

A Picture Is Worth a Thousand Words

By Eric Fine, Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX / EMBUX / EMBYX

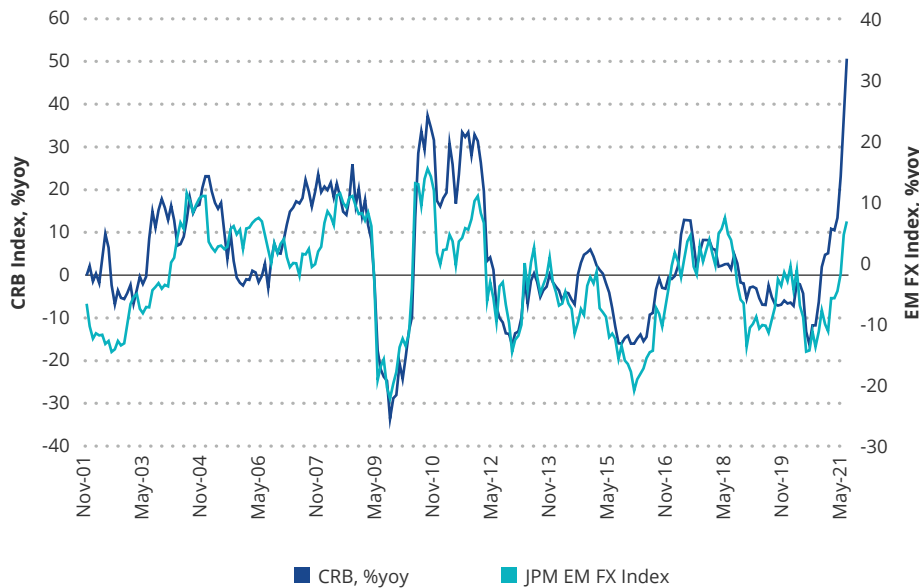
Market Review

The Fund was up 3.13% in April, outperforming its benchmark by 89bp. YTD, the Fund was down -0.62%, compared to down -3.49% for its benchmark. In April, Ecuador generated outperformance, as did our ongoing overweight exposure to China’s local currency bond market. A lack of exposure to Brazil’s local currency market was an additional key contributor to YTD outperformance versus the Index. Our exposure to Mexico’s local currency market also boosted YTD outperformance versus the Index.

We have even greater confidence in our view that emerging markets (EM) – especially EM local currency – is about to be boosted by a unique and powerful combination of tailwinds. As we wrote in our [IMF Key Takeaways](#) (Spring 2021 edition), the market is too bearish on EM debt, and is already discounting higher rates to a great extent.

A picture – of commodity prices and EMFX – is worth a thousand words. EM debt and EMFX are lagging other asset prices which are at record highs. EMFX is also lagging commodity prices fairly significantly. This will be harder to ignore over the coming months, with the likely release of positive data. Please see below for the chart on EMFX lagging commodities.

Commodity Prices and EM FX



Source: VanEck Research. Data as at May 2021. The Commodity Research Bureau (CRB) Index acts as a representative indicator of today’s global commodity markets. It measures the aggregated price direction of various commodity sectors.

Say hey to May. May can be an important month. It's when many managers of risky bonds ask themselves "what will September look like?" If the answer is "pretty nice", which we think it will be, you have to have exposure to yield ("carry") in the intervening months.

We end April with carry of 5.1%, duration of 5.6 and above 50% of the Fund in local currency. Also, we have reversed our zero-exposure to Brazil local currency bonds. We are doing this because a) the bonds cheapened significantly; and b) the government has agreed to a band-aid solution that will nonetheless keep fiscal worries at bay for a while. We are more open-minded on duration again this month. For most of this year, we have had low duration, which was an important contributor to YTD outperformance versus the Index. We are now open to a range-bound treasury market for the coming weeks or months. Given bearish positioning, based on a continuation of treasury selloffs, we're now more comfortable with a closer-to-neutral stance and an open mind.

