

# EM Bond Performance Remains Solid in 2025

By Eric Fine, Portfolio Manager

## VanEck Emerging Markets Bond Fund

USD R1 Inc: IE00BYXQSJ74      EUR Hedged I1 Inc: IE00BYXQSD13  
USD I1 Inc: IE00BYXQSF37      EUR Hedged I2 Inc: IE00BYX22V58  
USD I2 Inc: IE00BYXQSG44

### Fund Review

The VanEck Emerging Markets Bond UCITS (Class USD I1) returned 1.14% in April compared to a return of 1.51% for the 50/50 JPMorgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) local currency and the JPMorgan Emerging Markets Bond Index (EMBI) hard-currency index.

#### Average Annual Total Returns (%) as of 30 April 2025

	1 Mo	3 Mo	1 Yr.	3 Yr <sup>†</sup>	5 Yr <sup>†</sup>	10 Yr <sup>†</sup>	Life <sup>†</sup>
USD R1 Inc (Inception 12/06/14)	1.10	2.06	4.19	8.77	6.27	6.90	1.71
USD I1 Inc (Inception 20/08/13)	1.14	2.18	4.36	9.31	6.80	7.57	2.48
USD I2 Inc (Inception 20/08/13)	1.15	2.21	4.39	9.42	6.91	7.68	2.60
EUR Hedged I1 Inc (Inception 06/10/15)	0.94	1.63	3.64	7.14	4.32	5.56	--
EUR Hedged I2 Inc (Inception 22/08/17)	0.94	1.68	3.70	7.25	4.48	5.70	--
50% GBI-EM/50% EMBI - USD <sup>†</sup>	1.51	3.04	4.84	9.31	5.71	2.62	2.19

The Fund is actively managed; the portfolio is constructed at the manager's discretion and may deviate materially from the benchmark in terms of holdings, weights, and risk characteristics.

Past performance is no guarantee for future performance. Investing is subject to risk, including the possible loss of principal. The performance is based on complete 12-month periods. The return may increase or decrease as a result of currency fluctuations. You cannot directly invest in an index.

<sup>†</sup>Periods greater than one year are annualized.

<sup>†</sup>Life performance for the 50% GBI-EM/50% EMBI - USD benchmark is presented in U.S.

Dollars (USD) as of Class I1 inception date of 20/8/2013

During April, China led outperformers; the team continues to see the worst of the Chinese property crisis as behind us. Underweights in Czechia and Malaysia led underperformers. We remain cautious on US dollar (USD) duration, USD spread duration, but open on local-currency duration. The fund has around 60% in curated local currency, 40% in USD bonds, with a noteworthy underweight to Brazil and South Africa in local currency. Carry is 8.2%, YTW is 9.9%, and duration is 5.3.

### IMF 2025 Spring Takeaways

- Dollar depreciation – the U.S. is generating uncertainty, economic weakness, and inflation. EM inflation, on the other hand, remains relatively stable in the majority of EM (and deflationary in China). The obvious conclusion arrived at during meetings was that this was very positive for the major currencies and for EMFX, against the USD.
- USD and Treasuries' reserve status is no longer a taboo topic. This is a completely different topic than USD depreciation, we must emphasize. Up until these Spring 2025 meetings, this topic of reserve status was fringe or taboo. We've been [publishing on the topic](#) for over a decade, using the orthodox lens of "fiscal dominance". Now that the topic is being discussed, we see it as over-hyped. Our view remains that the USD reserve status will remain and that the proper framing is to see the dollar slowly sharing reserve status with other deserving currencies over time. We do a deep dive later!
- IMF cannot please any of its stakeholders and is defensive. It is seen as unfair to private creditors, which is correct to us. And it has presided over a massive imbalance between mercantilist China and other economies and the big consumers. The IMF will be forced to change, so keep an eye on this space.
- Any U.S. isolationism is a great opportunity for Europe. Euro is a market winner, representing a great tailwind if greater financial integration is an objective. German fiscal expansion is the great hope. And of course, Euro strength is a tailwind for ECB easing. Will Europe grab this opportunity was the open question.
- "Tariffs" transmit uncertainty which maps to recession risk. That's the big focus and framing. However, the inflationary impact from tariffs is temporary while the ultimate impact is recessionary, so some in the market are trying to see

through any inflation risks and to a new Fed chair in May 2026. We also discuss the U.S. stance a bit in this blog.

