

Where to Hide?



Eric Fine

Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX

EMBUS

EMBYX

Overview

The Fund outperformed 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), by 47 bps in March. The Fund returned -0.74%, while its benchmark returned -1.21%. Year-to-date ("YTD"), the Fund returned -4.06%, compared to -8.24% for its benchmark, translating into 418 bps of outperformance for the Fund.

The outperformance during the month was due to the Fund continuing not to own Russian securities, which have, as the end of March, now been excluded from the main Emerging Markets ("EM") bond indices that make up the Fund's benchmark. Our overweight to Brazil local currency was the second biggest cause of outperformance in March.

At the end of March, we increased our local-currency exposure to around 45.6%, had low duration of 5.4, and generated around 5.7% carry¹. We like local currency that benefits from commodity prices. We see low duration and high carry as the other portfolio answers. This way, we think the Fund can generate carry with upside risk, in a generally challenging market for all asset prices. Brazil, South Africa, Indonesia, Malaysia and Mexico were the Fund's largest country exposures.

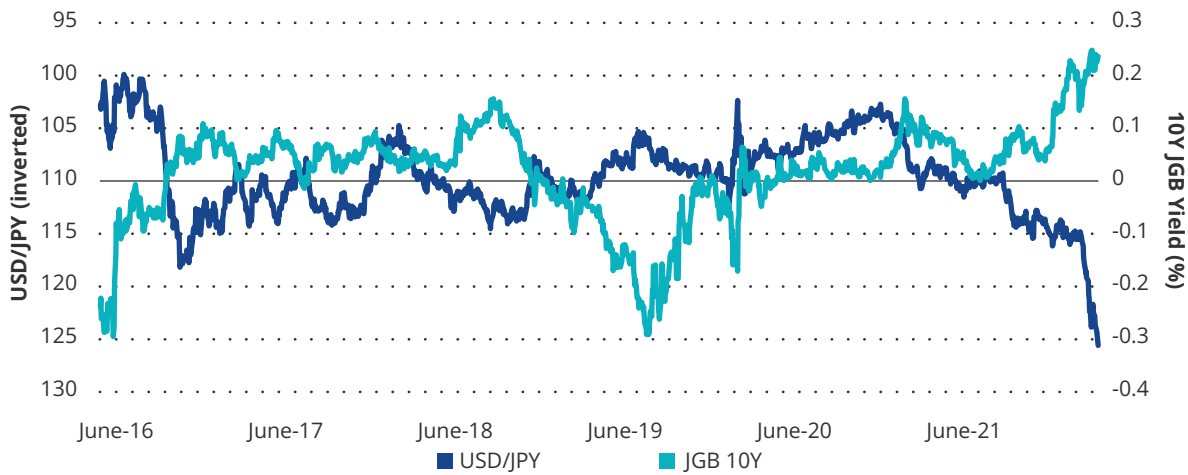
Higher interest rates and risks to growth make it a challenging environment for all asset prices; thankfully and unlike most asset prices, Emerging Markets debt has attractive ways to cope. Higher interest rates, driven by a U.S. Federal Reserve ("Fed") still just warming up to its inflation fight, is a challenge for all investment grade ("IG") and low-risk bonds. Rising recession risk is a challenge for all high yield ("HY") and high-risk bonds. Where to hide? We explain below that we still like emerging markets local currency debt backed by commodity exports and supported by high real interest rates. For USD-denominated bonds, we favor a combination of high yield and low duration that generates carry with lower correlation to the two big challenges (higher rates and lower growth).

Rates are pushing higher, led by an inflation-focused Fed, challenging all duration. As we've argued in previous monthlies, the politics around interest rate policy have changed. Inflation is the focus, and the Fed has pivoted. Just 6 months ago, the market was pricing 35 bps of rate hikes during 2022, and today it is pricing 222 bps. With inflation running at 7.9% year-on-year, and with owner's-equivalent-rent still lagging real estate prices, we don't see an obvious end to the inflation trend in sight yet.

