This decline was driven by a 150bps central bank rate cut (larger than the expected 100bps), slightly lower-than-expected inflation in October and November, and a 27% minimum wage hike, in line with inflation expectations. Turkish lira bonds returned 11.5% for the year, underperforming the GBI EM benchmark, while the lira carry trade delivered 23.75%, ranking fifth-best among GBI-EM currencies.
Chile (+3.3%) was also a strong performer. The election of right-wing candidate José Antonio Kast in the December 14 runoff reduced political uncertainty, boosting the peso. Additionally, copper prices rallied 11% in December (and 41.7% in 2025), further strengthening the currency.
Brazil (-2.4%) and Colombia (-1.9%) were the worst-performing countries in local currency in December. In Brazil, ex-President Jair Bolsonaro endorsed his son, Senator Flávio Bolsonaro, as the party's 2026 presidential candidate, surprising markets and causing the BRL to weaken by 2.9% and benchmark yields to rise by 38bps.
In Colombia, Congress rejected a tax bill aimed at increasing revenues to cover higher pre-electoral spending, creating a 2026 funding gap. Fitch downgraded Colombia's sovereign

rating to BB due to these fiscal challenges. Additionally, the government announced a 23.7% minimum wage hike of 23.7% for 2026, 4.5 times the latest inflation rate, likely fueling inflation and prompting BanRep to raise rates. This move may strengthen the left-wing coalition's chances in the presidential elections.

**Portfolio review**
The fund's assets increased by 1.3% in December, driven by a combination of positive market performance and some profit-taking. Key portfolio adjustments included increasing exposure to KRW, BRL, MYR, Kenya, and TRY, while reducing somewhat in Paraguay, Uzbeki Sum, and SGD. We also tweaked our Central & Eastern Europe (CEE) exposure by moving from HUF toward Poland and the CZK.
By country split and measured at the issuer level, Latin America remains by far the largest exposure (31.2%), followed by CEE (20.6%), Asia (10.3%), and Africa (8.8%). Positioning in frontier markets stood at 9.1% of the portfolio. Cash holdings were around 5.2%, and Supranational bonds were at a high 23.5%.

**Performance analysis**
In December, the institutional share class I continued its winning streak, gaining +1.56% in US dollars, outperforming the GBI-EM Global Diversified Index (+1.49%) by 7bps on the month.
At least part of the good performance can be attributed to the USD being weak. The JPM absolute performance was distributed as follows: EM FX (vs USD) performed positively (+0.88%), combined with bond prices rising again (+0.11%), albeit more muted than in many other months in 2025. The monthly coupon return (+0.51%) has continued to provide a healthy cushion.
From a relative standpoint, our rates policies (spread included) stood out. End-of-month spread compression in India, good choices in Nigeria, Chile, Poland and Uruguay, and being lightly weighted in China all helped to increase the rates excess return. Argentina continued to contribute as well, resulting in an overall lucrative quarter.
In the foreign-exchange (FX) sphere, the excess returns were less uniform. We had positive contributions to excess return from KRW, CLP, PYG, RON, EGP, and BRL, to name the most important ones. But in a context where a declining USD causes all FX to rise, lightly weighted currencies such as the renminbi and the Thai baht were less positive. The Turkish lira is somewhat particular as the managed depreciation means any overweight will cost in FX, only to see it compensated in compelling rate returns. This month, however, the lack of duration meant the rates component could not keep up with the market, resulting in an overall disappointing excess return in Turkey.
A positive contribution to excess return could be seen in Latin America, where almost all of our policies (with the exception of Mexico) performed well: Paraguay, Chile, Peru, and Brazil all added nicely. The flipside could be seen in Asia. Being generally lightly weighted in Asian low-yielders resulted in negative contributions to excess return. Our India policy continued to stage a welcome rebound and recouped all of the damage incurred over the last quarter.
CEE had a limited positive impact: the Romania and Hungary policy added to excess performance while the other countries were neutral.

**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.
As we move into 2026, the current level of aggregate spreads indicate limited room for further compression among sovereigns. Therefore, we favor corporates, especially in the HY segment. That said, we remain mindful of somewhat higher corporate risks amid the rapidly improving financing conditions for sovereigns, which have not yet benefited corporates in many countries.
EM local currency was the outperformer of 2025, with a 19.3% total return in USD, nearly half of which resulted from the US dollar's decline in the first half of the year. Factors such as slower US growth expectations, narrower interest-rate differentials (with the Fed cutting rates more than other central banks), reduced confidence in US institutions, and the disinflationary effects of tariffs globally point to a potentially weaker dollar in 2026. However, the ongoing boom in artificial intelligence (AI) may attract capital to US equities, potentially offsetting some US macroeconomic weaknesses. The net impact of these opposing forces is uncertain, so we expect the US dollar to remain range-bound or weaken modestly in 2026, but not as sharply as in 2025.
EM local currency bonds can still perform well with a stable

US dollar, as demonstrated in the second half of 2025. EM local-currency bonds delivered a solid 6.2% return (12.9% annualized) during this period. Moreover, current EM inflation dynamics currently look more favorable than those in the US. Combined with healthy external accounts in most EM countries, leading to FX reserve accumulation, this should support EM FX even with a relatively stable US dollar. Overall, we believe the current macroeconomic environment remains favorable for this asset class, despite our reduced conviction in a USD bear market compared to a few months ago.

**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 | 1.6% | 1.5% |
| YTD | 20.4% | 19.3% |
| 1 year | 20.4% | 19.3% |
| 3 yrs p.a. | 9.9% | 9.5% |
| 5 yrs p.a. | 2.4% | 1.1% |
| 10 yrs p.a. | 4.5% | 3.9% |
| ITD p.a. | 1.5% | 1.4% |

| Time period | Fund | Ref. index |
|---|---|---|
| 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% |
| 2015 | -15.0% | -14.9% |

**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 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 higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
- Investments in securities with a lower credit quality means there is an increased risk that an issuer may fail to meet its obligations. The value of this investment 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.
- 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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