FEBRUARY 2025

Tarrified? Navigating EM Bonds in 2025

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> Tariff risks are being priced differently across countries, with Mexico facing one-off shocks and China in a tit-for-tat cycle.

The **VanEck Emerging Markets Bond Fund** was up 2.09% in January, compared to 1.74% for its benchmark. The Global Agg and 10-year Treasuries were up in January by only 0.54% and 0.59%, respectively. The decades-old story of emerging market (EM) bonds outperforming developed markets (DM) continues in 2025!

During January, Turkey and Ecuador local currency were winners. Importantly, *not* owning Mexico in 2024 was a big winner for the fund, but owning Mexico in 2025 has *also* been a winner for the fund. Country-specific views will remain more important than top-down *anything*. We increased duration further, as telegraphed, and remain happy with an overweight relative to our benchmark. High yield sovereigns remain our hunting ground in USD, but we added some investment grade sovereigns in the Gulf to capture U.S. rate rallies.

A nimble approach to Mexico and Colombia are the high-betas we are attracted to in local currency. Carry is 7.7%, yield to worst is 9.0%, duration is 6.6, and local makes up around 47% of exposure. (The fund was nimble into the end of January, taking profit in many high-flyers in local currency, with the intention of re-establishing early in February. Expect local to increase. This is not regular behavior for the fund, but simply reflects nimble incorporation of recent market conditions.)

Average Annual Total Returns* (%) (In USD)

As of January 31, 2025	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 07/09/12)	2.25	-0.32	2.25	5.92	2.85	2.53	1.95
Class A: Maximum 5.75% load	-3.63	-6.05	-3.63	-0.17	0.84	1.32	1.34
Class I: NAV (Inception 07/09/12)	2.09	-0.29	2.09	6.14	3.17	2.86	2.25
Class Y: NAV (Inception 07/09/12)	2.27	-0.25	2.27	6.26	3.09	2.77	2.19
50% GBI-EM/50% EMBI	1.75	0.37	1.75	5.13	0.17	-0.50	1.95

As of December 31, 2024	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 07/09/12)	-1.83	-5.05	2.52	2.52	1.61	2.21	1.87
Class A: Maximum 5.75% load	-7.48	-10.51	-3.38	-3.38	-0.37	1.00	1.27
Class I: NAV (Inception 07/09/12)	-1.62	-4.93	3.09	3.09	2.01	2.54	2.20
Class Y: NAV (Inception 07/09/12)	-1.81	-5.14	2.84	2.84	1.86	2.44	2.11
50% GBI-EM/50% EMBI	-1.66	-4.48	2.01	2.01	-0.88	-0.83	1.84

* Returns less than one year are not annualized.

