May 2022

Stormy Weather

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Portfolio Manager

VanEck Emerging Markets Bond Fund

EMBAX | **EMBUX** | **EMBYX**

Overview

The Fund went up +0.45% in May, underperforming by -45bps of the +0.90% rise in its benchmark, 50% J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI). Year-to-date (YTD), the Fund outperformed its benchmark by +432bps, with the Fund down -8.47% compared to down -12.79% for its benchmark. YTD, not owning any Russian assets despite their large weight in our benchmark was the biggest contributor to outperformance. But, our very low duration for most of the year also contributed. On a country-specific basis, Ukraine, Kazakhstan and Peru were our big winners. Ukraine's finances continued to benefit from international support, and we didn't think default risk would materialize by September (the month our favored bond will mature). But, we are looking to close Ukraine simply because a lot of the good news was priced and it's clearly an inherently uncertain situation. Kazakhstan benefited from the rally in the Russian rouble.

We continued big changes. Up until April, we saw higher inflation/policy rates and higher commodity prices, and we therefore favored Emerging Markets Currency (EMFX) but maintained very low duration. Currently, the team's view is that the bad news of higher policy rates is priced into the front-end of the U.S. yield curve and unlikely to change, but the bad news of growth is not yet priced. As a result, we continue to look to increase low-beta duration and decrease EMFX. Now, though, we have significantly increased duration and reduced EMFX. By the end of May, we reduced local currency to 21.4%, our carry[1] remained high at 6.1%, and duration went up to 8.0 (about neutral to the benchmark). Mexico, Indonesia, Malaysia, Colombia and Brazil were the Fund's largest country exposures.

The bad news of higher policy rates got priced largely in the 2-year Treasury, which is at 5-year highs, but the 30-year Treasury is not at highs yet; we are looking to increase low-beta duration further on weakness. Recession risks are rising, with a European recession, oil embargo risks (our read is that the embargo is not yet all down in black-and-white), and China's Zero-Covid uncertainties adding to U.S. Federal Reserve (Fed) rate hikes as headwinds. And, the Fed is unlikely to change its policy path soon. The fast increase in policy rates is with us all year (the pricing of the policy rate and the rhetoric behind the policy), we think. May's 8.6% Consumer Price Index (CPI) ensures their ongoing activation. But, who doesn't know that the Fed is activated? That's why we think we are getting closer to stability in long-end U.S. treasuries. Policy rates should remain priced for a hawkish Fed, and any death-rattles for the long bond should be bought (we'd say 3%-3.5% on the US 30-year). However, what the market hasn't fully digested, we believe, are the risks to growth. And we think that recession risks are mounting and un-anticipated by the market. This means a complicated market. To simplify them, we come away from meetings looking to increase low-beta spread duration and decrease some EMFX.

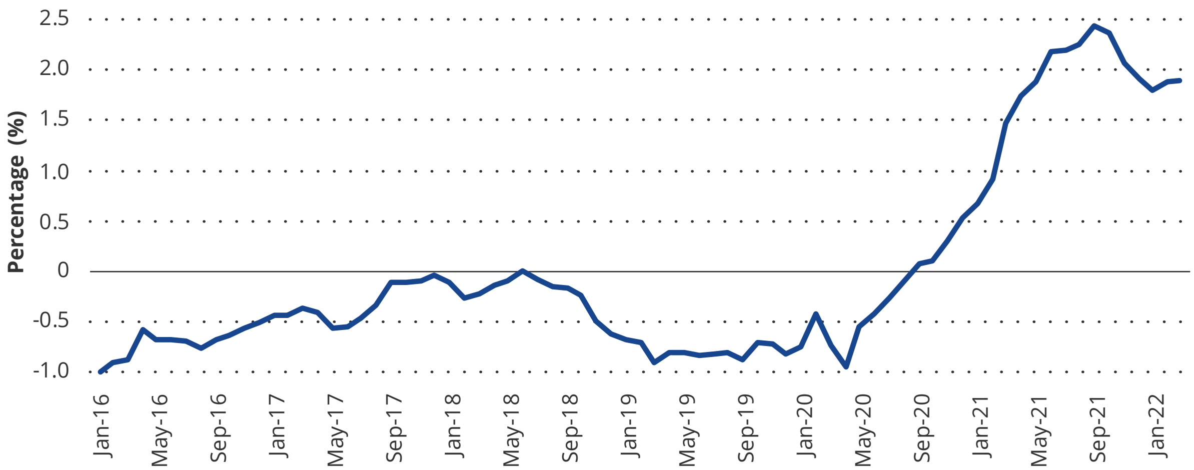
Policy rates reflect likely policy path – it's time to accumulate duration. Fed funds futures price in hikes and two cuts in 2023! Even futures are pricing in an end to the hiking cycle. A hawkish Fed is already priced, and the real Fed funds rate could already be at neutral. We'd add that financial conditions were already significantly tighter going into this hiking cycle.