- Fed independence was a big topic of conversation. It spiced up the now-acceptable discussion on the dollar's reserve status, obviously. There was a good amount of ideology disguised as economics, pointing to what a long intellectual slog this could be. Sooner or later, the Fed will become dovish.
- The era of EM Exceptionalism. Overall, we feel even stronger following IMF meetings that many EMs could experience upward pressure on their currencies. This would be due to the dollar's selloff against the major currencies, typically, but there is now obviously "pressure" from the Trump administration to keep EM currencies stable or arguably stronger as part of "trade" negotiations. A country that devalues its currency to compensate for these negotiations increases risks dramatically, and we are struck that so few meeting participants see a scenario of CNY re-valuation (CNY stronger). This is disinflationary for many EMs. EMs generally have higher real rates, making their currencies both attractive and giving their duration upside potentially even before the Fed inaugurates a new cutting cycle.

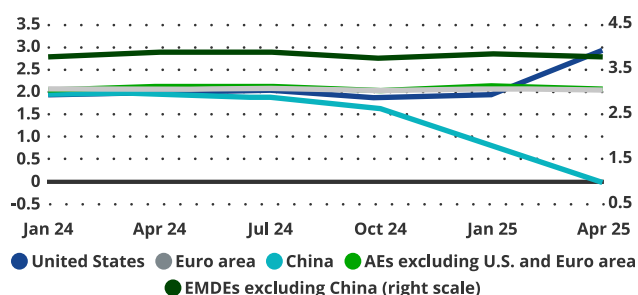
## Dollar Depreciation – U.S. is Generating Uncertainty, Weakness, and Inflation

The IMF framed its outlook through the lens of "uncertainty" due to U.S. trade policy. In fact, their April 2025 World Economic Outlook (WEO) generated a reference forecast, not a forecast, to reflect the importance of and uncertainty around "tariff" (in quotation marks because the discussions are about non-tariff barriers, mostly) policy and negotiations. This reference forecast followed the 90-day tariff delay and assumes a 10% global tariff, among other assumptions. Global growth was downgraded by 0.9% compared to the previous forecast, but not tipping the U.S. or world into recession.

The inflation outlook was more interesting, with DM ("Advanced Economies", or AEs) seeing rising inflation, with the U.S. and UK standing out in terms of magnitude – revised up by 0.7% and 1.0%, respectively. EM ("Emerging and Developing Economies" or EMDEs) saw a mixed inflation outlook, leaving DMs with the stagflation risks. This observation is shown in the inflation forecast history produced below. We highlight this because one of our themes has been the maturity and orthodoxy of many EMs' economic policy and its low inflationary implications.

Let's get to the obvious and key asset-price conclusion – if DM inflation is worsening relative to EM, that is *ceteris paribus* bullish for EM currencies. We've noted in research notes that if you use manufacturing inflation, CNY is substantially *undervalued*, for example. This is a key element for EMFX, of the dollar depreciation argument.

### Exhibit 1 – IMF Sees Inflation Risk in U.S., EM Not So Much (China Not At All)



Source: IMF April, 2025 WEO

Most importantly – meeting participants were introduced to the idea that EM currencies can be beneficiaries of a "USD selloff". Until the meetings, most of the FX winners were the majors such as EUR, JPY, and CHF, but began to broaden to EMFX. This is the precise thing we mean when we say participants "woke up". Whether the catalyst to this realization is relative inflation rates, relative balance sheets, or relative narratives (the USD and Treasury reserve status which we discuss next), the idea that EM currencies could be winners was a key dawning realization for IMF meeting participants, in our view.

## USD and Treasuries' Reserve Status No Longer a Taboo Topic

The dollar's and Treasuries' reserve status are a completely different topic than depreciation, we emphasize. We should set the scene before getting into this discussion, especially since we feel like we've been forcing this discussion for over a decade and now see it as over-done and over-simplified. Up until these Spring 2025 meetings, these topics were fringe or taboo. (We [published](#), nonetheless, using the orthodox "fiscal dominance" frame for DM.) Now, these topics are no longer taboo, and that's the main news to us. To be fair to the taboo, every participant has benefited from "globalization" and has high trust in the neo-liberal/neo-conservative "consensus" for good reasons, so this topic seemed to face some instinctive defensiveness. Anyway, that taboo is gone now, and that's our point. Not forgetting, most importantly, that reserve status is a separate dynamic from simple dollar depreciation – they should not be mixed up.

And, since we've been publishing on this topic of reserve status for over a decade, we should present our summary conclusion for the record. Our view remains that USD reserve status will be increasingly shared with other countries over many years, and that this process has been in-train for over a decade, but that there will be no "headline" day. The dollar will remain the primary reserve currency, and the "all-of-a-sudden" loss of reserve status scenario has extremely low odds in the foreseeable future.

