In April, there was a notable increase in inflationary metrics, emphasizing the enduring strength of the economy. The core Consumer Price Index went up by 3.8% compared to last year, surpassing expectations. This increase highlights the gap between current inflation data and what is needed for the Federal Reserve Chairman Jerome Powell to consider lowering rates in June. Powell hinted at potential rate cuts and expressed confidence that prices would soon align with the central bank's target. This led to a notable increase in 10-year Treasury note yields by around 43 basis points. Despite challenges, our fund remained relatively stable, with a minor negative monthly return of -0.35%.

In Turkey, the Central Bank (CBRT) chose to keep the policy rate at 50%, in line with market expectations. Their forward guidance suggested openness to raising rates further if inflation remains high. This strict monetary approach will continue until inflation shows consistent decline and expectations fall within the projected range. To boost Turkish lira deposit rates, the CBRT adjusted the ceiling for its remuneration on mandatory reserves. Despite forecasts of increased inflation in May, the Energy Ministry froze electricity and gas prices for the month. These monetary policy decisions in March led to tighter financial conditions, including a surprise 500 basis point hike. As a result, the average deposit rate for up to 3 months surged to 65.9% by April 12.

In Mexico, Morena’s candidate, Sheinbaum, is projected to maintain her status as the front-runner. The latest polls indicate a substantial lead with 58% of the votes, while Galvéz trails behind with only 35%. Sheinbaum has affirmed her commitment to retaining AMLO's economic policies, suggesting continuity rather than significant changes in the new government. Despite the significant disparity in the elections, it remains unclear whether Morena can achieve supermajority in Congress (66.67%). In the corporate sphere, Grupo Axo had a successful first quarter of 2024, achieving a 23.1% growth in EBITDA following the Komax acquisition in 2023, along with roughly 5% organic growth. This resulted in a reduction of its leverage to 2.57% from 2.75% year-over-year. As it is trading below an 8% yield, we've chosen to realize our profits from the Axo’s trade. We entered this trade in the latter half of 2023 at a yield of 11.5%, accompanied by a respectable annual carry of 5.75%.

We strategically realign our portfolio allocation, increasing our exposure to Turkey while reducing our exposure to Indonesia in response to a compression in yields. Despite this adjustment, we maintained full investment and positioned ourselves to capitalize on further yield compression. Our bond portfolio boasts an average rating of BB, indicating a strong credit profile, yield to worst 8.17% and a duration of 3.64 years.

Kind regards,