

Monthly commentary / 30.8.2024

Vontobel Fund – Emerging Markets Corporate Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, 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

August brought back volatility, but it was a round trip. A brief market panic ensued during the first week of the month triggered by an unexpectedly hawkish rate hike by the Bank of Japan (and the consequent unwinding of some JPY-funded carry trades) and by a faster than anticipated slowdown in the US labor market. US nonfarm payrolls increased by 114,000, way below the consensus expectations for a 175,000 rise. Moreover, the US Bureau of Labor Statistics revised its payroll estimates downward by 818,000 over the 12 months to March 2024, i.e. an average downward revision of 68,000 per month, indicating that the US labor market was never as hot as previous data had suggested. The consequent selloff of risk assets was mostly driven by the repricing of a higher probability of a US recession than before. US Treasuries rallied hard as the market started to price in four Fed rate cuts by year end – one more than before the labor data release. Seasonally low liquidity probably amplified the magnitude of the correction, but it proved to be short lived. After dropping by 6.4 percent in just three trading sessions, global equities fully recovered in the subsequent fortnight and then added 2.5 percent before month end. Relatively positive data released over the month, such as lower than expected US initial jobless claims and an upward revision of the US Q2 real GDP growth to 3 percent annualized (up from 2.8 percent), and improved Conference Board consumer served to reassure markets. US 10y yields ended the month 13bps lower at 3.9 percent while German 10y bunds were stable at 2.3 percent. More aggressive rate cut expectations by the Fed and the potential end of the US exceptionalism translated into a weaker dollar, with the DXY losing 2.3 percent on the month. Commodity prices experienced a mixed performance. Gold rose by another 3.1 percent on the month amid expectations of lower US interest rates. Copper was relatively stable at +0.1 percent and Brent oil priced dropped by 2.4 percent amid concerns about China's growth and despite supply disruptions in Libya, lack of progress on cease-fire negotiations between Israel and Hamas, and discussions about a likely postponement of OPEC+' 180k supply increase that was planned for later this year. Chinese data was anything but encouraging: manufacturing PMIs remained in contraction in August at 49.1, while non-manufacturing PMIs remained near stagnation level at 50.3.

All EM fixed income indices performed well on the month, but the asset class continued to see outflows despite the good year-to-date performance, with USD 2.5 billion leaving the asset class in August (USD 1.2 billion from hard-currency and USD 1.3 billion from local-currency).

EM corporate bonds (CEMBI BD) rose by 1.7 percent on the month. The performance was pretty much identical between IG and HY bonds at +1.7 percent. Latin America was the best-performing region in the EM corporate world rising by 2.1 percent, closely followed by Middle East (+2.0 percent), Africa (+2.0 percent), Europe (+1.8 percent), and Asia lagging at (+1.8 percent).

Overall, the market remains confident in the strong fundamentals of EM corporates, particularly as the default outlook has improved. Additionally, EM corporate credit has shown resilience to external shocks and sovereign volatility, as evidenced by the recent conflict in the Middle East. We think the resilience of CEMBI spreads is supported by the robust fundamentals and supportive technicals. In particular, new issuance in the EM corporate bond market remains modest, with the usual summer slowdown leading to only USD 12 billion of supply so far in August (below the USD 16 billion average over the past five years) which contrasts with still-active issuance in US credit.

In China, policymakers are considering allowing homeowners to refinance up to USD 5.4 trillion in mortgages, a step aimed at reducing borrowing costs for millions of families and boosting consumption. This potential policy change would enable homeowners to renegotiate mortgage terms at lower rates with their current lenders before January, when banks typically reprice mortgages. Notably, for the first time since the global financial crisis, homeowners would also have the option to refinance with a different bank. This initiative is part of broader efforts to stabilize China's real estate market, which has been under pressure.

Asia credit fundamentals (ex-China) remained largely stable. IG fallen angel and HY default risks continue to be moderate suggesting credit cycle has bottomed out. In particular, S&P thinks India corporate credit quality is getting strong as leverage will continue to decline and corporates have access to strong onshore liquidity from banks and private credits. There has been an up-tick of new issue activities in Asia on the expectation that UST rates are going down, slowly. USD13.4bn

For institutional investors only/not for public viewing or distribution

of new issues were priced in Asia in the month of August, of which IG dominated the market which took 80 percent of the total new issue volume. Year-to-date default rate of 4.1 percent in Asia is close to JPM's forecast of 4.5 percent for year-end 2024.