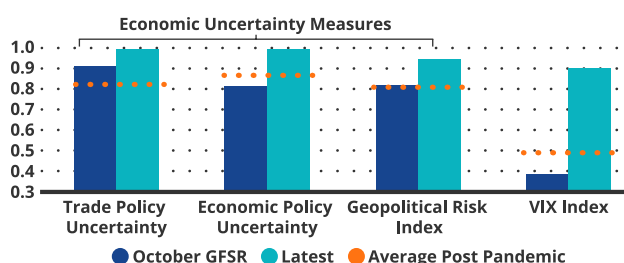
One thing missing from IMF discussions was an accurate historical timeline of the challenges to the dollar's reserve status. It was almost as if questioning reserve status appeared out of nowhere, simply coinciding with the second Trump administration's "tariff" strategy. The most important detail skipped over in IMF meetings on this newly discussable topic is that this story really started with the GFC, QE and other monetary and fiscal responses. The sanctions on Russian central bank reserves of Treasuries accelerated this process of searching for alternative reserve currencies. This is what got central banks to acutely question their Treasury holdings. Russia was forced into a credit event by losing access to its reserves and lost repayment capacity as a result.

China is an obviously vulnerable sovereign from this angle, being a high-quality credit in USD with over \$3tn in dollar assets, but now with its key strength at risk due to U.S. sanctions policy. The recent rise in gold prices reflects *its attractiveness* as a reserve currency for the Chinese and other central banks. Central bank buying of gold reserves started post GFC and accelerated substantially post Russia sanctions, showing policies undermining the U.S. dollar have been in place for a long time. QE and other policies in the GFC started this discussion in many ways -- Treasuries and the dollar didn't all-of-a-sudden just start having these risks. We've published [many articles](#) on this topic.

Let's move on to what the IMF said about this topic. The fund's must-read Global Financial Stability Report (GFSR) also (along with the WEO) framed the outlook through the lens of uncertainty. The first exhibit in the GFSR below shows the IMF's metrics of "uncertainty". They cite three channels. First, valuations of risky assets may simply be elevated and thus vulnerable to correction. U.S. equities came away poorly from these meetings overall, according to our sentiment checks before and after. Second, risk to financial institutions particularly with greater leverage.

Third, and most eye-catching to us, they say "turbulence could descend upon sovereign bond markets, especially where government debt levels are high". They are referring to the "AEs" or DM economies. In the same paragraph, they say "popular leveraged cash-futures basis trades in core sovereign bond markets could unwind". Right out of recent weeks' headlines! This is the risk we've been framing as coming from "fiscal dominance" (debt so high that monetary policy is subsumed) in DM and has been a core theme of ours for over a decade, so its popularization at recent meetings is important for asset prices. It is very much worth taking note of the IMF's focus on this risk.

## Exhibit 2 – IMF GFSR Notes High Uncertainty (From U.S. Tariff Policy)



Sources: Bloomberg Finance L.P.; Baker, Bloom, and Davis 2016; Caldara and Iacoviello 2022; and IMF staff calculations.

Note: "Economic policy uncertainty" and "trade policy uncertainty" are the indices of Baker, Bloom, and Davis (2016); "geopolitical risk" is the index of Caldara and Iacoviello (2022). Series are in percentiles since 1997 based on monthly data; "Average post pandemic" is the average percentile since 2022. Trade policy uncertainty, economic policy uncertainty, and Geopolitical Risk Index are z-scores since inception. Economic uncertainty measures are text based. VIX = Chicago Board Options Exchange Volatility Index.

So this discussion is now mainstream, right or wrong, and however simplified or exaggerated. The key point is that as a result the GFSR and the market are now honing in on the U.S. (and global) financial system's vulnerabilities. Remember the warning in the GFSR on highly-indebted DMs backed by leveraged financial systems? Well, there were concerns over exactly this in markets during the meetings. The worrying signal came instead from cross currency swap spreads, in which Euro-based investors who hedge their Treasuries into Euros were not funding/buying Treasuries at spreads at which they normally would buy. *That* could be viewed as a sign of offshore reluctance to lend to the U.S. and would fit the GFSR narrative of high leverage in the U.S., making its financial system riskier for offshore investors.

The GFSR's focus on highly-indebted DMs' financial vulnerabilities encourages us to spell some things out, at least in high-level terms, as many ignore key dynamics of derivative markets. First, cross currency swap spreads showed offshore

investors unwilling to lend into the U.S./buy Treasuries. That was a reasonable narrative, though the precise causality is debatable (we don't know for sure it represents a downgrade in Treasuries' reserve status, but it would be consistent with that if sustained). Second, many derivative markets are far larger than the securities they reference, and in many cases are the driver of the actual security price, not vice versa as many assume. Derivatives often cause the spot or cash price, not vice versa. Most policy makers have never traded a bond in their lives, keep in mind, something we see in evidence regularly.

