Vontobel Fund – Sustainable Emerging Markets Debt

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, IT, LI, LU, NO, SE.

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

June was a typical "sell the news" month after "buying the rumor" in May, though risk appetite remains elevated. Following a strong May rally (+4.4% month-on-month), in anticipation of a US-Iran deal, global equities (MSCI World) corrected 0.72% in June, after the US and Iran signed a memorandum of understanding that is poised to lead to a peace deal eventually. Importantly, oil flows through the Strait of Hormuz started to recover rapidly through June, even before the preliminary agreement was signed, and are estimated at about 8.7 million barrels per day (mbd) as of the third week of June. That is still significantly lower than the roughly 20 mbd that used to flow prior to the war but about triple the average daily volume that passed in May. Brent oil prices declined by 20% toward the low USD 70s per barrel in June. Metal commodities corrected by 7.5%, although copper outperformed, dropping by just 3.02%.

Much of the action in fixed income was driven by core rates, which were boosted by two opposing narratives. On the one hand, the inflation shock has so far been less severe than feared. Combined with a sharp decline in oil prices, it capped the upward pressure on core yields: US 10-year Treasury yields ended the month 3 basis points (bps) higher, at 4.465%, while 10-year Bund yields fell 8bps to 2.86%. In the euro area, German and French consumer prices declined by 0.3% and 0.2%, respectively, according to preliminary data, which brought the year-on-year (y/y) inflation down to 2.3% (from 2.6%) and to 1.8% (from 2.4%), respectively. We have also seen signs of weaker inflation in Eastern Europe and other emerging markets (EM). In Poland, y/y inflation dropped from 3.1% to 2.5% in June, while in Mexico, the bi-weekly y/y inflation fell to 3.6 (from 3.8%) during the first half of the month. On the other hand, the markets have read Kevin Warsh's first meeting as the new Fed chair as hawkish and are now pricing in a higher probability of an interest-rate hike by September or October.

EM fixed income indices performed quite well this month, comfortably outperforming global equities and global aggregate fixed income.

EM hard-currency sovereign bonds (EMBIG Div) rose 0.72%, led by the high-yield (HY) segment that rose 0.97%, while its investment-grade (IG) counterpart rose 0.45%. Latin America (+1.0%) and EM Europe (+0.95%) outperformed other regions, while the Middle East (-0.04%) lagged.

Three South American countries topped June's performance. Bolivia (+4.75%) recovered strongly, having underperformed after the issuance of the new 2031 bond in early May. The country's protests have finally faded, and the central bank has devalued the boliviano by almost 40% after running a fixed (and increasingly overvalued) exchange rate since 2011. This is seen as a positive move toward obtaining an International Monetary Fund (IMF)-supported program and exiting the slow-motion balance of payment crisis the country has been in for so long. But the country still needs to implement a large fiscal adjustment, and the political support for these necessary, albeit painful, appear to be very low. Colombia (+3.54%) was the second-best performing sovereign, following the victory of right-wing candidate Abelardo de la Espriella in the runoff presidential election. Argentina (+3.65%) was the third-best performing country. Its sovereign spreads compressed after S&P upgraded the country's rating to B- (the second B- rating in addition to Fitch's unsolicited B-), and the government secured a USD 2 billion loan from the World Bank, and another for USD 550 million from the Internamerican Development Bank. These multilateral loans, plus a larger trade surplus (driven by higher oil prices and higher oil production), are allowing the country to repay its Eurobond maturities this year without having to refinance in the markets, adding technical support to bond spreads.

Sovereign credit rating upgrades continued. Apart from Argentina (upgraded to B- by S&P), Uzbekistan was upgraded to Ba2 by Moody's reflecting sustained improvements in the country's institutional and policy framework.

The oil-related sovereign performance. Fragile, oil-importing countries performed well in June after the decline in oil prices – Sri Lanka (+3.95%), Pakistan (+2.70%), Kenya (+2.15%) – while oil-exporting countries underperformed. Venezuela (-3.90%) saw the worst performance of the month, after a Financial Times article reported that the total debt stock to be restructured is likely to be significantly higher than initially estimated, which would likely result in lower recovery values. HY oil exporters Gabon (-1.81%), Angola (-0.60%), Nigeria (-0.55%), and Cameroon (-0.83%) were among the worst performers, although they remain among the best-performing year-to-date, and are still in a much better financial position today than before the war.

