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Emerging Markets: Navigating Q4 Volatility and Challenges

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GBFAX | EMRCX | EMRIX | EMRYX | EMRZX

Emerging markets equities faced a turbulent Q4 2024, with the MSCI Emerging Markets IMI Index declining by 7.9% 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 themes:

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.

Technology: We continue to maintain an overweight position in companies poised to benefit from the transformative adoption of artificial intelligence. As AI-driven innovation accelerates demand for semiconductors, we have rebalanced our exposure to align with long-term structural trends. This includes increasing exposure to Taiwan Semiconductor Manufacturing Company Limited, the global leader in advanced chip manufacturing, while reducing exposure to Samsung due to execution challenges moderating our conviction in the name. This rebalancing reflects our disciplined approach to managing risk and optimizing the portfolio to capture the transformative potential of AI.

Central & Eastern Europe, Middle East and Africa (CEEMEA): The CEEMEA region showcased its diversity in Q4 2024, with our portfolio performing well in Turkey, Georgia and Poland. Looking ahead to 2025, we are cautiously optimistic, with potential moderating geopolitical risks providing a more constructive backdrop for the region.

In the Middle East, we have selectively added to the UAE and Saudi Arabia, leveraging strong economic and consumption trends alongside resilience to U.S. dollar strength. Across Central and Eastern Europe, we maintain high conviction in long-term holdings in Kazakhstan, Georgia, Poland and Hungary, where improved geopolitical conditions could reduce risk premia. In Turkey, the return to orthodox macroeconomic policies has begun to show results, with inflation easing and interest rates declining, creating new investment opportunities.

Our strategy remains disciplined and selective, balancing near-term risks with the region's broad long-term potential as we position for 2025.

Fund Performance

The VanEck Emerging Markets Fund (the Fund) underperformed the MSCI EM IMI on the quarter-to-date basis ending December 31, 2024 (-10.10% for the Fund; -7.89% for the Index). Negative relative performance for the quarter was driven by stock selection and an overweight in Brazil and the Philippines.

Georgia and South Korea were the Fund's top contributors for the quarter.

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

	4Q24[†]	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Class A: NAV (Inception 12/20/93)	-10.10	-0.29	-0.29	-6.22	-3.34	0.85
Class A: Maximum 5.75% load	-15.26	-6.03	-6.03	-8.05	-4.48	0.25
Class I: NAV (Inception 12/31/07)	-9.98	0.28	0.28	-5.69	-2.84	1.36
MSCI EM IMI	-7.89	7.09	7.09	-1.39	2.51	3.90
MSCI EM Index	-8.01	7.50	7.50	-1.92	1.70	3.64

The table presents past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund shares values will fluctuate so that investor's 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). Index returns assume that dividends of the Index constituents in the Index have been reinvested. Performance information current to the most recent month end is available by calling 800.826.2333 or by visiting vaneck.com.

Expenses: Class A: Gross 1.59%; Net 1.59%; Class I: Gross 1.23%; Net 1.01%. Expenses are capped contractually until 5/1/25 at 1.60% for Class A and 1.00% for Class I. Caps exclude acquired fund fees and expenses, interest, trading, dividends, interest payments of securities sold short, taxes and extraordinary expenses.

Fund Review

On a sector level, Materials, Health Care and Utilities contributed to relative performance, while Information Technology, Consumer Discretionary and Industrials detracted. On a country level, Georgia, South Korea and Turkey contributed to relative performance, while Brazil, Philippines and China detracted.

Top Contributors

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

- **Taiwan Semiconductor Manufacturing Company Limited (TSMC) (9.6% of Fund 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.
- **Bank of Georgia Group (3.1% of Fund net assets*):** Bank of Georgia Group Plc is one of the two largest banks in Georgia, holding over 33% of the market share in the country's banking sector. During the quarter, the bank delivered strong performance, supported by solid earnings in the first nine months of 2024, building on an already strong foundation from 2023. Its return on equity remained well above 25%. We remain optimistic about Bank of Georgia's acquisition of Ameriabank in Armenia, which presents an appealing opportunity to replicate its growth and profitability success in new markets.
- **MINISO Group Holding Ltd. Sponsored: (1.1% of Fund 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.

Top Detractors

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

- **MercadoLibre (MELI) (5.6% of Fund 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.
- **Reliance Industries Limited (4.2% of Fund net assets*):** Reliance shares experienced a pause this year due to several factors, though our analysis shows the business continued to create value for shareholders. The underperformance in 2024 was primarily due to multiple compression, setting the stage for improved returns in 2025. The stock was out of favor as the company is in the midst of significant investments, with benefits yet to fully materialize. Additionally, challenges in two key verticals—petrochemicals and retail—contributed to the weaker performance but are expected to ease in 2025.
- **Samsung Electronics (2.3% of Fund net assets*):** Samsung Electronics shares underperformed in 2024, in line with other global semiconductor companies not directly benefiting from the AI boom. The company also faced challenges from a weak Korean won, compounded by increased political turbulence in South Korea during the second half of the year. Looking ahead to 2025, the political environment in South Korea appears more stable, and Samsung is poised to benefit from the anticipated widespread adoption of AI-focused semiconductor solutions in the first half of the year. These developments are expected to reignite investor interest and positively impact the share price.

