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The Fed's Wind Down Favors Duration in EM Bonds?

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> Emerging markets bonds continue to outperform developed markets bonds, and could continue to benefit from positive secular tailwinds in the long run.

In May, the **VanEck Emerging Markets Bond Fund (the Fund)** returned -0.95%, compared to -1.07% 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 has returned 3.18%, in line with its benchmark, which has returned 3.12%. We are increasing duration in USD-denominated bonds and reducing exposure to Asian EMFX. We continue to have very low high-beta EMFX exposure (no South Africa or Mexico, for example) with the exception of Brazil, which appears very attractive following recent weakness. The Fund ended May with carry of 6%, duration of 5.6 and roughly 50% in local currency.

Average Annual Total Returns (%) as of May 31, 2023

	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	-0.95	1.11	3.18	4.01	3.49	2.00	0.55
Class A: (Maximum Sales Charge)% Load	-6.65	-4.71	-2.75	-1.97	1.47	0.80	-0.04
Class I: NAV (Inception 7/9/12)	-1.11	1.18	3.07	4.42	3.77	2.29	0.84
Class Y: NAV (Inception 7/9/12)	-1.12	1.12	3.20	4.17	3.68	2.24	0.78
50% GBI-EM/50% EMBI	-1.07	2.15	3.12	0.82	-2.46	-0.47	0.44

Average Annual Total Returns (%) as of March 31, 2023

	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	1.50	3.58	3.58	-0.38	8.30	0.85	0.33
Class A: Maximum 5.75% load	-4.34	-2.38	-2.38	-6.11	6.19	-0.34	-0.26
Class I: NAV (Inception 7/9/12)	1.52	3.42	3.42	-0.04	8.60	1.14	0.63
50% GBI-EM/50% EMBI GD	2.54	3.51	3.51	-3.81	0.48	-1.43	0.29

† Returns less than one year are not annualized.

Expenses: Class A: Gross 2.55%, Net 1.27%; Class I: Gross 2.51%, Net 0.97%; Class Y: Gross 2.91%, Net 1.02%. 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.

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.

Duration a winner? Either the Fed has a few more hikes in it, or it is done hiking; either way that boosts the attractiveness of duration, we think. It could also challenge some EM currencies (EMFX). The Fed decided to "skip" a rate hike in June and indicated that it might hike further this year with two additional hikes projected in its dot plot, while the market is currently pricing in only one additional hike in this cycle. We believe these conditions favor duration. We'd also note that although the 10-year U.S. Treasury yield might be trading in a range, the 30-year yield might be declining.

China uncertainty helps duration, but hurts EMFX. The latest theme to gather steam is Chinese currency weakness. This exports deflation, adding to duration's attractiveness. In addition, it challenges other EMFX, particularly those in Asia. China's inflows and interest rate differentials with the U.S. have disappointed recently. This has led to Chinese renminbi (CNY) weakness, as well as recent EM currency weakness. The chart below shows CNY versus EMFX and some high beta currencies like the South African rand (ZAR), Mexican peso (MXN), and Malaysian ringgit (MYR).

CNY Driving EMFX Weaker, and Will ZAR Lead MXN Weaker?

