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Emerging Markets: Navigating Q4 Volatility and Challenges

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Emerging markets equities faced a turbulent Q4 2024, with the MSCI Emerging Markets index declining by 8.0% amid heightened macroeconomic and geopolitical pressures. Significant volatility characterized the quarter across major markets. In China, a policy pivot at the end of Q3 fueled early optimism and a sharp rally, but profit-taking driven by uncertainties around stimulus implementation, U.S. trade policy, and weak economic data led to heightened volatility. Indian equities faced challenges from slower economic growth, weaker-than-expected government capital expenditures (CAPEX), softer corporate earnings, foreign fund outflows and election-related disruptions. Meanwhile, in Brazil, fiscal uncertainties and the prospect of prolonged higher interest rates reversed earlier gains. A strong U.S. dollar and global trade tensions further underscored the complexity of the quarter for emerging markets, presenting a particularly challenging environment.

Market Review

Emerging markets equities are entering 2025 with a dynamic mix of opportunities and challenges, reflecting the complexities of the global economic landscape. Attractive valuations, persistent under-allocation by global investors and robust long-term growth drivers highlight the potential for compelling returns, despite near-term risks.

Key risks include the potential for heightened trade tensions, particularly between the U.S. and China, and uncertainties in U.S.-Mexico relations. Inflationary pressures stemming from U.S. policy decisions could delay anticipated rate cuts and strengthen the U.S. dollar, creating headwinds for some markets. These challenges underscore the importance of focusing on markets and sectors less vulnerable to such pressures.

On the positive side, China's pro-growth stimulus measures have helped stabilize its domestic economy and broader emerging markets sentiment, though further forceful actions are needed to sustain momentum. India continues to stand out with its structural growth story, driven by domestic consumption, reforms and expanding opportunities in manufacturing and technology. Additionally, enduring trends in digital transformation, financial inclusion, renewable energy and formalized consumption further bolster the case for a selective and focused investment approach in emerging markets. With these factors in mind, we remain optimistic about the long-term prospects while navigating near-term uncertainties with discipline and precision.

Here is a brief overview of some of the largest emerging markets countries and how we view them:

China: China's equity markets experienced a rollercoaster year in 2024, ending with their first positive annual performance since 2020 but marked by significant Q4 volatility. The policy pivot at the end of Q3, signaling a focus on economic, property and market stabilization, sparked an early rally driven by light positioning and short covering. However, uncertainties around fiscal stimulus implementation, weak economic data and U.S. trade policy following the leadership transition contributed to profit-taking and heightened volatility.

Consumption recovery remains the cornerstone of China's long-term growth strategy, with government efforts increasingly focused on restoring consumer confidence to drive sustainable economic momentum. In this challenging environment, we are refining our approach, reallocating capital from lower-conviction names into high-quality companies and sectors—such as consumption and real estate recovery—that are better positioned to benefit from structural tailwinds.

While near-term challenges persist, we continue to leverage a disciplined, process-driven approach to optimize positioning. With greater clarity on fiscal measures and tariff adjustments expected after the March Two Sessions conference, we maintain a constructive outlook on China's long-term potential. Encouragingly, the regulatory environment is more supportive, and companies are prioritizing profitability, capital returns and shareholder value, bolstering confidence in select opportunities.

India: India's equity markets faced headwinds in Q4 2024, with quarterly declines driven by slowing corporate earnings growth, weak GDP data, and foreign fund outflows. Additional pressures included tight liquidity from regulatory measures, a slowdown in government CAPEX ahead of elections and rural demand softness due to elevated food inflation. Despite these challenges, India ended the year with positive annual performance, underscoring its robust structural growth potential.

Our on-the-ground visit in Q4 reinforced confidence in long-term drivers such as urban consumption premiumization, the 'Make in India' initiative, green energy transitions and infrastructure development. While market volatility persists, we see opportunities to reposition selectively at more reasonable valuation levels. By diversifying the portfolio and selectively increasing exposure to high-quality names in resilient sectors such as infrastructure, consumption and renewables, we aim to balance short-term risks with India's long-term growth trajectory, supported by ongoing reforms and structural shifts.

