Vontobel Fund – Green Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, SE, SG (Professional Investors only).

Market developments

April set the tone for the months that followed: anxiety and optimism coexisted, and anyone looking only at financial markets could have been forgiven for thinking little was amiss. Equities kept climbing, buoyed by unabating enthusiasm for technology and a strong corporate earnings season, even as negotiations between the US and Iran stalled and concerns mounted over inflation and the prospect of more hawkish monetary policy.

Much of the quarter was consumed by the war in the Middle East as headlines oscillated between diplomatic progress and escalating rhetoric. April brought a confusing mix of military pressure and signs of improvement, including ceasefires, expletive-filled social media posts, and shipping restrictions that alternated with reports of progress at the negotiating table. In early May, reports suggested the US and Iran were nearing a preliminary deal, prompting a market rally. Both sides rejected the other's proposal, and the cycle of hope and disappointment continued. The back-and-forth lasted into June before a preliminary agreement was signed. It included the reopening of the Strait of Hormuz, the gradual lifting of restrictions on Iranian ports, and a commitment to continue negotiations on Iran's nuclear program and regional security issues.

From mid-April, however, investors seemed more willing to drown out geopolitical noise and attention turned to eco-nomic growth, earnings, and artificial intelligence (AI). US equities surged to record highs amid a strong earnings season and a sense that economic fundamentals were in-tact despite the conflict simmering in the background. The economic data painted a more complicated picture. Oil prices didn't skyrocket as much as some might have expected from the supply disruption, which helped the global economy. Still, in the US, inflation kept accelerating and reached the highest level in three years in May as higher energy costs spilled into consumer prices. Growth held up relatively well, thanks to strong consumer spending and a still-solid labor market. Elsewhere, China struggled with sluggish domestic demand and an ailing property sector that showed few signs of recovery.

Inflation and monetary policy moved to the forefront as the quarter progressed. As talks between the US and Iran faltered, the economic consequences of the conflict became harder to ignore. On May 10, Saudi Aramco Chief Executive Officer Amin Nasser warned that global energy markets might not fully normalize until 2027 if shipping through the strait remained curtailed for several more weeks. Those concerns also seeped into the inflation outlook and, by extension, expectations for central banks.

The US Federal Reserve (Fed) had already wrestled with the issue at its May meeting. While it left interest rates unchanged, the decision exposed the deepest divisions within the institution since 1993, with a growing number of officials favoring rate hikes. European Central Bank (ECB) Vice President Luis de Guindos stressed that the future of the Strait of Hormuz would be a decisive factor at the bank's June meeting – at which it raised interest rates by 25 basis points (bps) to counter war-driven inflation. He has also said that energy shocks tend to appear in inflation data more quickly than their effects on growth become visible. A few days after the ECB's move, the US announced the preliminary agreement with Iran. Other major central banks that met in June after the announcement didn't follow the ECB's lead. The Fed held steady but kept the door open to rate hikes this year. The Swiss National Bank (SNB) also left its policy rate unchanged, and the Bank of England likewise decided to hold steady amid falling oil prices. Some market observers criticized the ECB's move, but officials argued that an agreement between the US and Iran won't reverse the economic damage overnight. June also brought new talking points for investors. Markets absorbed the largest initial public offering (IPO) in history, Elon Musk became the world's first trillionaire, a technology sell-off highlighted concerns about valuations and monetization, and Keir Starmer resigned, leaving the UK searching for its seventh prime minister in a decade.

Bond markets faced a more challenging environment in the second quarter as investors reassessed the outlook for inflation and monetary policy. Rising energy prices and geopolitical tensions pushed inflation expectations higher, prompting markets to scale back expectations for near-term interest-rate cuts by the Fed and reinforcing a higher-for-longer interest-rate environment. Government bond yields moved higher during the quarter as investors grappled with persistent inflation concerns and the prospect of large government borrowing needs. In the US, substantial investment in AI-related infrastructure may also have contributed to upward pressure on longer-dated yields. Credit markets remained resilient, supported by solid investor demand and still healthy corporate fundamentals. However, credit spreads remained close to historically tight levels despite rising market volatility and a more uncertain eco-nomic backdrop. As a result, a larger share of fixed income returns comes from government bond yields rather than credit spreads, leaving corporate bond valuations vulnerable should growth slow or risk sentiment deteriorate. The US government bond market was up 0.3% in the second quarter (in US dollars).

