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EM Debt Resilient Despite Perceived Risks from U.S. Protectionism

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> Emerging markets continue to chug along, despite risks emanating from the U.S. election result.

The **VanEck Emerging Markets Bond Fund** was down 0.73% in November, compared to 0.31% for its benchmark. Year-to-date, the fund gained 4.79%, compared to 3.74% 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 0.37% and 0.97% for the Global Agg and 10-Year U.S. Treasuries, respectively. For the trailing 5-year period, the fund's cumulative return is 20.1%, compared to 0.5% for its benchmark (and down -8.7% and down -8.2% for the Global Agg and Treasuries, respectively). The decades-old story of emerging market (EM) bonds outperforming developed markets (DM) continues. During November, the fund's overweight in Brazil local currency caused underperformance. The fund reverted to neutral (in early December) as the situation plays out. The fund continues to like South Africa and Mexico (following its U.S. and Mexican elections-related sell-offs). We continue to like curated local-currency, especially higher-beta, but have covered our underweight in duration. In USD, IG seems a pure U.S.-rates trade (with some high-quality exceptions in the Gulf), while HY sovereigns remain our hunting ground. Carry is 8.0%, YTW is 9.9%, duration is 5.8 and local makes up around 57.2% of exposure.

Average Annual Total Returns* (%) (In USD)

As of November 30, 2024	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 07/09/12)	-0.70	-0.19	4.43	8.49	2.28	3.42	1.58
Class A: Maximum 5.75% load	-6.41	-5.93	-1.57	2.25	0.28	2.20	0.98
Class I: NAV (Inception 07/09/12)	-0.73	-0.22	4.79	8.78	2.57	3.74	1.88
Class Y: NAV (Inception 07/09/12)	-0.66	-0.16	4.73	8.71	2.47	3.65	1.82
50% GBI-EM/50% EMBI	0.31	-0.33	3.73	7.85	0.16	0.11	1.58

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

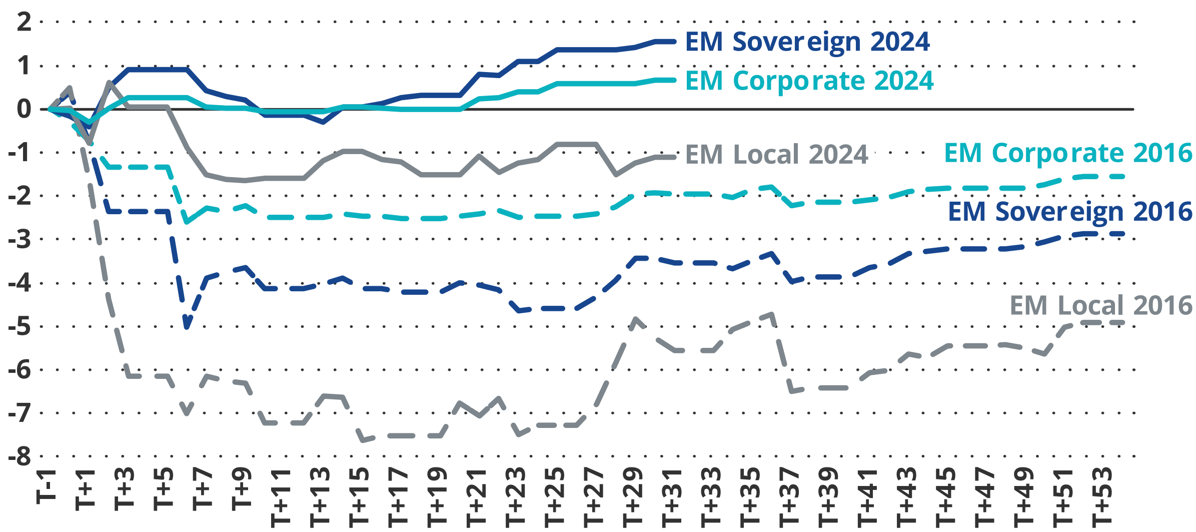
*Returns less than one year are not annualized. Effective 4/30/20, all of the Fund's Class C shares were converted to Class A shares. Class C shares are no longer available for sale.

The performance data quoted represents past performance. Past performance is not a guarantee of future results. Performance may be lower or higher than performance data quoted.

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. Investors should not expect to buy or sell shares at NAV.

EM continues to chug along despite risks, real or imagined, emanating from U.S. elections. The chart below shows EM bonds (local, USD sovereign, USD corporate) performing fairly well following the election, and especially relative to their performance in the 2016 election (which is also in the graph). We note this because EM bonds have been outperforming DM bonds (Treasuries and the Agg) on absolute and volatility-adjusted terms for the past couple decades. The story of EM bond outperformance continues even now. Those who follow us know that we expect local-currency bonds to be the next real winner, and the past 5 years have seen the best of EM (EM Asia) rally to see their yields equal to those of DMs. And this was in a period of great uncertainty in DM bond markets (UK Gilt crisis, U.S. technical default and downgrade, Japan's exit from Yield Curve Contral).