Brazil: Brazil's equity markets faced heightened uncertainty in Q4 2024, driven by fiscal concerns and shifting economic dynamics. Debates around spending and tax reforms, alongside underwhelming government spending cuts, created a challenging environment. The central bank's decision to initiate an interest rate hiking cycle in September added to market volatility.

Our on-the-ground visit to Brazil at the start of Q4 confirmed the longer-term structural growth potential at attractive valuations. However, given the near-term uncertainty and fiscal dominance debates, we have been reducing overall risk by trimming exposure and reallocating toward high-quality, resilient names with lower sensitivity to interest rate fluctuations. This disciplined approach reflects our focus on managing risk while identifying enduring opportunities in Brazil's evolving market.

Mexico: Strong domestic consumption and robust manufacturing activity, supported by nearshoring trends, helped mitigate pressures from inflation and rising interest rates. Mexico continues to solidify its role in global supply chains, leveraging its proximity to the U.S. and shifts in global trade dynamics. However, domestic policy uncertainty tied to the leadership transition in both Mexico and the U.S. and potential U.S.-Mexico trade tensions remain key risks.

We have adopted a more defensive stance while selectively seeking resilient opportunities in sectors linked to domestic demand and industrial growth. By focusing on companies with strong fundamentals that can adapt to evolving macroeconomic and policy landscapes, we aim to navigate near-term uncertainties while positioning for Mexico's long-term growth potential.

Taiwan: TSMC (11.0% of Strategy net assets*), the strategy's largest position and a key player in Taiwan's market, is central to the AI-driven structural growth story and remains highly sensitive to global AI valuation trends. While we continue to believe in the uniqueness of TSMC's positioning in its sector globally and the strong fundamentals of the business, we will continue to rebalance our exposure as a function of shifting growth pace expectations and valuations.

Other markets: With prior success in finding quality compounders in some of the smaller markets, such as Kazakhstan and Peru that have been meaningful contributors to performance over time, we continue to look for quality names with idiosyncratic characteristics in different geographies with solid structural growth drivers. Our strategy remains disciplined and selective, balancing near-term risks with the region's broad long-term potential as we position for 2025.

Strategy Performance

The VanEck Emerging Markets Equity SMA Strategy (the "Strategy") returned -4.33% during the fourth quarter of 2024 outperforming the benchmark (-8.01% for the quarter) amid a challenging market environment. The quarter's outperformance was driven primarily by stock selection within country and sector exposures.

Average Annual Total Returns (%) as of December 31, 2024

	4Q24†	YTD	1 Yr	3 Yr	Since Inception[1]
Gross of Fees Return (%)	-4.33	9.79	9.79	0.94	1.90
Net of Fees Return (%)	-4.42	9.41	9.41	0.57	1.47
MSCI EM Index	-8.01	7.50	7.50	-1.92	1.37

Source: VanEck, MSCI. *[1]Composite inception date January 23, 2020. Effective July 28, 2022 the benchmark was changed from The MSCI Emerging Markets Gross Return Index to The MSCI Emerging Markets Net Return Index, retroactive to inception. The MSCI Emerging Markets ("MSCI EM") Net Return Index (reflects no deduction for fees, expenses or taxes, except withholding taxes). See GIPS Disclosures at the end. Starting May 2022, Net of Fees were calculated based on 0.35% fee schedule. Please note, for the time period January 23, 2020 to April 2022, net returns were calculated on 0.50% fee schedule.* ***Past performance is not indicative of future results. The performance shown is for the stated time period only; due to market volatility, each account's performance may be different. Please see Disclaimers for additional, important information.***

Strategy Review

On a sector level, Consumer Discretionary, Industrials and Information Technology contributed to relative performance, while Financials, Communication Services and Utilities detracted. On a country level, China, India and South Korea contributed to relative performance, while Brazil, Saudi Arabia and United Arab Emirates detracted.

