Why EM Bonds Have Outperformed Treasuries

By Eric Fine, Portfolio Manager

VanEck Emerging Markets Bond UCITS Fund

USD R1 Inc: IE00BYXQSJ74
USD I1 Inc: IE00BYXQSF37
USD I2 Inc: IE00BYXQSG44
EUR Hedged I1 Inc: IE00BYXQSD13
EUR Hedged I2 Inc: IE00BYX22V58
EUR Hedged I1 Acc: IE00078TS240

Fund Review

The VanEck Emerging Markets Bond UCITS (Class USD I1) returned 0.66% in August compared to a return of 0.90% for the 50/50 JPMorgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) local currency and the JPMorgan Emerging Markets Bond Index (EMBI) hard-currency index.

Local currency exposure is at 43.34%, Carry is 6.36%, yield to worst (YTW) is 7.88%, and duration is 5.50.

Average Total Returns (%) as of August 2026

	1 Mo	3 Mo	1 Yr	3 Yr†	10 Yr†	Life†
USD R1 Inc (Inception 12/06/14)	0.62	0.50	8.67	9.86	4.25	2.12
USD I1 Inc (Inception 20/08/13)	0.66	0.63	9.22	10.41	4.97	3.76
USD I2 Inc (Inception 20/08/13)	0.67	0.65	9.33	10.52	5.10	3.88
EUR Hedged I1 Inc (Inception 06/10/15)	0.52	0.19	7.02	8.17	2.68	3.02
EUR Hedged I2 Inc (Inception 22/08/17)	0.54	0.24	7.01	8.28	-	2.32
EUR Hedged I1 Acc (Inception 24/06/26)	0.53	-	-	-	-	0.52
50% GBI-EM/50% EMBI – USD[1,2]	0.90	0.79	7.86	8.87	3.07	2.75

Past performance does not predict future returns. Investing is subject to risk, including the possible loss of principal. Performance is shown for the respective periods indicated. Periods greater than one year are annualized. The return may increase or decrease as a result of currency fluctuations. You cannot directly invest in an index.

†Periods greater than one year are annualized.

[1]Life performance for the 50% GBI-EM/50% EMBI - USD benchmark is presented in U.S. Dollars (USD) as of Class I1 inception date of 20/8/2013

[2]50% GBI-EM/50% EMBI benchmark it is used solely for performance comparison purposes

Past Performance - VAEMBR1

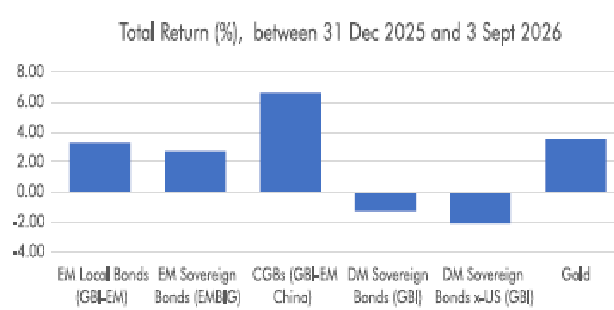
	2021	2022	2023	2024	2025
VanEck Emerging Markets Bond UCITS - USD R1	-4.6%	-7.6%	11.1%	2.6%	17.9%
Benchmark Index (50% GBI-EM/50% EMBI)	-5.3%	-14.7%	12%	2%	16.8%

Past performance is not a reliable indicator of future performance. Markets could develop very differently in the future. It can help you to assess how the fund has been managed in the past.

The ugly ducklings — asset classes such as EM bonds and gold — have been quacking even louder in August. They've been quacking for over a decade, arguably, but it was especially loud in August. EM bonds, gold, even Chinese government bonds are up decisively (Exhibit 1). Meanwhile the bird the farm always admired, US Treasuries, is down 1.55% year to date, against 4.17% for the ducklings. Five hundred and seventy-two basis points, and the sign is on the wrong side for the asset that is supposed to be the anchor of the system.

We've been tracking this story for years with you, so you'll get our point — in our view, these pressures are becoming increasingly difficult to ignore. The chart below barely earns its place; at this stage the story tells itself. It shows EM local currency bonds, gold, and Chinese government bonds performing well in a year when the assets built to absorb risk did not.

