Monthly commentary / 29.5.2026

Vontobel Fund – Emerging Markets Corporate Bond

Market developments

Markets extended their rally in May, pricing in an imminent deal between the US and Iran that would result in the reopening of the Strait of Hormuz. However, at the time of writing, such a deal remains elusive. Global equities (MSCI World) rose by another 4.4%, reaching new all-time highs. The move was led by the MSCI EM ex-China, which gained 13.5%, followed by MSCI EM (+9.5%), while the S&P 500 advanced 5.1%. Commodity prices diverged. Brent crude oil dropped 19.3% to USD 92 per barrel before recovering in early June as Iran war risks re-escalated following US strikes on an Iranian tanker and Iranian retaliation against Kuwait and Bahrain. Copper prices climbed 5.0%, in line with industrial metals (+4.8%, Bloomberg industrial metals subindex). Core rates also showed some divergence, with US Treasury 10-year yields rising by 6.5 basis points (bps) to 4.43%, while German 10-year Bunds dropped 10bps to 2.93%, and UK 10-year gilts declined by 20bps to 4.81%. Economic data appears to justify this yield divergence. US nonfarm payrolls surprised on the upside again, with 115,000 jobs created (compared with expectations of just 65,000), and US manufacturing remains in expansion mode, with S&P PMIs at 54.5 in April and ISM manufacturing at 52.7. European manufacturing PMIs are also in expansion at 51.6, but European services PMI remains in contractionary territory at 47.7, in contrast with the more resilient US demand. The market is pricing in a 20bps interest-rate hike by the US Federal Reserve (Fed) by year-end. That's still short of a full 25bps increase, but it's up from no hikes being priced in at the end of April. For the European Central Bank (ECB), the market is pricing in 68bps of rate hikes by year-end, down from 73bps (nearly three hikes) at the end of April. Although ECB communication has been relatively hawkish, we believe weakness in the European economy is likely to make it difficult for the ECB to deliver three hikes this year.

Emerging-market (EM) fixed-income indices performed well in this risk-on month:

EM hard-currency sovereigns (EMBIG Div) rose by 1% over the month, led by high-yield (HY) sovereigns, which rose by 1.6%, while their investment-grade (IG) counterparts gained 0.4%. Africa was the best-performing region, up 2.3%, followed by EM Europe (+1.4%), whereas Latin America lagged behind other regions with a gain of only 0.4%. Among the top 10 sovereign performers, nine were frontier markets, and all 10 were HY.

The trend of sovereign rating upgrades continued in May. Argentina received its first upgrade to B- from Fitch, while Ghana obtained its first B rating, also from Fich, reflecting a rapid improvement following its 2022 default and 2024 restructuring. Nigeria was upgraded to B by S&P, aligning its rating with Fitch. Mexico bucked the trend, being downgraded to Baa3 by Moody's due to recent fiscal slippages.

Ukrainian bonds were the best-performing sovereign bonds in May (+10.5%). Market optimism appears to have increased following Russian President Vladimir Putin's remarks about the war coming to an end, which he later clarified were referring to battlefield advances. Ukrainian President Volodymyr Zelenskyy's chief of staff also said that a peace deal by winter was realistic. However, it appears that both sides are stepping up military attacks to pressure the other, rather than preparing to make compromises. The outperformance is also likely being driven by market participants chasing high-carry opportunities in an environment of tight spreads.

In Africa, Zambian bonds (+7.3%) were the second-best performers of the month, following the announcement of a tender to repurchase the Zambia 2053 state-contingent bond by the Zambian government. The tender initially offered an above-market price of 78 cents per dollar of face value for early bird tenders and 74 cents per dollar of face value for late tenders. However, the market rallied above the tender price on the presumption that the government is attempting to repurchase the bond because they know it will trigger and convert into a 2035 bond with a much higher coupon and a net present value (NPV) significantly exceeding the tender price. This forced the government to increase the tender price range to 82.8–84.4 cents per dollar of face value. Mozambique (+7.2%) bonds recovered strongly from their April lows, which we believe were driven by unjustified fears of imminent default. A private report suggested that a bondholder group was organizing to negotiate a friendly bond extension, including a value recovery instrument. Given Mozambique's substantial future gas revenues, this could result in an NPV-neutral or even NPV-positive exchange. Gabon (+5%) bonds performed well following the country's revised 2026 budget, which still includes a large but more reasonable 7% of GDP budget deficit and confirms intentions to obtain an International Monetary Fund (IMF) program (a formal request was submitted in March). High oil prices also support FX reserve accumulation in CEMAC, benefiting Gabon, Republic of Congo, and Cameroon. Kenya (+4.5%) and Egypt (+3.4%) were also among the top six sovereign performers; however, we attribute their performance primarily to their high-beta status and broad market movements.

