

# Fed Cuts Plus China Stimulus Solidify EM Bond Momentum



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China stimulus and the start to the Fed’s cutting only adds to emerging market bonds strong momentum heading into the end of 2024.

The **VanEck Emerging Markets Bonds Fund** was up 3.26% in September, compared to up 2.62% for its benchmark. Year to date the fund is up 8.44%, compared to up 6.80% for its benchmark, the 50% J.P. Morgan Government Bond Index-Emerging Markets Global Diversified (GBI-EM) and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), and compared to up 3.43% and 3.65% for the ICE BofA Broad Market Index (Global Agg) and 10-year Treasuries, respectively. For the trailing 5-year period, the fund’s cumulative return is 24.7%, compared to 3.9% for its benchmark (and -6.1%, -6.5% for the Global Agg and 10-year Treasuries, respectively).

The decades-old story of emerging market (EM) bonds outperforming developed market (DM) continues. During September, the fund did very little in the way of portfolio adjustments, other than the last few implementations of our reduction in long-duration dollar-denominated investment grade, in favor of higher-beta EM local-currency. We also increased exposure to China property (before China’s stimulus announcements). The reduction in duration is mostly to fund EM local exposure, and only somewhat a concern on the direction of U.S. rates. We continue to like local-currency, especially higher-beta, and have reduced our duration into the rally in U.S. rates. Brazil, Chile, Colombia, and Mexico now complement our previous Asian stalwarts (Thailand, Malaysia, Indonesia, Korea) and South Africa in local currency. In USD, investment grade seems a pure US-rates trade (so we are averse), while high yield sovereigns remain our hunting ground. Carry is 7.6%, yield to worst is 9.0%, duration is 6.5 and local makes up around 60.9% of exposure.

Average Annual Total Returns* (%) (In USD)							
As of September 30, 2024	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 07/09/12)	3.19	7.73	7.97	17.00	2.71	4.17	1.88
Class A: Maximum 5.75% load	-2.74	1.54	1.77	10.27	0.70	2.94	1.28
Class I: NAV (Inception 07/09/12)	3.26	7.84	8.44	17.58	3.07	4.52	2.20
Class Y: NAV (Inception 07/09/12)	3.35	7.98	8.41	17.52	2.96	4.46	2.14
50% GBI-EM/50% EMBI	2.62	7.57	6.80	16.02	0.15	0.78	1.98

\* Returns less than one year are not annualized.

**Expenses: Class A: Gross 2.08%, Net 1.21%; Class I: Gross 1.34%, Net 0.86%; Class Y: Gross 1.35%, Net 0.96%.** Expenses are capped contractually until 05/01/25 at 1.20% for Class A, 0.85% for Class I, 0.95% for Class Y. Caps excluding acquired fund fees and expenses, interest, trading, dividends, and interest payments of securities sold short, taxes, and extraordinary expenses.

**The performance data quoted represents past performance. Past performance is not a guarantee of future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Performance may be lower or higher than performance data quoted. Please call 800.826.2333 or visit [vaneck.com](http://vaneck.com) for performance current to the most recent month ended.**

The “Net Asset Value” (NAV) of a Fund is determined at the close of each business day, and represents the dollar value of one share of the fund; it is calculated by taking the total assets of the fund, subtracting total liabilities, and dividing by the total number of shares outstanding. The NAV is not necessarily the same as the ETF’s intraday trading value. Investors should not expect to buy or sell shares at NAV.