Moreover, there's a big warning from the country that first experimented with money – Japan. The currency is weak and interest rates are under upward pressure (Exhibit 1, below). We think the central bank will be forced to raise the current ceiling on bond yields. Importantly, Japan is more sensitive to imported inflation, so there's no obvious stop to what is so far a self-reinforcing spiral. G-10 rates have been very correlated (Exhibit 2, below), so this may not be an isolated development and fits into a trend of globally higher interest rates.

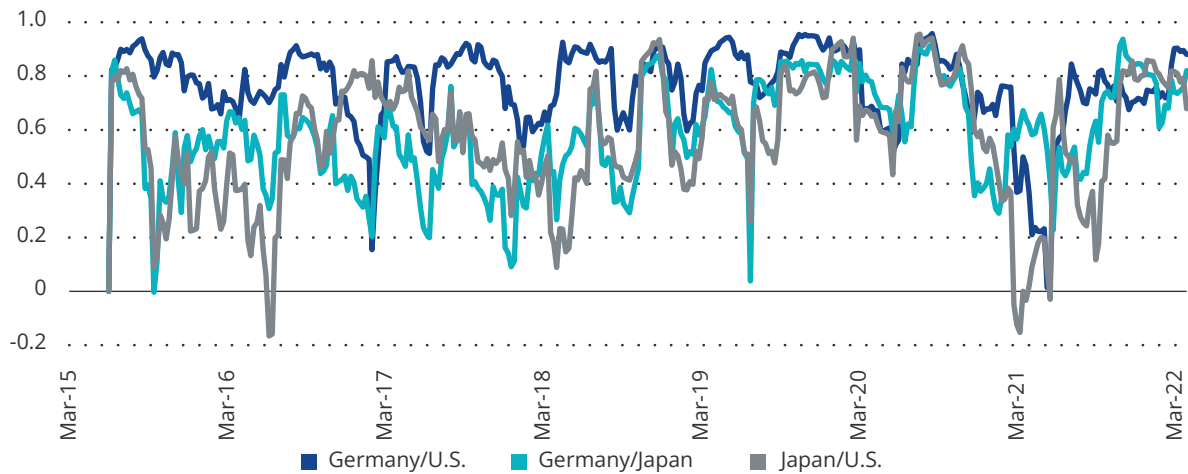
¹ Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 6.18% as of 3/31/2022.

Exhibit 1 – Yen Weaker, Rates Higher – Rate Ceiling Cracking?



Source: Bloomberg. Data as of March 31, 2022.

Exhibit 2 – G10 Interest Rates Correlated



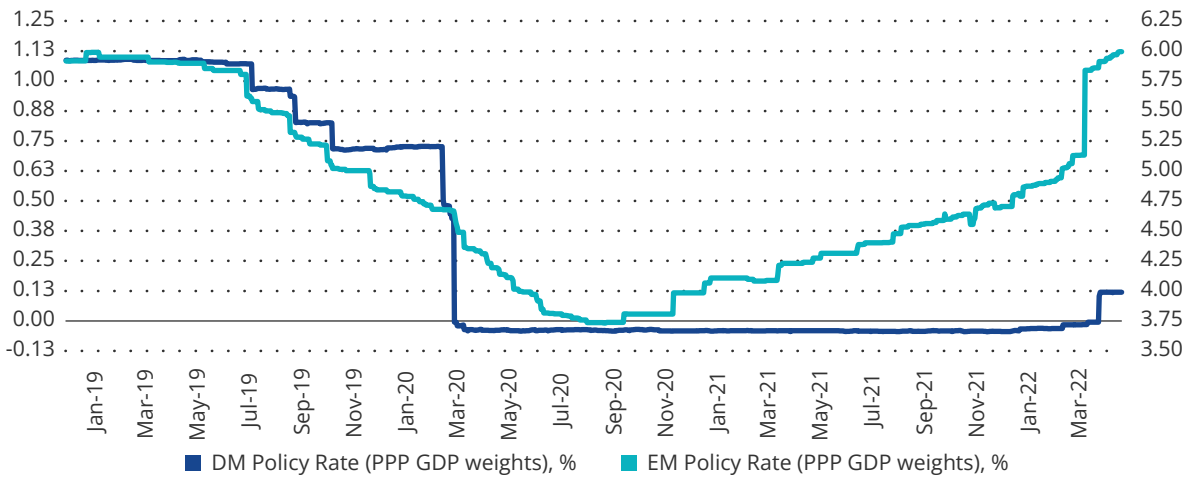
Source: VanEck Research, Bloomberg. Data as of March 31, 2022.