Third, these financial institutions and their derivatives are *exactly* what was guaranteed in the GFC, for exactly the reason that it could unhinge pricing of U.S. Treasuries and currencies, among other asset prices. Fourth, other derivatives such as non-deliverable forwards and interest rate swaps are part of the asset/liability mix of these financial institutions and were also supported by the Fed and U.S. Treasury in the GFC, so all derivatives and the institutions that depend on them should be a focus, as the GFSR is implying. The derivative we mentioned just happens to have more meaning as it measures offshore interest in Treasuries. We've been writing on this theme for a decade, we hope we framed it for you, without getting into a particular instrument (basis or cross currency swaps or NDFs for that matter, though they are all related of course). Treat them as part of the same bundle of risks *but now coming into focus due to the U.S.' financing vulnerability resulting from excessive leverage*. Everyone reads the GFSR!

Anyway, what are the asset price implications? And for this question we will conflate both the "normal" USD depreciation view with the "no longer taboo" USD loss of reserve status dynamic – both theories are being conflated and seem to lead to similar asset-price conclusions for this discussion. We remind that our view is that it is better to frame the USD as gradually sharing its reserve status with other currencies over time. It's a big question and like we said we've written about this extensively. Gold is the big see-through, because the question being asked by the market is literally, "what happens if the dollar and treasuries lose their reserve status?" and gold gives us the only data that can answer the question. How did IMF meetings process the asset-price implications of dollar depreciation or loss of reserve status, then?

- First, EUR, JPY, CHF, and other majors were viewed as "winners". This is largely the G-10 crew having a "dollar-down" view for whatever reason, depreciation or loss of reserve status. Banks have upped their year-end

Euro forecasts at least. Hardly earth-shattering, but it's happening and it's one of the key new trends in FX.

- Second, U.S. curve steepens. This idea keeps living on, and rightly so. The functioning of U.S. financial markets is central to the U.S. Treasury yield, so the hinky price action especially at the long end is still front-and-center. We can't emphasize this enough.
- Third, U.S. equities kept coming up as over-owned. Many had handy statistics about the record high offshore ownership of U.S. equities. Don't get hung up on any particular metric as they vary, have dubious start dates and you need to be precise, but in 2023 offshore owned about 18% of U.S. equities compared to around 5% in 1994, according to one longterm data stream we accessed. A popular one is citing the 70% of ACWI that is U.S. currently, compared to around 30% during the Japanese stock bubble. The high level of foreign ownership for U.S. equities means there is a paucity of future offshore buyers of U.S. equities, especially at high valuations. If U.S. equities were instead expected to decline in value, the reallocation of foreign holdings back to their home markets would lead to additional selling pressure on the U.S. dollar.
- Fourth, the era of EM Exceptionalism. EMFX is a gleam in everyone's eye. High real rates, under-owned, etc. It was noted that there has not been strong positioning in EMFX as has been the case in the majors, based on this theme of USD depreciation or loss of reserve status. Foreign ownership of EM local debt markets remains at the lowest level in a decade.
- Fifth, gold is the main conclusion to IMF participants, in our view. Gold, being a new numeraire, is not popular with the IMF crowd, but the absence of interaction with the fact of its rise was noteworthy. Denial, one might say, but cracking.
- Sixth, credit spreads (largely meaning corporates) were seen as vulnerable due to valuation, rising recession risk and, our view, potential for illiquidity. Offshore ownership of U.S. IG and credit's overall popularity as a place to hide, for decades really, were noted as risks.

## IMF In the Center and on Defense

The new narrative inaugurated by the Trump administration, intentional or not, or fairly or not, could be something like "the IMF presided over massive imbalances, how did they let that

happen?" The imbalances invoked could be those generated by a supposed mercantilist China accumulating external surpluses. China can then invest these surpluses in ways the U.S. and others cannot accumulate inside China, as the respective capital account rules are asymmetric. Or the imbalances invoked could be the greater share of benefits enjoyed by owners of financial assets (capital) versus labor, which characterizes many DM economies. The increased share of financial assets being seen as a symptom of imbalanced trade. Either way, these are powerful imbalances that appeal to powerful political interests across the planet and in each country according to its institutions, regardless of our opinions. So, expect this to play out at the IMF.

