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EMB: What the Iran War Means for Emerging Markets

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

Fund Review

The VanEck Emerging Markets Bond UCITS (Class USD I1) returned -4.16% in March compared to a return of -4.41% 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 52.8%, Carry is 6.78%, yield to worst (YTW) is 7.62%, and duration is 5.88.

Average Annual Total Returns (%) as of 31 March

	1 Mo	3 Mo	1 Yr	3 Yr†	10 Yr†	Life†
USD R1 Inc (Inception 12/06/14)	-4.20	-0.89	13.42	8.71	4.01	1.82
USD I1 Inc (Inception 20/08/13)	-4.16	-0.77	13.99	9.25	4.79	3.51
USD I2 Inc (Inception 20/08/13)	-4.15	-0.75	14.10	9.36	4.92	3.63
EUR Hedged I1 Inc (Inception 06/10/15)	-4.31	-1.25	11.38	6.96	2.52	2.77
EUR Hedged I2 Inc (Inception 22/08/17)	-4.30	-1.23	11.37	7.06	-	1.97
50% GBI-EM/50% EMBI – USD[1]	-4.41	-1.75	11.11	8.19	3.22	2.50

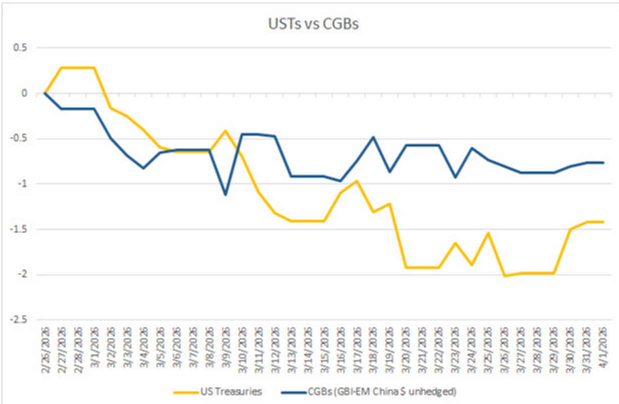
Past performance does not predict future returns. Investing is subject to risk, including the possible loss of principal. The performance is based on complete 12-month periods. The return may increase or decrease as a result of currency fluctuations. You cannot directly invest in an index.

†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

Some changes are probably irreversible, regardless of the war outcome. The Gulf (UAE, Saudi, Kuwait, Oman, Bahrain, etc.) is likely forever changed, economically and politically. These are all excellent credits by-and-large, with high reserves and liquidity, and with even more problematic Bahrain solidly backed by Saudi. Egypt, a big name outside the Gulf is a completely different situation, but who doesn't know that already. The problem for the Gulf from our perspective is that Gulf bonds are priced like the good credits they are, but the business model is being profoundly challenged, let's put it that way. So, it's not clear what exposure to the Gulf is really betting on – even a "positive" outcome (which is not straightforward to define) generates limited upside. Egypt is the only exception and we went long local currency during the last week of March after a major selloff. Political risk inside the Gulf should also be acknowledged as having risen, just as a matter of logic. Europe's energy access is profoundly challenged along with this. Political relations, of which Europe has few in the region, will be key. Pakistan, China, and Russia have new elevated status. The 5-point plan announced by China and Pakistan's foreign ministers in Islamabad over the last weekend of March is an important development; we remain stunned that it is getting little prominence in western media, though that probably strengthens our view. Your author enjoys his game theory and war-gaming, so feel free to reach out to us if you want to dig deep on this topic. The essence of the situation is that without a competing nuclear power, the Israel-Iran conflict (even or especially assuming USA fades) would have escalated inevitably. That inevitability is perhaps no more, with nuclear-armed Pakistan, and China, leading this new stage (Saudi, Turkey, and Egypt foreign ministers also attended). This was the real mark of a new stage in the war (one that we had been following as it developed…this is not "out-of-the-blue"). The fact that it appears unacknowledged only strengthens our view, these days. Latam and sub-saharan Africa gain greater importance, too, due to their commodity-exporting status. Asia faces headwinds, but CNY stability is an anchor. The US faces mostly political consequences, not economic.

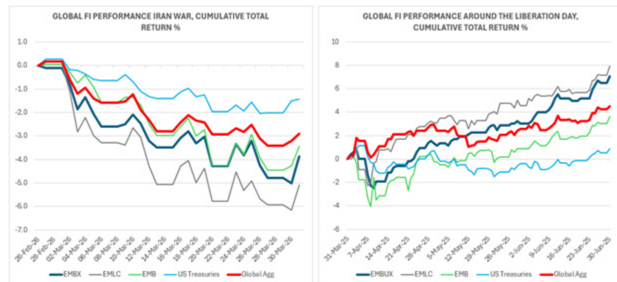
Exhibit 1 - China Government Bonds Stable, While US Treasuries Fall