Top Contributors

Top contributors to return on an absolute basis during the quarter:

- **Taiwan Semiconductor Manufacturing Company Limited (TSMC) (11.0% of Strategy net assets*):** TSMC ended the year with a strong quarter, supported by improving expectations for its FY 2026 performance. As the leader in advanced semiconductor manufacturing and the preferred fabrication partner for AI chip designers, TSMC is well-positioned to benefit from these trends over the long term, maintaining its margins at cyclically high levels. Its near-monopoly status has elevated the valuation of its shares, which, while currently justified, requires careful monitoring.

- **MINISO Group Holding Ltd. Sponsored ADR: (4.7% of Strategy net assets*):** Miniso's acquisition of Sun Art in late September was rejected by shareholders, creating a low baseline for its strong Q4 performance. The company reported robust results last quarter. Management highlighted an improved same-store sales growth (SSSG) rate in Q4 2024 and expressed optimism about 2025. While domestic SSSG was slightly below expectations, overseas performance reached the high end of guidance. Additionally, domestic store openings exceeded guidance, positioning the company for stronger growth in 2025. The recent tariff increase poses minimal concern for Miniso, as the company can shift up to 80% of its U.S. procurement from China to other countries within three to six months.

- **Full Truck Alliance Co. Ltd. Sponsored ADR (5.3% of Strategy net assets*):** Full Truck Alliance operates the digital freight and logistics platform YMM. The company delivered strong Q3 results, with revenue, profit, and Q4 guidance all exceeding estimates. During the quarter, YMM completed a full rebranding of its Yunmanman brand, optimized its product portfolio, and enhanced user experience and engagement. Key operating metrics, including matching time, fulfillment rate, and monetized order penetration, also improved in Q3. Additionally, YMM has been steadily increasing its market share and recognition among truck drivers.

Top Detractors

- **Nu Holdings Ltd. Class A (5.0% of Strategy net assets*):** Nu Holdings Ltd. provides digital banking platform in Brazil, Mexico, Colombia, Cayman Islands, Germany, Argentina, U.S., and Uruguay. The shares declines after the reported Q3 results. Although the numbers were a beat on net income there were mixed trends on NIM (margins) and growth in the credit card portfolio that were lower than expected. The long-term story remains intact and the growth outlook remains healthy.
- **PDD Holdings Inc. Sponsored ADR Class A (2.8% of Strategy net assets*):** PDD Holdings Inc. Sponsored ADR Class A: PDD Holdings operates Pinduoduo, a leading Chinese e-commerce platform that leverages social group-buying and gamified shopping to offer affordable products directly to consumers. In September, China introduced a home appliance trade-in subsidy program. Unlike JD, which operates a direct sales business and is eligible to distribute these subsidies, PDD, as a platform-based business, does not qualify for the program. To remain competitive, PDD had to cover the increased subsidy costs from its own budget, which impacted its profitability in the second half of the year. Additionally, ongoing trade uncertainties with the U.S. could negatively affect PDD's Temu business.
- **MercadoLibre (MELI) (7.8% of Strategy net assets*):** MELI's underperformance was driven by continued logistics investments, which pressured margins, and higher credit portfolio growth, resulting in elevated upfront provisions. These impacts should ease as logistics investments stabilize with strong growth momentum and credit cohorts mature, reducing the lag effect from upfront provisioning. Despite near-term profitability challenges, operating KPIs remain strong, with expected improvement next quarter. MELI's focus on long-term growth over short-term profits mirrors past strategies, such as free shipping in Brazil (2016), Mercado Pago (2017) and logistics investments (2023), which initially pressured margins but led to exceeding returns and strong stock recoveries. This trend is expected to repeat.

Top Buys & Sells

During the period, we established new positions in the following:

- **PDD Holdings Inc. Sponsored ADR Class A (2.8% of Strategy net assets*):** PDD Holdings Inc. Sponsored ADR Class A: PDD Holdings operates Pinduoduo, a leading Chinese e-commerce platform that leverages social group-buying and gamified shopping to offer affordable products directly to consumers. In September, China introduced a home appliance trade-in subsidy program. Unlike JD, which operates a direct sales business and is eligible to distribute these subsidies, PDD, as a platform-based business, does not qualify for the program. To remain competitive, PDD had to cover the increased subsidy costs from its own budget, which impacted its profitability in the second half of the year. Additionally, ongoing trade uncertainties with the U.S. could negatively affect PDD's Temu business.

