May 2021

Hurray for May

VanEck

Eric Fine

Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX | EMBUX | EMBYX

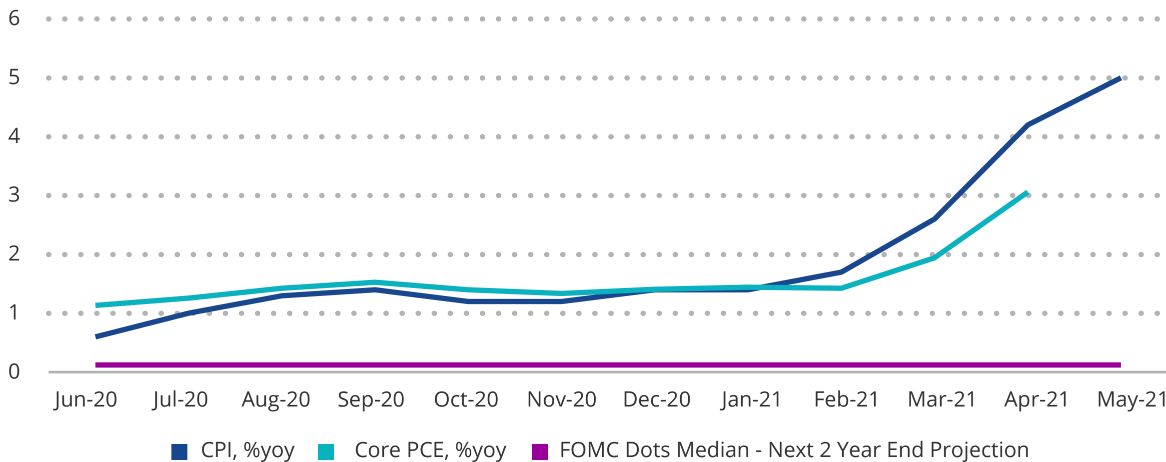
Market Review

The Fund was up 1.49% based on net asset value in May, slightly underperforming its benchmark which was up 1.78%. Year to date, the Fund was up 0.86%, compared to down -1.77% for its benchmark. We remain very constructive on EM debt, with roughly 60% of the Fund in local currency and carry of 5.2%.

We continue to favor China, Brazil, Mexico, South Africa, Chile, Indonesia, Hungary and Colombia. And we continue to have no exposure to Turkey, Russia and Peru.

Reflation is on! Our thesis remains that stimulus out of the U.S. is underappreciated, the growth baton is being handed to Europe and EM and that the Fed will not rain on this parade. This broadening growth might mean a steeper yield curve, but if the Fed keeps front-end rates low, it also means a weaker USD. Charts can speak louder than words here. Exhibit 1 shows inflation and the Fed "dots"— inflation has moved higher, Fed policy has not.

Exhibit 1 – Inflation is up, Fed not worried

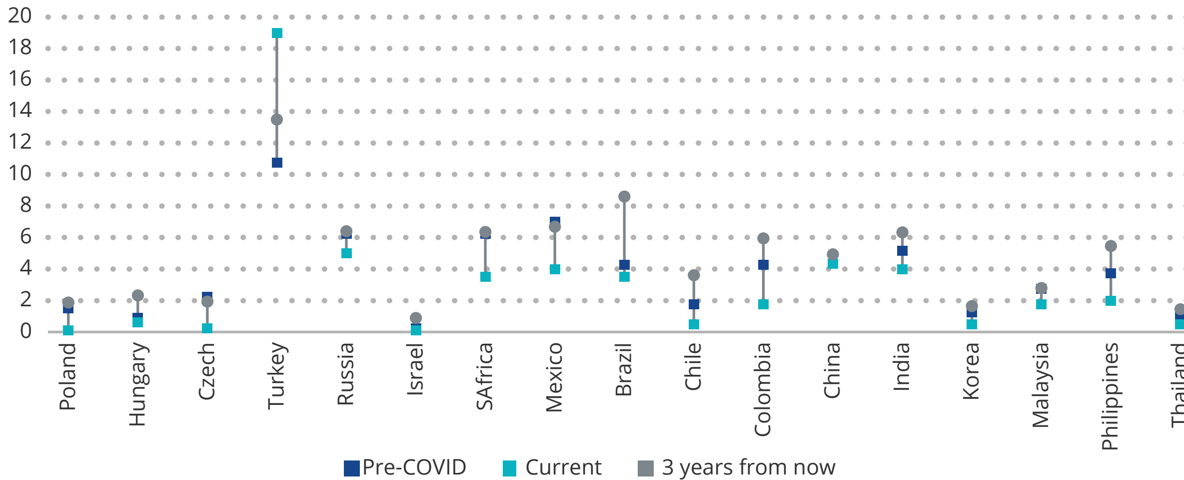


Source: VanEck Research. Data as at May 2021.