Senegal (-6.6%) was the worst-performing country on the continent and in EM overall. Political developments complicate a resolution to the distressed situation: President Bassirou Diomaye Faye dismissed Prime Minister Ousmane Sonko, but Sonko's party subsequently appointed him as speaker of parliament. As a result, the president has lost support from his party and the legislative majority, leading him to reshuffle his cabinet with technocrats unaffiliated with any party. This will make it increasingly difficult for the government to implement necessary fiscal consolidation and to secure an IMF program. An eventual default/restructuring remains our baseline scenario.

Argentina (3.2%) and Sri Lanka (+3.2%) both received positive IMF program reviews. In Argentina's case, the second program review was approved, securing an additional USD 1 billion disbursement despite missing some quantitative targets in December 2025. This approval was granted due to the strong pace of FX reserve accumulation observed so far in 2026 and promising prospects for further FX purchases. Additionally, the Treasury eliminated USD 13 billion of Kirchner-era intra-public sector debt owed to the central bank by using the bank's profits, which otherwise could have been transferred to the Treasury. This action reduces the country's gross debt by nearly 2% of GDP. Sri Lanka obtained the combined fifth and sixth IMF program reviews, resuming the program after delays caused by Cyclone Ditwah last year and securing a USD 695 million disbursement. The authorities appear committed to orthodox policymaking: the central bank raised interest rates by 100bps to support the currency, and the government increased vehicle import taxes from 30% to 45% to preserve FX reserves. They have also secured oil supplies through November. Thus, we believe this vulnerable oil-importing country is relatively well positioned to manage the oil shock.

Bolivia (-2.4%) was the second-worst sovereign performer in May, as large protests demanding the reversal of fuel price hikes, large wage increases, and the president's resignation are blocking the capital city. These protests are likely to slow the pace and limit the magnitude of the large and urgently needed fiscal adjustment.

EM hard-currency corporate bonds (CEMBI BD) returned 0.38% in May. Total spreads tightened by 3bps during the month, although this was insufficient to offset the 14bps increase in the 5-year US Treasury yield. As a result, the asset class posted a price return of -0.08%, with the overall positive performance largely driven by coupon income. HY bonds outperformed IG, returning 0.45% versus 0.33%, although both segments recorded a similar 3bps tightening in spreads. Regionally, Africa led performance (+0.56%), followed by Asia (+0.45%) and the Middle East (+0.44%). Europe lagged (+0.14%), reflecting weaker macroeconomic backdrop and political instability in Turkey. At the sector level, transport was the best-performing segment (+1.04%), supported by a recovery in airline-related credits. Real estate also performed strongly (+0.64%). In contrast, pulp & paper was the weakest sector (-0.31%), weighed down by the prolonged downturn in global pulp prices.

May was a busy month, particularly for CEEMEA primary markets, as issuers moved quickly to lock in improved funding conditions, while higher underlying rates also supported demand for fixed income. MENA benchmark issuance accelerated, with USD 13.9 billion priced across sovereign, quasi-sovereign, and corporate borrowers. The PIF bond sale of USD 7 billion was the largest GCC issuance since the start of the war. On the ratings front, S&P upgraded Kosmos by two notches to B-, reflecting improving leverage metrics, strong free cash flow generation, and expected debt reduction supported by the planned sale of its Equatorial Guinea assets. Conversely, S&P downgraded Ivanhoe Mines to B- from B, driven by a weaker revised mine plan for Kamoa-Kakula. Lower production and higher costs are expected to result in persistently sub-30% FFO/debt metrics. In Saudi Arabia, the Capital Market Authority (CMA) referred several individuals linked to Cenomi Retail to the Public Prosecution, triggering some technical widening in ARACEN bonds due to association risk. However, Cenomi Centers confirmed that it is operationally independent, unrelated to the matter, and not financially exposed.

