October 2022

Three Tensions

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VanEck Emerging Markets Bond Fund

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

Overview

The Fund returned -2.51% in October, as compared to its benchmark, the J.P. Morgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified and 50% J.P. Morgan Emerging Markets Bond Index (EMBI), which returned -0.36%. Year-to-date ("YTD"), the Fund returned -18.64%, outperforming its benchmark (returned -21.55%) by 291bps.

The Fund, arguably, is positioned well – China was basically the sole performance-detractor month-to-date and YTD, but the Fund held on to its China property names (as much as possible, given risk-management constraints), making China's reopening and policy support for the sector a big winner for our view. The Fund also had a big underweight in Brazil, which has been disappointing markets lately. But, since October, we've had a change in China's zero-COVID policy as well as further and more powerful support for the property sector. Be advised! (To be clear, we still see very little attractiveness in China's other bonds such as local-currency Chinese government bonds (CGBs) or USD-denominated government bonds). We see Chinese property, on the other hand, as so distressed that it can be uncorrelated with "risk".

As of end-October, local currency exposure was a bit higher at approximately 35.7% (due to increased Asian EMFX). Duration was 6.47 (we plan on reducing that). And carry[1] was a juicy 7.39%, much higher than last month (as cash was somewhat high at end-September).

We see three key market tensions (as opposed to directions: 1) China reopening vs. the "divorce"; 2) U.S. Federal Reserve's (Fed's) anti-inflation focus vs. the limpness of higher rates in addressing food and energy prices; and 3) the potential for some near-term thawing in geopolitical tension vs. the fact of the West's loss of Eurasia. China reopening would be bullish for global demand, and likely put upward pressure on interest rates (and downward pressure on duration). But, that's a very well-masticated topic and has more drivers than just China. (For the record, we expect the Fed to surprise on the hawkish side/stick to its guns/no pause. And, if there is a pause or perhaps even an upward adjustment to its inflation target, we are even more confident in our stance.)

[1] Carry is defined as Current Yield. 30-Day SEC Yield for Class A was 7.71% as of 10/31/2022. 30-Day SEC Yield is a standard calculation developed by the Securities and Exchange Commission that allows for fairer comparisons among bond funds. It is based on the most recent 30-day period. This yield figure reflects the interest earned during the period after deducting the Fund's expenses for the period. In the absence of temporary fee waivers, the 30-Day SEC Yield for EMBAX would have been 6.21% as of 10/31/22.

We see two fairly clear implications of these tensions. First, it's a bullish setup for commodities. The Fed's tools are limp here. And the geopolitical near-fact of the loss of Eurasia seems very un-priced to us (the acknowledgment of the West's "loss" of Kazakhstan alone is a significant supply risk). Kazakhstan routes almost all of its oil exports to global markets via the Caspian Pipeline Corporation (CPC), a joint venture with Russia. Russia has practical control over the CPC, as evidenced by its closure of the Caspian Pipeline for "maintenance" several months ago. Although not a large portion of global oil production, it still represents about one-third of European imports and could therefore have a big impact on Brent. Similarly, and perhaps more saliently, Kazakhstan produces around 40% of global Uranium. Kazakhstan's economy is totally dependent on Russia's. Just look at the map below. Kazakhstan is surrounded by Russia, China, Iran and other central Asian states completely wrapped up in all the Eurasian development initiatives pushed by Russia, China, Iran (and Kazakhstan) over the past decade-plus.

Exhibit 1 – Central Asia Is "Locked Up" by Russia/China/Iran

Second, China developments have very specific implications, not "buy everything" implications; we remain cautious/negative on Brazil. For example, we like China property names and Asian EMFX (not CNY bonds), but we remain very underweight Brazil and other "usual" high-beta beneficiaries of growing Chinese demand. Brazil's bonds do not show cheap valuations on our investment process. Moreover, as we noted in our "IMF Fall 2022 Takeaways", Brazil was a big consensus overweight. Finally, the incoming Luiz Inácio Lula da Silva (Lula) administration is relaxing fiscal policy and signaling a market-unfriendly policy turn (we closed one of our only remaining exposures, Petrobras, due to the likelihood of political meddling).

Exposure Types and Significant Changes

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

- We increased local currency exposure in Thailand, Malaysia, Romania, and Hungary, as well as hard currency quasi-sovereign exposure in Thailand, and hard currency sovereign exposure in Hungary. Thailand's central bank finally started its tightening cycle, catching up with the rest of the region. Inflation might already be peaking though, while the "twin" deficit is expected to be small following the current account rebound. This suggests that the central bank might not need to frontload a lot of rate hikes. The final point is that Thailand's local debt positioning does not look elevated. In Malaysia, we were attracted by the widening trade surplus and the central bank's proactive rate hikes. The main point in Hungary is that the central bank continues aggressive tightening via other policy instruments, while the government might finally be caving to the European Union's policy demands. As regards hard currency debt, we increased exposure to longer-dated bonds (with a low U.S. dollar price) to express a positive view on global duration as the Fed is now moving toward the final stages of its hiking cycle. In terms of our investment process, this improved the policy, economic and technical test scores for the countries in question.