But many EM central banks are worried

A number of key EM central banks have already begun the interest rate normalization process and the market is beginning to price in hikes. We've noted our attraction to China, partially due to its early moves to tighten, but we now have Brazil, Poland, Hungary, Czech, Chile, Colombia and others moving in that direction. Exhibit 2 below shows EM policy rates pre-COVID-19 (Covid), currently and as priced in 3 years..

Exhibit 2 – EM rates on the move

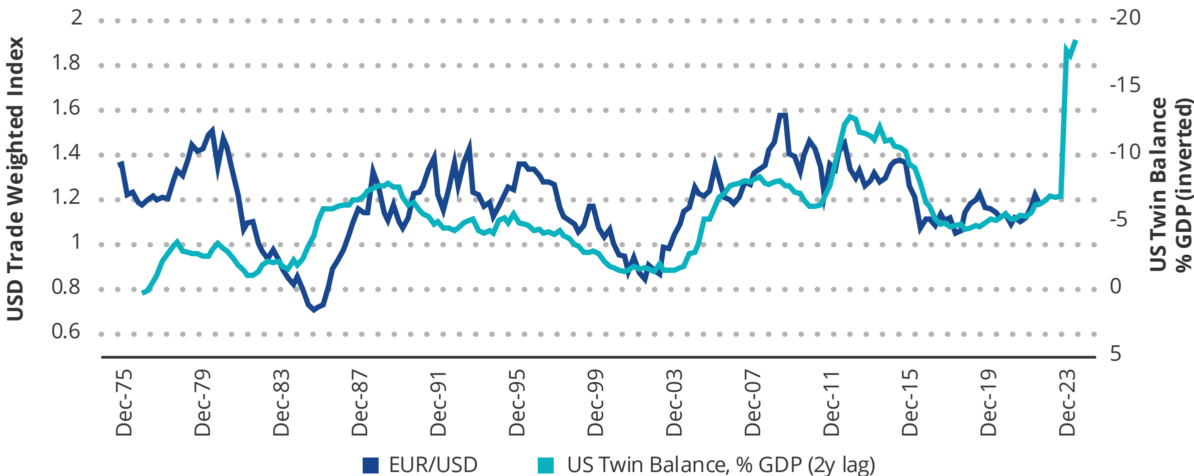


Source: VanEck Research. Data as at May 2021.

EMFX looks poised to strengthen

The key asset price implication of reflation is stronger EM currencies. And, that realization is just dawning. EMFX has lagged the commodity price rally fairly starkly, so EMFX is potentially positioned to rally just to catch up. Moreover, investor sentiment got so bearish that it looks set to chase a nascent and more obvious rally in EM risk. A picture speaks louder than words, here, too. Exhibit 3 shows the U.S. "twin deficits" (the current account deficit plus the fiscal deficit) against USD/EUR. It shows that the USD is under significant downward pressure as a result of this policy. In the past, we showed the twin deficit against EMFX and it made a similar point. Given that we own some euro-based EMFX (such as Czech, Poland, Hungary), we thought we'd adjust the chart this month.

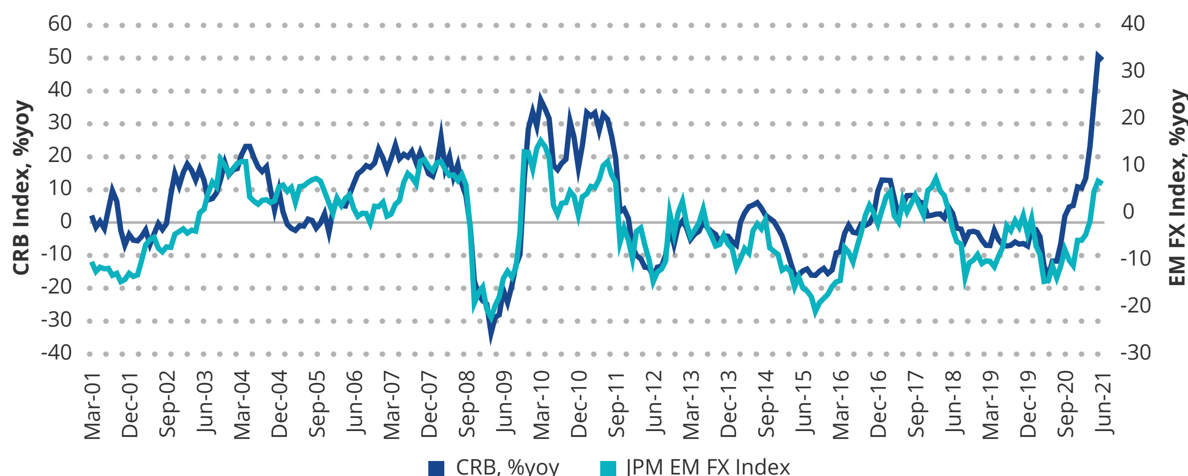
Exhibit 3 – U.S. stimulus should hit USD