How might it do so? Well, for color, there was unfounded (as far as we know) chatter about the U.S. exiting the IMF (it is its biggest shareholder). A questioner in one of our meetings cheekily asked what would happen if the U.S. needed an IMF program (not possible, in our opinion). It was way over-the-top for a group that had heretofore ignored the topic, but it was that kind of IMF meeting. Quite anomalous, and your authors have been attending for 30 years (each).

A more realistic dynamic that could begin to play out is over IMF share ownership. The short version of it is that Europe's is excessive and China's is too small based on their current importance as economies. And "Europe" doesn't want to give up its shares. There are a lot of "deals" that can be done, but the logical economic one is greater ownership by China in exchange for different structural arrangements. How Europe gives up its share ownership is not obvious. An overall expansion of the IMF's balance sheet would be part of this – China would receive SDRs (the IMF's money or monetary liability) in exchange for Chinese government bonds in CNY as assets on the IMF balance sheet (and China's central bank would of course get the SDRs as assets and the CNY would be a liability). The implication is that it would entail a coordinated (even if some countries expand relatively more) expansion of the IMF's balance sheet. And the PBoC's. How the national pie slices are relative to each other is the issue. Technically, it could be expansionary for global central bank balance sheets, as a path of least resistance. There would need to be political agreement first. Technically, this makes CNY a likelier eventual alternative reserve currency, of course.

One other issue that seems bound to arise is the IMF's role in bilateral debt negotiations. Most specifically, the IMF has for the first time written down its role in sovereign debt restructurings in one place. There is that much of a lack of transparency, yes, that this is being celebrated. This was welcomed by creditors in general, of course, but this is a baby step, clearly pointing to many more. The IMF is seen by private bondholders as unfair to private creditors, which is correct to our eye. This challenges its role of "going first" in sovereign debt rescheduling, setting the basic terms, and the IMF's limited transparency compared to the private sector. It's a bit wonky, but it can have important implications, potentially supportive of private bondholders. Your authors have been living for 30 years under organizing principles (such as the primacy of the IMF as a creditor, and the superiority of bilateral lenders as creditors, practically) that could be challenged. These tilt in favor of private creditors, in our view.

## Great Opportunity for Europe?

IMF meeting attendees all agreed that the Euro was the biggest winner of the dollar depreciation story, and an even bigger winner if you believe that the dollar's reserve status is going to be shared with other currencies or something more extreme. The normal channel to focus on is that this is *ceteris paribus* disinflationary (via lower oil prices and eurozone prices) and supports further ECB easing. If justified, this can translate into easing from the euro-linked EMs. A good tailwind for Europe, just on the economics.

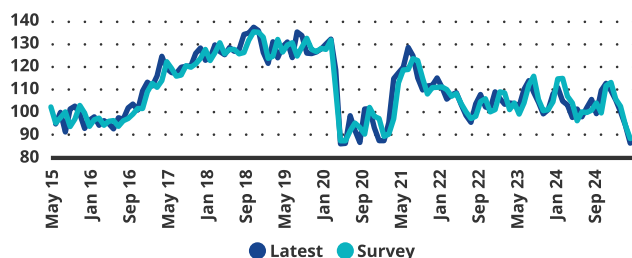
The new channel, if it can be called that yet, was the still-vague (to the market) concern over the dollar's reserve status. We won't recapitulate it here, but this was cited as an opportunity for "Europe" to deepen its financial markets to take advantage of this burnish. It coincides with Germany's previous government abandoning its "debt brake", and Europe re-militarizing and supporting the funding for such. The ultimate catalyst for a much stronger Euro would be mutualized debt issued by the EU. There are mooted structures for mutualized debt in a defense spending entity. But there is a long path there, including financial and banking union. The Euro was never politically popular in core Germany and France, so political concerns shouldn't be ignored. But the hope and opportunity are there. German defense spending funded by new borrowing could create an engine of growth that would not rely on a weaker Euro to help exporters. Other than the above (and geopolitics), Europe didn't come up more than that.



## Uncertainty is Currently Hitting Economies More Than “Tariffs”

The word “uncertainty” came up in every single economic forecast meeting. The channel leads to a lower propensity to consume or invest on the part of consumers and corporates. This can feed negative expectations, and survey and other data confirm this. We reprint an updated Conference Board Consumer Confidence chart below with its April 29 print.

### Exhibit 3 – Consumer Confidence: A Key Channel and Weak



Source: Bloomberg as of 4/30/2025.

