Monthly commentary / 27.2.2026

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

Emerging-market (EM) assets performed well in February, supported by favorable global macroeconomic conditions and rotation away from artificial intelligence (AI) and US assets toward international markets. However, the rally faced challenges in March following the outbreak of war with Iran.

In February, global core rates declined, with US 10-year yields falling 30 basis points (bps) to 3.9%. UK 10-year gilt yields dropped similarly to 4.2%, and 10-year Bund yields fell 20bps to 2.6%. This reflected better-than-expected US inflation data and a likely flight to safety ahead of the anticipated attack on Iran. In the US, January consumer prices rose 0.2% month-over-month, down from 0.3% the previous month and below the expected 0.3%, reducing annual inflation to 2.4% from 2.7% in December. US non-farm payrolls exceeded expectations with 130,000 jobs added in January, double the forecast, but February saw a surprising decline of 92,000 jobs and a net two-month revision of -69,000. The consensus forecast for US GDP growth in 2026 rose from 2.1% in January to 2.4% in February and 2.5% in early March.

The US Dollar Index rose 0.6% in February amid positive US data and expectations, yet commodities continued to rally for a second consecutive month. Brent oil prices increased 2.5% ahead of US and Israeli attacks on Iran, while gold and copper rose 7.9% and 1.4%, respectively. EM currencies also gained 0.6% despite dollar strength. The market priced in an additional rate cut by the US Federal Reserve (Fed) in February, totaling three expected cuts in 2026, but this was more than fully reversed in early March following the onset of a longer and more intense war against Iran than the market had expected. The Fed is now expected to pause until at least July or September.

In February, the US Supreme Court ruled against President Donald Trump's "reciprocal tariffs." On February 24, the US administration issued a new executive order imposing a 10% global tariff for 150 days, potentially rising to 15%. Notably, countries with large current account surpluses with the US, previously facing higher tariffs, will see significant tariff reductions, though these may be temporary. This change is expected to benefit countries such as China, Vietnam, India, Sri Lanka, Pakistan, and Brazil.

In the first week of March, market trends were disrupted during the first week following the outbreak of war with Iran. Brent oil prices surged nearly 20% to around USD 90 per barrel. European equities (Euro Stoxx 50) lost all their year-to-date gains, falling 5.8% in four days. EM equities declined 6.7% but remained positive year-to-date. US 10-year yields rose 23bps in the first four days of the month, reversing most of February's bond rally, as higher oil prices are expected to have meaningful inflationary effects.

EM fixed income indices performed well in February despite widening credit spreads and a strong dollar. EM hard-currency sovereigns (EMBI Global Diversified index) gained 1.4% despite a 14bps spread widening, driven by lower US Treasury yields boosting the longest-duration EM fixed income index. Meanwhile, EM hard-currency corporates (CEMBI Broad Diversified index) also did well, rising by 0.9% on the month.

EM local-currency government bonds (GBI-EM Global Diversified) rose 1.3%, with EM currencies contributing 0.6% despite the dollar being stronger versus developed-market (DM) currencies (the DXY index gained 0.6%). EM rates added 0.3%, supported by lower US Treasury yields and stable inflation in most emerging economies, while carry contributed 0.4%.

EM Asia led gains last month, rising 1.7%. EM currencies performed well, with the Indian rupee rebounding 1.6% (including carry) after months of underperformance. The Malaysian ringgit (+1.6%), Chinese renminbi (+1.4%), Thai baht (+1.4%), and Taiwanese dollar (+0.9%) also strengthened. This mostly low-yielding Asian currency rally likely reflects tariff relief following the US Supreme Court ruling against "reciprocal tariffs," lowering tariffs for many Asian countries. Thai bond yields fell 25bps as January inflation dropped to -0.7% year-over-year, prompting the central bank unexpectedly cut its policy rate by 25bps to 1%.

Latin American local-currency bonds rose 0.9%, led by Brazil's strong 3.1% gain, driven mainly by a 2.7% FX return. High-carry currencies remained strong through most of February until disrupted by the Iranian shock. Conversely, Colombia posted the worst return in the GBI EM, falling 6.7% due to a 1.6% weaker currency and a 127bps spike in bond yields. Negative sentiment was driven by polls showing left-wing candidate Iván Cepeda leading in the upcoming presidential elections. We expect a tight race, leaning toward a left-wing first-round victory followed by a right-wing win in the presidential runoff.

