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Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2026

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

Market developments

The fourth quarter (Q4) of 2025 was marked by a combination of important geopolitical breakthroughs, late-cycle macro signals, and a gradual shift in global monetary policy, which together supported risk assets and drove strong performance in emerging market fixed income, particularly in high-yield and frontier segments.

From a macroeconomic perspective, in the US, Q4 confirmed a clear disinflationary trend alongside a softening labor market. The US central bank Fed cut its key interest rate in October and December, by 25 basis points (bps) each to a range of 3.5-3.75%. While its easing cycle progressed, its communication remained cautious. Its December decision was perceived as restrictive, given dissent within the committee and guidance suggesting a likely pause until at least April 2026.

US economic data deteriorated gradually through Q4: unemployment rose from 4.4% in September to 4.6% in November, while cumulative non-farm payrolls declined across October and November. In contrast, inflation surprised to the downside, with headline and core inflation falling to 2.7% year on year and 2.6% by December, below market expectations.

Geopolitical and political developments were unusually supportive for risk sentiment. October set the tone with several de-escalatory events, including a US-brokered peace agreement between Israel and Hamas, a temporary US-China trade truce with partial tariff rollbacks, and renewed US engagement across Asia and Latin America aimed at countering China's influence. In Latin America, President Milei's strong midterm victory in Argentina reinforced confidence in policy continuity, fiscal discipline, and reform momentum. These developments helped underpin emerging market (EM) risk appetite, despite ongoing geopolitical fragilities and targeted sanctions, notably against Russian oil exporters, which added volatility to energy markets without materially tightening global supply.

Global asset markets delivered positive but uneven performance during Q4. Equity markets experienced sharp volatility in November – driven by concerns around US mega-cap stock valuations and exuberance related to artificial intelligence (AI) – but recovered into year-end, with global equities finishing modestly higher. EM equities significantly outperformed developed markets, supported by improving macro fundamentals and valuation catch-up. The US dollar (USD) weakened modestly, reflecting narrowing rate differentials and improved global risk appetite. Commodities showed mixed performance: Industrial metals rallied strongly, led by copper on supply constraints and optimism around global trade, while precious metals continued to benefit from declining real rates and geopolitical hedging demand. Oil prices trended lower overall, as expectations of a sizeable global supply surplus in 2026 outweighed geopolitical risks and supply management efforts by the Organization of the Oil Exporting Countries and their allies (OPEC+).

Country-level performance was dominated by high-beta and frontier sovereign bonds, supported by spread compression amid improving political visibility, International Monetary fund (IMF) engagement, and strong demand for carry. Argentina was the clear standout following President Javier Milei's decisive midterm victory, which reinforced policy continuity and fiscal discipline. Progress on macro stabilization – including approval of the 2026 zero-deficit budget, increased foreign exchange flexibility, and a repurchase agreement (repo) worth USD 3 billion to manage near-term repayments – drove sustained outperformance across the curve into year-end. Several frontier African credits also performed strongly. Ivory Coast benefited from a successful IMF review, a stable macroeconomic outlook, and a third BB rating, while Cameroon outperformed following peaceful elections that reduced political risk premia. Kenya rallied on expectations of resumed IMF negotiations in early 2026. Rating momentum remained supportive, with upgrades or additional investment grade (IG) ratings for countries such as Paraguay and Oman, contributing to further spread compression in high-yield sovereign bonds.

By contrast, selected credits underperformed due to fiscal and funding concerns. Senegal weakened following multiple rating downgrades and weak auction demand, though performance partially reversed toward year-end after a successful West African Economic and Monetary Union (WAEMU) bond issuance and renewed IMF discussions. Peru also lagged late in Q4 amid uncertainty surrounding quasi-sovereign PetroPeru and political opposition to proposed asset restructuring. EM hard-currency corporate bonds posted positive but more muted returns, with higher dispersion than sovereign bonds. Performance was driven mainly by carry and selective spread tightening, as higher US Treasury yields limited upside. High-yield corporate bonds modestly outperformed investment grade paper. Several idiosyncratic events underscored the importance of issuer selection. In China, the sharp sell-off in Vanke bonds highlighted renewed concerns around state support for private developers. In Latin America, Brazilian corporates remained volatile, with contagion from capital structure reviews at Braskem and Ambipar, while later in Q4, more defensive actions by Suzano helped stabilize sentiment. In Central and Eastern Europe, the Middle East and Africa (CEEMEA), pressure persisted in stressed energy and transport names such as Tullow Oil and Borr Drilling, partially offset by selective positive developments, including balance-sheet-driven expansion by Pegasus Airlines.