Emerging Markets (EMs) have hiked pre-emptively, this time; if the Fed is early, late or whatever, we believe EM has built in a cushion. For the first time, EM central banks have pre-empted Fed hikes. They are normally more hawkish, but in this latest episode they are also more pre-emptive. They entered the Russia/Ukraine crisis having already tightened monetary policy.

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 6.61% as of 5/31/2022.

But unlike the bad news of higher policy rates, the bad news of weaker growth has not been appreciated by the market. We were looking at a nascent global recovery just before the Ukraine invasion; the ratio of new orders to finished goods was rising, pointing to a hopeful future. The supply chain shocks that created inflationary pressures and upward pressure on policy rates were fading. The worst was behind us. Then Russia invaded Ukraine. And the supply chain issues arguably got worse, because the Russian dimension now intersects closely with the Chinese. Anyway, those shock waves are well-discussed, with the complexity of fertilizer production a popular example of how important Russia's exit from global commodity markets is.

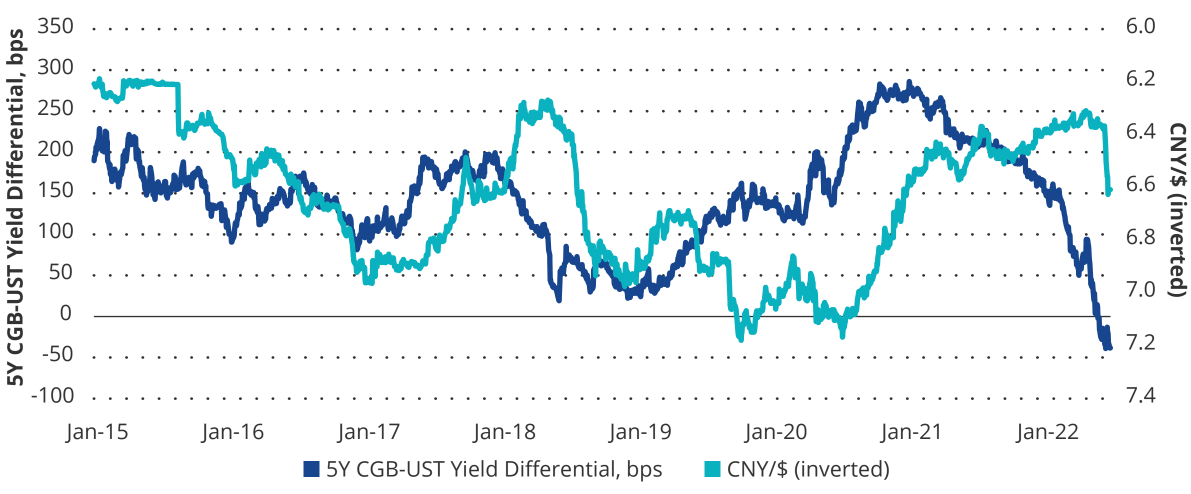
Exhibit 1 – Is It Safe to Go in?
Citi Global Supply Chain Pressure Index



Source: Bloomberg. Data as of March 31, 2022.

We think all of this maps to growth risks, in particular the risk of a European recession; China also seems to have political incentives that trump economic ones, adding to slowdown risks. We think embargo risk is high and markets are unprepared. We also think that Chinese authorities are going to continue to be less growth-focused due to political concerns as well as respect for the limits of leverage. On top of this, the U.S. fiscal impulse is declining. All of these conspire to work against global growth. We argued in our "Evergrande is Spreading" article that there's risk to the renminbi (CNY), which seems to be materializing. Exhibit 2 shows that CNY downside pressures are getting exacerbated by the sharp rise in U.S. rates.

Exhibit 2 – Would You Buy Chinese Bonds at Lower Rates Than Treasuries?
CNY and China-U.S. Rate Differential



Source: Bloomberg. Data as of May 4, 2022.

So what? A weak Eurozone and China keep us away from a lot of EMFX, wary of spread duration, and attracted to low-beta duration. That's the bottom line of how we've positioned for the coming environment. A weak Eurozone means a European Central Bank (ECB) that will be torn between hiking along with the Fed versus hiking into a recession. That will not be supportive of central/eastern European local bond markets that make up a big portion of the benchmark. We believe a weak China means limited growth upside in Asia, and because Chinese market rates may face upward pressure, it's hard to see tailwinds to Asian local currency bonds. And we worry about Latin currencies, as they are high-beta in a risk-off environment. What this leaves us with is a bias to reduce local currency exposure overall, in favor of increasing exposure to long-duration low-beta EM in USD. We're maintaining our low-duration high-yielding USD exposures.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in May were Mexico, Indonesia, Malaysia, Colombia and Brazil:

- We increased our hard currency sovereign exposure in Romania, Malaysia, and Mexico, and local currency exposure in Mexico. As regards Mexico's local currency bonds, Mexico's economy is among the least dependent on China's growth hiccups among major EMs, and its central bank proved more hawkish, credible, and independent than feared after the appointment of the new governor. In terms of our investment process, this improved the country's policy and economic technical test scores. As regards hard currency bonds in all three countries, these were longer duration instruments which should perform well once the market starts pricing in risks associated with the weaker growth outlook in the U.S. and other major economies. In terms of our investment process, this improved the technical test scores for these countries. Further, conditionality imposed by the EU recover funds can be a decent policy anchor in Romania. In addition, the governing coalition has a large majority in the parliament, which should make it easier to stick to the policy agenda/targets. These factors strengthen Romania's policy test score.