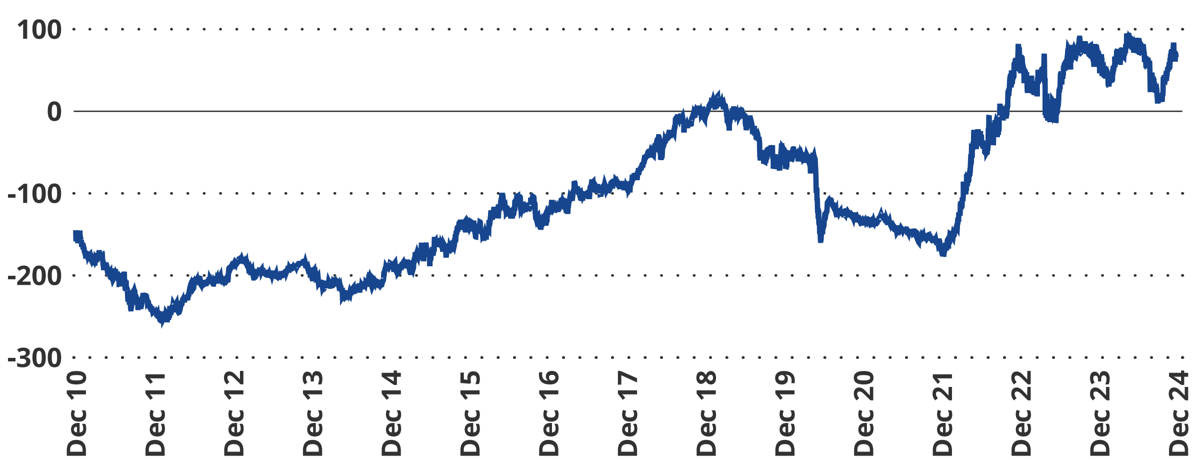
Exhibit 1 – EM Doing Fine After U.S. Elections and Compared to 2016



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

Is bullish data already priced by rates? Rates sold off sharply after mid-September, moving from 3.60% to 4.40%, before settling at the current 4.20%. We wrote last month that "every economic data point released since the Fed's 50 basis point (bps) policy rate cut on September 18 has been stronger than expected", so this makes sense but may now be priced. Currently, inflation looks set to generate few concerns over coming months, so a December 18 rate cut is still in the cards (after being briefly priced out). If we follow the data, this should be bullish for EM currencies (EMFX) as well as rates. In fact, the only obvious headwind to our view is that U.S. 2-year rates versus rest-of-world remain very high, as per the chart below. This could obviously support the U.S. dollar. In fact, it was our most-commonly-cited risk to our bullish stance on Asian local currency bonds in recent years – that the U.S. interest rate differential with China (or EM Asia, fill in the blank). And, low-and-behold CNY remained incredibly stable even during the JPY carry-trade unwind of the summer (see recent monthlies for those charts). As we noted in our monthlies, this anchored EMFX against this classic and legitimate challenge of low relative interest rates.

Exhibit 2 – U.S. 2-Year Rates High Verus ROW, EM Still Humming



*ROTW are the U.S. main trade partners weighted by their respective trade shares

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

President-elect Trump's policy rhetoric is provocative, but also theatrical, contradictory, and lacking specifics. Could the big supposed "challenges" from the new administration end up being "straw dogs"?. The optimistic angles from Trump's own framing of the issues are that Mexico and China should find it *easy* to clamp down on the fentanyl trade (is that really a trade-off, is there a pro-fentanyl lobby?), that U.S. labor markets *won't* suffer inflationary pressure if tighter immigration policy simply means deporting criminal migrants (is that really a trade-off, or a release-valve?), and that tariffs on a BRICs currency which doesn't even exist is pure theatrics (that's literally *not* a trade-off as BRICS do not have a currency). Our view is that so far there is high ratio of noise to signal, and that in the absence of actual policies, which aren't likely until January or later, data and facts will dominate. If a December rate cut in the U.S. becomes a fact, this should boost EMFX in a market worried about and pricing a lot of tariff noise already. **We'll worry about tariffs when we see the whites of their eyes.**

It's all about the details in EM – Mexico good, Brazil bad, for example. Mexico suffered most from U.S. elections but has since stabilized. Whereas Brazil has suffered the most, and from its own hands, and is not stabilizing. In addition, South Africa has been stable and carrying, due to its own hard policy work. Developments such as these will drive performance in EM, in our view, not top-down macro considerations. Our best performer this year has been not owning Mexico Mbonos, a big benchmark weight that suffered most from its own and U.S. elections. We happen to see value there now at these cheaper levels, and would note that Mexican President Sheinbaum's first meeting with President-elect Trump went far better than his meeting with Canadian Prime Minister Trudeau (a DM), and Mexico seems very well-prepared. Brazil's President Lula, on the other hand, looks to be courting a fiscal crisis. We had given Brazil the benefit of the doubt given its cheapness, very independent and hawkish central bank, and strong external accounts. But Lula keeps under-performing on fiscal proposals and seems to be ignoring the market reaction. As a result, we intend to reduce our overweight and wait for greater policy clarity from the government.