During the period, we exited the following positions:

- **ReNew Energy Global PLC:** ReNew Energy Global ReNew is a developer of renewable energy projects in India. Its pipeline is strong, but execution has been slower than expected and leverage remains high.
- **Baidu Inc:** Baidu's rollout of artificial intelligence-generated content (AIGC) is expected to temporarily impact revenue and profit, as the company has chosen not to monetize content generated by Ernie (Baidu's AI chatbot service) to prioritize a positive user experience during the transition. Furthermore, management provided a cautious outlook for the second half of the year, citing challenges from the macroeconomic environment and the ongoing AIGC transition.

Strategy Positioning and Outlook

We remain grounded by our investment process and our positioning reflects our convictions from a bottom-up basis. The Strategy's objective is to find long-term structural growth companies at fair prices (S-GARP). Investments are chosen based on individual company analysis, focusing on quality, governance, innovative business models and low disruption risk, with active management and detailed research guiding our selection process.

*All country and company weightings are as of December 31, 2024. Any mention of an individual security is not a recommendation to buy or to sell the security. Strategy securities and holdings may vary.

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Performance may be lower or higher than performance data quoted.

The model is not a mutual fund or other type of security and will not be registered with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, as amended, and no units or shares of the model will be registered under the Securities Act of 1933, as amended, nor will they be registered with any state securities regulator. Accordingly, the model is not subject to compliance with the requirements of such acts.

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VanEck claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. VanEck has been independently verified for the periods January 1, 2006 through September 30, 2024. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Emerging Markets Equity ADR (Proprietary) composite has had a performance examination for the periods of January 23, 2020 through September 30, 2024. The verification and performance examination reports are available upon request. The composite's inception date is January 23, 2020 and the creation date is January 23, 2020. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Emerging Markets Equity ADR (Proprietary) seeks to achieve attractive risk-adjusted returns through a full market cycle by investing in growth companies at a reasonable price. The Strategy typically invests in the U.S. listed securities, either as an ADR or a direct listing on the NYSE, Nasdaq and OTC, of sufficient liquidity and generally with a market capitalization of approximately $300 million or greater that are located, or do significant business, in emerging markets countries. Companies that derive more than 50% of their net assets/sales from emerging markets are also included in the universe. 100% of composite assets are proprietary.

The MSCI Emerging Markets Net Return (""NDUEEGF"") (the "Index") Net Return Index (reflects no deduction for fees, expenses or taxes, except withholding taxes) captures large and mid cap representation across emerging markets countries.

The composite returns represent the total returns of all fully discretionary, fee paying portfolios within the Emerging Markets Equity ADR (Proprietary) investment mandate. There is no minimum asset requirement for this composite. The composite returns are asset-weighted based upon beginning period market values. The returns of the individual portfolios within the composite are time-weighted, based on trade date accounting. VanEck's policy is to use accrual based accounting in recognizing interest income and interest expense, dividend income and short dividend expense, and are reported on ex-dividend date. Interest, dividends, and capital gains accrued on foreign securities are reported net of non-reclaimable foreign withholding taxes. Portfolio valuations are based on market values and expressed in US Dollars.

Composite returns are shown gross and net of management fees while including the reinvestment of all income. Brokerage and transaction expenses such as exchange, duty, and commission fees are deducted from trade amounts to determine net transaction costs/proceeds which are reflected in both gross and net returns. Net of fee performance is calculated by deducting actual management fees and in some instances, performance based fees charged to each account.

The composite returns represent past performance and are not reliable indicators of future results which may vary. The composite and comparative index returns can be found on the following page. Additional information regarding policies for valuing investments, calculating performance and preparing GIPS reports are available upon request.