- We also increased hard currency sovereign and local currency exposure in Hungary and local currency exposure in Poland. Hungary should experience greater political stability after the parliamentary elections, and the government's intention to reach a compromise with the EU regarding the recovery funds can act as a positive catalyst for Hungarian assets. The slowing economy and a "marathon" tightening cycle should help to correct the "twin" deficits in due time. In terms of our investment process, this improves the policy test score for the country. Poland's domestic landscape is looking more stagflationary these days, but the central bank signaled further rate hikes to combat inflation, while Ukrainian refugees should help to support domestic consumption and services. In terms of our investment process, this improves the economic and policy test scores for the country.

- Finally, we increase hard currency sovereign exposure in the United Arab Emirates (UAE) and Republic of the Congo, and hard currency corporate exposure in Thailand. Our decisions in UAE and Thailand were driven in part by emerging global narratives – stronger commodity prices (oil) and duration's likely outperformance as the market continues to price in global recession risks. Specifically, we added longer duration sovereign bonds in UAE and a refinery bond in Thailand. In terms of our investment process, this strengthened the technical test score for the countries. As regards Congo, we already had a small position in the country, which reflected a fairly decent progress towards an IMF deal (and the improved policy test score).

- We reduced our local currency exposure in South Africa, Chile, and Brazil, and used part of the proceeds to open positions in longer duration sovereign bonds. The main reason for closing long positions in local bonds was their exposure to the U.S. Dollar strength and higher inflation pressures – especially in the case of countries that outperformed earlier this year, where positioning and valuations started to look "stretched". In terms of our investment process, this worsened the technical test score for these countries.

- We also reduced our local currency exposure in Indonesia and Uruguay. The primary concern in Indonesia was contagion from China's prolonged growth hiccup and the renminbi's weakness, both of which worsened the country's technical test score. As regards Uruguay, we continue to appreciate changes that are taking place on the monetary policy side, but we chose to take partial profits after the valuations started to look less attractive – worsening the technical test score for the country.

- Finally, we reduced hard currency sovereign exposure in Ghana and Tunisia, and hard currency corporate exposure in Georgia. In Georgia, we sold one corporate bond due to change of control put. In Tunisia, the main trade union's decision to boycott national dialog worsened the policy test score for the country. And in Ghana, we became alarmed by further IMF program setbacks, including official statements that that additional policy measures (such as an E-Levy, policy rate hikes, or civil servants wage cuts) should be enough to deal with the debt quagmire. In terms of our investment process, this worsened the policy test score for the country.

Average Annual Total Returns (%)

As of May 31, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	0.45	-5.29	-8.47	-13.40	1.30	1.47	1.26
Class A: Maximum 5.75% Load	-5.33	-10.74	-13.73	-18.38	-0.68	0.28	0.65
Class I: NAV (Inception 7/9/12)	0.32	-5.39	-8.41	-13.21	1.52	1.75	1.53
50 GBI-EM GD / 50% EMBI GD	0.90	-6.11	-12.79	-15.92	-2.31	-0.57	0.93

As of March 31, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	Life
Class A: NAV (Inception 7/9/12)	-0.74	-4.06	-4.06	-5.00	2.75	2.64	1.77
Class A: Maximum 5.75% Load	-6.45	-9.58	-9.58	-10.46	0.74	1.43	1.15
Class I: NAV (Inception 7/9/12)	-0.84	-4.01	-4.01	-4.79	3.06	2.92	2.05
50 GBI-EM GD / 50% EMBI GD	-1.21	-8.24	-8.24	-7.95	-0.51	0.99	1.47

† Returns less than one year are not annualized.

Expenses: Class A: Gross 2.30%; Net 1.25%. Expenses are capped contractually until 05/01/23 at 1.25% for Class A and 0.95% for Class I. 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 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 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.

Disclosures

International Monetary Fund (IMF) is an international U.S.-based organization of 190 countries focused on international trade, financial stability, and economic growth.

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 mea- sure 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 promote increased 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.

A **handle** is the whole number part of a price quote, that is, the portion of the quote to the left of the decimal point.

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.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time and portfolio managers of other investment strategies may take an opposite opinion than those stated herein. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. Non-VanEck proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Securities Corporation ©2022 VanEck.

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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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