In Latin America, most companies reported 2Q 2024 earnings. Overall, results were solid except for some idiosyncratic stories such as GOL or MCBRAC. Importantly, we have seen a lot of recent progress in the debt restructuring of distressed companies in the region. The Brazilian telecom operator Oi completed the debt exchange approved under its judicial reorganization plan, resulting in a significant lower debt level. Volcan, the Peruvian mining company, announced that 81 percent of the bondholders accepted the tender and exchange. That said, the company sweetened the offer further to encourage the remaining holders to also accept the terms. Gran Tierra Energy ("GTE"), the independent O&G producer with operations in Colombia announced its intention to acquire a Canadian O&G company, i3 Energy for GBP174 million. The combined entity would increase daily production by over 65 percent, reserves would double while diversifying geographically into Canada. The transaction is expected to be partially funded with debt but given the significant improvement in the company's profile, it will most likely trigger positive rating actions on the company.

Hard-currency sovereign bonds (EMBIG GD) rose by 2.3 percent on the month. IG bonds slightly outperformed (+2.4 percent) on the back of the US Treasuries rally, although HY bonds also did well, rising by 2.2 percent on aggregate. Africa was the best-performing region, rising by 2.8 percent, while Asia under-performed with a still positive 1.5 percent return. Idiosyncrasies matter a lot this month, with frontier markets being on the top five and bottom five of the monthly performance table.

A high yield Latam trio ranked on top. Argentine bonds performed best (+5.9 percent). On the politics, there are signs of a deteriorating relationship between President Milei and the two houses of the legislature. The opposition managed to pass a pension bill that would cost 0.45 percent of GDP this year and 1.2 percent in 2025, and another bill increasing the budget for public universities that would cost 0.14 percent of GDP. The President has vowed to veto these bills and stick to his zero-deficit promise, but there's a risk that the pension bill veto could be overturned by a two-third legislative majority. More important for bondholders, Economy Minister Caputo said that the country will repay all external debt service obligations in 2025 without market access. A combination of FX reserves, which started to increase again in August, and a REPO operation using central bank gold, will be used instead to repay maturities, and market access will only be needed in 2026. The plan appears quite plausible. Ecuador bonds rose 5.5 percent on the month. The country recorded its highest trade surplus ever driven by high cocoa prices, which has helped it accumulate FX reserves at a faster than expected pace; fiscal figures suggest the country is sticking to its fiscal consolidation plan agreed with the IMF this year; and President Noboa's seems poised for re-election in February 2025 as he enjoys a popularity level of 55 percent. El Salvador bonds jumped 5.2 percent on the month following a surprising statement by the IMF indicating that there has been quite

some progress on the negotiation of an IMF program. Maldives bonds dropped 20 percent on the month following a downgrade from CCC+ to CC by Fitch (the second downgrade in just two months). The archipelago's FX reserves dropped by more than USD 100 million in July falling to just USD 395 million. Despite booming tourism, the country has been running double-digit fiscal deficits ever since the pandemic began.

Local-currency sovereign bonds (GBI-EM) were the best performing sub-asset class on the month rising by 3.1 percent, which is not surprising given the context of a weakening US dollar and decreasing developed market rates. EMFX was responsible for 2 percentage points of the monthly performance, but EM rates contributed too with a weighted average decline of 11bps. The drop-in EM rates was not fully proportionate to the 21bps drop in US 5y yields, thus improving the interest rate differential in favor in EM and leaving space for further outperformance in the short term.

Portfolio Review

Portfolio review

In August, the fund was relatively less active in terms of trading due to traditionally lower liquidity in peak summer months. While remaining true to our process of combining both 'value' and riskier 'event trades', most of the turnover this month was related to flows. To that end, we maintain about 3.5 percent of AUM in cash, partly to have some buffer for possible outflows, but even more so – for the new issues that should pick up big time after the Labor Day in the US.