Source: VanEck Research. Data as at May 2021.

And because EMFX lagging commodity prices is a good encapsulation of our view, we created the chart of commodity prices and EMFX as Exhibit 4.

Exhibit 4 – Commodities up, EMFX just starting



Source: VanEck Research. Data as at May 2021.

Why no Peru?

Peru just completed the second round of presidential elections and it looks as if far-left, market-unfriendly Pedro Castillo has won the presidency. The election was close and could be contested. In any case, our core rationale for not owning Peru was not that we thought Castillo would win. It was simply that the asset price outcomes from his winning were so stark. To us, markets had barely begun to price a Castillo victory, with foreign ownership of the domestic bond market barely dipping from around 48% to 46%. This is too small a reduction in positioning in reaction to a president-elect who started his campaign questioning foreign debt payments and promising nationalizations. Analysts tended to think that the domestic bond market might sell off around 30 bps if Castillo won, and it sold off 50 bps the day after the election. The central bank was assumed to be able to handle U.S. dollar buying pressure, but the currency weakened almost 2.5% the day after the election, with the central bank selling $250 million from reserves of the $450 million demanded by the market. Anyway, the central bank has adequate reserves to stabilize the situation, in theory. However, President-elect Castillo must appoint a new central bank head in two months (!). This obviously changes the "game theory" around Peru and we don't want to be part of that game.

Exposure types and significant changes

The changes to our top positions are summarized below. Our largest positions in May were: China, South Africa, Mexico, Colombia and Chile:

- We increased our local currency exposure in Poland, Hungary and Romania. Central European economies are closely linked with the Eurozone and its post-pandemic rebound, which reflects the reopening, stronger tourism revenue, on-going stimulus and improving surveys. The pace of vaccinations in the region is very high, with Hungary on the cusp of achieving herd immunity and other countries getting to that stage in in the third quarter. Poland and Romania also stand to be among the largest beneficiaries of the EU recovery funds—both in 2021 and 2022. Regional central banks are pro-active and likely to start hiking in the next 3-6 months. In terms of our investment process, all three test scores—economic, policy and technical—showed improvement in the past weeks.
- We also increased our local currency exposure in Uruguay, Zambia and Kazakhstan. The change in Kazakhstan was a switch from a quasi-sovereign bond into a higher-yielding local instrument, which we believe is better positioned to benefit from higher oil prices and the improved technical test score. As regards Uruguay, this was a new issue that came with a nice premium and better valuations. In addition, inflation is back within the target band and expected to moderate further in the coming months. In terms of our investment process, this translated into the improved technical and economy test scores for the country. The main reasons for getting exposure in Zambia was the renewed prospect of an IMF program and higher copper prices, which boosted the policy and technical test scores for the country. prices, which boosted the policy and technical test scores for the country.
- Finally, we increased our hard currency sovereign exposure in Turkey and local currency exposure in South Africa. We are happy to report that the main reason in South Africa was price appreciation, as the country continues to benefit from the improved terms of trade, the reopening and better growth/fiscal outlooks. The picture in Turkey is more complicated, but sovereign valuations now look more attractive.