As for the impact of “tariffs”, keep a few basic things in mind. First, we use the term “tariffs” because that is market convention. But it is obviously wrong. Tariff barriers, such as India’s, are the least uncertain and easiest to address. This is where the first “deals” will be announced. This is because the objective has been to open up discussion of non-tariff barriers that were not allowed by WTO. The two basic elements that will be discussed, logically, are tax and capital account controls. Europe’s VAT is a famous point of contention between the EU and the U.S. across administrations, so this isn’t a new issue, just newly reopened. Similarly, China and other countries’ closed capital accounts are reasonably part-and-parcel of their relative accumulation of offshore assets. Opening up capital accounts to balance current (or trade) accounts will be part of these discussions.

The U.S. view was presented at the meetings, and the uncertainty of the process was addressed. A few key points were made, highlight below:

- First, a lot of the initial proposals were intentionally extreme, and designed to get into discussions of non-tariff barriers. The view was expressed that these are reasonable negotiation tactics. Market participants pushed back on the need for these tactics.
- Second, agreements in principle will be announced, the goal is not fully-baked deals. It is known that details could take months to work out. But once agreements in principle

are reached, we’ll be in a different phase as the bulk of the uncertainty will be behind us, that is the hope.

- Third, there are 14 key countries with whom the U.S. is prioritizing due to their importance. Do not take initial proposals for smaller countries as priorities – there’s understanding that in many of these instances details need to be adjusted.

## A Note on the Fed, and Fed Independence

Fed independence was a big topic of conversation. It spiced up the now-acceptable discussion on the dollar’s reserve status, obviously. Many meetings proceeded on the assumption that the Fed was non-political and independent, and that challenges to its independence under a Trump administration represent something completely new. This was a bit frustrating, as debates often ended up being ideology disguised as economics. We should also note that given the ideology of meeting participants, who are global and heavily European, it was common to have panels with zero representation from Republicans close to the Trump administration. The unstated premises of many of the discussions made it clear to us that this will be a long hard slog, intellectually.

We won’t get into the debate over whether or when the Fed became political or less independent, though we’ve been [publishing on that](#), too, for over a decade (it’s the logical result of “fiscal dominance” -- the central bank gets co-opted, by definition). In our view, there is no way to understand QE that does not see it as a change in Fed independence, though. More on-topic, we will observe that the Fed staff have been communicating for several decades that tariffs are first and foremost hits to demand (they are taxes of course) and that the implication is to ease monetary policy as a result. Now, though, that message isn’t as strong.

We are not making the case that Fed policy is too tight and of course explicitly not getting into the political bias discussion. In fact, the sequencing should see near-term inflationary pressures from tariffs, at the least. The Fed will find that fact uncomfortable given it has not been near the inflation target since COVID. And, expectations are important to any good central bank, maybe the most important thing. Whether those expectations are guided by smart or silly ideas, they can increase the odds of adverse outcomes, and it is highly defensible for a central bank to be cautious, in our view.

Anyway, that's the framing of the discussion from IMF meetings. As a result, inflation, output, inflation expectations, and sentiment gauges will be keenly observed. As must be the long end of the Treasury curve. If you recall our discussion on cross-currency swap spreads (and derivatives generally, any one could become an issue), you'll note that it was Fed/Treasury coordination, not independence, that was celebrated during the GFC and QE. Treasury blessing an asset to be purchasable as an asset by the Fed was the solution to the GFC (among other "innovations"). So, *if the long-end of the Treasury curve becomes unhinged, this will map directly to financial risk. Given the Fed's previous reactions to financial risk, this maps directly to Fed independence with the potential for large scale purchases of long-dated Treasury bonds.*

## Noteworthy Country Comments

**Overall, we feel even stronger following IMF meetings that many EMs could experience upward pressure on their currencies.** This would be due to the dollar's selloff against the majors, more normally. But, there is now obviously "pressure" to keep EM currencies stable or arguably stronger as part of "trade" negotiations. A country that devalues its currency to compensate for these negotiations increases risks dramatically, and we are struck that so few see a scenario of CNY re-valuation (CNY stronger). EMs generally have higher real rates, making their currencies both attractive and their duration having upside when/if the Fed inaugurates a new cutting cycle.

EMFX stronger is a profound tailwind to disinflation in EM, a point we discussed above. This has the potential to anchor inflation and inflation expectations and paves the way for more easing than otherwise. But this initial condition will be a challenge to national authorities, including the basic point that governments themselves don't "control" their exchange rates, certainly not without other institutional support, for example from their central banks. How this plays out will be a function of national policy. Some won't respond with the needed structural reforms. But that is more a question for equity analysts – stronger FX and lower inflation is unequivocally a tailwind for EM local currency fixed income, whatever it means for other economic outcomes.