Exhibit 1 –EM Bonds, Gold, and China Win/Treasuries Lose



Source: Bloomberg. Data as of September 2026

Andersen's point was that the ducklings were always swans. Our argument since the global financial crisis has been that EMs generally have lower debt and DMs higher, and that many flows from (and is reflected in) this initial condition. The ugly ducklings were always swans, it just takes time for the farm to realize. I'm sure you sense it on many levels. On a personal level, having grown up as a youth and adult in some "emerging markets", I was struck by the swans being called ugly ducklings by my compatriots, a classic of colonialism. You might notice the same in discussions on China — is China really shining all-of-a-sudden, or are our blinders being removed? Thank goodness markets exist. Are central banks that end up enabling a fiscal authority and using the income-inequality-magnifying "portfolio balance channel" (i.e., ginning up markets) ending badly, new news? Thank goodness for currency markets. EM bonds have been performing like swans for over a decade (see our white papers on the asset class) but are still called ugly ducklings.

Our framing is intentional. Much of what we observe in markets is an unveiling or dawning, more than actual news. Japan and the UK's debt, its currency implications, and thus its implications for the Eurodollar system were always there, as we've discussed with our dear readers over many years. Just as the low debt and independent central banks of many EMs were. It's normal for it to unfold this way — how many G-10 sell-side economists (your author is a 'recovered' one) talked about loss of USD reserve status or gold, other than in the past year or so after it was forced on them by global central bank action?

Your author spent many wonderful (seriously) hours debating his G-10 economist colleagues. My argument was that all of their charts were wrong, because they assume or imply that FX=1. Think about it; think of every chart you were taught with, they all assume an FX whose value is 1. Unless, of course, you don't assume FX=1, which is our more complicated world, which is a world in which "fiscal dominance" is not only not a fringe scenario, but also looks like the logical endpoint. In all those hours, the only counter I ever received was that this is unlikely, or distant. Still think so?

Exposure types and significant changes

The changes to our top positions are summarized below. Our largest positions in August were South Africa, Mexico, China, Poland and Brazil:

- We increased our local currency exposure in South Africa and Thailand. South Africa's valuations look more attractive, just as inflation is getting back under control and the budget is benefitting from commodity prices. In terms of our investment process, this strengthened the technical and economic test scores for the country. Thailand's budget and external accounts benefit from energy relief, whereas exports (especially electronics) remained resilient. Low inflation means no pressure on the central bank to hike any time soon. These factors improved the economic and policy test scores for Thailand.
- We also increased our local currency exposure in Hungary and Poland. Poland can benefit from the Eurozone association if the Fed will not hike in September. Low inflation, attractive valuations and the credible central bank provide a supportive backdrop, as regards economic, technical, and policy test scores. Hungary's exceptionally low inflation and the euro-adoption path should support further policy easing, improving the country's policy test score.
- Finally, we increased our local currency exposure in Brazil and Mexico. The change in Mexico reflected price appreciation, whereas the underlying driver in Brazil is the upcoming presidential election, aided by softening growth and the fading energy shock. The opposition candidate's polls are improving – and with them the market hope that Brazil's fiscal issues can finally be addressed. In terms of our investment process, this improved the policy test score for the country.
- We reduced our local currency exposure in Uganda and the Philippines. The Philippine central bank is taking pro-active steps to bring inflation lower, so we used this moment to take partial profits, as the policy test score is becoming less supportive. Taking profits against the backdrop of less compelling valuations was the key driver in Uganda as well.
- We also reduced our sovereign hard currency exposure in Tunisia. The bond staged a nice rally in the summer, and we decided to take profits on the position.
- Finally, we reduced our hard currency sovereign exposure in Israel. The decision reflected two factors. First, there is still no clear path toward the resolution of the Middle East crisis. Second, "risk-free" duration is under pressure, and EM Graduates like Israel might be exposed due to relatively tight spreads. In terms of our investment process, this worsened the policy and technical test scores for the country.

Major Risks of Investing in the VanEck Emerging Markets Bond Fund

- Emerging Market Risk: In emerging markets, the legal, judicial and regulatory infrastructure is still developing and there is much legal uncertainty both for local market participants and their counterparties. Investments in these countries may involve specific political, economic and financial risks that have a significant impact on valuations and liquidity of those investments. They are also exposed to additional risks that are difficult to calculate and would not arise with investments made in OECD countries or other emerging markets.

- Currency Risk: Some of the Fund's assets can be invested in currencies, other than the Fund's currency. The performance of the Sub-Fund can be subject to elevated volatility on the downside as well as on the upside due to currency fluctuations. Northbound investments by the Fund in the Bond Connect Securities will be traded and settled in Renminbi / RMB, the official currency of China. The RMB is currently not a freely convertible currency.

- Credit Risk: The Fund will invest in bonds that are subject to varying degrees of risk that the issuers of the securities will have their credit ratings downgraded or will default, potentially reducing the value of the securities

For the other risk factors and information, please refer to the KID and the Prospectus, available at www.vaneck.com

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