

June Gloom Is Jeune



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VanEck Emerging Markets Bond Fund

EMBAX**EMBOX****EMBYX**

Market Review

The Fund was down -0.72% based on net asset value in June, underperforming its benchmark which was down -0.24%. Year to date (YTD), the Fund was up 0.14%, compared to its benchmark, which was down -2.01%. We remain very constructive on EM debt, with over 60% of the Fund in local currency and carry of 5.6%.

We continue to favor China, Brazil, Mexico, South Africa, Chile, Indonesia, Hungary and Colombia. And, we continue to have no exposure to Turkey and Russia. We added Peru, as our fears over the election of a market-unfriendly President are arguably now priced-in.

Too Much Gloom in June

EM local currency debt was hit in June by a combination of a more hawkish than expected Fed and concerns over the Covid Delta variant hitting EM activity. We think both developments are overstated relative to the ongoing powerful underlying trends supporting EM. On the Fed, if rising rates reflect rising final demand, EM debt performs well. On Covid, we do not see adverse economic or asset price outcomes in many of the countries that are vulnerable—many are simply not going to implement lockdowns, nor can they afford further fiscal stimulus, so immunity will have to come via a more tragic path. Some countries that “best” exemplify this resilience in the face of a hawkish Fed and rising Covid infections are South Africa and Mexico (both long longstanding overweights in our portfolio), which have outperformed other local currency markets this year despite bad outcomes on Covid. Most obviously, it is not clear why bond markets with 6%-8% yields such as Mexico's, or 8%-10% yields such as South Africa's are supposed to be so correlated with rate hikes (in two years!) from a U.S. with 1.5% 10-year rates: especially when their central banks are reacting even more aggressively. Put another way, as we showed with our numerous charts on EM during reflations, fears of Fed hikes can defeat EM for a month or a quarter, but over time it is the carry¹ that wins. And, if you have outright improvement in fundamentals, as we expect, you can see a lot more than just the carry, and we continue to see significant upside risks to EM currencies. For example, ZAR/USD² is up over 3% this year, and we've owned bonds that were yielding just below 10% at the start of the year. MXN/USD³ is mostly flat for the year, but the carry has been around 7%. Both countries have seen improved fiscal accounts this year (good on its own), but are underlining their orthodoxy by not meeting current waves with new spending initiatives. Both countries have also seen very strong external accounts this year, due to a combination of strong terms-of-trade improvements (export prices up relative to import prices) and weaker import demand due to Covid.

¹ Carry is defined as Current Yield.

² ZAR/USD is defined as South African Rand to U.S. dollar. Source: Bloomberg.

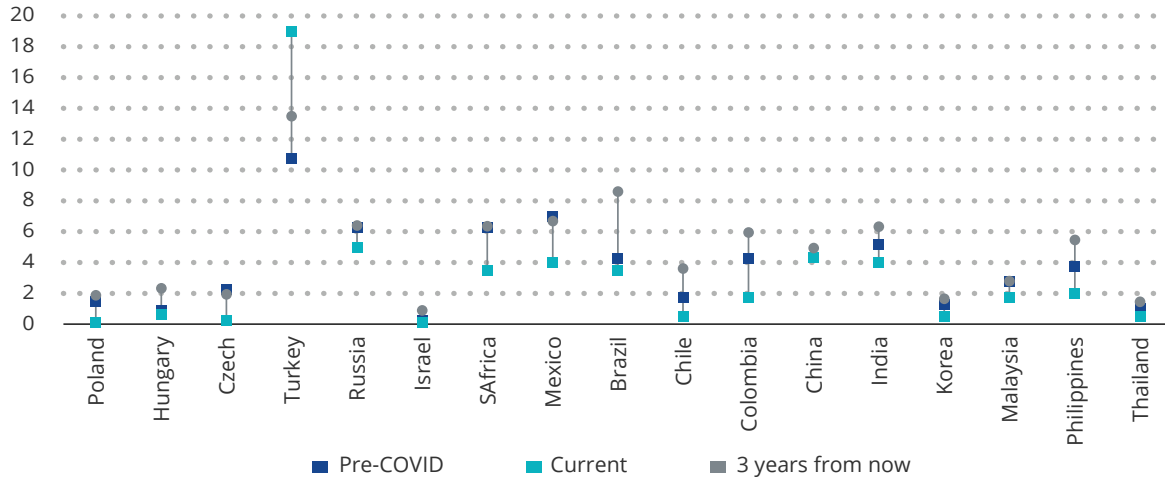
³ MXN/USD is defined as Mexican Peso to U.S. dollar. Source: Bloomberg.

