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 second quarter (Q2) of 2026 was defined by the trajectory of the Iran conflict and its transmission through oil markets. April opened with a partial reversal of March's risk-off, as a 14-day US-Iran ceasefire provided a catalyst for sentiment – even as formal negotiations in Islamabad collapsed, US President Donald Trump declared a naval blockade of the Strait of Hormuz, and passage was intermittently halted. Risk appetite built through May, as markets priced in an imminent US-Iran deal and the reopening of the Strait, carrying global equities to new all-time highs led by emerging markets (EM). June saw the classic pattern of "sell the news" after "buy the rumor": the US and Iran signed a Memorandum of Understanding (MoU) pointing toward a peace deal, Hormuz oil flows recovered rapidly – estimated at roughly 8.7 million barrels per day (mbd) by the third week of June, still well below the pre-war level of roughly 20 mbd but roughly triple the May average – and risk assets consolidated with a mild pullback, while appetite stayed elevated. The price of Brent crude oil traced the whole arc, stabilizing around USD 115 per barrel (bbl) in April, falling to USD 92 in May, and sliding into the low USD 70s by end-June. This oil round-trip was the single most important driver of relative performance across EM, first favoring exporters and then rotating decisively toward importers, as prices fell. Broader commodities followed the same peak-and-fade: industrial metals rallied in April and May – copper notably strong – before correcting sharply alongside oil in June, with copper again outperforming on the way down; precious metals were softer.

Core rates were pulled by two opposing forces. The inflation shock from oil proved less severe than feared, and the later collapse in prices capped upward pressure – yet US Treasury yields still drifted higher across Q2, the 10-year ending around 4.47% (from 4.37% at end-March). The larger story was the repricing of the US Federal Reserve (Fed)'s monetary policy: markets moved from pricing essentially no cuts (only around 10.6% odds of a cut by December 2026 as of April) to pricing hikes – around 20 basis points (bps) by year-end by end-May – and, by June, with Kevin Warsh's first meeting as the new Fed chair read as hawkish, to a rising probability of a hike as early as September or October. US demand stayed resilient (upside payrolls surprises, manufacturing in expansion), reinforcing the move. Europe diverged: 10-year Bund yields fell to 2.86% and gilts lower, as eurozone inflation softened materially into June (German and French CPI both declining on the month, pulling year-on-year rates down), alongside signs of cooler inflation across Eastern Europe and other EMs. The resulting US-Europe split – resilient US demand against weaker European services – was a defining macro feature of Q2. Among EM central banks, Brazil's Banco Central do Brasil (BCB) cut by 25 bps to 14.75% while Colombia's Banco de la República (BanRep) hiked a second consecutive 100 bps to 11.25%, the clear regional outlier. EM-dedicated bond fund flows turned positive in April after heavy March outflows, providing a supportive technical backdrop, as Q2 progressed.

