In May, the Consumer Price Index (CPI) report for the United States came in softer than expected, with a rise of 0.3% month over month, compared to the consensus of 0.4%. This surprise was mainly driven by the food and energy CPI and on a year-over-year basis, this was the lowest reading in three years. Additionally, the core Personal Consumption Expenditures (PCE) for April came in close to market expectations at 0.25%, showing an important deceleration from 0.33% in March. Furthermore, retail sales fell short of expectations, indicating economic cooling. However, the Federal Reserve (FED) released the minutes from its last meeting, and showed concerns about persisting inflation and casting doubt on when officials might cut interest rates. The recent data did not make them confident that inflation was moving towards the 2% goal. Consequently, there was a slight increase in 10-year Treasury note yields by around 18 basis points. Despite this, it is notable that our fund recorded a positive monthly return of 1.32%.

Claudia Sheinbaum, the former mayor of Mexico City, is set to become Mexico’s first female president. She has pledged to continue the policies of her predecessor, Andrés Manuel López Obrador (AMLO). On Monday, June 3rd, the day after the elections, Mexico's sovereign and quasi-sovereign bond spreads widened, stocks on the Mexican Bolsa fell by 5-10% and the Mexican peso dropped by 4% against the dollar. This market reaction was driven by Sheinbaum's larger-than-expected victory margin and Morena's attainment of a qualified majority in Congress, raising concerns about the potential advancement of AMLO's desired constitutional changes. These changes could negatively impact medium-term economic growth and create fiscal imbalances. Despite these concerns, Sheinbaum's policies are expected to positively impact the Mexican corporate sector. Her commitment to increasing foreign investment and maintaining strong U.S. relations are promising indicators. Mexico is the second-largest recipient of Foreign Direct Investment (FDI) in Latin America, with FDI constituting nearly 50% of its GDP. In April, Sheinbaum outlined several business-friendly initiatives, including streamlining regulatory processes, upgrading customs infrastructure, enhancing security measures, promoting investment planning, and fostering foreign investment. These initiatives suggest a robust commitment to improving Mexico's business environment. Our Mexican positions remained flat despite the mentioned selloff. This stability is due to our lack of exposure to sovereign or quasi-sovereign debt and our holdings in corporations with USD revenue, which protect against the depreciation of the Mexican peso. Additionally, these corporations have solid credit metrics, further contributing to the resilience of our portfolio.

Our portfolio allocation remained unchanged. We closed our positions in India and increased our investments in Morocco. 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, with a yield to worst of 8.77% and a duration of 3.39 years.

Kind regards,