We marginally increased our largest overweights which are still in Latin America (+21.3 percent; Brazil, Mexico and Colombia in this order responsible for large part of it) and Eastern Europe (+12.5 percent; Hungary, Romania and Turkey, for instance). We slightly reduced further Asia, which remains our largest underweight (-31 percent relative weight) but added a bit of Middle East which is the distant second (-8.8 percent). No major sectoral shifts have occurred although we have slightly added to our oil& gas names, the sector we like strategically on the back of elevated crude oil prices. Telecom sector has increased in relative exposure too, but mostly on the back of specific situations, including Oi finalizing its debt restructuring. We also took part in a couple of new issues which only started to emerge at the very end of the month (and more so in early September). On the other side, we exited a few trades, for instance, Standard Chartered perpetual bond and Petra Diamond.

Overall, the fund has added risk somewhat, however the average rating was unchanged at BB+. We did not change the duration of the portfolio materially – keeping it at around 4.5 years, while the spread has decreased by about 147 bps – to 451 bps on OAS basis. With the latest YTM after hedging into USD being at 9.7 percent and current yield at 7.2 percent, we believe EM Corporates remain an attractive universe for those seeking diversification and higher returns in the environment of normalizing (i.e., lower) global interest rates.

Performance analysis

The fund has marginally underperformed the benchmark – delivering 1.53 percent positive return (vs 1.69 percent for CEMBI Broad Diversified). On the positive side, Oi contributed positively after finalizing the restructuring. We believe there is

more upside in Oi but we will likely see bonds in price discovery mode for a while now. On the event side, Garuda in Indonesia contributed positively as well with bonds up around 10 percent over the month. The only negative outlier – Tuspark in China – is one of our legacy restructuring cases and is responsible for about 20 bps of performance. Otherwise, the fund's performance was predictable and broadly diversified across names and countries. Sovereign bonds and certain quasi-sovereigns with their longer duration outperformed, helping the fund. Some event-driven situations, for instance Andrade in Brazil also contributed positively this month. Taking a somewhat longer perspective, for instance year to date, EM Corporate fund outperforms, having delivered 7.8 percent return, versus 7.2 percent for the benchmark. With several exceptions, the fund also leads market competitors, as majority is concentrated around 6.8-7.2 percent YTD return. Despite being dragged by the legacy stories in China from 2023, the fund has a number of positive factors concentrated specifically in Latin America, but not only.

Outlook

With only two months left until the US elections, it is hard to discern whether the markets are more worried about politics or shorter-term evolution of Fed cuts. We are in the camp of 'soft landing' or, at worst, moderate recession, hence think that current expectations of 1 percent cumulative cuts in 2024 are somewhat exaggerated. The market, however, keeps reacting to every piece of macroeconomic data, while the suspense of close to 50/50 chances regarding US presidential elections (and multiple different combinations when it comes to the Congress and the White House balance between the Republican and Democratic parties) is captivating minds of forecasters, rather than being directly baked into UST rate levels. An interesting view on the market is that while every-

body watches the elections topic closely, most do not do anything to prepare for it, given how hard it is to predict the odds and the outcomes for each of the several scenarios.

The resilience of EM bonds is likely to continue: In our baseline of a US soft landing, we expect US Treasury yields to continue to decline over the next two years. Markets may have overshoot the pricing of short-term interest rates, but they are likely correct on the medium-term outlook. This implies that even if EM spreads widen amid persistent macroeconomic uncertainty, borrowing costs for EM issuers are unlikely to rise and total returns should remain positive and above those of most fixed income sub asset classes.

Improving macro fundamentals have resulted in tighter EM spreads year-to-date. Easier global financing conditions have allowed HY issuers to regain market access and drastically reduced default risk. As such risk recedes, EM corporate default rates are expected to maintain their steady decline. Given the most recently reported results (for non-distressed corporates), the fundamentals for EM corporates remain strong and justify further spread tightening before the end of year. Similarly, fundamentals in the sovereign space have also continued to improve: Paraguay and Azerbaijan obtained their first investment-grade ratings and even niche HY issuers like Cameroon successfully issued Eurobonds during what's normally considered a Northern Hemisphere summer lull. We are also seeing a lot of rapid progress in the restructuring of distressed situations both in the sovereign and corporate spaces. Ukraine completed its restructuring and Ghana has launched its debt exchange, which we expect to successfully complete in September, Sri Lanka's will probably be completed after this month's elections. There's also been a lot of progress in the debt restructuring of distressed companies in Latin America, and some progress in a few Chinese real estate firms as well.