Regarding EM hard-currency sovereign bonds, high-yield (HY) sovereigns led investment grade throughout Q2, and frontier credits dominated the top of the performance tables – the recovery was spread-driven and concentrated in idiosyncratic, high-carry stories rather than any single thematic driver. Regional leadership rotated with the oil trade: Africa and frontier names led early, Latin America and European EMs took over into June, and the Middle East persistently lagged under the Iran overhang and then the oil decline. Ratings momentum was a defining theme, concentrated in HY and frontier names. Argentina secured B- ratings from the two rating agencies Fitch and S&P, Ghana its first B from Fitch, Nigeria a B from S&P (aligning with Fitch), and Uzbekistan Ba2 from Moody's. Mexico was the notable exception, downgraded to Baa3 by Moody's on fiscal slippage. Several country stories arced clearly across Q2: Venezuela round-tripped – among the strongest performers early on, as the International Monetary Fund (IMF) resumed formal contact backed by a majority of its membership following US recognition of acting president Delcy Rodríguez, then among the weakest in June after an Financial Times report suggested the restructurable debt stock is materially larger than assumed, implying lower recovery values. Ukraine was a consistent outperformer through April and May on improving external-support visibility (a Pentagon disbursement, an expected IMF mission) and peace optimism around statements by Vladimir Putin and Volodymyr Zelenskyy, aided by investors chasing carry in a tight-spread environment – though both sides continued escalating militarily. Argentina improved steadily: a second IMF review approved with a further disbursement, the elimination of intra-public-sector debt incurred during the Kirchner-era, reducing gross debt by nearly 2% of GDP, dual B- upgrades, and fresh multilateral loans (World Bank USD 2 billion, IDB USD 550 million) that, alongside a stronger trade surplus, are letting the country meet eurobond maturities without market refinancing. Bolivia turned around sharply – a laggard in May amid capital-blocking protests, then a strong June performer as the protests faded and the central bank devalued the boliviano by almost 40% after years of a fixed, increasingly overvalued peg, a step toward an IMF-supported program, though a large fiscal adjustment with thin political support still lies ahead. Colombia performed well – despite an S&P downgrade to BB- and BanRep's aggressive hiking – and rallied again on the right-wing candidate de la Espriella's runoff victory. Mozambique recovered from what we viewed as unjustified default fears, helped by a surprise early IMF repayment and reports of a bondholder group organizing a friendly, potentially net-present-value-neutral or positive extension given the country's future gas revenues. Zambia rallied on a tender for its 2053 state-contingent bond, with the government forced to raise the tender range, as the market anticipated a trigger into a higher-coupon 2035 instrument. Sri Lanka gained steadily on a combined fifth/sixth IMF review and disbursement and orthodox policymaking (a 100bps hike, higher vehicle import taxes, secured oil supplies), with late-Q2 tailwinds as an oil importer. Senegal was Q2's clear underperformer: the Faye-Sonko rupture cost the president his legislative majority, complicating fiscal consolidation and an IMF program, with default/restructuring remaining our baseline. The exporter-importer divide crystallized, as oil fell into end-June. Fragile oil importers (Sri Lanka, Pakistan, Kenya) outperformed, while HY oil exporters (Venezuela, Gabon, Angola, Nigeria, Cameroon) gave background – though the exporters remain among the strongest year-to-date and in a far better financial position than pre-war.

Regarding EM hard-currency corporate bonds, HY again led investment grade throughout Q2. Latin America was a consistent regional leader; Africa was strong early; Europe lagged on Turkish weakness; and Asia's defensive composition meant it participated less on the way up. At the sector level, transport staged the standout recovery, as airline credits rebounded on falling jet-fuel costs, real estate recovered, while pulp & paper and consumer lagged, the former weighed by weak global pulp prices.

In Central and Eastern Europe, the Middle East, and Africa (CEEMEA), Türkiye dominated, with a clear arc from Vestel's April downgrade (Moody's Caa2 on an unsustainable capital structure) to its late-June application for "Financial Restructuring," filed alongside a parallel restructuring filing by parent Zorlu Holding – underscoring group-wide pressure from weak cash generation. The sovereign backdrop stayed difficult (Fitch revised its outlook to stable on more than USD 50 billion of foreign exchange reserve depletion from intervention by the Central Bank of the Republic of Türkiye (CBRT), while Arcelik eased its own balance sheet by selling a 60% stake in its Hitachi appliances joint venture for USD 205 million. Moldova's Aragvi (Trans-Oil) came under pressure late in June, after a Ukrainian media report levelled allegations against the founder and owner; the bonds sold off, the company rejected the reporting as false and engaged international counsel, and management is engaging bondholders. Earlier in Q2, aviation-fuel stress hit Air Baltic hard (Fitch to CCC-, S&P to CCC+ on a large projected capital shortfall), only partially bridged by a Latvian state loan, while Energean was a positive, as Israel ordered resumed operations at its Karish field. Primary markets reopened forcefully in May, led by the Middle East and North Africa (MENA) – around USD 13.9 billion priced, including Saudi Arabian Public Investment Fund (PIF)'s USD 7 billion, the largest Gulf Cooperation Council (GCC) deal since the war began.