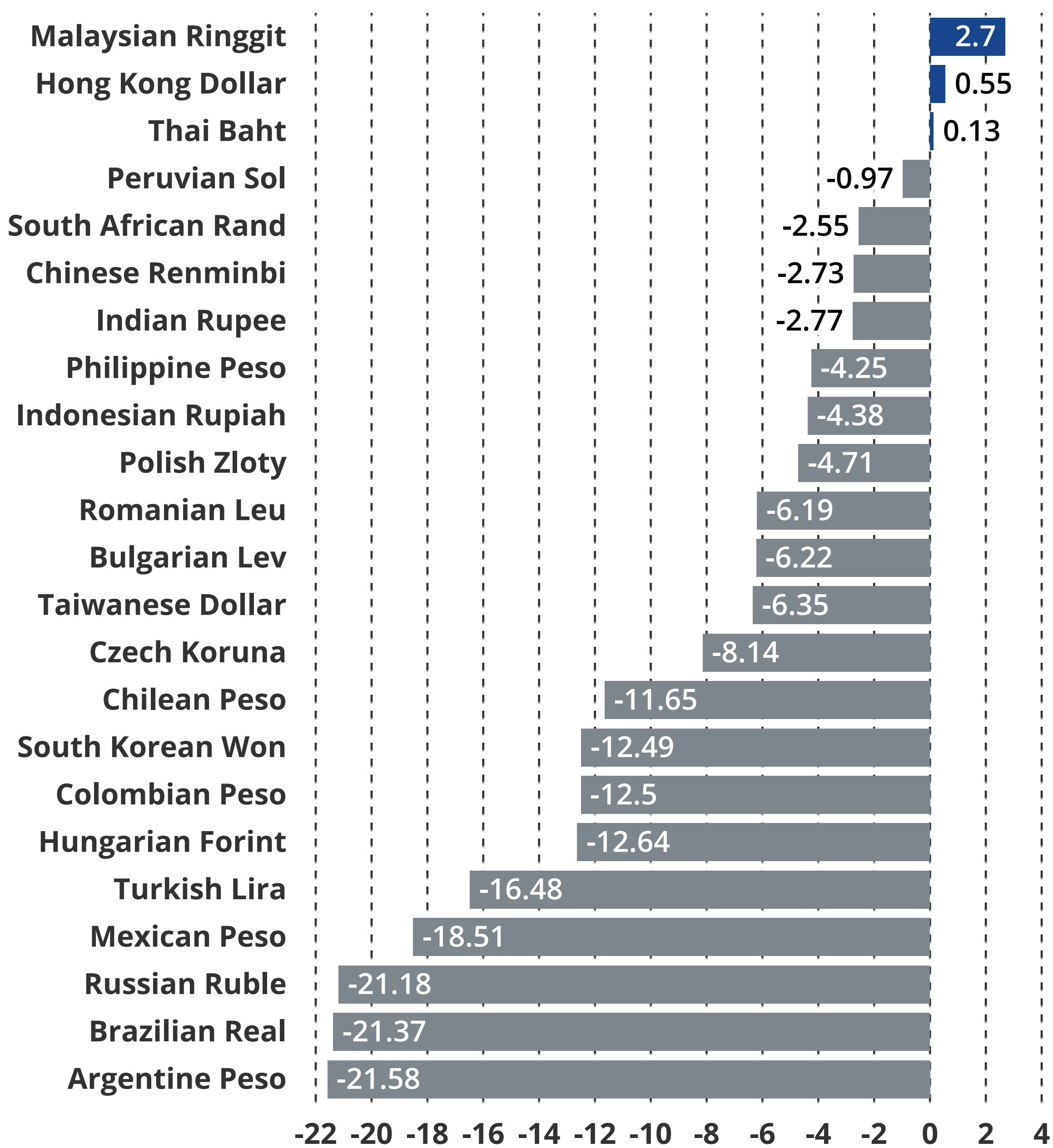
Expenses: Class A: Gross 2.08%, Net 1.21%; Class I: Gross 1.34%, Net 0.86%; Class Y: Gross 1.35%, Net 0.96%. Expenses are capped contractually until 05/01/25 at 1.20% for Class A, 0.85% for Class I, 0.95% for Class Y. Caps excluding acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes, and extraordinary expenses.