And the world seems to be counting the months to a recession, making risky asset prices vulnerable. It is hard for equity multiples to increase in rising rate environments. The Fed is, for the first time in four decades, embarking on an anti-inflationary path with the policy rate at 0.33% and CPI at 7.9%. Russia’s Ukraine invasion is keeping commodity supply at risk. The U.S./China divorce continues apace, with a market reluctant to take on its implications. And if there’s a Black Swan² out there, it could be China and its reaction to the latest COVID outbreak (remember COVID?). Throw in a Biden administration that appears to have lost political support and it means no chance of fiscal support when/if recession hits. That’s adverse to virtually all asset prices, as the year has borne out. But, EM debt has answers.

The good news is that EM debt has great opportunities in this environment – EMFX benefits from commodity prices, and there are plenty of high-yielding, but short-duration dollar-denominated bonds. Exhibit 3 below shows EM interest rates versus developed markets (“DM”) interest rates. EM rates have acted more and earlier than DM. And, Exhibit 4 shows that EMFX has not caught up with the rally in commodity prices. This is why we have roughly half the portfolio in EMFX, though selectively in commodity-producers such as Brazil, South Africa, Indonesia and Malaysia.

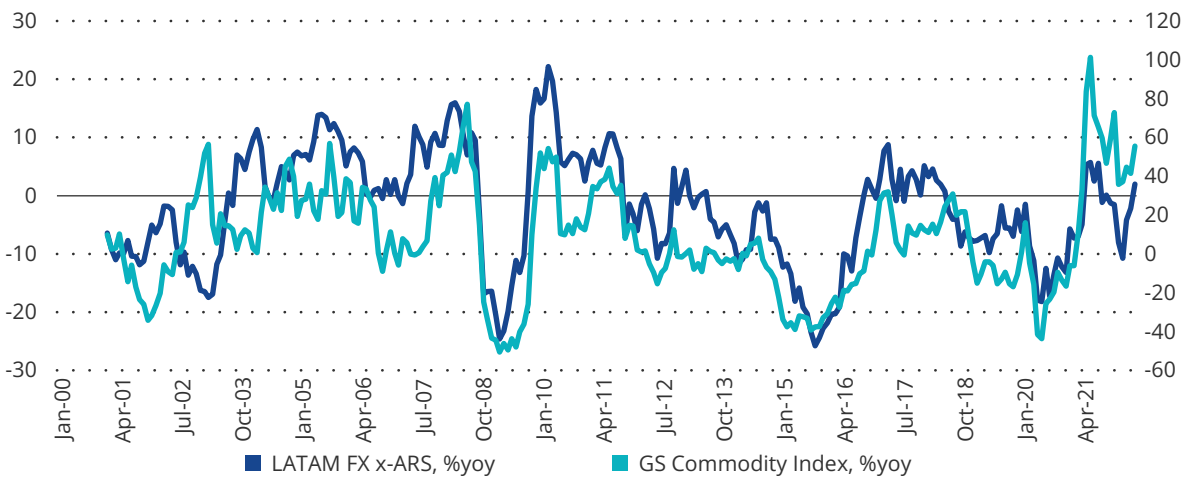
² A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight.

Exhibit 3 – EM Rates Higher and Earlier than DM



Source: VanEck Research, Bloomberg. Data as of March 31, 2022.

