January 2022

VanEck

Some Hawks Soaring

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Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX | **EMBUX** | **EMBYX**

Overview

The Fund performed in line with its benchmark, 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), in January. The Fund was down –1.39%, compared to its benchmark, which was down -1.43%.

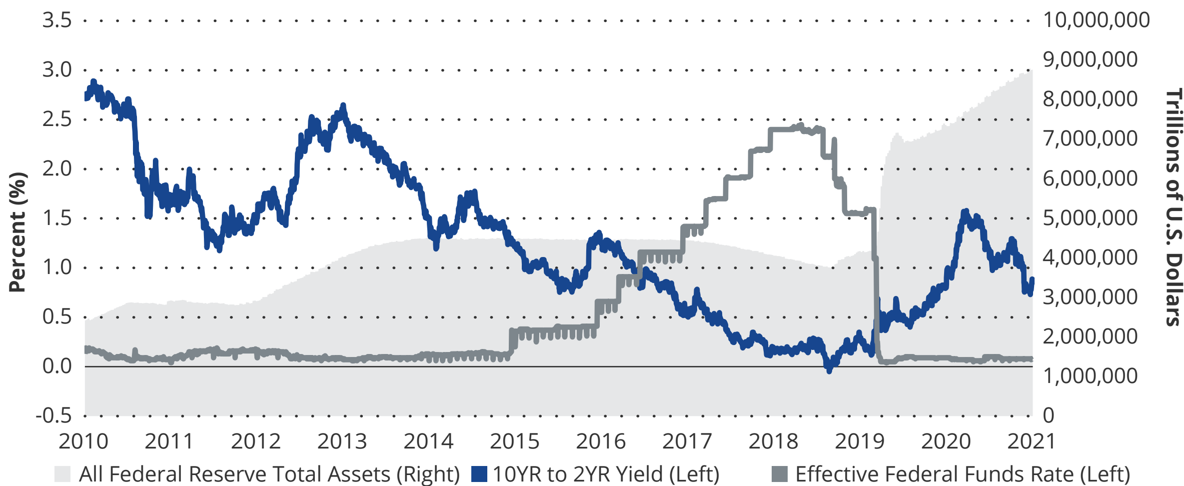
January saw continued Emerging Market Foreign Currency ("EMFX") stability, despite weakness in credit and rates in general. We still view this outperformance as a counter-trend rally, especially given our view on China and Chinese Yuan Renminbi ("CNY") weakness. However, Euro-based currencies could have deeper support given growth trends – we have increased exposure there, but we wouldn't characterize it as "risk-on" or even "U.S. Dollar ('USD') down".

We continue to have low local-currency exposure with 66.3% of the Fund in USD-denominated debt, duration of 5.49 and are generating around 5.3% carry[1], despite such defensive positioning. Brazil, South Africa, Malaysia, Mexico and China are the Fund's largest positions.

We see a hawkish Fed pushing up the entire yield curve as the key initial asset-price driver for 2022; it might be priced in months, but it's the first big thing. Perhaps most importantly, the curve has flattened significantly, with 2-Year treasury note yields up around 70 basis points ("bps") in January compared with 10-Year yields that were up around 40bps. There are two possible implications that flow from this. First, the relative anchoring of the 10-Year (and 30-Year) indicates a market still cautious on long-term growth. Second, the sharp rise of 2-Year yields should have boosted the U.S. dollar, but didn't. Our view remains that EMFX will be challenged by CNY and risk of further rate rises in the developed markets ("DM"). We also believe that it would be wrong to think of price action as "USD weakness" or "risk-on". We see it as Euro-strength based on improved relative growth outlooks. This has boosted Euro-related currencies, but these are not typical high-beta currencies one often associates with emerging markets ("EM"). This is an important distinction, we believe. We have more EMFX, currently, but it is because of the Euro-based countries themselves, not anything broader like "USD down".

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 3.94% as of 1/31/2021.