- We also increased our hard currency sovereign exposure in Mexico and Turkey. Similar to the bullet-point above, we added longer-duration bonds that we think can benefit from the Fed's entering the final stage of its current rate hike cycle and its impact on the yield curve. In terms of our investment process, this improved the technical test score for both countries.

- We increased local currency exposure in Indonesia, Poland and the Czech Republic. Indonesia's central bank chose to frontload more rate hike in response to rising inflation pressures – just as the government decided to increase subsidized retail fuel prices – a fiscally responsible move. In terms of our investment process, this improved the policy and technical test scores for the country. Disinflation in Poland and the Czech Republic might be progressing faster than expected, opening room for staying on hold "safely". In terms of our investment process, this improved the economic test scores for these countries.

- Finally, we increased hard currency sovereign exposure in El Salvador, Sri Lanka and Argentina, and hard currency corporate exposure in Ghana. Ghana's corporate bond should benefit from a combination of cheap valuation and a possible positive catalyst in the form of completion and launch of a floating production storage/offloading facility. Changes in El Salvador reflected a very successful bond tender. We subsequently decided to obtain a small exposure due to the country's progress in fiscal consolidation and unprecedented overseas remittances, which improved the country's policy and economic test scores. As regards Sri Lanka, we believe the market might be underestimating the possibility of an IMF deal and the policy adjustment, required to get it – Sri Lanka's progress in this area is improving the country's policy test score. Finally, Argentina's addition reflected significantly improved valuations and some technical support from FX inflows, both of which strengthened the technical test score for the country.

- We reduced our local currency exposure in Brazil and Chile. The timing in Brazil was related to the second round of the presidential elections, as the polls were pointing to a very tight outcome, which meant elevated risks of the losing candidate refusing to concede. There was also an uncertainty associated with the cabinet's lineup in the case of ex-President Lula winning the elections. We felt that the balance of risks was not symmetric, given the elevated positioning going into the elections. In terms of our investment process, this worsened the policy and technical test scores for Brazil. The main concern in Chile was the central bank's signal about ending its tightening cycle, which we felt might have been premature. This, in our opinion, worsened the policy test score for the country.

- We also reduced our local currency exposure in Poland and the Czech Republic. The key concern in Poland is that the central bank remains defiantly dovish despite surging inflation. The escalation of the Russia/Ukraine war is a major geopolitical risk, which also means more pressure on non-core inflation components. Even though exogenous factors are outside of the central bank's control, they can eventually affect inflation expectations, necessitating more rate hikes against the backdrop of the rapidly worsening growth outlook. Our decision to reduce exposure in the Czech Republic was driven by similar factors and by concerns about the size of the central bank's FX interventions. In terms of our investment process, this worsened the policy test scores for both countries.

- Finally, we reduced our hard currency quasi-sovereign and corporate exposure in China, hard currency quasi-sovereign exposure in Saudi Arabia and hard currency sovereign exposure in Ecuador. The reduction in China partly reflected price movements, but we also reduced exposure to some real estate developers, which do not seem to benefit from the so-called targeted government support – a fact that worsened the policy test score for the country. As regards Ecuador, we decided to take partial profits after President Guillermo Lasso's comments about bond buybacks, which weakened the policy and technical test scores for the country.

Average Annual Total Returns (%)

As of October 31, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	-2.51	-7.32	-18.46	-20.00	-3.36	-1.91	-0.58
Class A: Maximum 5.75% Load	-8.11	-12.65	-23.15	-24.60	-5.25	-3.07	-1.17
Class I: NAV (Inception 7/9/12)	-2.54	-7.14	-18.11	-19.67	-3.03	-1.61	-0.28
50 GBI-EM GD / 50% EMBI GD	-0.36	-6.47	-21.55	-22.21	-7.65	-3.04	-0.73

As of September 30, 2022	1 Month†	3 Month†	YTD	1 Year	3 Year	5 Year	10 Year
Class A: NAV (Inception 7/9/12)	-6.31	-2.20	-16.36	-17.99	-2.45	-1.34	-0.12
Class A: Maximum 5.75% Load	-11.70	-7.82	-21.17	-22.70	-4.35	-2.50	-0.71
Class I: NAV (Inception 7/9/12)	-5.98	-1.95	-15.98	-17.60	-2.09	-1.00	0.19
50 GBI-EM GD / 50% EMBI GD	-5.62	-4.63	-21.27	-22.44	-7.06	-3.21	-0.63

† Returns less than one year are not annualized.

Expenses: Class A: Gross 2.33%, Net 1.28%; Class I: Gross 1.74%, Net 0.96%. Van Eck Associates Corporation (the "Adviser") has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, trading expenses, dividends and interest payments on securities sold short, taxes and extraordinary expenses) from exceeding 1.25% for Class A and 0.95% for Class I of the Fund's average daily net assets per year until May 1, 2023. During such time, the expense limitation is expected to continue until the Board of Trustees acts to discontinue all or a portion of such expense limitation. 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. The S&P 500® Index consists of 500 widely held common stocks covering the leading industries of the U.S. economy.

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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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