Source: Bloomberg As of April 1, 2026

But… Markets digested a lot of war news in March. There are clear signs that markets want to move on. The last Monday in March was a test. All the war-related news on popular media over the prior weekend was increasingly escalatory. Monday arrives and US Treasuries are finally stable, and Mexican peso is firm. Tuesday (March 31) and Wednesday (April 1) the path becomes clearer. You could say market and economic worries were also behind US efforts to off-ramp, although that is mind-reading. We should also note that emerging markets have many winners in a high-commodities price scenario, so our market has more to be excited about in any period of market stability. Pakistan and China are playing an important role in making any seemingly temporary stability more durable, as we argued above. We show the side-by-side exhibit (Exhibit 2) to compare major bond performances in the 2025 tariff rally, to the war-month of March. What we observe is that this war month of March 2026 saw similar underperformance of our EM bond benchmarks relative to US Treasuries or the Global Agg that we saw at the beginning of the 2025 rally – generalized "market risk" hit all bonds at first, only for emerging markets to re-assert once the dust settled.

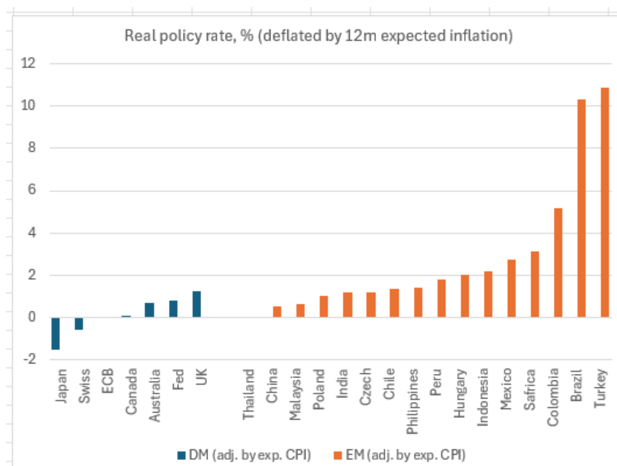
Exhibit 2 – War Sell-off Looks Like Early Part of 2025 When EM Ended Up Rallying



Source: Bloomberg As of March 30, 2026

What is the lesson, so far? As usual, the "risk" mostly applies to developed markets (Europe, Japan, UK, the US politically), with emerging markets having many winners and some losers. In fact, look at DM interest rates in March – they were the real losers from the Iran war with EM bonds simply collateral damage, accentuated by their major rally and inflows in 2025 through early 2026. EMs are not subject to "fiscal dominance", so their central banks should and have maintained high real rates (we show Exhibit 3 as support, but it's an old story). And, "geopolitical" risk can boost EM. The instances are varied, but the key channels are commodities prices, new alliances, and use of each others' currencies in trade but increasingly as reserve assets.

Exhibit 3 – EM Real Policy Rates vs DM



Source: Bloomberg As of March 2026

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in March were Brazil, South Africa, Poland, Colombia and Malaysia:

- We increased our hard currency corporate exposure in Indonesia and China, as well as local currency exposure in China and Taiwan. The key theme here is relative "insulation" of these assets from the Middle East turbulence, with the resulting improvement of the technical test scores. China, in particular, is emerging as an island of stability among major EMs, with limited exposure to higher oil prices and a more advantageous geopolitical standing, which improved the technical, economic, and policy test scores for the country.

- We also increased our hard currency sovereign exposure in Angola and the Republic of Congo, both of which stand to benefit from the higher price of oil, which is their main export. This relationship strengthened the technical test scores for both countries.

- Finally, we increased our hard currency sovereign exposure in Uruguay, and local currency exposure in Chile, Peru, South Africa, Uganda, and Colombia. The key theme in this group is a big improvement in valuations and technicals after the Middle East-related turmoil and the resulting improvement in the technical test scores. Additional country-specific considerations included: (a) Chile's lagging EM peers despite having a market-friendly administration; (b) Peru's central bank deliberately standing on the sidelines and letting the steam off both in local rates and currency; (c) South Africa's central bank maintaining policy credibility after adopting a lower inflation target; and (d) Colombia's central bank frontloading rate hikes and the market being too pessimistic on the outcome of Colombia's presidential election.

- We reduced our hard currency sovereign exposure in the United Arab Emirates, Saudi Arabia, Israel, Kuwait, Egypt, Morocco, and Oman. The key theme in this group was the regional proximity to the Middle East conflict, which significantly worsened the policy test scores for these countries. An additional consideration is that many of these bonds had long duration, which got hit due to higher oil prices, worsening the respective technical test scores.

- We also reduced our hard currency sovereign duration in Turkey, Malaysia, and Sri Lanka, and local exposure in the Czech Republic, as these countries are particularly vulnerable if oil prices stay high for longer in the case of the protracted conflict in the Middle East. In terms of our investment process, this worsened the technical and economic test scores for this group.

- Finally, we reduced our local currency exposure in Mexico and hard currency sovereign exposure in Bolivia. Bolivia's case was relatively benign – the country paid off 30% of the bond in question. Mexico's local bonds, however, looked overbought, which is a major disadvantage for a high-beta country during a major geopolitical conflict. These factors worsened the technical test score for Mexico.

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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