Exhibit 4 – LATAM EMFX Lagging Commodity Prices!



Source: VanEck Research, Bloomberg. Data as of March 31, 2022.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in March:

- We increased our local currency exposure in Indonesia, Peru and Poland. We feel that a lot of negativity associated with the Russia/Ukraine war and its impact on Central Europe had already been priced in, and this improved the technical test score for the country. Peru and Indonesia are considered “commodity” economies, and local assets should be expected to benefit from the conflict’s impact on commodity prices. In terms of our investment process, this improved the technical test scores for both countries.
- We also increased our hard currency sovereign exposure in Ghana and Tunisia. Tunisia’s IMF program is a major positive catalyst for sovereign bonds, which have been underperforming so far this year. Ghana’s approval of an e-levy is revenue-positive (albeit more short-term), and it signals that authorities are serious about dealing with fiscal challenges. In terms of our investment process, this improved the policy test scores for both countries.

- Finally, we increased our hard currency sovereign exposure in Jamaica, Romania and Saudi Arabia. Saudi Arabia is among the countries that stand to benefit from higher oil prices as a result of the Russia/Ukraine war. Jamaica's duration became cheap, while the post-COVID reopening should result in more tourist arrivals/revenue. In terms of our investment process, this improved the technical test score for both countries. As regards Romania, we had to stay within our risk limits, but we switched out of local debt due to concerns about insufficiently hawkish (proactive) central bank.
- We reduced our hard currency sovereign exposure in Ukraine, Sri Lanka and El Salvador. We felt that the upside for Ukraine's sovereign bonds was limited due to uncertainty about the ceasefire talks before May 9, which worsened the policy test score for the country. In Sri Lanka, the political and economic situation is really dire, the IMF declared its debt burden "unsustainable", and the chances of repaying the sovereign bond maturing in July are falling by the day. In El Salvador, President Nayib Bukele's decision to declare the state of emergency (due to gangs' violence) worsened the policy test score for the country, against the backdrop of challenging credit metric.
- We also reduced our local currency exposure in Thailand and Singapore in order to Fund higher-yielding regional bonds that are expected to benefit from higher commodity prices and supply chain disruptions caused by the Russia/Ukraine war (unlike Thailand or Singapore). In terms of our investment process, this worsened the technical test score for these countries.
- Finally, we reduced hard currency sovereign exposure in South Korea, and hard currency corporate exposure in China and Brazil. Our decision in South Korea was driven by the same considerations as Thailand and Singapore. In Brazil, we finally moved to sell corporate bonds (at better prices) as Funders for local bonds that we bought a couple of weeks ago. In China, we decided to further reduce exposure to real estate developers due to mounting regulatory risks, the very conservative approach to additional policy support and the new COVID flare-up which led to the new lockdowns. In terms of our investment process, this worsened the policy and economic test scores for the country.

Average Annual Total Returns (%)

As of March 31, 2022	1 Month [†]	3 Month [†]	YTD	1 Year	3 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-0.74	-4.06	-4.06	-5.00	2.75	2.64	1.77
Class A: Maximum 5.75% Load	-6.45	-9.58	-9.58	-10.46	0.74	1.43	1.15
Class I: NAV (Inception 7/9/12)	-0.84	-4.01	-4.01	-4.79	3.06	2.92	2.05
50 GBI-EM GD / 50% EMBI GD	-1.21	-8.24	-8.24	-7.95	-0.51	0.99	1.47

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 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.

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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 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 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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Goldman Sachs Commodity Index (GSCI) is a world production-weighted commodity index comprised of 24 liquid exchange-traded futures contracts. LATAM FX x-ARS Index is a custom-created equal-weight currency index comprising the nominal exchange rates of the following LATAM currencies against the U.S. Dollar - Brazilian real, Mexican peso, Chilean peso, Colombian peso, and Peruvian sol. The values are normalized with 31 December 2017 =100.

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. Past performance is no guarantee of future results.

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