Exposure Types and Significant Changes

The changes to our top positions are summarized below. Our largest positions in November were Mexico, South Africa, Brazil, Indonesia, and Turkey:

- We increased our local currency exposure in Mexico and Colombia. Mexico's proposed 2025 fiscal consolidation is not ideal, but the government does target a smaller budget deficit with adjustment driven mostly by spending cuts, which improved the policy test score for the country. Colombia's Ministry of Finance announced deeper spending cuts, reducing the underlying fiscal risks for 2025 and improving the country's policy test score.

- We also increased our local currency exposure in the Czech Republic and hard currency sovereign exposure in Ghana. With the debt restructuring completed, Ghana started trading its new external bonds, which look attractive relative to sovereign fundamentals. As regards the outcome of the December presidential elections, both candidates expressed commitment to fiscal consolidation, strengthening the policy test score for the country. In the Czech Republic, the central bank is getting closer to a policy pause, while the economy stands to benefit from China stimulus (via Germany), which should improve the technical test score.

- Finally, we increased our hard currency sovereign exposure in Israel and Bahrain. The geopolitical backdrop for Israel improved a lot after the U.S. presidential elections, giving a nice boost to the country's policy test score. The move in Bahrain reflects our view that the U.S. duration sold off too much in the run up to the presidential elections and it can benefit from a more positive newsflow on the U.S. fiscal outlook as President-elect Trump's budget stance is getting more defined. In terms of our investment process, this improved the technical test score for the country.

- We reduced our local currency exposure in Malaysia and Thailand, and hard currency corporate exposure in India. Our primary concern in India was a risk of contagion from corruption charges against Adani, and its potential implications for the banking sector and political stability. All these factors worsened the technical test score for the country. Low-yielders Thailand and Malaysia are also high-beta to China and its "drip-drip" policy stimulus, which worsened the technical test score for both countries.

- We also reduced our local currency exposure in Peru, Brazil, and Chile, and hard currency sovereign exposure in Argentina. We decided to take profits in Argentina after a big rally on the back of the IMF expectations. In Brazil, the government's spending cuts plans lacked details and was further diluted by a promise of tax relief, worsening the policy test score for the country. Peru's policy rate differential with the U.S. is getting very narrow, and we see residual risks from additional pension withdrawals, which worsen the policy test score for the country. Regarding Chile, China's "drip-drip" bazooka might take longer to produce the actual growth results, and this worsens the technical test score for major commodity exporters like Chile.

- Finally, we reduced our local currency exposure in Poland and Romania, and hard currency sovereign exposure in Paraguay. Poland's assets might get affected by another spike in geopolitical tensions after Ukraine initiated strikes on Russia with U.S.-made missiles. In terms of our investment process, this worsened Poland's policy and technical test scores. The political – and policy - risks in Romania are higher after the surprisingly strong performance of far-right candidates in the 1st round of the presidential elections and in the parliamentary elections, which worsened the policy test score for the country.

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. Carry is the benefit or cost for owning an asset. Yield to worst is a measure of the lowest possible yield that can be received on a bond with an early retirement provision. Averages are market weighted. The yields presented do not represent the performance of the Fund. These statistics do not take into account fees and expenses associated with investments of the Fund.

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.

The Bloomberg Global Aggregate Index measures the performance of global investment grade fixed income securities.

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

ICE BofA Global Broad Market Index tracks the performance of investment grade debt publicly issued in the major domestic and eurobond markets, including sovereign, quasi-government, corporate, securitized and collateralized securities.

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 which may include, but are not limited to, risks associated with active management, credit, credit-linked notes, currency management strategies, derivatives, emerging market issuers, energy sector, ESG investing strategy, foreign currency, foreign securities, hedging, high portfolio turnover, high yield securities, interest rate, market, non-diversified, operational, restricted securities, investing in other funds, sovereign bond, and special risks considerations of investing in African, Asian and Latin American issuers, all of which may adversely affect the Fund. Emerging market issuers and foreign securities may be subject to securities markets, political and economic, investment and repatriation restrictions, different rules and regulations, less publicly available financial information, foreign currency and exchange rates, operational and settlement, and corporate and securities laws risks. 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.

ESG integration is the practice of incorporating material environmental, social and governance (ESG) information or insights alongside traditional measures into the investment decision process to improve long term financial outcomes of portfolios. **Unless otherwise stated within an active investment strategy's investment objective, inclusion of this statement does not imply that an active investment strategy has an ESG-aligned investment objective, but rather describes how ESG information may be integrated into the overall investment process.**

Investing involves substantial risk and high volatility, including possible loss of principal. An investor should consider the investment objective, risks, charges and expenses of a Fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call 800.826.2333 or visit vaneck.com. Please read the prospectus and summary prospectus carefully before investing.

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