In Latin America, Braskem was Q2's most instructive credit. In April, the Iran war's petrochemical-spread tailwind pushed consensus EBITDA above USD 2bn – more than double pre-war levels – and rallied the bonds off the low 40s toward the 70s. Consistent with our caution about extrapolating wartime spreads into a post-war environment, the restructuring then deepened, as the conflict de-escalated: a June filing for precautionary injunctive relief (cautelar) and mediation, S&P cutting the instruments to D, and control passing from Novonor to IG4 Capital (50.1% of voting shares) alongside Petrobras (47%), under a new board chaired by Magda Chambriard with Helcio Tokeshi as CEO. The choice of a cautelar over a direct judicial reorganization signals a preference to negotiate a consensual solution first. Raízen progressed constructively. Elsewhere, Ecopetrol agreed to acquire around 26% of Brazil's Brava Energia as a platform for upstream expansion, and J&F Luxembourg completed an exchange on the Eldorado and Flora notes.

Portfolio review

Throughout Q2, we continued to manage the portfolio with a clear focus on the fund's approaching maturity in October 2026, advancing the liquidation of holdings that mature beyond that date and reinvesting the proceeds into US Treasuries in line with the fund's liquidation framework. Issuer-driven liability management worked in our favor: we participated in several tender offers, where issuers proactively refinanced their debt – including Genting or Veon – which allowed us to exit those positions early and on favorable terms, while accelerating the return of cash ahead of maturity. As at end-June, the portfolio retained a yield to maturity of 5.41%.

Performance analysis

The fund’s I (USD) share class returned 1.36% in Q2, with the net asset value (NAV) increasing from 108.61 to 110.09. Performance was well-balanced. Top contributors included Republic of Angola, which benefited from higher oil prices, and Emaar supported by the recovery of the Dubai Real Estate sector, whereas Black Sea Trade & Development was the main detractor.

Outlook

The US and Iran have agreed on a MoU but not yet on a full peace deal, 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 do not rule out further trade disruptions, which would result in upside risk for oil prices and inflation. But barring an unlikely 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.

Regarding inflation, and the general outlook for fixed income, inflation so far has been much better behaved than in 2022, despite the similarity of the oil shock. Less expansionary fiscal policy, tighter monetary policy, lower savings rate at a global level, and less tight labor markets have all probably contributed to a slower pass-through. Moreover, oil prices down by roughly 40% in the last two months and lower-than-expected inflation data coming from Eastern Europe and other EMs indicate that this inflation cycle will be much more short-lived than in 2022, which bodes well for fixed income, and particularly via local-currency rates.

Risk appetite remains elevated and is likely to do so over the summer, which bodes well for EM fixed income. EM hard-currency sovereign and corporate bond spreads are now back to the early February pre-war level. Therefore, upside coming from spreads is now more limited on aggregate, but there are still plenty of relative-value opportunities. Fundamentals remain strong and did not deteriorate significantly with the war shock. In fact, the ongoing credit rating upgrade trajectory for EM sovereigns has continued unabated in Q2. Although there were a couple of downgrades due to fiscal concerns (Mexico and Colombia), the upgrades outpaced them by far: Argentina received two upgrades to B-, South Africa and Uzbekistan got its 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 think that tight spreads are here to stay for longer. Elevated risk appetite also favors EM local-currency carry trades, although in this case, we must acknowledge that the AI-driven strength of the US economy has been a headwind to EM local-currency assets in the last two months. Unlike last year, when EM local-currency assets posted a stellar performance of almost 20%, this year to date, they have underperformed EM hard-currency ones. Yet, this has not been an obstacle for a few high-carry Latin American currencies to deliver double-digit returns in the first half of the year. Moreover, while EM hard-currency bond spreads are historically tight, EM local-currency real rates are near one standard deviation above their 10-year median. Thus, while tactically, the return of the US exceptionalism has hurt relative performance of the EM bonds asset class, we think that strategically, it is still well positioned, and elevated risk appetite is likely to outweigh possible US dollar strength for carry strategies.

Fund characteristics

Fund name	Vontobel Fund II – Fixed Maturity Emerging Markets Bond 2026
ISIN	LU2365110571
Share class	I USD
Benchmark	–
Inception date	9.11.2021

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	0.3%	–
YTD	2.0%	–
1 year	5.2%	–
3 yrs p.a.	7.9%	–
5 yrs p.a.	–	–
10 yrs p.a.	–	–
ITD p.a.	2.1%	–

Time period	Fund	Benchmark
2025	7.2%	–
2024	9.7%	–
2023	7.9%	–
2022	-14.1%	–
2021	–	–
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.
— 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.
— 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.
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