Exposure Types and Significant Changes

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

- We increased our local currency exposure in Peru and Colombia. Peruvian assets were hit hard by the far-left candidate's surprisingly large lead in the first round of the presidential elections. The subsequent developments showed that the selloff was likely overdone. The candidate in question said that he will respect the constitution and the central bank's independence. There are also significant institutional barriers to changing the constitution. There are also signs that the state-owned oil company will not be allowed to default and is likely to be supported by the government a-la Mexico's Pemex. In terms of our investment process, this improved the technical test score for the country. Colombia's technical test score improved after a major selloff following President Iván Duque Márquez's (Duque) decision to recall the tax reform bill. The setback was disappointing, but Duque pledged to put together a new proposal and work with the congress to avoid a rating downgrade.
- We increased our hard currency sovereign exposure in Ecuador and Tunisia. Ecuador's economic outlook brightened after the presidential elections. Particularly in regards to fiscal consolidation and getting support from the IMF. The ratification of the framework trade agreement with the U.S. is a welcome sign. Ecuador is also likely to benefit from the improving global environment. In terms of our investment process, this improved the economic and policy test scores for the country. In Tunisia, we see stronger political support for engagements with the IMF and the World Bank. Talks between the government and trade unions about the reform agenda are particularly encouraging – as this will be key for an IMF program and for the country's overall development. In terms of our investment process, this improved Tunisia's technical test score.
- Finally, we increased our hard currency, quasi-sovereign exposure in Uzbekistan and hard currency corporate exposure in Jamaica. The Uzbek economy is recovering really well after the pandemic. The government's fiscal stance remains prudent, while a stable stream of remittances provides an important safety net. These were important considerations for the new sovereign issue (in addition to attractive valuations). In terms of our investment process, this improved the country's economic and policy test scores. As regards Jamaica, we were watching this corporate for some time, hoping for a turnaround. The recently announced possible asset sale might prove to be such future catalyst.
- We reduced our local currency exposure in Indonesia and Mexico, and hard-currency quasi-sovereign exposure in Mexico. The main concern in Indonesia is that the second wave of the COVID virus and delays in vaccinations can dampen the growth outlook and negatively affect fiscal performance. In terms of our investment process, this worsened the economic test score for the country. In Mexico, we sold a longer-dated local bond that was not trading well amidst duration concern, and also sold a USD-denominated longer-dated Pemex bond as we needed cash for other purchases. Our investment process reflected the worsened technical test score for the country.

- We also reduced hard currency sovereign exposure in Angola, despite the fact that higher oil prices marginally improve the growth outlook. Concerns about Angola’s debt sustainability refuse to go away, and this worsened the economic test score for the country.
- We also reduced hard currency corporate exposure in China, Hong Kong and Ukraine. As regards China and Hong Kong, our decision reflected growing concerns that the developments surrounding the financial conglomerate Huarong will spill over into other high yield bonds. We also sold one particular real estate developer bond due to concerns about governance and transparency. This included delays with releasing information and performance numbers. The issues were eventually resolved and the bond rallied, but as a result, there was more downside to the price going forward. As regards Ukraine, we reduced the overall country exposure due to higher geopolitical risks and the Ukraine-Russia tensions.

Fund Performance

The VanEck Emerging Markets Bond Fund (Class A shares excluding sales charge) gained 3.13% in April, outperforming its benchmark, 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, by 89bp. Year-to-date, the Fund is down -0.62%, while the Fund’s benchmark is down -3.49%. On a country level, Ecuador, Suriname and Brazil contributed to relative performance Year-to-date, whereas Turkey, Indonesia and Chile detracted.

Average Annual Total Returns (%) as of April 30, 2021

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	Life
Class A: NAV (Inception 7/9/12)	3.13	0.13	-0.62	33.71	5.55	2.91
Class A: Maximum 5.75% Load	-2.80	-5.63	-6.33	26.02	4.31	2.22
50 GBI-EM GD / 50% EMBI GD	2.24	-2.44	-3.49	13.63	4.14	2.85

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

	1 Mo†	3 Mo†	YTD	1 Yr	5 Yr	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
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 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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