In Latin America, Mexico's sovereign downgrade by Moody's affected a limited number of corporates, particularly major banks such as BBVA México, Banorte, Santander México, and Banamex, as well as state-owned entities like Bancomext and CFE. Otherwise, idiosyncratic headlines were broadly positive. These included a USD 1 billion capital injection for Aegea and Amaggi's acquisition of FS, which was viewed as a consolidation move that improves scale and credit quality across the group. Raízen also published restructuring proposal materials ahead of a June 8 deadline, with Option A treating creditor claims on a pro-rata basis at par and offering better-than-expected recovery values through a combination of takeback debt (FuelCo and SugarCo notes) and pro forma equity.

In Asia, several idiosyncratic developments supported performance. Vedanta Resources announced that it is considering redeeming at par any untendered notes across four USD bond tranches due between 2030–33 following its planned tender offer, as part of the refinancing of its USD 5.5 billion debt stack. In India, the US Department of Justice moved to dismiss criminal fraud charges against Gautam Adani, while in Indonesia, Fitch upgraded MIND ID to BBB from BBB-, aligning its rating with that of the sovereign. On the negative side, New World Development remained under pressure amid discussions surrounding a potential exit from its obligations related to the 11 Skies mall project. The company also announced the deferral of distributions on four guaranteed NWDEVL senior perpetual securities.

Portfolio review

The month was marked by swings in risk sentiment as the macroeconomic backdrop remained clouded by mixed diplomatic signals surrounding a potential US-Iran agreement. Nevertheless, investor appetite for EM credit remained strong, with primary markets well absorbed. It was the busiest May since at least 2020, with approximately USD 71.4 billion of issuance priced and generally oversubscribed order books. Flows also remained supportive, whereas pace slowed down compared to previous month with USD 1.3 billion over the month in hard currency, lagging EM local currency funds with USD 2 billion inflows.

During the month, we reduced risk exposure in Latin America and Asia, as well as in sovereigns, while redeploying cash into selected new issues, taps, and idiosyncratic opportunities.

In Latin America, we reduced exposure to Brazilian and Colombian sovereign bonds, as valuations appeared increasingly rich relative to upcoming election risks. In Colombia, spreads largely reflect a market-friendly outcome despite potentially binary election scenarios. We also took profits on Brazilian offshore driller Constellation, whose spreads tightened by around 140bps after we added the position during the March sell-off. In Asia, we exited our exposure to the Pakistan sovereign and Vedanta after spreads reached all-time tights following Moody's upgrade from B2 to Ba3. We also continued to reduce Saudi bank Tier 2 exposure as valuations retraced to pre-war levels, as well as oil-linked sovereign exposures such as Cameroon, which continued to outperform amid supportive oil prices.

We participated selectively in the primary market, including Saudi real estate developer Dar Al Arkan and one of Turkey's largest geothermal power producers. We also took advantage of attractive concessions in recent Indonesian USD and EUR sovereign bonds and participated in taps from Angola and Argentine oil producer CGC. In the secondary market, we added exposure to underperforming bonds, including Hungarian bank MBH, which came under pressure due to alleged links to the previous government, and Wesoda, which was affected by weaker macro sentiment and political noise across the Turkish credit complex. We also added exposure to Tullow, which continues to offer an attractive carry of around 15% alongside potential early paydowns supported by excess cash generation from higher oil prices.

On the event-driven side, we took profits on Aegea bonds that we had added during last month's sell-off, as the bonds recovered by more than 10 points following the announcement of a USD 1 billion capital injection from shareholders. We also tactically added Cenomi Centers after its bonds weakened by 3 points on headlines related to an investigation involving Cenomi Retail's board members. The bonds subsequently recovered after the company confirmed it is operationally independent, financially ring-fenced, and not involved in the investigation.

Going into June, we believe the fund remains well positioned, offering a yield of approximately 8.3%, an average rating of BB and a duration of around 4.3 years.