EM Debt Has Reasons to Zoom

The ongoing powerful underlying trends supporting EM include global growth broadening out first from China, now from the U.S. and soon from Europe and the rest of the world. This is happening to an emerging markets universe that has more than met the Fed's expected interest rate hikes and is seeing improved fiscal outlooks (revenues are rising faster than expected). On top of that, EM countries have extremely resilient external accounts, which have been the primary or only cause of serious setbacks in decades past. And, as referred to above, many EM central banks have already started rate-hiking cycles. For these points, we'll provide updates of two slides we've used in the past. Exhibit 1 shows rising EM policy rates. Exhibit 2 shows how much emerging markets local currency (EMFX) is lagging its usual relationship with commodity prices. The former is an argument for the carry, the latter is an argument for the upside risks to EM currencies. We tend to look at our investments in local currency debt right now as having attractive carry relative to fundamentals, with additional significant upside risks to their currencies.

Exhibit 1 – EM Rates on the Move

EM Policy Rates - Past, Present, Future (%)

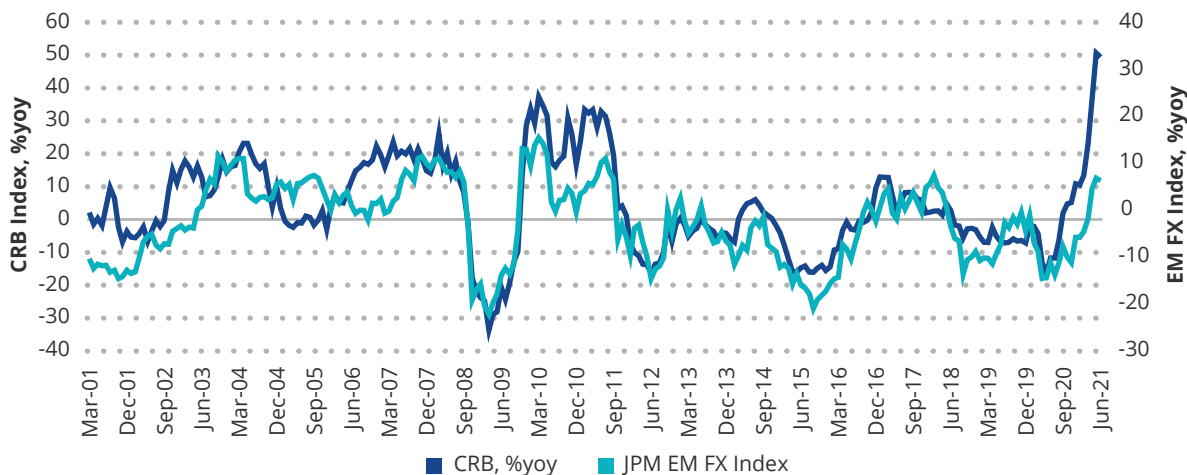


Source: VanEck, Bloomberg. Data as of June 2021.

Note: The 3YR forecast calculation is based on Bloomberg's estimates, priced by the market.

Exhibit 2 – Commodities up, EMFX Just Starting

Commodity Prices and EMFX



Source: VanEck, Bloomberg. Data as of June 2021.

CRB is defined as Commodity Research Bureau Index.

EM FX is defined as J.P. Morgan Emerging Market Currency Index.

Mexico Is the Latest to Sing the Tune

The latest example of EM sticking with its script of orthodoxy comes from Mexico—a stalwart in our portfolio. Most important, the central bank surprised markets with an unexpected 25 bps rate hike!⁴ The policy rate is now 4.25%. The decision was followed by a recent interview with Mexican President Andrés Manuel López Obrador's pick to be the next central bank governor, in which he emphasized the central bank's sole mandate is to control inflation. He even said that central bank efforts to foster growth in EM can be mistaken. This is the pick of the most leftist government Mexico has seen in decades. Mexico is underlining the deep orthodoxy that characterizes policy, in our opinion. We've noted before that attempts to harness central bank power to achieve growth objectives often elicit adverse responses from ordinary and poor Mexicans—they remember the inflation and banking crises that can result and they suffered the most from them. It will take a lot to fool Mexicans twice, we think. It doesn't get more basic than that. The country is also seeing improved fiscal accounts—just the latest snippet shows YTD (through end-May) revenues up 6.7% year-on-year (YoY), while spending is up 4.0% YoY (imagine doing that in developed markets). And, the country continues to have strong external accounts, with its current account surplus running at about 0.4% of GDP (very hard to conceive of that in the U.S.). MXN was a relative winner in June (and YTD), because of this, and there are many more like it in EM.⁵