Portfolio review

We maintained the fund's average credit risk at BBB-, consistent with the benchmark rating. We slightly increased the share of HY bonds, with exposure shifting from CCC to B and BB, partly due to the credit rating upgrade of Argentina from CCC to B. We increased exposure to Latin America, switching to a small overweight position in the region versus the benchmark. The United Arab Emirates is now out of the fund's benchmark after the fourth and final reduction in exposure, given the country exceeded the benchmark's wealth criteria for several years. The country's exclusion significantly reduced the fund's underweight in the Middle East over the last few months. We believe that some corporate bonds' (sovereign bonds are excluded under the sustainability framework) valuations in the UAE still look relatively attractive given their high credit quality and focus on energy transition. Hence, we kept the bulk of the exposure despite the benchmark exclusion, but we sold those positions that started to look relatively expensive. In Eastern Europe, we reduced exposure to Hungary and Romania. In Latin America, we mainly added exposure to Brazil, Ecuador, Mexico, and Guatemala, while reducing exposure to the Dominican Republic. In Argentina, we bought short bonds in local law that offer an attractive spread premium versus foreign law bonds. In Africa, we increased exposure to Benin and South Africa, while reducing exposure to Kenya and Zambia. Elsewhere, we increased corporate bond exposure in Türkiye.

Performance analysis

The fund outperformed its benchmark by 0.14% in June (net, I share class). The main contributor to relative performance was the overweight position, and our preference for longer bonds in Argentina. The fund also profited from an overweight position in Colombia, as well as the selection of EUR-denominated bonds. The position in EUR-denominated bonds of Ivory Coast contributed positively to relative performance versus the benchmark. Given the small underweight position, and defensive bond selection, the portfolio could not fully capture the performance of Ukrainian bonds. The underweight to Egypt, where sovereign bonds are excluded under the sustainability framework, contributed negatively as well.

Outlook

The US and Iran have come to preliminary agreement, with a full peace deal still pending, and the conditions under which commodities and other merchandise will transit through the Strait of Hormuz are not yet determined. However, trade flows have been recovering at a good pace, roughly tripling through the first three weeks of June. We believe that further trade disruptions are possible, which would result in upside risk for oil prices and inflation. But in the unlikely event of a return to full-blown war, the market reaction to such risk events would probably be more muted than the already sanguine reaction of the last few months, in our view. So far, inflation has been much tamer than in 2022 despite the similarity of the oil shock. Less expansionary fiscal policy, tighter monetary policy, lower savings rates at a global level, and less tight labor markets may all have contributed to a slower pass-through. Moreover, oil prices have come down by roughly 40% in the last two months, and lower-than-expected inflation data coming from Eastern Europe and other EM countries suggest that this inflation cycle will likely be much more short-lived than in 2022. That would bode well for fixed income, particularly via local-currency rates.

Risk appetite remains elevated, and we believe this will likely remain the case over the summer. EM hard-currency sovereign and corporate spreads are now back to the early February pre-war levels. Therefore, upside coming from spreads is now probably more limited on aggregate, but there are still plenty of relative value opportunities, in our view. Fundamentals appear strong and did not deteriorate significantly with the war shock. In fact, the ongoing credit rating upgrade trajectory for EM sovereigns has continued in Q2 2026. Although there have been a couple of downgrades due to fiscal concerns (Mexico and Colombia), the upgrades have outpaced them by far: Argentina received to upgrades to B-, South Africa and Uzbekistan got their third BB equivalent rating, Maldives avoided default and was upgraded to CCC-, Nigeria and Ghana were upgraded to B by S&P and Fitch, respectively, and the Bahamas obtained its third BB- equivalent rating. Thus, we believe that tight spreads are here to stay for longer.

Fund characteristics

Fund name	Vontobel Fund – Sustainable Emerging Markets Debt
ISIN	LU2145396086
Share class	I USD
Benchmark	J.P. Morgan ESG EMBI Global Diversified Index
Inception date	30.9.2020

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	1.0%	0.9%
YTD	3.4%	2.5%
1 year	11.5%	10.2%
3 yrs p.a.	10.2%	9.2%
5 yrs p.a.	2.2%	1.6%
10 yrs p.a.	–	–
ITD p.a.	4.1%	2.1%

Time period	Fund	Benchmark
2025	14.1%	13.3%
2024	6.4%	5.7%
2023	11.0%	10.3%
2022	-20.0%	-18.9%
2021	3.7%	-2.3%
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

— 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 intransparent. 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.
— 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.
— Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
— 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.
— 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.

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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