Exhibit 1 – In 2015-19, Raising the Policy Rates before Reducing the Balance Sheet Flattening the Yield Curve

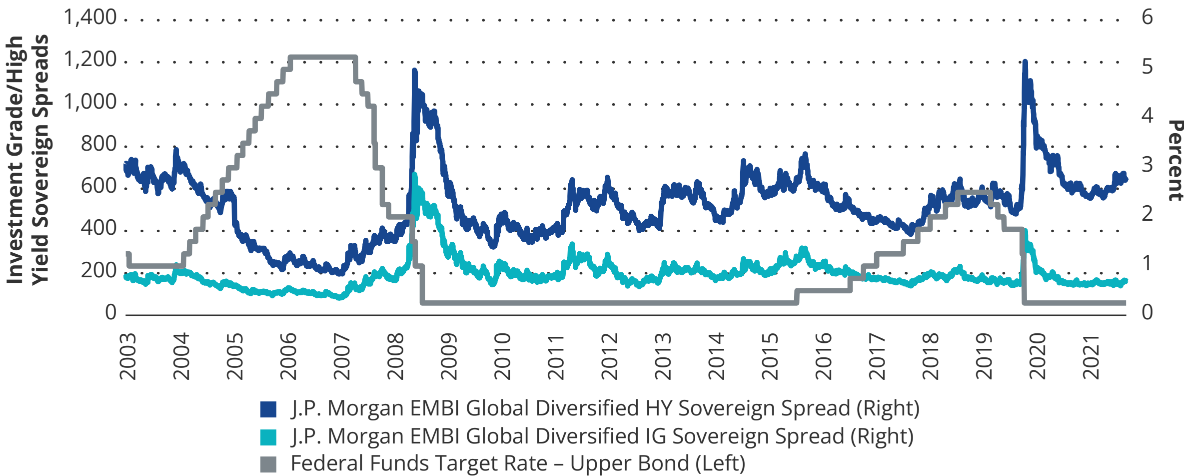


Note: Blue line shows the spread between the 10-year and two-year nominal interest rates, a proxy for the slope of the yield curve.
Source: Board of Government of the Federal Reserve System (Haver Analytics); Bloomberg LP. Data as of January 7, 2022.

We also think that the seeming collapse in popular support for the Democrats is a market risk; when and if fiscal stimulus is "needed" by the market, perhaps as a result of the U.S. Federal Reserve (the "Fed") tightening, we don't expect it to materialize. Nobody seems to agree with us on this point, and our sense is that nobody wants to get into discussions about politics…even if the entire exercise is purely aimed at analyzing market implications. It's funny how political risk is a normal discussion point for market analysis of almost any country on earth…but never when it's your own advanced nation. Then, of course, your side is all good and the other side is all bad. Our take-away (from this general unwillingness to discuss politics) is that this makes such political risk even more impactful. Anyway, practically, this translates into a risk of a clash between an inflation-focused Fed and any need for "stimulus" in the future. Washington DC (i.e. seat of U.S. government) won't be doing it, so the Fed will be forced to, eventuality. **This means the onus will be on a newly-inflation-focused-Fed-how quickly can they pivot back? … We believe there will be volatility and uncertainty ahead!**

Hawks can soar, too, and we see three key reasons to be bullish EM debt. First, the ability of EM to repay USD-denominated liabilities is very strong. In previous monthlies we've shown EM economies' secular run of current account surpluses. Many are net creditors, even. Most EM countries have very strong U.S. dollar credit quality. Second, Exhibit 2 below shows, we think, that spreads are at the wide end of their range other than during the global financial and COVID crises. It also shows that high yield ("HY") spreads are especially wide to investment grade ("IG") spreads.

Exhibit 2 – EMBIG Spreads at Wides, Excluding GFC and Covid Crises



Source: Bloomberg. Data as of February 10, 2022.