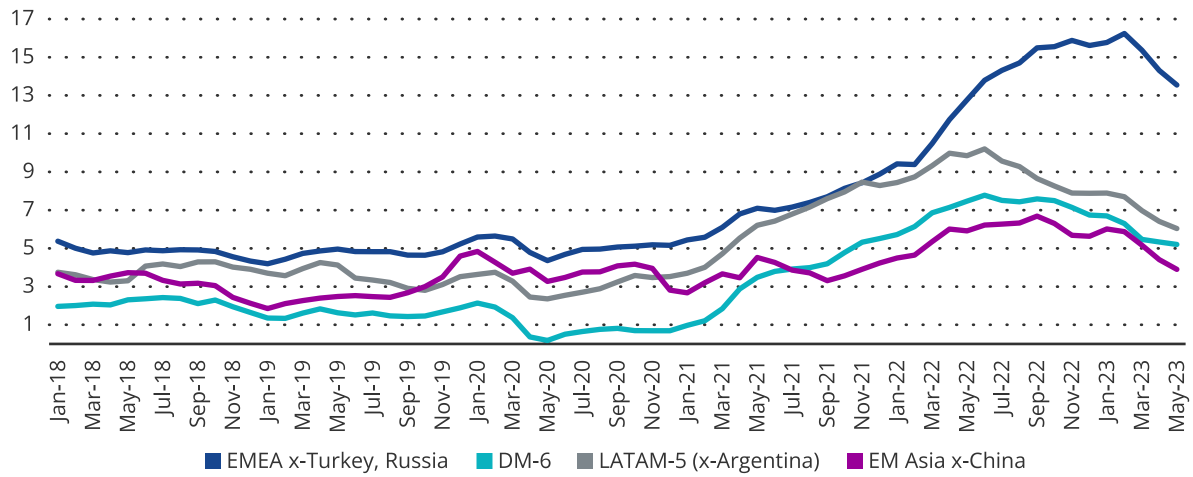
6/2/2023	EMFX Beta to CNY (based on % weekly change)				
		12 months	2 years	5 years	10 years
EMEA	TRY	0.22	0.20	0.32	0.53
	ZAR	1.02	1.33	1.33	1.46
	ILS	0.81	0.82	0.59	0.55
	PLN	0.80	0.84	0.93	0.94
	HUF	0.72	0.74	0.85	0.90
	CZK	1.03	0.95	0.98	0.90
LATAM	BRL	0.62	0.80	0.84	0.73
	MXN	0.38	0.51	0.73	0.77
	CLP	1.80	1.60	1.25	1.12
	COP	0.50	0.91	1.07	1.02
	PEN	0.23	0.31	0.33	0.31
AXJ	INR	0.33	0.30	0.29	0.30
	IDR	0.50	0.43	0.63	0.59
	KRW	1.04	0.92	0.88	0.81
	MYR	0.54	0.56	0.61	0.66
	PHP	0.40	0.31	0.32	0.28
	THB	1.16	1.04	0.72	0.64

Source: VanEck Research; Bloomberg As of June 2, 2023.

Our EM bonds over DM bonds thesis is intact. US recession risk that can't be met with stimulus vs. China growth risks that can be met with stimulus are becoming the big wheels turning in coming quarters. This will reinforce our view that over the longer run, many EM local-currency bonds remain subject to positive secular tailwinds. Emerging markets have been well ahead of developed markets on the inflation fight, and now have more tools at its disposal. If the U.S. enters recession, what will be the policy response? Monetary easing? Fiscal stimulus? It is next to impossible for us to see the political conditions for the latter, which means monetary policy will again need to do the heavy lifting. This implies dollar weakness to us. Whether this manifests by the Fed having to ease rates policy and increase its balance sheet first, and then the dollar starts to suffer, or whether the dollar starts to discount this earlier will be a big part of the market story in the coming quarters.

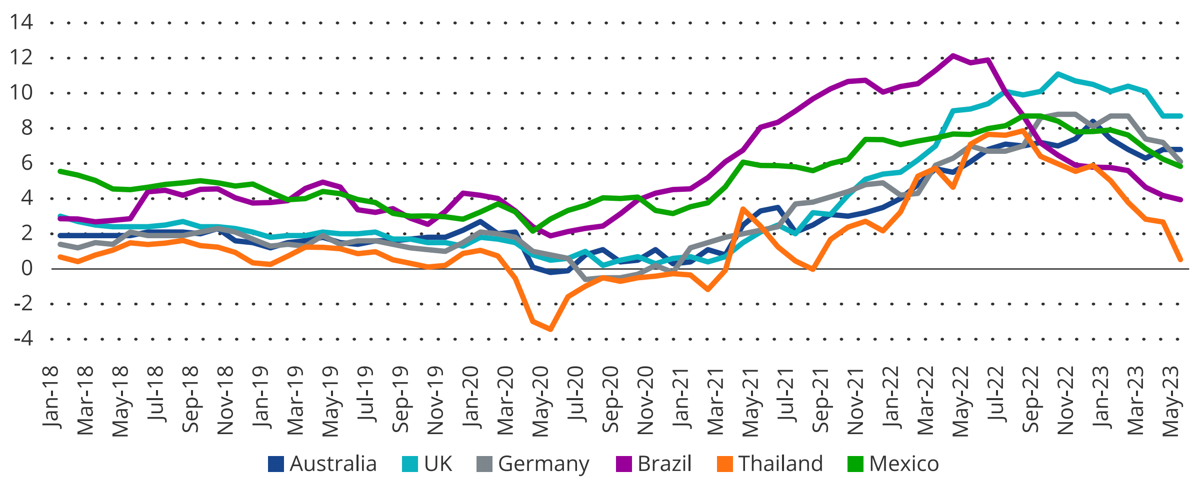
EM Inflation Continues to Impress

Inflation in DM and EM Regions (% year-on-year)



DM - US, UK, Germany, Canada, Japan, Australia.