**Mexico.** What stood out in Mexico was the positive relationship with the U.S., which seems to be a focus of both countries. Mexican President Sheinbaum appears to be a major upgrade in terms of the U.S. relationship, as law and order and security were not priorities of her predecessor. Additionally, she is fluent in English and can speak directly to President Trump. China was

also observed as having dramatically reduced its footprint in the area. There is great excitement about the possibilities for infrastructure and industrialization which are in great deficit in Latin America. The central bank is very sensitive to U.S. interest rate policy, but a stronger MXN could give it greater flexibility to ease.

**Argentina.** There was a love-fest for Argentina. Many in the audience know members of the policy team personally (one was a former sell-side EM Economist, for example). It's quite a dream-team, technically. Anyway, the country is fresh off a larger-than-expected and earlier-disbursing IMF program, which allowed the country to start floating its exchange rate (which had been our nagging concern – that they would or will still fudge this). And then U.S. Treasury Secretary Bessent said that Argentina would have access to a special/rare exchange stability mechanism that allows Treasury capital to intervene in the Argentine peso market. It couldn't have had a better story. Political support for President Milei and upcoming elections are the only risk now, one could argue.

**Brazil.** Brazil came away as winner. Monetary policy is arguably extremely tight at a moment of generalized dollar weakness, arguably the tightest in decades. However, trade is much more important to Brazil, at 30% of GDP compared to around half a decade prior. The fact that much of Brazil's risk-off moment happened prior to the market's focus on the most recent tariff tussle means that it may already be insulated from ongoing tariff concerns. At worst, Brazil was let off the hook in meetings, at best it's a key winner.

**Colombia.** Colombia came away a loser. It had a stock of credibility due to its high-quality institutions that produced orthodox finance ministers and central bankers. However, President Petro's political and policy interventions continue to derail optimal outcomes. Fiscal policy remains a problem, debt is rising, and ratings are vulnerable. And now oil is under pressure.

**Turkiye.** The shine came off Türkiye. Commitment to the stabilization program is strong and achieving objectives, but asset prices may already reflect good news, and the authorities might rightly be accepting of two-way risks in the currency. We'll be more specific – the current exchange rate regime looks a little like a temporary fix, to our eye. We'd also note central bank reserves and risks from re-dollarization locally remain a concern. Thus, our view that the government accepting two-way risks is defensible.

**South Africa.** South Africa stood out for having unchanged growth forecasts in the April 2025 WEO. This makes sense given that the South Africa effective tariff rate is only 18% with PGMs, pharmaceuticals and lumber being excluded. About 50% of South Africa's exports are exempt. The economy and finances are largely balanced, and the key question was over the durability of the current GNU (government of national unity), but news on that front has been largely sanguine.

**Indonesia.** A deal with the U.S. in 90 days was their stance. U.S. trade policy is a challenge, but we will deal with it quickly was the message. There remain great questions, though, on the future of Indonesian policy and governance. Will fiscal policy be controlled? How will the new sovereign wealth fund be governed and what will it do? Are lines between the presidency and institutions blurring in ways that are meaningful to rating agencies and market participants? These remain unanswered, to our eye. And, the central bank of Indonesia does not have an advanced floating FX regime/inflation targeting regime, so the underpinnings aren't as rock-solid as regional peers'.

**Nigeria.** We'll mention Nigeria due to its relative importance in SSA, but also because a number of countries have embarked on IMF programs and reform efforts, and Nigeria is not alone in trying with mixed results. There has been significant progress on monetary policy reform, with FX flexibility a centerpiece. The policy rate is positive in real terms to a large degree, and there's a sense that inflation will decline. The increased market-determination of domestic fuel prices is a key positive, but fiscal policy remains a challenge particularly if the government chooses to increase social spending.

## Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in April were Mexico, Brazil, Thailand, South Africa, and Poland.