Third, there are a number of uncorrelated and high-spread bonds that can turn the performance dial meaningfully. That's where our portfolio is focused. Some examples of the USD-denominated bonds with high spreads are as follows. We have around 1.9% of the portfolio in El Salvador bonds yielding from 8% - 14%. We have 4% of the Fund in government-owned Pemex bonds yielding from 6% - 8%. We have about 2.7% of the Fund in Ecuador bonds with a yield of 10% (and it's under an IMF program). We have about 2.6% of the Fund in Argentina, with a 16% last month. We also have 4.6% exposure to the Chinese property sector, many of whose prices are distressed. These are examples of bonds with high spreads whose performance will largely be driven by their credit quality, not by global correlations.

Be selective. Local currency starts 2022 strong and we see signs of stabilizing credit spreads. Countries with bottom-up drivers are also rallying, despite continued uncertainty. China property and Argentina come to mind. Nonetheless, the key will be selectivity. Even the strength in local currency was driven largely by the Euro, so it is definitely not an "all clear" sign for risk. Could the U.S. and Europe hold the growth batons, with China struggling? Sure looks like it. This could be bullish for the USD and Euro. And, if it results in Chinese currency weakness, this will have a critical impact on emerging markets foreign currency. Recall in our September 2021 piece "China's Evergrande Collapse Is Spreading" that our main conclusion (other than that the crisis was spreading, but wouldn't result in a financial crisis) was CNY weakness. We still have that view (and we should note that the property sector itself looks very attractive and is in our portfolio). Be selective.

The Fund performed in line with its benchmark in January. The Fund was down 1.39%, while its benchmark was down 1.43%. The benchmark details were interesting, though, with the hard currency component (EMBIG) down 2.85% and the local currency component flat, down just 0.1%. A couple things are noteworthy. First, the Fund performed in line, despite having a very small allocation to EM local currency. This seems very consistent with being selective. Our bigger exposures in local currency are either high-yielders that have a lot of cushion for the current environment (Brazil and South Africa, for example), or low-yielders that have defensive characteristics (Malaysia, Philippines and Central Europe, for example). Second, though, the fact that EMFX did relatively well in a January marked by a sharp treasury yield selloff is remarkable. Our view is that it is a countertrend rally and the truth is in being selective, as we've noted. But, it is still remarkable and we should take note.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in January: Brazil, South Africa, Malaysia, Mexico, and China:

- We increased our hard currency corporate exposure in China — specifically more distressed real estate developers. Valuations now look very attractive, but importantly, authorities are now giving SOEs more freedom to buy assets from troubled builders. Further, some developers are moving towards reaching deals with creditors. A general policy easing backdrop – which is set to continue in the foreseeable future - is helpful as well. In terms of our investment process, this improved the policy test score for the country.
- We also increased our local currency exposure in Poland, Hungary, Brazil, and South Africa. The general reason was boosting out European exposure going into the U.S. Federal Reserve's first rate hike (currently expected in March). As regards country-specific reasons, Poland's high inflation (nearly 3 standard deviations above the multi-year average) will ensure that the central bank stays hawkish. Hungary started its tightening cycle earlier, but additional rate hikes are needed to tame inflation. In terms of our investment process, this improved the policy and technical test scores for both countries. Our reasoning in South Africa was driven by better fiscal outturns on the back of stronger growth. The central bank is very credible and already started its gradual policy normalization (even though there is no runaway inflation). The local yield curve is extremely steep and valuations are attractive. In terms of our investment process, this strengthened all three test scores for the country – economic, policy, and technical. Brazil's ex-ante real policy rate is now the highest in EM, while the central bank is way ahead of the curve — against the prospect of strong disinflation in H2. Meanwhile, local rates sold off a lot, making valuations very attractive. These factors improved Brazil's technical, and policy test scores.
- Finally, we increased our hard currency corporate exposure in India and Mexico. In Mexico, we had to adjust the country exposure, but the sovereign option did not look very attractive. In India, the corporate bond in question was a new attractively priced issue (the highest initial allocation Bucket 1), and it also allowed us to get exposure to India's growing green energy theme.
- We reduced our hard currency sovereign exposure in Qatar, Saudi Arabia, and United Arab Emirates. The common theme for all three countries is a very low spread-to-yield ratio, which effectively makes the bonds in question a proxy for U.S. Treasuries in a situation when the market continues to price in more and more frontloaded rate hikes in the U.S., posing risks for longer duration. In addition, Qatar moved down in out valuation metric. In terms of our investment process, this worsened the technical test score for these countries.