Exposure Types and Significant Changes

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

- We increased our local currency exposures in Peru and Colombia. The Peruvian assets were badly hit by the presidential elections—President-elect Pedro Castillo leans far left and the market started to price in more populist policies. However, Castillo and his advisors made a number of right statements about preserving Peru's institutional integrity and this includes publicly supporting the central bank governor's second term. We keep our eyes open, but local bond valuations look much more attractive against this backdrop (top valuation bucket), improving the country's technical (and maybe even policy) test scores. As regards Colombia, the currency failed to rally together with higher oil prices—most likely due to the local unrest and the government's inability to pass the promised tax reform. In addition, the market started to price in rating downgrades, which materialized thereafter. With Colombia's move to sub-investment grade already behind us, further downside appears to be limited and the country's technical and policy test scores should start improving.
- We also increased our sovereign hard currency exposure in Iraq and quasi-sovereign hard currency exposure in Qatar. Iraq's government finances are still problematic (the budget is too rigid), but windfall gains from higher oil prices should improve the country's technical and economic test scores. The geopolitical backdrop is also supportive, as the government continues to work with international institutions and U.S. executives. Qatar's quasi-sovereign bond was a new issue from a company that is owned by the State of Qatar and is the world's largest LNG player. Proceeds from the issue will help to finance new projects that will be of exceptional importance to the sovereign. The bond is shaping up to be a very liquid benchmark, with oil prices reaching new highs providing a nice backdrop.
- Finally, we increased our local currency exposure in Poland. This is the continuation of the same theme that encouraged us to make a move several months ago. The country is rebounding fast, it is the largest EM beneficiary of the EU recovery funds and the hawkish rebellion in the central bank is growing stronger by the day. In terms of our investment process, the technical and economic test scores for the country keep improving.

4. Source: VanEck, Bloomberg. Data as of July 8, 2021.

5. Source: VanEck, Bloomberg.

Average Annual Total Returns (%) as of June 30, 2021

	1 Month [†]	3 Month [†]	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-0.72	3.91	0.14	14.25	5.44	2.94
Class A: Maximum 5.75% Load	-6.43	-2.06	-5.62	7.68	4.19	2.26
Class I: NAV (Inception 7/9/12)	-0.69	3.94	0.29	14.41	5.73	3.23
50 GBI-EM GD / 50% EMBI GD	-0.24	3.81	-2.01	7.07	4.10	2.96

As of March 31, 2021	1 Month [†]	3 Month [†]	YTD	1 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-2.13	-3.64	-3.64	34.23	5.17	2.57
Class A: Maximum 5.75% Load	-7.76	-9.18	-9.18	26.51	3.94	1.88
Class I: NAV (Inception 7/9/12)	-2.07	-3.51	-3.51	34.58	5.48	2.87
50 GBI-EM GD / 50% EMBI GD	-2.02	-5.60	-5.60	14.57	4.13	2.61

[†] Monthly returns are not annualized.

Expenses: Class A: Gross 2.30%; Net 1.25%. Expenses are capped contractually until 05/01/22 at 1.25% for Class A. Caps exclude acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses. Please note that, generally, unconstrained bond funds may have higher fees than core bond funds due to the specialized nature of their strategies.

The tables above present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect temporary contractual fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investors' 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). An index's performance is not illustrative of the Fund's performance. Certain indices may take into account withholding taxes. Index returns assume that dividends of the index constituents in the index have been reinvested. Investing involves risk, including loss of principal; please see disclaimers on next page. Please call 800.826.2333 or visit vaneck.com for performance current to the most recent month ended.

Source: VanEck, Bloomberg.

Prior to May 1, 2020, the Fund was known as the VanEck Unconstrained Emerging Markets Bond Fund.

International Monetary Fund (IMF) is an international U.S.-based organization of 189 countries focused on international trade, financial stability, and economic growth.

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 increase 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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Investing involves risk, including loss of principal. 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 associated with its investments in below investment grade securities, credit, currency management strategies, debt securities, derivatives, emerging market securities, foreign currency transactions, foreign securities, hedging, other investment companies, Latin American issuers, management, market, non-diversification, operational, portfolio turnover, sectors and sovereign bond risks. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. As the Fund may invest in securities denominated in foreign currencies and some of the income received by the Fund will be in foreign currencies, changes in currency exchange rates may negatively impact the Fund's return. 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. The Fund may also be subject to risks associated with non-investment grade securities.

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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