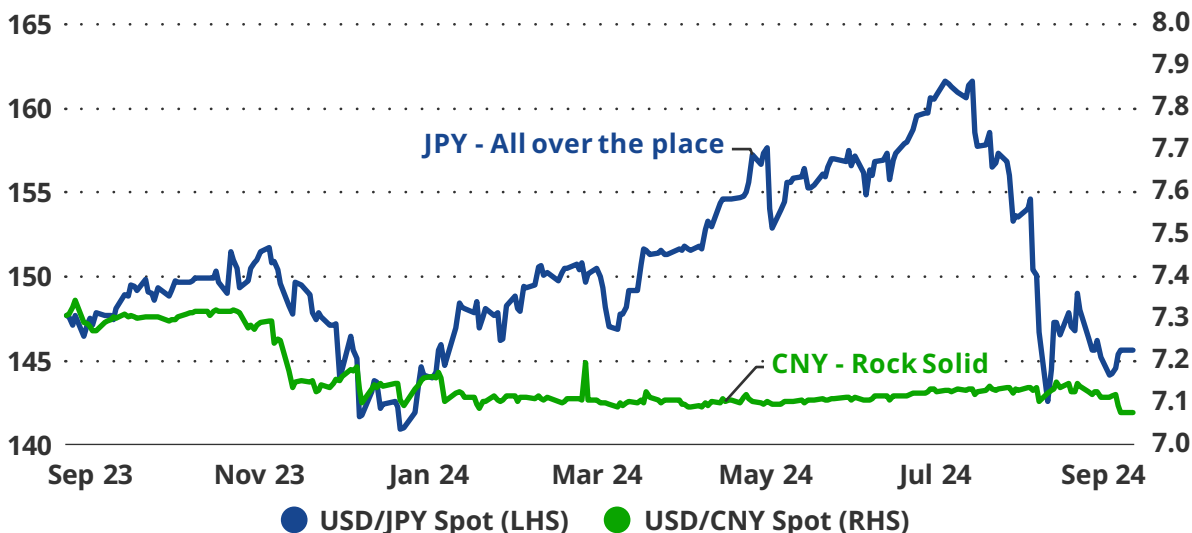
**China's monetary, structural, and fiscal stimulus are supportive of commodities and rest-of-world (ROW) growth. A Fed cutting, combined with these new growth upside risks is a great setup for an EM that wins economically from these developments and whose starting point is even higher interest rates than DM. A key concern of ours, given our positioning, had been ROW growth, which is now less of a risk.** We won't repeat the litany of monetary (policy rate cuts), structural (relaxations on property purchases), and now fiscal (actual spending/demand) policies Chinese authorities are fleshing out and implementing. Suffice it to say that the line into actual demand-creating policy has been crossed with the invocation of fiscal policy. Gone are the days when we could respond to policy initiatives by simply asking "well, will these facilities be demanded?" And, given the surprise this still seems to be to the market, being underweight the potential implications could be impractical.

**Very few expected or were positioned for this development, which means that the second-guessing isn't relevant for now. In particular, the main questions surrounding China stimulus -- "U.S. politics", "geopolitics", "China policy has no traction yet", or "China is uninvestable" -- are way too big. Don't get in your own way, it can be "good" even while you keep a close eye on it.** Let's tackle some of these issues. Basically, one skeptical reaction to China is either a combination of "U.S. politics" or "geopolitics" making China "uninvestable". That may be true, given the unpredictability of tariffs and sanctions under a Republican-sweep scenario (remembering also that China can sanction the West, having a larger net international investment position). That's a real risk and a reasonable conclusion. But so what does this mean, practically? U.S. elections first need to happen, and then we need to see zero-modulation or climb-down by a newly elected President Trump, or posit that none of these risks are already priced. That seems like too many assumptions, compared to the fact of Fed rate cuts, ongoing Chinese currency stability/strength, and policies that can anyway take years to work out. The other skeptical reaction to China is that economic support facilities only work when they are demanded and that there was no "forced" demand. To that, our point is twofold. First, the fiscal line of forced demand has been crossed and it's very rare to back down from these. Second, waiting for clear evidence of this demand doesn't seem to fit the job description of prediction, not observation.

**Speaking of "geopolitics", recent actual (not speculative questions like those above) escalation between Israel/Iran has a straightforward implication that is positive for EM -- higher commodity prices.** As we've argued before, the world is not de-globalizing, the West is de-globalizing and ROW are accelerating globalization. The biggest un-remarked fact in markets remains, to our eye, the massive positive terms-of-trade shock for EM, particularly Asia. It is buying oil at lower prices than we see on our screens, among all the other structural developments such as increased use of each other's currencies in trade and as reserve assets. These themes were developed in our "Fiscal Dominance" research pieces --- which reminds you that the problems with the West are more profound and fixed (high debt, for example) than whatever headlines happen to reveal them.

**CNY stability continues to anchor Asian EM as a safe-haven during rough times (e.g., the recent JPY carry trade unwind) and supportive during growth-positive times such as may be being inaugurated now. LATAM has lagged this strength and looks attractive, and more -- the market got beaten up being trapped in big overweights in Mexico and Brazil positions that were simply too heavy, but not bad. We were very underweight Mexico and Brazil, but switched to overweight in recent months. Fed rate cuts and China stimulus are a great setup for EM bonds, and investor non-participation only strengthens the case.** Does it get any better than this? EM bonds have been ignored for a decade, because they have the word "bonds" in them and are vaguely considered risky. As we've noted in our publications, EM bonds have outperformed DM bonds over multiple time periods in absolute and risk-adjusted terms. The weak headline performance of "bonds" tainted an EM bond world that outperformed in a "bad bond" world, and looks set to outperform in a "good bond" world. For the trailing 5 years into 9/30/24, our benchmark cumulative return was up around 4% while the Agg and treasuries were down around 6% (and our fund was up almost 25%). Please reach out to us if you want this sliced into different time periods or sub-classes, we've done it all.