The US yield curve got flatter again, as yields on 2-year Treasuries increased by 38bps while 30-year Treasury yields decreased by 1bps. This movement resulted in a flatter US Treasury curve, with a 39bps decrease in the spread.

The Japanese yield curve experienced upward shifts across almost all maturities. Yields on 2-year to 30-year Japanese Government Bonds (JGBs) increased by 1 to 55bps, with the exemption of the ultra-long end, where yields decreased by 13bps. In contrast to the two aforementioned yield curves, the German Bund curve shifted downwards as yields decreased by 4 to 15bps.

Portfolio review

During the second quarter, we modestly reduced our overweight duration position in EUR.
We maintained an average implied temperature rise (ITR) well below 1.5 degrees Celsius for the corporate portion of the fund, which represents more than 78% of the overall portfolio. Consistent with the fund's objective to maximize avoided CO2 emissions, we continue to favor green bonds within the utility and energy sectors, where we have identified the most impactful projects.

Performance analysis

In the second quarter of 2026, the Vontobel Fund – Green Bond reported an absolute return of 2.02%, outperforming its benchmark during the period. The primary factor contributing to this outperformance was the fund's overweight position in credit exposure, as tightening risk premiums on corporate bonds reflected decreasing geopolitical uncertainty. The fund's overweight duration exposure in USD detracted from performance as the US yield curve bear flattened. Rising energy prices reignited inflation concerns, prompting a sharp market repricing of the Fed's policy path from expectations of rate cuts to the potential for rate hikes.

Outlook

The Iran war has somewhat blurred the upbeat economic baseline scenario we had projected for 2026. Higher oil prices have weighed on growth, lifting energy costs, fanning inflation, and eroding real wage growth, which could slow US consumer spending. Even so, we believe the global economy is in sufficiently strong shape to absorb these headwinds. Several offsets are in place. US tariff rates have likely peaked following the Supreme Court ruling, and tariff refunds have begun to flow through. Fiscal tailwinds are also on the horizon, with Germany yet to roll out much of its planned stimulus and Japan's "Sanaenomics" agenda still in its early stages. The US labor market has started to show signs of reacceleration, and the combination of US President Donald Trump's "One Big Beautiful Bill Act," lower tariffs, and the positive impact of AI-related capex are poised to provide additional tailwinds. With US midterm elections approaching, we believe Trump has an incentive to take a more pragmatic course. The US-Iran deal is also likely to ease one of the main drivers of recent inflation, namely energy inflation. That's why we believe central banks are unlikely to tighten policy as aggressively as some may fear.

Fund characteristics

Fund name	Vontobel Fund – Green Bond
ISIN	LU0278087357
Share class	I EUR
Benchmark	Bloomberg MSCI Global Green Bond Index (EUR hedged)
Inception date	3.5.2007

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.5%	0.4%
YTD	0.8%	1.2%
1 year	1.8%	1.9%
3 yrs p.a.	2.8%	3.4%
5 yrs p.a.	-2.4%	-1.9%
10 yrs p.a.	-0.1%	-0.2%
ITD p.a.	2.5%	2.7%

Time period	Fund	Benchmark
2025	1.7%	2.0%
2024	1.5%	2.1%
2023	6.3%	7.1%
2022	-19.4%	-19.0%
2021	-3.2%	-3.0%
2020	6.0%	5.1%
2019	8.0%	6.9%
2018	0.4%	0.9%
2017	1.5%	0.2%
2016	2.6%	3.3%

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 9.3.2021, the fund had different characteristics and performance was achieved under circumstances that no longer apply.

Investment 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.
— 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.
— 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.
— 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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