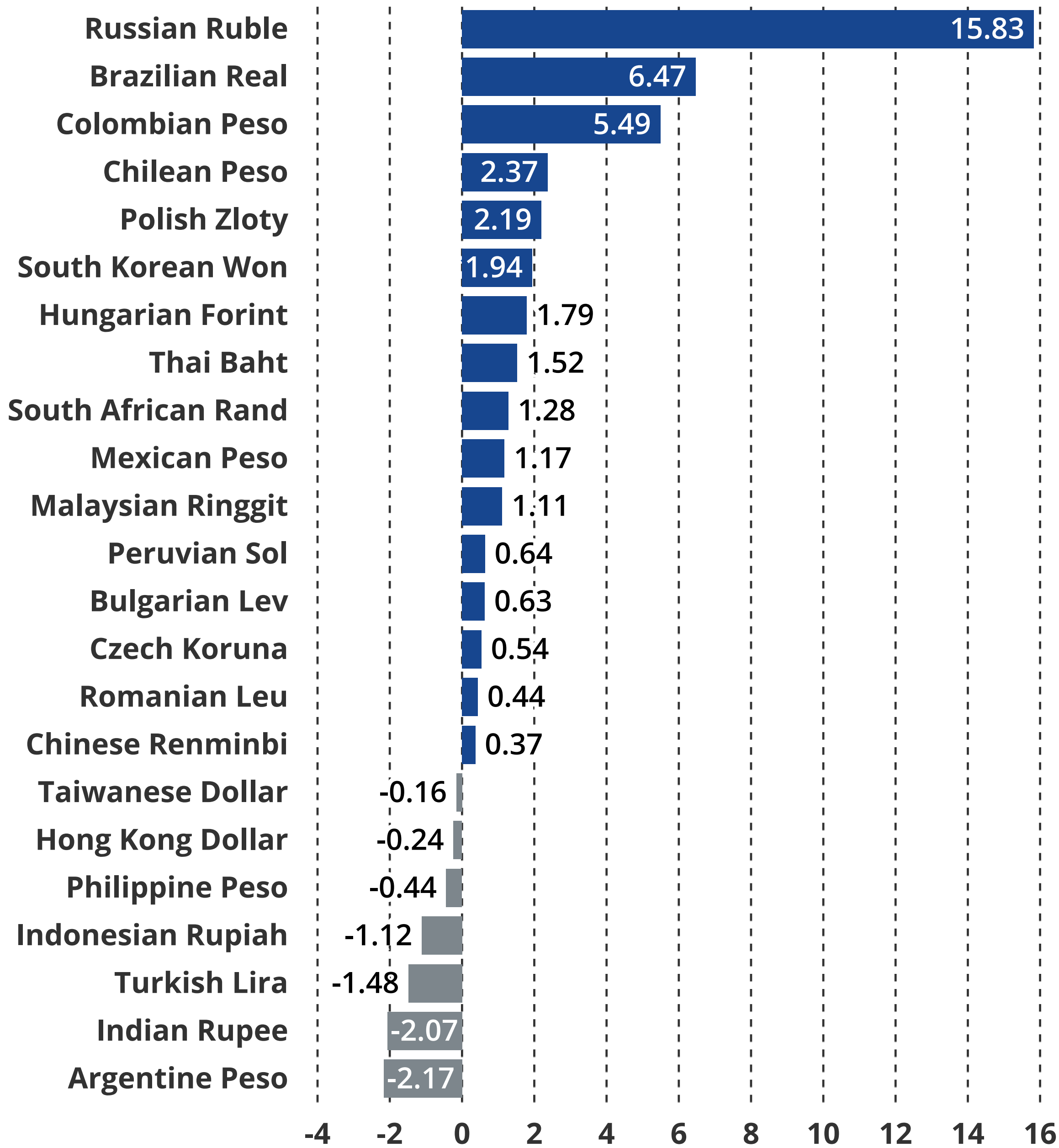
The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance may be lower 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.

