Emerging Markets Debt: Springtime

By Eric Fine, Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX / EMBUX / EMBYX

Market Review

We outperformed our benchmark (50% J.P. Morgan EMBI-EM GD and 50% J.P. Morgan GBI-EM GD) by 45bp in April, with the fund (Class A Shares) up 3.51%. Indonesia local debt contributed the most, followed by Ghana, a corporate and Ukraine – we think this shows April as a month during which the market began searching uncorrelated opportunities. Our Indonesia local currency exposure was the biggest contributor to the positive column. Our weakest performance came from what we view as our non-trivial Argentina exposure. We believe that is hopeful, as we see April's weak showing for Argentina as a market over-reaction to the government's initial bond restructuring proposal. (Already, in the first week in May, Argentine bonds are rallying on indications of an improved government offer to bondholders).

We see incredible buying opportunities in EM debt, similar to those presented during the GFC. EMs have the same basic fundamentals that made it perform and attract inflows post-GFC. Lower leverage and higher real interest rates continue to characterize EM relative to DM. There's even more stimulus from the DMs in response to the current crisis than there was to the GFC. In contrast to EMs, DMs have even more leverage and lower interest rates, forcing them to into more fiscal and monetary experimentation and supply. This money may flow to EM bonds, in our view, as happened post-GFC. Also, we believe a lot of the DM stimulus for this current crisis is specifically aimed at stabilizing EM. Babies were thrown out with the bathwater in our view. We see a great number of EM bonds that were sold at prices reflecting a liquidity crisis. As that gets addressed, as economies stabilize and as Covid-19 naturally abates, there is dramatic upside in a number of situations.

We end April with carry of 10.1%, duration of 5.1, and roughly 40% in local currency. (We exclude Argentina from our carry calculation). Note that longer economic recovery periods increase the importance and cushion of carry. As noted in our March monthly, we see the fund performing well in a range of global macro scenarios. We wake up in the morning thinking more about our specific countries than about the global "risk-on/risk-off" story. We believe April showed nascent confirmation that our thesis may be playing out, given the uncorrelated nature of its strong (and weak) performers.

In April, our changes were very country-specific, so don't draw any big themes from them...other than that selectivity seems to be driving the market. This is in contrast to March, during which we increased exposure to riskier assets; the liquidity crisis phase created a lot of opportunities in March, in our view. April saw them begin to play out, thus few changes. The changes are detailed in the section below. One change worth noting is that we continued to increase our Angola exposure, as we see it as one of the best babies in the bathwater thrown out during the liquidity panic of March.

We have communicated on a range of topics recently, so we don't explore new territory in this current monthly. Below is a convenient link to our recent pieces:

- On why EM debt is currently a "Buy of the Century": VanEck Research: Sale of the Century
- On our takeaways from the April IMF meetings: IMF Spring 2020 Meetings - Dive Survive Revive or Differentiate
- Our recent Webinar: EM Debt: Back Up the Truck!
- Our recent Bloomberg radio interview: Eric Fine on Bloomberg Radio- Oil Collapse Benefits Some EM Countries

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions are currently: Indonesia, Mexico, Argentina, Uruguay, and Ukraine.

- We increased our hard currency sovereign exposure in Angola and Guatemala. In the most recent sell-off, Angola was treated by the investment community in the same way as sovereigns that were defaulting on their debt obligations. This was completely unwarranted in our opinion, because Angola's macro and policies are anchored by an IMF program, and the country has more than enough reserves to meet its external debt obligations coming due in the next 12 months. In terms of our investment process, the sell-off improved the country's technical test score, creating a very attractive re-entry point. In Guatemala, we chose a new bond issue that looked cheap relative to the underlying fundamentals. In terms of our investment process, this showed up as the improved technical score for the country.
- We increased our corporate hard currency exposure in Indonesia and Singapore. In Indonesia, a steep drop in prices gave us an attractive (re)entry point. In terms of our investment process, this improved the technical test score for the company. In Singapore, we saw the price drop in one corporate as completely unwarranted, and took the opportunity to add to our holdings at a better price point. (Prices also recovered prior to month's end, adding to the value held in the portfolio.) In terms of our investment process, this dynamic strengthened the technical test score for the company.
- Finally, we increased our hard currency quasi-sovereign exposure in Malaysia. We bought state-owned Petronas at new issue at a good discount to the sovereign, which combined very solid fundamentals with the improved technical test score for the country.
- We reduced local currency exposure in Colombia and the Philippines. Colombian bonds staged a strong rally after the selloff, after which valuations became less compelling, affecting the technical test score for the country. In addition, many of the country's assets were lagging a big drop in the price of oil, which put more pressure on the technical test score. Our Philippine bond performed well during the selloff, moving down one valuation bucket (i.e. the worsening technical test score). We therefore chose to exit this position to free money for more attractive opportunities.
- We also reduced hard currency sovereign exposure in El Salvador and Belize. Our position in Belize outperformed. Meanwhile, the economy's exposure to tourism and the worsening external environment weakened the country's economic and technical test scores. El Salvador's major vulnerability in the current crisis are lower remittances. We were also disappointed by the policy response so far. In terms of our investment process, this worsened the country's economic and policy test scores.
- Finally, we reduced hard-currency sovereign and corporate exposure in Argentina. The bond that we owned is now included in the debt restructuring proposal, and we thought it would be prudent to stay away from it until we get more clarity regarding the government's offer. In terms of our investment process, our decision reflected the worsening technical and policy test scores. As regards Argentina's corporate exposure, the company that was in our portfolio was trading poorly, with rather uncertain prospects.

Fund Performance

The VanEck Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 3.53% in April compared to a gain of 3.08 % for the 50/50 J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) local currency and the J.P. Morgan Emerging Markets Bond Index (EMBI) hard-currency index.

Turning to the market's performance, GBI-EM's biggest winners were Indonesia, Russia, and Chile. Its biggest losers were Brazil, Dominican Republic and Philippines. The EMBI's biggest winners were Egypt, Behran, and Philippines. Its losers were Dominican Republic, Brazil, and Lebanon.

Average Annual Total Returns (%) as of April 30, 2020

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	3.53	-17.73	-17.19	-12.11	-2.23	-0.49
Class A: Maximum 5.75% Load	-2.42	-22.46	-21.96	-17.17	-3.38	-1.24
50 GBI-EM GD / 50% EMBI GD	3.08	-11.74	-11.63	-3.77	1.76	1.54

Average Annual Total Returns (%) as of March 31, 2020

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	-19.89	-20.01	-20.01	-14.91	-2.67	-0.94
Class A: Maximum 5.75% Load	-24.44	-24.58	-24.58	-19.78	-3.81	-1.69
50 GBI-EM GD / 50% EMBI GD	-12.46	-14.28	-14.28	-6.61	1.60	1.16

† Monthly returns are not annualized.

Expenses: Class A: Gross 2.69%; Net 1.26%. Expenses are capped contractually until 05/01/21 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.

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

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 measure 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 promote 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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