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Golden Age for EM Bonds

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> Sharply rising precious metals prices and strong fiscal and monetary stances in EM bonds may provide opportunities for emerging markets debt investors.

The **VanEck Emerging Markets Bond Fund** was up 0.73% in March, compared to +1.03% for its benchmark, the 50% J.P Morgan Government Bond Index- Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). Year-to-date, the fund is down -0.05%, in line with the benchmark. Developed markets (DM) government bonds (JP Morgan's GBI Global) were down -3.18% YTD, totally consistent with our view that emerging markets (EM) bonds should outperform DM bonds. Ecuador in USD (our overweight there) was the big winner in March, with Chile local (our overweight there) the loser. During March, the fund made several country-specific changes. We took profit on our remaining China USD exposure and on Nigeria in USD; we also reduced Mexico and Brazil in local currency. We increased exposure to Saudi, UAE, Qatar and Romania in USD with low duration; and we increased exposure to local Malaysia, Singapore and Taiwan Region after their selloffs. Duration ended the month lower. We end March with carry of 6.2%, YTW of 7.95%, duration of 6.4 and 46.7% of the fund in local currency. Our biggest exposures are Brazil (local and hard), Poland (local and hard), Colombia (local and hard), Mexico (hard) and Indonesia (local and hard).

Average Annual Total Returns* (%) Month End as of March 31, 2024

	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 07/09/12)	0.68	-0.29	-0.29	6.76	0.35	2.90	1.39
Class A: Maximum 5.75% load	-5.11	-6.02	-6.02	0.62	-1.62	1.69	0.79
Class I: NAV (Inception 07/09/12)	0.76	-0.03	-0.03	7.28	0.69	3.26	1.71
Class Y: NAV (Inception 07/09/12)	0.73	-0.05	-0.05	7.14	0.57	3.19	1.64
50% GBI-EM/50% EMBI	1.03	-0.05	-0.05	8.10	-1.45	0.48	1.42

*Returns less than one year are not annualized.

Expenses: Class A: Gross 2.55%, Net 1.22%; Class I: Gross 2.51%, Net 0.87%; Class Y: Gross 2.91%, Net 0.97%. Expenses are capped contractually until 05/01/24 at 1.25% for Class A, 0.95% for Class I, 1.00% for Class Y. Caps excluding acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes, and extraordinary expenses.

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

The "Net Asset Value" (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV is not necessarily the same as the ETF's intraday trading value. Investors should not expect to buy or sell shares at NAV.

Commodities up/bonds down, with precious metals sending the strongest signal within commodities – this is good for commodity prices but bad for yields, which means opportunities in EM bonds. Sharply rising precious metals prices are always the end result of debt debasement, though there are many frameworks that also link prices to inflation or non-fiscal metrics. Following the global financial crisis (GFC), we wrote a piece in which we divided global central bank money/liabilities by their gold reserves/assets (in order to measure strains on individual central banks and the global money system). The spirit of the question was *"what would happen if the U.S. dollar loses its reserve status and is replaced by gold?"* What we found was that many EM central banks have a high ratio of gold reserves to money liabilities, indicating that they were more resilient in a scenario in which the U.S. dollar's reserve status was declining.

EM Bonds have strong fiscal and monetary stances compared to DM bonds. Central banks aren't just accumulating gold, they are buying EM local currency bonds (especially Asian bonds) as reserve assets, too. This is a slower process, but so was central bank gold accumulation until this year. Do you want to predict the day it gains traction, or get access to an asset class that has a buyer base with big balance sheets and a secular path? When Saudi receives Chinese renminbi (CNY) for oil, what do you think it will do with the CNY? (Answer: buy CNY bonds.) This point was central to our "**fiscal dominance**" piece. And in that piece, we honed in on EM central bank gold holdings, which have been rising for over a decade. The DM central banks have only just begun to get in on the act, if at all. This, at least, means more careful consideration about whether you're getting paid enough premium to reward that risk in DM.