U.S. tariff risks are not monolithic and may even be priced. Some countries – Mexico and Colombia, for example - seem to have been subject to one-off massively asymmetric games of chicken. Emphasis on one-off. Other countries, such as China, appear subject to multi-round games of Tit-for-Tat. The tariff trade is getting priced one country at a time, not monolithically. Even so, we ultimately see an agreement with China that keeps CNY stable, which is key to EM and the world. On the games of chicken, their power asymmetry (for example U.S. versus Mexico, over a third of whose economy is U.S. exports?) is very consistent with these being close to "one-off". Barring knowledge or other such failures. This is important, game-theoretically, obviously, because it could be over already. All we'll say is MXN and Mbonos in particular have been a strong package since tariffs were both announced and delayed by a month! Even in China, though there was a targeted tariff reaction, it was targeted and excluded contentious soybeans. Most importantly, the big message from the government was via CNY and was consistently one of stability! As we've reported, and it can't be re-emphasized enough, the daily CNY fixes have remained stronger than the bank-predicted fixes (which are based on imputed models of CNY's currency basket). We don't bore you with those charts this month. Instead, just look at the two charts below. Two very simple points. First, since we're talking about China, can you even find CNY in the charts? Exactly – in a massively bearish EMFX world of 2024 it was basically unchanged, and ditto in the massively bullish EMFX world of January 2025. You'd almost think China was an anchor… which is our view (Of course, investing around a view is more complicated). Second, there's a narrative – not more, but our job is to survive the twists – that has 2024 already pricing in a lot of tariff uncertainty. We'll stick to our portfolio as explained herein, but it's a narrative that could gain adherents and so is worth noting.

Exhibit 1 – 2025 Sees EMFX "Over" Tariffs, After 2024 Saw Big EMFX Selloff…CNY Stable Throughout





Source: Bloomberg, LP. Data as of February 2025.

Getting through tariff uncertainty is important, because the path afterwards is looking more attractive. The U.S. is stimulating its economy. China is doing the same and we believe the worst of the major property sector problems are behind us! EM interest rates are high in nominal and real terms, and though the carry is good enough for us, there's even real risk of a U.S. rate rally. Tariff obsession will end, and we want our eyes on the prizes. Unfortunately for our China allocations, there seem to be fewer prizes in Chinese corporate bonds…because they have largely repriced! We are keeping our remaining allocations until targets are hit, but our point is that the majors – from Longfor to Vanke to even Hong Kong-based New World – could be sorted. They've done a combination of terming out debt, borrowing against unsecured assets, asset sales, etc., and seem to be survivors, meaning they are trusted enough to be selling new developments. We don't think this is reflected in broader markets, which continue to obsess about the day a "fiscal bazooka" will be fired. On U.S. stimulus, tax cuts and de-regulation are clear positives (growth up, inflation down), but economists seem more comfortable projecting their overall political stances than actually quantifying the positive economic outcomes. This was true during President Trump's 2016 term. Anyway, there's a lot of premium in the long end for ventilations over long-term fiscal outcomes that seems very premature to us. This could have an impact on Fed thinking, over time, tilting it dovish. If data doesn't do that first.

Rates lower, EMFX more selective. Rates lower is the clearest implication, to us. Short rates is the big “hedge” and fiscal developments or data could easily trigger big rallies in the long end. The long end also appeared fairly anchored in the face of early-year front-end selloffs. Let’s dig in to the Fed a bit. This current Fed’s latest hit was “transitory inflation” during an explicit fiscal expansion during low unemployment. Which was roundly predicted to be inflationary by many. And the Fed was able to convince itself to keep monetary policy easy…right until the Trump administration arrives! Those are bad optics, but easily manipulated by the new U.S. administration, which seems to be the plan. Treasury Secretary Bessent’s emphasis on getting market yields (as opposed to policy rates) lower is both a gentlemanly avoidance of direct conflict with the Fed, but also a set-up for a classic trade. Look at our structural reforms and fiscal rectitude and be an orthodox central bank and reward it with lower rates. Please. It’s profoundly orthodox. EM currencies will be case-by-case, and more directly affected by ongoing tariff uncertainty. Even in weak MXN, though, the rates rally is more than compensating. And with Banxico now tilting dovish, Mbono rates look set to fall further, and MXN did not react terribly to the dovishness. Colombia clearly trades better, and we remain attracted to it. Perhaps the trade there is to slowly discount the eventual departure of near-disastrous Presidente Gustavo Petro. Anyway, it trades very well and is not broadly held. Our problem children could be Brazil and South Africa. Lula is just a bad juxtaposition to Trump, in the midst of a brewing fiscal brouhaha (or worse). China can easily dump Brazilian soybean purchases in favor of the U.S., as another headline and challenge. Anyway, hardly an obvious case of quick resolution like Mexico (which as we note is subjected to massively asymmetric power relative to the U.S.). South Africa’s Ramaphosa, too, is also a bad juxtaposition to Trump. The land expropriation issue is one we’ve followed for decades and is much grayer than the black/white versions you’ve heard. But, the good vs. evil theatrics are dominating, with both President Trump and Elon Musk commenting on the topic, culminating so far in the end of direct U.S. financial assistance (which is small, at around half a billion USD, but is nonetheless symbolic). Anyway, hard to predict risks that could have significant adverse consequences, so we are nimble and cautious here, too.