South Africa rose 2.6% last month, with gains evenly split between a 1.3% FX return and a 16bps yield compression. Off-benchmark Nigeria posted a strong 6.5% return as yields compressed sharply following a better-than-expected January inflation print of 15.1% y/y in January.
Besides Nigeria, most off-benchmark African frontier markets delivered particularly strong returns, with Ghana (+12.5%), Zambia (+8.7%), Kenya (+4.4%), and Uganda (+3.6%) outperforming most index components. Botswana (-3.3%) and Egypt (-0.2%) were the only markets bucking the trend. Still outside the benchmark, Argentine local bonds also stood out, delivering a dollar return of +7.9%.

Portfolio review
The fund's assets were stable in February, with the very positive market effect offsetting some outflows.
Our beta-optimization policy was broadly maintained in February, with systemic risk primarily tilted toward Latin American rates and Central European FX and rates, funded by an underweight in Southeast Asian currencies, particularly Thailand. The most notable changes included an FX rebalancing out of South Africa and Hungary in favor of North Asian currencies (China, Korea, and Taiwan). In addition, we modestly increased our exposure to Nigerian local markets in order to maintain an overweight in FX exposure to oil-producing countries, given the heightened uncertainty surrounding potential military developments in the Middle East.
By country split and measured at the issuer level, Latin America remains by far the largest exposure (32%), followed by Central & Eastern Europe (20%), Asia (11%), and Africa (9%). Positioning in frontier markets was reduced to 9% of the portfolio. Cash holdings were around 2%, and Supranational bonds were unchanged at 25.0%.

Performance analysis
The institutional share class I returned +1.32% in US dollar in February, outperforming the GBI-EM Global Diversified reference index by 0.03%. Year-to-date, the absolute performance now stands at +3.53% in USD, or 0.04% over its reference index.
In absolute terms, roughly three quarters of the performance reflected currency appreciation (including carry), while about one quarter came from yield compression. This composition highlights continued investor appetite for carry and diversification, as well as the appeal of persistently elevated real rates across EMs.
From a relative perspective, Latin America was by far the strongest regional contributor, led by Brazil but also by the remarkable performance of smaller markets such as the Dominican Republic, Uruguay, and Paraguay. Central Europe and Sub-Saharan Africa also contributed positively, supported by the strong performance of Nigeria and Kenya, as well as our curve positioning between interest rate swaps and government bond curves in Poland and South Africa.
On the negative side, Asia was the main detractor, as Thailand (our primary risk-funding position) extended its winning streak in February. A negative contribution from our underweight in China was entirely compensated by our active policy in Indian rate curves and in the rupee. Middle East and North Africa also weighed somewhat on relative performance, reflecting the underperformance of the Egyptian pound on the one hand, and the outperformance of Turkish government bonds on the other.

Outlook
The war against Iran has significantly increased market uncertainty, as the duration and magnitude of the shock to the global economy are proving to be greater than initially estimated. The Strait of Hormuz is effectively closed, as insurers refuse to cover the risk for vessels that typically transport around 20% of global oil and LNG supplies. This has caused Brent oil prices to rise by more than 25% in one week, surpassing USD 90 per barrel, and increasing nearly 47% year-to-date at the time of writing. While the US has proposed escorting vessels and is currently developing a plan to provide insurance through the Development Finance Corporation (DFC), this initiative is not yet operational. President Trump and other officials have stated that the conflict will likely continue for four to five weeks or until their four objectives are achieved: destroying Iran's missile capabilities, its navy, its ability to develop nuclear weapons, and its capacity to finance terrorism abroad.
Although this is a 2022-style shock, characterized by simultaneous risk-off sentiment and inflationary pressures, which would negatively impact both equities and bonds, it is likely to be a relatively short conflict, unlike the multi-year invasion of Ukraine by Russia. Therefore, we believe the relatively mild market correction experienced so far is appropriate given the conflict's temporary nature. A more prolonged war would likely worsen the outlook, whereas a conflict lasting roughly a month, followed by a swift resumption of oil transit and a reversal of the oil price spike, would probably align with a moderate market correction, a relatively quick rebound, and a return to previously prevailing market trends: global economic resilience, slow but orderly disinflation, and a rotation toward international assets, including EM equities and fixed income.
We would describe our approach to the current situation as a careful balancing act, given the uncertainty about whether the market will correct further, by how much, and when it will begin to rebound. We are cautiously adding small amounts of risk in selective market segments while simultaneously reducing risk in others and incorporating some portfolio hedges. We remain relatively optimistic that the conflict is unlikely to last much longer than US officials have suggested, considering the severe consequences it could have on the global economy, as well as the physical supply constraints of ammunition.

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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	1.3%	1.3%
YTD	3.5%	3.5%
1 year	20.6%	20.2%
3 yrs p.a.	10.7%	10.4%
5 yrs p.a.	4.0%	2.6%
10 yrs p.a.	4.7%	4.1%
ITD p.a.	1.8%	1.6%

Time period	Fund	Ref. index
2025	20.4%	19.3%
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%

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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