**Exhibit 1 – CNY Insulated EM From DM Japan's Volatility**  
**Exchange Rate Trends: CNY vs. JPY**

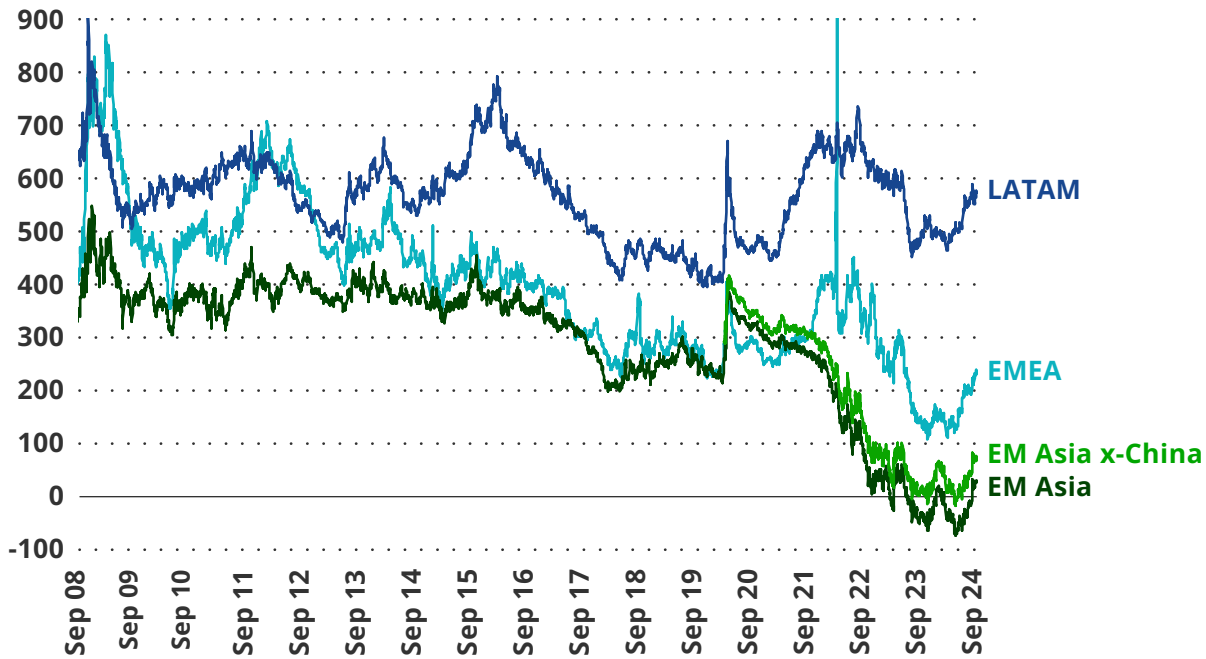


Source: VanEck Research; Bloomberg LP; Data as of September 30, 2024

We have no new charts in this monthly because they are by now exhausted – EM has low debt, pays you more, has outperformed DM over multiple time periods, was constrained by a Fed delaying cuts and growth concerns, which are now arguably addressed. Some recycled charts occur below.