Exposure Types And Significant Changes

The changes to our top positions are summarized below. Our largest positions in January were South Africa, Mexico, Colombia, Indonesia, and Malaysia

- We increased our hard currency sovereign exposure in Saudi Arabia, the United Arab Emirates, Qatar, and Kuwait. We were driven mostly by duration considerations here, which improved the technical test scores for these countries. Specific factors included very negative market positioning, a non-zero probability that President Trump’s fiscal consolidation push might succeed at least partially. This group of countries can also benefit if additional tariffs lift oil prices higher. Finally, this is also defensive exposure, following a significant rally in EM in January.

- We also increased our hard currency sovereign exposure in Peru and Romania. Our reasoning regarding duration was very similar to the countries above. We also liked the fact that Romania’s fiscal and election woes are now largely priced in (Romania also continues to receive significant funds from the EU). Peru benefits from relative policy and political stability in the region plagued by tariff and fiscal concerns, which boosts its policy test score.

- Finally, we increased our hard currency sovereign exposure in Ecuador and Paraguay, and local currency exposure in Colombia. In Colombia, the market over-reacted to the “tariff war” story, which was resolved in a matter of hours. Ecuador’s policy and economic outlook – and the policy test score - should benefit a great deal if the incumbent candidate wins the forthcoming presidential elections (polls are tight, but he has a good chance). As regards Paraguay, we sold this bond when it became too rich, and then covered our underweight when it cheapened (improving the technical test score along the way).

- We reduced our local currency exposure in Mexico and Thailand. The price action in Mexico is likely to remain volatile until there is more clarity on the U.S. tariffs – rollercoaster-like headlines worsened the country’s policy test score. Thailand can get affected by spillover effects from the U.S. policy uncertainty about China - as well as the stimulus uncertainty in China. The Thai baht is highly correlated with the Chinese renminbi, which weakened during Donald Trump’s first trade war in response to higher tariffs. These factors worsened Thailand’s technical test score.

- We also reduced our hard currency corporate exposure in China and Hong Kong on the back of concerns about weak domestic demand, no major progress in real estate, and the fact that the next comprehensive stimulus announcement might need to wait until the end of March. President Trump 2.0 policy jitters and the tariffs uncertainty also weakened the policy test score for China.

- Finally, we reduced our local currency exposure in Poland and Kazakhstan, and hard currency sovereign exposure in Barbados. Poland’s fiscal concerns keep multiplying (a combination of election promises and higher defense spending), worsening the country’s policy test score. Geopolitical considerations lowered the policy test score for Kazakhstan. As regards Barbados, we saw limited positive catalysts there and used the proceeds for more compelling opportunities.

DISCLOSURES

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. Carry is the benefit or cost for owning an asset. Yield to worst is a measure of the lowest possible yield that can be received on a bond with an early retirement provision. Averages are market weighted. The yields presented do not represent the performance of the Fund. These statistics do not take into account fees and expenses associated with investments of the Fund.

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.

The Bloomberg Global Aggregate Index measures the performance of global investment grade fixed income securities.

The FTSE Treasury Benchmark 10 year measures the return of the 10 year U.S. Treasury.

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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