Fund characteristics

Fund name	Vontobel Fund – Emerging Markets Corporate Bond
ISIN	LU1305089796
Share class	I USD
Reference index	J.P. Morgan CEMBI Broad Diversified
Inception date	13.11.2015

Historical performance (net returns, in %)

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	1.5%	1.7%	2023	-3.5%	9.1%
YTD	7.8%	7.2%	2022	-14.7%	-12.3%
1 yr	11.4%	12.2%	2021	4.6%	0.9%
3 yrs p.a.	-5.4%	0.4%	2020	5.8%	7.1%
5 yrs p.a.	0.5%	2.7%	2019	15.6%	13.1%
10 yrs p.a.	–	–	2018	-0.6%	-1.6%
ITD p.a.	5.6%	4.2%	2017	16.2%	8.0%
			2016	22.8%	9.7%
			2015	–	–
			2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider 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 due to changes in the rates of exchange between currencies.

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.
- 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.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- 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.
- 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.
- 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-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' 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.

Important legal information

This marketing document was produced by one or more companies of the Vontobel Group (collectively "Vontobel") for institutional clients, for distribution in AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, PT, SE, SG (Professional Investors only).

This document is for information purposes only and does not constitute an offer, solicitation or recommendation to buy or sell shares of the fund/fund units or any investment instruments, to effect any transactions or to conclude any legal act of any kind

whatsoever. Subscriptions of shares of the fund should in any event be made solely on the basis of the fund's current sales prospectus (the "Sales Prospectus"), the Key (Investor) Information Document ("K(I)ID"), its articles of incorporation and the most recent annual and semi-annual report of the fund and after seeking the advice of an independent finance, legal, accounting and tax specialist. This document is directed only at recipients who are "institutional clients", such as eligible counterparties or "professional clients" as defined by the Markets in Financial Instruments

Directive 2014/65/EC (“MiFID”) or similar regulations in other jurisdictions, or as “qualified investors” as defined by Switzerland’s Collective Investment Schemes Act (“CISA”).

Neither the fund, nor the Management Company nor the Investment Manager make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of an assessment of ESG research and the correct execution of the ESG strategy. As investors may have different views regarding what constitutes sustainable investing or a sustainable investment, the fund may invest in issuers that do not reflect the beliefs and values of any specific investor.

Past performance is not a reliable indicator of current or future performance.

Performance data does not consider 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.

Interested parties may obtain the above-mentioned documents free of charge from the authorized distribution agencies and from the offices of the fund at 11-13 Boulevard de la Foire, L-1528

Luxembourg, the facilities agent in **Austria**: Erste Bank der oesterreichischen Sparkassen AG, Am Belvedere 1, A-1100 Vienna, the representative in **Switzerland**: Vontobel Fonds Services AG, Gotthardstrasse 43, 8022 Zurich, the paying agent in Switzerland: Bank Vontobel AG, Gotthardstrasse 43, 8022 Zurich, the European facilities agent for **Germany**: PwC Société coopérative - GFD, 2, Rue Gerhard Mercator B.P. 1443, L-1014 Luxembourg, Email: lu_pwc.gfd.facsvs@pwc.com, gfdplatform.pwc.lu/facilities-agent/, the information agent in **Liechtenstein**: LLB Fund Services AG, Äulestrasse 80, FL-9490 Vaduz. Refer for more information on the fund to the latest prospectus, annual and semi-annual reports as well as the key (investor) information documents (“K(I)ID”). These documents may also be downloaded from our website at vontobel.com/am. A summary of investor rights is available in English under: vontobel.com/vamsa-investor-information. In **Spain**, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The KID can be obtained in Spanish from Vontobel Asset Management S.A., Sucursal en España, Paseo de la Castellana, 91, Planta 5, 28046 Madrid. **Finland**: The KID is available in Finnish. The KID is available in French. The fund is authorized to the commercialization in **France**. Refer for more information on the funds to the KID. The fund authorised for distribution in the **United Kingdom** and entered into the UK’s temporary marketing permissions regime can be viewed in the FCA register under the Scheme Reference Number 466625. The fund is authorised as a UCITS scheme (or is a sub fund of a UCITS scheme) in a European Economic Area (EEA) country, and the scheme is expected to remain authorised as a UCITS while it is in the temporary marketing permissions regime. This information was approved by Vontobel Asset Management S.A., London Branch, which has its registered office at 3rd Floor, 70 Conduit Street, London W1S 2GF and is authorized by the Commission de Surveillance du Secteur Financier (CSSF) and subject to limited regulation by the Financial Conduct Authority (FCA). Details about the extent of regulation by the FCA are available from Vontobel Asset Management S.A., London Branch,