- We reduced our hard currency quasi-sovereign and local currency exposures in Peru, as well as local currency exposure in the Philippines and Israel. The binary outcome of the presidential elections in Peru—with the far-left candidate doing well in the polls—was the main reason, as it worsened the upside-downside risk balance and the policy test score for the country. Our main concern in Israel was the return of political tensions and the fact that the risk premium looked very low for this setup. In the Philippines, we did not like our exposure to duration, in addition to low yields, less attractive valuations and a low upside. A combination of these factors worsened the technical test score for the country.
- We reduced hard currency sovereign exposure in Angola and Azerbaijan, as well as hard currency corporate exposure in Singapore. Angola's bonds now look less cheap and less attractive despite an improved outlook for oil prices. We used this position as a funder to increase exposure in other parts of the region. Azerbaijan's bonds "suffer" from a low spread-to-yield ratio. The resulting deterioration in the technical test score for the country makes it a less attractive proposition—especially against the backdrop of renewed military tensions with Armenia. The decision to exit our corporate bond exposure in Singapore was also due to the low spread-to-yield ratio, which worsened the technical test score for the country.
- Finally, we also reduced hard currency sovereign exposures in Ecuador and El Salvador. Ecuador's post-election "honeymoon" is coming to an end and there is a risk that President Guillermo Lasso will not have the parliament on board as regards his reform agenda. As a result, the country's political/policy test score now looks weaker. El Salvador's headline noise and the USAID's decision to redirect the U.S. assistance away from the government represent adverse signals as regard a potential IMF program. It goes without saying that the policy test score for the country now looks much worse.

Average Annual Total Returns (%) as of May 31, 2021

	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	1.49	2.44	0.86	23.06	6.01	3.05
Class A: Maximum 5.75% Load	-4.34	-3.45	-4.93	15.96	4.76	2.37
Class I: NAV (Inception 7/9/12)	1.50	2.49	0.98	23.30	6.32	3.34
50 GBI-EM GD / 50% EMBI GD	1.78	1.96	-1.77	9.49	5.11	3.02

As of March 31, 2021	1 Month†	3 Month†	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-2.13	-3.64	-3.64	34.23	5.17	2.57
Class A: Maximum 5.75% Load	-7.76	-9.18	-9.18	26.51	3.94	1.88
Class I: NAV (Inception 7/9/12)	-2.07	-3.51	-3.51	34.58	5.48	2.87
50 GBI-EM GD / 50% EMBI GD	-2.02	-5.60	-5.60	14.57	4.13	2.61

† Monthly returns are not annualized.

Expenses: Class A: Gross 2.30%; Net 1.25%. Expenses are capped contractually until 05/01/22 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investors' shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at Net Asset Value (NAV). An index's performance is not illustrative of the Fund's performance. Certain indices may take into account withholding taxes. Index returns assume that dividends of the index constituents in the index have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

Source: VanEck, Bloomberg.

Prior to May 1, 2020, the Fund was known as the VanEck Unconstrained Emerging Markets Bond Fund.

International Monetary Fund (IMF) is an international U.S.-based organization of 189 countries focused on international trade, financial stability, and economic growth.

The World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment-grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies, and has more than 30 years of history available The WGBI is a broad benchmark providing exposure to the global sovereign fixed income market. The Blended 50/50 Emerging Markets Debt Index is an appropriate benchmark because it represents the various components of the emerging markets fixed income universe.

Duration measures a bond's sensitivity to interest rate changes that reflects the change in a bond's price given a change in yield. This duration mea- sure is appropriate for bonds with embedded options. Quantitative Easing by a central bank increases the money supply engaging in open market operations in an effort to increased lending and liquidity. Monetary Easing is an economic tool employed by a central bank to reduce interest rates and increase money supply in an effort to stimulate economic activity. Correlation is a statistical measure of how two variables move in relation to one other. Liquidity Illusion refers to the effect that an independent variable might have in the liquidity of a security as such variable fluctuates overtime. A Holdouts Issue in the fixed income asset class occurs when a bond issuing country or entity is in default or at the brink of default, and launches an exchange offer in an attempt to restructure its debt held by existing bond holding investors. Carry is the benefit or cost for owning an asset.

All indices are unmanaged and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Fund. Certain indices may take into account withholding taxes. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made. The Fund's benchmark index (50% GBI-EM/50% EMBI) is a blended index consisting of 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). The J.P. Morgan GBI-EM Global Diversified tracks local currency bonds issued by Emerging Markets governments. The J.P. Morgan EMBI Global Diversified tracks returns for actively traded external debt instruments in emerging markets, and is also J.P. Morgan's most liquid U.S dollar emerging markets debt benchmark.

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Investing involves risk, including loss of principal. You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to risks associated with its investments in below investment grade securities, credit, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, sectors and sovereign bond risks. Investing in foreign denominated and/ or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. Derivatives may involve certain costs and risks such as liquidity, interest rate, and the risk that a position could not be closed when most advantageous. The Fund may also be subject to risks associated with non-investment grade securities.

Investors should consider the Fund's investment objective, risks, charges, and expenses of the investment company carefully before investing. Bond and bond funds will decrease in value as interest rates rise. The prospectus and summary prospectus contain this and other information. Please read them carefully before investing. Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus.

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666 Third Avenue | New York, NY 10017
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