Top Buys & Sells

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

- **Talabat Holding PLC (1.3% of Fund net assets*):** A subsidiary of Delivery Hero, Talabat is the leading food delivery and quick-commerce platform in the Gulf Cooperation Council (GCC), outperforming competitors by 3–10x in key markets like the UAE, Kuwait and Qatar. With industry-leading profitability and strong growth prospects, Talabat is well-positioned to benefit from structural growth drivers such as low online penetration in food delivery and groceries, along with favorable demographics. High order frequency, large ticket sizes and low delivery costs in the region support a uniquely profitable and scalable business model.
- **JD.com (0.6% of Fund net assets*):** The strategy initiated a small position in JD during 4Q as part of a strategic rebalancing in China. JD was selected for its quality and direct exposure to policy measures aimed at combating deflation and restoring consumer confidence. We anticipate these policies will intensify gradually, including initiatives like home appliance trade-in programs. Such measures are expected to directly benefit JD, a highly efficient online retailer well-positioned to capitalize on revenue growth driven by targeted efforts to strengthen consumer sentiment in China.
- **Itau Unibanco Holding SA (0.5% of Fund net assets*):** Itau is a high-quality Brazilian bank known for its strong balance sheet, robust operating trends and sustainable ROE above 20%. The bank is well-positioned defensively in a scenario of fiscal uncertainty, with significant excess capital (Common Equity Tier 1 at 13.7%) and excess provisions, despite high capital distributions. Itau remains the most profitable large-cap bank in Brazil, with attractive valuation compared to historical levels and improving earnings momentum. The bank is expected to outperform under current conditions in Brazil, while any positive macroeconomic catalyst could ease pressure on interest rates, further benefiting the sector.
- **Saudi National Bank (0.4% of Fund net assets*):** As the largest bank in Saudi Arabia with approximately 25% asset market share and a 37% government stake via the Public Investment Fund (PIF), SNB is well-positioned to benefit from Vision 2030 economic reforms and Saudization initiatives. Its strong balance sheet, robust capital and diversified business model support medium-term ROE growth. Additionally, the recent CEO change brings confidence in a refined strategic direction, given his proven track record at other Saudi banks. Despite these strengths, SNB shares are attractively valued, presenting a compelling entry opportunity.

During the period, we exited the following positions:

China Education Group Holdings (CEG): After a call with the CEO of China Education in September, we decided to exit our position due to concerns over rising CAPEX commitments and the potential introduction of legislation in Australia to limit foreign student enrollment quotas. On November 12, China Education issued a profit warning, announcing a one-off, non-cash impairment of RMB 1.7 billion. This prompted us to expedite the sale of our position in CEG.

Vamos Locacao de Caminhoes Maq: 2024 was a challenging year for Vamos, primarily due to a tougher macroeconomic environment that led the company to shift its focus from accelerating fleet allocation to being more selective in granting contracts. While growth will continue, it is expected to be at a slower pace, falling below expectations. Additionally, the dealership division performed poorly throughout the year. Although the decision to carve out the dealership division and link it to the agricultural business is a positive step that reduces volatility, the remaining core business remains weak. Furthermore, while Vamos has concentrated on renting its grounding fleet, increased competition in the truck rental market from emerging players could intensify pressure during contract renewals. Given the company's high sensitivity to economic conditions, the current scenario remains unfavorable for its prospects.

Americana Restaurants International: We exited our position in Americana Restaurants, the master franchisee for Yum Brands in the Middle East, due to near-term challenges such as geopolitical conflicts affecting consumer brand preferences, weak sales and competitive pressure on yields in key markets like Saudi Arabia and Egypt. Although we see long-term growth potential, recent underperformance and limited visibility in the near term prompted us to reallocate capital.

Movida Participacoes SA: Movida shares declined last year due to fiscal concerns in Brazil and uncertainties surrounding the seminovos (used car sales) business, particularly trends in used car prices and their impact on depreciation. In recent months, prices have fallen, driven by lower steel and commodity costs, the entry of Chinese carmakers like BYD into the Brazilian market and reduced credit availability. While seminovos car prices have shown some stability, we remain concerned that the recent macroeconomic deterioration, including lower economic activity and higher interest rates, may not yet be fully reflected in car prices, posing downside risks. Additionally, the company's high sensitivity to interest rates makes the current environment unfavorable.

Shanghai Baosight Software Co (Baosight): We held a small position in Baosight, an industrial IoT software provider serving China's steel plants and sectors like metallurgy, transportation and electric power generation. With over half of its revenue tied to its parent company, Baosteel, and given China's weak economic outlook, we decided to exit this position due to its limited significance within the portfolio.

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.

Fund Positioning and Outlook

We remain grounded by our investment process and our positioning reflects our convictions from a bottom-up basis. Our process has created some positioning differentials versus the benchmark. Brazil remains overweight to start the quarter (10.2% Strategy weight versus 3.9% Index weight), as does the Philippines (4.4% versus 0.6% Index weight).

Taiwan and India remain underweight versus the benchmark.

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. Fund securities and holdings may vary.

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The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of emerging markets countries. The MSCI Emerging Markets Investable Market Index (IMI) is a free float-adjusted market capitalization index that is designed to capture large-, mid-and small-cap representation across emerging markets countries.

MSCI Emerging Markets Investable Market Index (IMI) captures large, mid, small-cap cap representation across emerging markets (EM) countries. The index covers approximately 99% of the free float-adjusted market capitalization in each country.

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