Performance analysis

The fund outperformed the benchmark by 0.72% in May, delivering a return of 1.10% (net, I share class in USD) versus 0.38% for the benchmark.

Outperformance was driven by positive idiosyncratic developments in corporate credit, supportive sovereign rating actions, and our overweight exposure to oil and gas exporters. The largest contributor was GLP, whose bonds rebounded following announcements of potential data center asset sales and plans to reset its 4.5% perpetual call, helping to dispel concerns related to unconfirmed reports about asset sale restrictions in China. In addition, Debtwire reported that the company secured an additional USD 800 million credit facility to refinance unsecured debt. Other notable contributors included Aegea, whose bonds rallied following a USD 1 billion shareholder capital injection, and Raízen, whose bonds gained after the company released restructuring proposals offering better-than-expected recovery values. FS bonds also performed strongly following Amaggi's acquisition of the company. On the sovereign side, Romania outperformed amid improving market sentiment and short covering. We also benefited from positive rating developments, with South Africa outperforming following Moody's outlook revision to Positive and Buenos gaining after Fitch upgraded the sovereign from CCC+ to B-. Our overweight positions in oil-exporting countries such as Angola, Mozambique and Cameroon also contributed positively.

There were no significant detractors during the month. Colombia and Ecopetrol modestly underperformed amid election-related uncertainty, but spreads have since recovered following the first-round election results. We believe this may contribute positively to June performance as we remain overweight Colombia, despite having reduced exposure during the month.

Outlook

Conflicting signals regarding a potential US-Iran agreement continue to keep markets in a state of cautious optimism, albeit with a bullish bias. Reports that commercial vessels had resumed transit through the Strait of Hormuz pushed crude oil prices to one-month lows, providing some relief to inflation concerns. However, the durability of this move remains highly dependent on geopolitical developments. As of May 28, 2026, risk premia have begun to re-enter the oil market as hostilities have resumed.

On rates, the 10-year US Treasury yield has retraced nearly 20bps from its monthly peak, providing some relief for duration-sensitive assets. However, we don't believe this should be interpreted as a shift in the inflation regime. Recent CPI and PPI data have kept inflation concerns elevated, with Fed funds futures pricing in close to a 90% probability of at least one rate hike by January 2027. While such expectations may prove premature given uncertainty around global oil inventories and the timing of any resolution to the US-Iran conflict, recent Fed communication continues to highlight upside inflation risks and the potential for tighter financial conditions over the medium term.

This backdrop reinforces the investment case for EM corporates, in our view. The asset class tends to be less sensitive to interest-rate volatility, can offer a potential diversification away from the US, and continues to trade at what we consider attractive valuations relative to both US HY and EM sovereign debt on a duration-adjusted basis. Investor positioning also remains relatively light. Importantly, EM corporates entered the recent period of geopolitical tensions with solid fundamentals: EBITDA growth improved in the last quarter, leverage remains well below that of US peers, and liquidity metrics strengthened year over year.

Furthermore, even if transit through the Strait of Hormuz normalizes, oil prices may take several months to fully adjust as countries rebuild inventories and some production capacity remains impaired. A prolonged period of higher oil prices could

therefore remain broadly supportive for many EM, particularly commodity exporters outside Asia.
Finally, while index spreads are near historical tights in absolute terms, dispersion across the asset class remains significant. We believe that EM corporates remain an attractive asset class in a lower-spread environment, as numerous idiosyncratic opportunities continue to offer value, in our view.

Fund characteristics

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

Historical performance (net returns, in %)

Time period	Fund	Benchmark
MTD	1.1%	0.4%
YTD	3.6%	1.8%
1 year	10.0%	7.9%
3 yrs p.a.	8.5%	8.2%
5 yrs p.a.	0.0%	2.8%
10 yrs p.a.	5.1%	4.4%
ITD p.a.	6.0%	4.6%

Time period	Fund	Benchmark
2025	8.3%	8.7%
2024	10.4%	7.6%
2023	-3.5%	9.1%
2022	-14.7%	-12.3%
2021	4.6%	0.9%
2020	5.8%	7.1%
2019	15.6%	13.1%
2018	-0.6%	-1.6%
2017	16.2%	8.0%
2016	22.8%	9.7%

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