- We also reduced hard currency sovereign exposure in Israel and hard currency corporate exposure in Tanzania. The reasons were very similar – reducing the portfolio's exposure to instruments that had little spread "cushion" over so-called risk-free rates and which could be disproportionately affected by the U.S. Federal Reserve's hiking cycle (at least initially).
- Finally, we reduced hard currency sovereign exposure in Egypt, where valuations were getting really stretched (the lowest initial allocation Bucket 4). In addition, there are currently no discussions about an imminent IMF agreement, which could be a potential positive catalyst for the country's debt. In terms of our investment process, this worsened the technical and policy test scores for Egypt.

Average Annual Total Returns (%)

As of January 31, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-1.39	-3.25	-1.39	-5.19	3.96	3.96	2.09
Class A: Maximum 5.75% Load	-7.06	-8.81	-7.06	-10.64	1.93	2.74	1.46
Class I: NAV (Inception 7/9/12)	-1.31	-3.19	-1.31	-4.89	4.22	4.23	2.38
50 GBI-EM GD / 50% EMBI GD	-1.43	-2.26	-1.43	-5.65	1.89	3.11	2.26

As of December 31, 2021	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	0.12	-1.94	-4.57	-4.57	6.18	4.59	2.26
Class A: Maximum 5.75% Load	-5.63	-7.58	-10.06	-10.06	4.10	3.36	1.62
Class I: NAV (Inception 7/9/12)	0.02	-1.93	-4.30	-4.30	6.50	4.87	2.55
50 GBI-EM GD / 50% EMBI GD	1.48	-1.49	-5.30	-5.30	4.04	3.79	2.44

† 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 and 0.95% for Class I. 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.

International Monetary Fund (IMF) is an international U.S.-based organization of 190 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.

Broad based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index. Past performance is no guarantee of future results. The 50% GBI-EM/50% EMBI benchmark ("the Index") is a blended index consisting of 50% J.P Morgan Emerging Markets Bond Index (EMBI) Global Diversified and 50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM). The J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified tracks local currency bonds issued by Emerging Markets governments. The index spans over 15 countries. The J.P Morgan Emerging Markets Bond Index (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. Information has been obtained from sources believed to be reliable but J.P. Morgan does not warrant its completeness or accuracy. The Index is used with permission. The index may not be copied, used or distributed without J.P. Morgan's written approval. Copyright 2014, J.P. Morgan Chase & Co. All rights reserved. The J.P. Morgan Corporate Emerging Market Bond Index series (CEMBI) track USD denominated debt issued by emerging market corporations. The Bloomberg Barclays Global Aggregate Bond Index is a measure of global investment-grade debt performance. The Barclays Capital U.S Corporate High-Yield Bond Index is composed of fixed-rate, publicly issued, non-investment grade debt. Barclays Capital US Corporate Investment Grade Index consists of publicly issued, fixed rate, nonconvertible, investment grade debt securities. The Barclays Capital US Treasury Index is an unmanaged index of public obligations of the U.S. Treasury with a remaining maturity of one year of more. The MSCI All Country World Index is an unmanaged, free float-adjusted market capitalization weighted index composed of stocks of companies located in countries throughout the world. It is designed to measure equity market performance in global developed and emerging markets. The index includes reinvestment of dividends, net of foreign withholding taxes. The S&P 500 Index® (SPX) includes 500 leading companies in the United States and captures approximately 80% coverage of available market capitalization. The Citi inflation surprise index Emerging Markets measures the level of actual inflation compared with inflation expectations in emerging markets. The Citi Emerging Markets Economic Surprise Index measures the degree to which economic data is either beating or missing expectations in emerging markets. The 10-Year Bund Yield Index measures Germany 10-Year government bond. The 10-Year UST Index measures U.S. 10-Year treasury notes.

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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. Past performance is no guarantee of future results.

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