Fed Funicular falters – will a stop at a higher terminal rate need to be built? We don't know. But, we can find bonds in EM that "don't care". We've used the funicular framing in previous pieces and find it helpful. If the Bayesian facts are that the next decision "node" occurs when the inflation/employment data *might be worse,* that's key, game-theoretically. If the right date for that node is July, where do you think the world will be then and do you have confidence in that view, what with wars, locusts and golems about? If you don't, EM bonds have many ways to insulate you from the range of scenarios, of saying "these EM bonds do best across the scenarios". So, you get your carry and the price either goes up or down based on U.S. rates. What it shows is what it always shows – EM bonds do best across the rate scenarios. **The carry in EM bonds is so high it allows you to not base your fixed income investing on your opinion on the U.S. Federal Reserve (Fed). Sounds good to us.**

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in March were Brazil, Poland, Colombia, Indonesia and Mexico:

- We increased our hard currency sovereign exposure in Saudi Arabia, the United Arab Emirates, Qatar, Romania and Poland. Romania's political noise is set to increase in the run up to the elections, but at the same time a smart issuance policy and the EU funds' inflows should continue to shelter sovereign bonds, improving the economic and policy test scores for the country. Poland's sovereign bonds might be less sensitive to political games around the central bank governor's removal. In terms of our investment process, this boosts the country's technical test score. As regards the remaining countries, a combination of attractive valuations and solid fundamentals is compelling, and there are also better technical factors as the rest of the region often lacks longer bonds.

- We also increased our local currency exposure in Malaysia, Singapore and Taiwan Region. Malaysia is a fundamentally solid and less correlated to EM credit, which gave a boost to our duration exposure. In terms of our investment process, this reflected the improved technical test score. Singapore's music tourism appears to be a new growth driver, against the backdrop of lower than expected inflation and a very small fiscal deficit in 2024. All these factors improve the economic test score for the country. Taiwan Region's local exposure was a nice way to get FX yield pickup.

- Finally, we increased our hard currency sovereign exposure in Benin, Paraguay, Barbados and Cameroon. All these sovereign bonds have attractive valuations (hence, the solid technical test scores). Benin and Cameroon also show the renewed reform momentum, which improved their respective policy test scores.

- We reduced our local currency exposure in Mexico and Brazil. The Mexican peso's net long positioning is getting stretched, and there are legitimate concerns about pre-election spending and the central bank's initiating its cutting before the Fed's, which worsen the country's policy test score. Brazil's price action was affected by elevated positioning as well as some idiosyncratic risks, such as Petrobras's dividends story and the government's fiscal performance, which worsen the policy and technical test scores for the country.

- We also reduced our hard currency corporate and quasi-sovereign exposure in China. The economy appears to be bottoming out, reducing incentives to increase policy support. We are also disappointed by a lack of clarity about the resolution of real estate developers' debt, which is a major headwind to the sector and GDP growth in general, worsening the policy test score for the country.

- Finally, we reduced our hard currency sovereign exposure in Mozambique, Mongolia and Nigeria. We took profits in Nigeria after sovereign bonds' post-election rally. Sovereign valuations in Mongolia and Mozambique and getting stretched, worsening the technical test scores for both countries.

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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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J.P. Morgan GBI-EM Global Diversified Index tracks local currency denominated EM government debt. The index weighting methodology limits the weight of countries with larger debt stocks, with a maximum of 10%.

J.P. Morgan EMBI Global Diversified Index is comprised of U.S. dollar-denominated Brady bonds, Eurobonds, and traded loans issued by emerging markets sovereign and quasi-sovereign entities. The index weighting methodology limits the weight of countries with larger debt stocks.

ICE BofA U.S. Treasury Index racks the performance of EUR denominated sovereign debt publicly issued by the German government in the German domestic or eurobond market.

ICE BofA German Government Index tracks the performance of EUR denominated sovereign debt publicly issued by the German government in the German domestic or eurobond market.

ICE BofA Global Broad Market Index tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

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