Headline Inflation in Selected EM and DM (% year-on-year)



Source: VanEck Research; Bloomberg LP. Past performance is no guarantee of future results.

In May, the Fund returned -0.95%, compared to -1.02% for its benchmark; YTD, the Fund has returned 3.18%, in line with its benchmark which has returned 3.12%. Winners were South Africa (not owning it), Peru local currency, and Sri Lanka local currency. Zambia local currency, Turkey hard currency, and Mexico (not owning it) were the key detractors.

We are increasing duration in USD-denominated bonds and reducing exposure to Asian EMFX. We continue to have very low high-beta EMFX exposure (no exposure to South Africa or Mexico, for example) with the exception of Brazil, which appears very attractive following its weakness. The Fund ended May with carry of 6%, duration of 5.6 and roughly 50% in local currency. Our biggest exposures are to Indonesia, Malaysia and Brazil.

Exposure Types and Significant Changes

The changes to the Fund's top positions are summarized below. Our largest positions in May were Indonesia, Malaysia, Brazil, Thailand and Peru:

- We increased our local currency exposure in Brazil and hard currency sovereign exposure in Hungary and Serbia. Brazil's spectacular disinflation progress and a less bad outlook for the new fiscal framework improve the outlook for the policy rate cuts, strengthening the policy and economic text scores for the country. Hungary could benefit from more encouraging EU funding headlines, but the recent measures to support domestic demand for local bonds could reduce their attractiveness for non-resident investors, making sovereign bond exposure a better option. Serbia's sovereign bond is denominated in euro, and it might benefit from the improvements in relative growth expectations for Europe, as well as from the longer tightening cycle vs. the U.S. In terms of our investment process, this improved the technical test score for the country.

- We also increased hard currency sovereign exposure in Egypt and Ghana (though only to their minimum limit levels) and local currency exposure in Sri Lanka. The common theme for all countries is the improving policy test score. Sri Lanka and Ghana are seeing further progress in debt restructuring, while the Egyptian government introduced new taxes and raised certain fees to boost government revenue.
- Finally, we increased our local currency exposure in Uruguay and Colombia, hard currency quasi-sovereign exposure in Colombia, hard currency sovereign exposure in Oman, and hard currency corporate exposure in Hong Kong. The Hong Kong option might be a less risky way with a better policy test score to get exposure to "the China complex" with fewer concerns about China's soft growth patch. As regards other regional considerations, Oman is less of a proxy for U.S. Treasuries than Saudi Arabia (=a better technical test score). In Colombia, we liked a combination of better valuations and a significant current account improvements (=stronger technical and economic test scores). Better valuations also drove our decision process in Uruguay, especially against the backdrop of the central bank's more cautious stance on additional policy easing.
- We reduced our local currency exposure in Thailand, South Korea, and Chile. We were motivated by negative spillovers from China's soft growth patch – in terms of regional demand for China's exports, the impact on commodity prices, and currency correlations with the weaker renminbi. In terms of our investment process, this worsened these countries technical test scores.
- We also reduced our local currency exposure in Poland and Israel. Poland's new round of political bickering with the EU and the rising tensions in Ukraine worsened the country's policy test score. The worsening policy test score also played a big role in Israel, where domestic political noise might start affecting capital inflows, including the tech sector.
- Finally, we reduced our local currency exposure in South Africa, as well as hard currency sovereign exposure in South Africa and Mexico. South Africa's growth concerns are intensifying on the back of electricity blackouts, and this in turn can affect fiscal and debt sustainability targets, worsening the economic and policy test scores. In Mexico, we were alarmed by negative headlines about the state-owned giant PEMEX, including a less reassuring message from the management about government support.

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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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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 which may include, but are not limited to, risks associated with active management, credit, credit-linked notes, currency management strategies, derivatives, emerging market issuers, energy sector, ESG investing strategy, foreign currency, foreign securities, hedging, high portfolio turnover, high yield securities, interest rate, LIBOR replacement, market, non-diversified, operational, restricted securities, investing in other funds, sovereign bond, and special risk considerations of investing in Latin American issuers, all of which may adversely affect the Fund. Emerging market issuers and foreign securities may be subject to securities markets, political and economic, investment and repatriation restrictions, different rules and regulations, less publicly available financial information, foreign currency and exchange rates, operational and settlement, and corporate and securities laws risks. 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.

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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.

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