Commencing January 1, 2011, portfolios are valued daily and adjusted for all external cash flows on the day that they occur. Prior to January 1, 2011, VanEck's separately managed accounts were valued on a monthly basis, which adjusted for cash flows on a day-weighted basis. If cash flows exceed 5% of the beginning market value, the portfolios are revalued on the date of the cash flow and the resulting sub-periods are geometrically linked (or compounded) to produce a return for the full month. All other VanEck accounts were valued on a daily basis. During periods in which the cash flow is significant enough to impact the implementation of the investment strategy, VanEck's policy is to remove the impacted account from the composite for that period. VanEck has set the level of significance at 25% or more of the portfolio's total assets. If a portfolio falls below the minimum account size at the beginning of a full month, the portfolio will be removed from the composite and not included again until it meets the minimum criteria. VanEck excludes terminated portfolios after the last full performance measurement period in which the portfolios are under management. VanEck will continue to include the terminated portfolios in its composite for all periods prior to termination.

VanEck's Emerging Markets Equity ADR portfolios are generally charged an asset-based fee. Management fees and other operating/administrative expenses incurred can vary but generally range from 0.20% up to 0.50% of assets under management (""AUM""). Actual fees are used in the construction of composite net of fee performance. A complete list of composite and limited distribution pooled fund descriptions and list of broad distribution pooled funds are available upon request.

Total Firm AUM include all discretionary and non-discretionary assets under management of VanEck, including all fee-paying accounts and accounts managed outside the Firm (e.g. by sub-advisers) where VanEck has allocation and selection authority. Firm proprietary accounts are included in the definition of firm assets. The three-year annualized standard deviation, gross of fees, found on the following page, measures the variability of the composite and the benchmark returns over the preceding 36 month period.

The significant cash flow policy has been suspended for this composite since its inception.

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The MSCI Emerging Markets Index captures large and mid cap representation across emerging markets countries.

You can lose money by investing in the VanEck Emerging Markets SMA. Any investment in the Strategy should be part of an overall investment program, not a complete program. The Strategy is subject to the risks associated with its investments in Chinese issuers, Indian issuers, Latin American issuers, direct investments, emerging market securities, ESG investing, foreign currency transactions, foreign securities, communication services sector, consumer discretionary sector, financial services sector, information technology sector, other investment companies, investments through Stock Connect, management, market, operational, restricted securities, sectors, small- and medium-capitalization companies and special purpose acquisition companies risks. The Strategy's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, or political, economic or social instability, all of which may be enhanced in emerging markets. Emerging market securities tend to be more volatile and less liquid than securities traded in developed markets.

Emerging Market securities are subject to greater risks than U.S. domestic investments. These additional risks may include exchange rate fluctuations and exchange controls; less publicly available information; more volatile or less liquid securities markets; and the possibility of arbitrary action by foreign governments, or political, economic or social instability.

ESG integration is the practice of incorporating material environmental, social and governance (ESG) information or insights alongside traditional measures into the investment decision process to improve long term financial outcomes of portfolios. **Unless otherwise stated within an active investment strategy's investment objective, inclusion of this statement does not imply that an active investment strategy has an ESG-aligned investment objective, but rather describes how ESG information may be integrated into the overall investment process.**

ESG investing is qualitative and subjective by nature, and there is no guarantee that the factors utilized by VanEck or any judgment exercised by VanEck will reflect the opinions of any particular investor. Information regarding responsible practices is obtained through voluntary or third-party reporting, which may not be accurate or complete, and VanEck is dependent on such information to evaluate a company's commitment to, or implementation of, responsible practices. Socially responsible norms differ by region. There is no assurance that the socially responsible investing strategy and techniques employed will be successful. **An investment strategy may hold securities of issuers that are not aligned with ESG principles.**

All investing is subject to risk, including the possible loss of the money you invest. As with any investment strategy, there is no guarantee that investment objectives will be met and investors may lose money. Diversification does not ensure a profit or protect against a loss in a declining market. Past performance is no guarantee of future results.

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