- We increased our local currency exposure in Brazil, Thailand, and South Africa. Brazil shows signs of tentative fiscal improvement, its direct trade exposure to the U.S. is limited, inflation expectations had peaked bringing us closer to the end of the tightening cycle. These factors improved the policy and technical test scores for the country. Thailand is a higher-yielding beneficiary of China's restrained approach to the trade war, which improves its technical test score. South Africa's budget debates are not over yet, but the main coalition partners confirmed that the government of national unity remains in place, improving the policy test score for the country.
- We also increased our hard currency sovereign exposure in Ecuador, Argentina, and Nigeria. In Ecuador, the incumbent's victory in the presidential elections should strengthen the reform mandate and the country's policy test score. Argentina just got a new IMF program, which was conditional on a major overhaul of the country's exchange rate regime with a freer floating currency and no FX intervention within the currency band. This boosted Argentina's policy test score. We continue to see more green shoots in the Nigerian economy, and 80% of Nigeria's exports is oil, which is exempt from the tariffs, which strengthens the economic and technical test scores for the country.
- Finally, we increased our hard currency sovereign exposure in Gabon, Senegal, and Pakistan. In Gabon, we now have more certainty on the policy front after the former transitional president Nguema comfortably won the presidential election, improving the policy test score for the country. In Senegal, the IMF signaled that it is ready to move on a new program after the country addressed some data misreporting issues. This should strengthen the policy test score for Senegal. Pakistan's valuations look better now, and the country's direct exposure to the U.S. tariffs is limited. The U.S. is expected to keep Pakistan in its orbit for political reasons, and the IMF funding is expected to get unlocked after the board's approval. In terms of our investment process, this improved the policy and technical test scores for the country.
- We reduced our local currency exposure in Indonesia, Chile, Mexico, and Turkey. The Indonesian government has a communication problem, especially as regards its fiscal plans against the backdrop of downside growth risks. The central bank's focus on currency stability may limit room for rate cuts. In terms of our investment process, this weakens the policy test score for the country. The softening growth outlook in Chile's main trade partners and its potential impact on demand for copper worsen the economic and technical test scores for the country. Mexico's growth prospects can be also adversely affected by a rising risk of recession in the U.S. Turkey might be well positioned to deal with the trade war challenges, but its domestic political scene remains noisy, worsening the policy test score for the country.



- We also reduced our hard currency corporate exposure in China, Hong Kong, and Singapore. The main reasons are the negative and more direct impact of higher tariffs, and the non-zero risk of the renminbi's devaluation to regain competitiveness.
- Finally, we reduced our hard currency sovereign exposure in Saudi Arabia, Bahrain, Bahamas, the Philippines, Cote d'Ivoire, and Papua New Guinea. The key concern in Saudi Arabia, Bahrain and the Philippines was the impact of the U.S. tariffs on inflation expectations and duration. The tariffs' negative impact on lower-income fragile economies was the main consideration in Cote d'Ivoire and Papua New Guinea. In terms of our investment process, this has worsened the technical test score for these countries.

## Major Risks of Investing in the VanEck Emerging Markets Bond Fund

- **Emerging Market Risk:** In emerging markets, the legal, judicial and regulatory infrastructure is still developing and there is much legal uncertainty both for local market participants and their counterparties. Investments in these countries may involve specific political, economic and financial risks that have a significant impact on valuations and liquidity of those investments. They are also exposed to additional risks that are difficult to calculate and would not arise with investments made in OECD countries or other emerging markets.
- **Currency Risk:** Some of the Fund's assets can be invested in currencies, other than the Fund's currency. The performance of the Sub-Fund can be subject to elevated volatility on the downside as well as on the upside due to currency fluctuations. Northbound investments by the Fund in the Bond Connect Securities will be traded and settled in Renminbi / RMB, the official currency of China. The RMB is currently not a freely convertible currency.
- **Credit Risk:** The Fund will invest in bonds that are subject to varying degrees of risk that the issuers of the securities will have their credit ratings downgraded or will default, potentially reducing the value of the securities.

For the other risk factors and information, please refer to the KID and the Prospectus, available at [www.vaneck.com](http://www.vaneck.com)

#### IMPORTANT INFORMATION

This is marketing communication. Please refer to the prospectus of the UCITS and to the KID/KIID before making any final investment decisions. These documents are available in English and the KIDs in local languages and can be obtained free of charge at [www.vaneck.com](http://www.vaneck.com), from VanEck Asset Management B.V. (the "Management Company") or, where applicable, from the relevant appointed facility agent for your country.

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Investors must be aware that, due to market fluctuations and other factors, the performance of the funds may vary over time and should consider a medium/long-term perspective when evaluating the performance of funds.

Investing is subject to risk, including the possible loss of principal. Investors must buy and sell units of the UCITS on the secondary market via an intermediary (e.g. a broker) and cannot usually be sold directly back to the UCITS. Brokerage fees may incur. The buying price may exceed, or the selling price may be lower than the current net asset value. The indicative net asset value (iNAV) of the UCITS is available on Bloomberg. The Management Company may terminate the marketing of the UCITS in one or more jurisdictions. The summary of the investor rights is available in English at: [complaints-procedure.pdf \(vaneck.com\)](#). For any unfamiliar technical terms, please refer to [ETF Glossary | VanEck](#).

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