**Exhibit 2 – Asia EM Rallied During Risky Past 4 years**

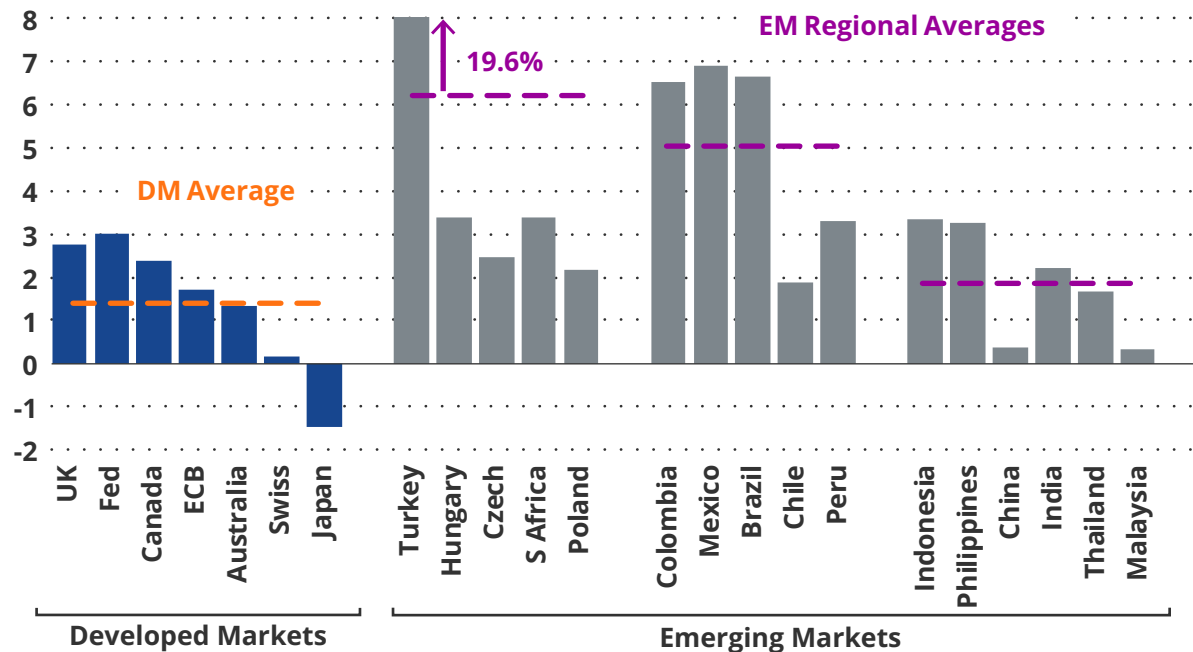
EM Regions - GBI-EM/5Y U.S.T Yield Differentials, bps



Source: VanEck Research, Bloomberg LP. Data as of September 2024.

**Exhibit 3 – Latam and EMEA Still Have High Real Rates**

Real Policy Rates in EM and DM (%)



Source: VanEck Research, Bloomberg LP. Data as of September 2024.

## Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in September were Mexico, South Africa, Thailand, Indonesia, and Malaysia:

- We increased our hard currency corporate exposure in China and Israel, and hard currency sovereign exposure in Argentina and El Salvador. The initial move in China took place on the back of easing property regulations in major cities, and we added more exposure as China unveiled its ambitious support package in late September. Our decisions in Argentina and El Salvador were also motivated by better policies – specifically by more orthodox 2025 fiscal targets. In terms of our investment process, this improved the policy test scores in all three countries. Israeli assets sold off a lot on the back of geopolitical turbulence, and some corporate valuations now look very attractive, improving the technical test score.
- We also increased our local currency exposure in South Africa and Mexico. In Mexico, the market focused too much on judicial reform, while completely ignoring President Sheinbaum's positive signals on the fiscal front, as well as her shrewd cabinet appointments, both of which improved the policy test score for the country. South Africa's fiscal success is only now started to be noticed and acknowledged by the market, while the central bank had finally been able to start cutting interest rates following successful disinflation. In terms of our investment process, this improves the policy test score for the country.
- Finally, we increased our hard currency sovereign exposure in Nigeria, Tunisia, and Sri Lanka. Nigeria is benefitting from the stabilizing oil prices and the resulting savings on fuel subsidies. These factors improve Nigeria's technical and economic test scores. Tunisia's international reserves look adequate, whereas a small current account deficit lowers external risks. Both factors improve the economic test score for the country. In Sri Lanka, the initial concerns about the presidential election results eased as President-elect sounded more conciliatory and less radical in his initial policy statements, giving a boost to the country's policy test score.
- We reduced our hard currency sovereign exposure in Saudi Arabia, the United Arab Emirates, and Qatar, as well as hard currency quasi-sovereign exposure in Qatar. Our move reflected the fact that long duration positions are getting crowded, and the Fed's aggressive rate cuts might result in stronger growth and higher inflation pressures down the road. In terms of our investment process, this worsened the technical test score for all three countries.
- We also reduced our hard currency sovereign exposure in the Dominican Republic and Poland. We used the Dominican Republic proceeds as funders for more interesting and attractively valued opportunities. In Poland, we were concerned about less attractive valuations and the impact of severe floods on the economy, which worsened the economic test score for the country.
- Finally, we reduced our local currency exposure in Uruguay and Peru. Political and policy noise associated with the Uruguayan elections and the plebiscite worsened the policy test score for the country. In Peru, we freed space for other assets, following the timely and relatively cheap resolution of the national oil company's crisis. The resolution was hailed by two rating agencies which raised Peru's outlook from negative to stable.

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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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The FTSE Treasury Benchmark 10 year measures the return of the 10 year U.S. Treasury.

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