on request. The KIID can be obtained in English from Vontobel Asset Management S.A., London Branch, 3rd Floor, 70 Conduit Street, London W1S 2GF or downloaded from our website vontobel.com/am. **Italy**: Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 2, 20123 Milano, telefono: 0263673444, e-mail: clientrelation.it@vontobel.com. **Netherlands**: The Fund and its sub-funds are included in the register of Netherland’s Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act (“Wet op het financiële toezicht”). **Norway**: The KID is available in Norwegian. Please note that certain sub-funds are exclusively available to qualified investors in Andorra or **Portugal**. **Sweden**: The KID is available in Swedish. The fund and its sub-funds are not available to retail investors in **Singapore**. Selected sub-funds of the fund are currently recognized as restricted schemes by the Monetary Authority of Singapore. These sub-funds may only be offered to certain prescribed persons on certain conditions as provided in the “Securities and Futures Act”, Chapter 289 of Singapore. This document was approved by Vontobel Pte. Ltd., which is licensed with the Monetary Authority of Singapore as a Capital Markets Services Licensee and Exempt Financial Adviser and has its registered office at 8 Marina Boulevard, Marina Bay Financial Centre (Tower 1), Level 04-03, Singapore 018981. This advertisement has not been reviewed by the Monetary Authority of Singapore. The fund is not authorized by the Securities and Futures Commission in **Hong Kong**. It may only be offered to those investors qualifying as professional investors under the Securities and Futures Ordinance. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution and if you are in doubt about any of the contents of this document, you should obtain independent professional advice. This document was approved by Vontobel (Hong Kong) Ltd., which is licensed by the Securities and Futures Commission of Hong Kong and provides services only to professional investors as defined under the Securities and Futures Ordinance (Cap. 571) of Hong Kong and has its registered office at 1901 Gloucester Tower, The Landmark 15 Queen’s Road Central, Hong Kong. This advertisement has not been reviewed by the Securities and Futures Commission.

This document is not the result of a financial analysis and therefore the “Directives on the Independence of Financial Research” of the Swiss Bankers Association are not applicable. Vontobel and/or its board of directors, executive management and employees may have or have had interests or positions in, or traded or acted as market maker in relevant securities. Furthermore, such entities or persons may have executed transactions for clients in these instruments or may provide or have provided corporate finance or other services to relevant companies.

The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the “MSCI Parties”) makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any

direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Although Vontobel believes that the information provided in this document is based on reliable sources, it cannot assume responsibility for the quality, correctness, timeliness or completeness of the information contained in this document. Except as permitted under applicable copyright laws, none of this information may be reproduced, adapted, uploaded to a third party, linked to, framed, performed in public, distributed or transmitted in any form by any process without the specific written consent of Vontobel. To the maximum extent permitted by law, Vontobel will not be liable in any way for any loss or damage suffered by you through use or

access to this information, or Vontobel's failure to provide this information. Our liability for negligence, breach of contract or contravention of any law as a result of our failure to provide this information or any part of it, or for any problems with this information, which cannot be lawfully excluded, is limited, at our option and to the maximum extent permitted by law, to resupplying this information or any part of it to you, or to paying for the resupply of this information or any part of it to you. Neither this document nor any copy of it may be distributed in any jurisdiction where its distribution may be restricted by law. Persons who receive this document should make themselves aware of and adhere to any such restrictions. In particular, this document must not be distributed or handed over to US persons and must not be distributed in the USA.

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