Portfolio review

During Q4, we actively repositioned the portfolio to capture selective relative-value opportunities while continuing to manage maturity risk as the fund approaches its termination.

In this context, an increasing number of issuers moved proactively to refinance and extend their debt profiles, creating opportunities to participate in tender offers at attractive levels. Regarding corporate bonds, we took part in tender offers launched by Turkish renewable company Aydem Yenilenebilir and Chinese real estate developer NE Property. Regarding sovereign bonds, the Republic of Kenya announced in October a tender offer to repurchase its outstanding USD 1bn 7.25% notes due 2028, aimed at actively managing its external debt profile. We participated in the transaction.

We redeployed proceeds from these tenders selectively into risk-adjusted opportunities, focusing exclusively on investments maturing ahead of the fund's termination in October 2026. Within this framework, we initiated a position in Emaar Properties, whose credit profile strengthened further in 2025 following upgrades to BBB+ by S&P and to Baa1 by Moody's. The upgrades reflected Emaar's strong revenue backlog, record presales, conservative leverage, and solid liquidity, supported by resilient demand in the real estate market of the United Arab Emirates (UAE). We also increased exposure to African Export-Import Bank, which continues to demonstrate robust financial performance and balance-sheet resilience. The bank delivered solid results for the nine months ended September 2025, supported by strong capitalization and prudent risk management. Exposure to Sasol was increased, reflecting management's continued focus on debt reduction and operational efficiency, with a stated objective of reducing net debt below USD 3bn prior to resuming shareholder distributions. Finally, we continued to invest in the Indian renewable energy sector, which continues to offer compelling risk-adjusted returns, supported by India's accelerating energy transition and the sector's substantial structural investment needs.

As of the end of Q4, we maintained our average rating of BBB- and the portfolio offers a yield to maturity of 4.84%.

Performance analysis

The fund's I (USD) share class delivered a +1.11% return in Q4, with the NAV increasing from 106.72 to 107.90. Performance was broad-based, with most holdings contributing positively. Petróleos Mexicanos (Pemex) and Tunisian Republic were the top contributors, while Kosmos Energy was the main detractor, following negative financial results in the third quarter and a price drop in Brent oil.

Outlook

We remain confident that risk assets, including EM fixed income, will 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 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 the second half of 2025. These trends accelerated in Q4, causing further spread compression, especially among low-rated sovereign bonds. 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. in 2025, EM fixed income attracted USD 31.8 billion, 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 corporate bonds, especially in the high-yield segment. That said, we remain mindful of somewhat higher corporate risks amid the rapidly improving financing conditions for sovereign bonds, which have not yet benefited corporate bonds in many countries.

EM local-currency bonds were the stellar outperformer of 2025 with a 19.3% total return in USD, nearly half of which resulted from the USD 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 suggest a weaker USD in 2026. However, the ongoing AI boom 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 USD to remain range-bound or weaken modestly in 2026, but not as sharply as in 2025.

EM local-currency bonds can still perform well, even with a stable USD, as demonstrated in the second half of 2025. EM local-currency bonds delivered a solid 6.2% return (12.9% annualized) during this period, outperforming EM corporate bonds (4.5% or 9.2% annualized) but trailing EM hard-currency sovereign bonds (8.2% or 17.1% annualized).

Currently, EM inflation dynamics look more favorable than those in the US. Combined with healthy external accounts in most EM countries, leading to foreign exchange reserve accumulation, this should support EM currencies even with a relatively stable USD. 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 II – Fixed Maturity Emerging Markets Bond 2026
ISIN	LU2365110571
Share class	I USD
Reference index	–
Inception date	9.11.2021

Historical performance (net returns, in %)

Time period	Fund	Ref. index
MTD	0.5%	–
YTD	7.2%	–
1 year	7.2%	–
3 yrs p.a.	8.3%	–
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	1.9%	–

Time period	Fund	Ref. index
2024	9.7%	–
2023	7.9%	–
2022	-14.1%	–
2021	–	–
2020	–	–
2019	–	–
2018	–	–
2017	–	–
2016	–	–
2015	–	–

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- 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.
- 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.
- 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.
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