In June, the core Personal Consumption Expenditures (PCE) price index in the United States slowed to 0.1% in May from 0.3% in April, after holding steady at 0.3% for three consecutive months. This positive data suggests cooling inflation, fueling expectations that interest rates could decline more rapidly than policymakers currently anticipate. However, it is insufficient on its own to prompt immediate changes in the short term. In its latest meeting, the Federal Reserve maintained its target range between 5.25% and 5.50% and projected that only one interest rate cut is likely this year, assuming the continued flow of positive data. Initial claims for unemployment benefits dropped by 6,000 to a seasonally adjusted 233,000, suggesting that the U.S. economy is on track for a soft landing. Additionally, the US election could be a key catalyst for fixed income markets in the second half of the year, and we are closely monitoring its outlook. As a result, 10-year Treasury note yields decreased by around 28 basis points, and our fund recorded a positive monthly return of 0.65%.

In Mexico, Morena holds a constitutional majority in the Lower House and is just two seats short in the Senate. This broad power has been given to a party that has indicated since 2018 its plans to concentrate it, weaken independent entities and regulators, and implement spending programs that may risk public finances and restrict investment in the coming years. The most pressing task for the incoming president, economists say, will be to lower the fiscal deficit that her predecessor, Andrés Manuel López Obrador (AMLO), increased in his last year in office to complete infrastructure projects and step up welfare spending. Cutting the deficit will be difficult given social spending, government support for state oil company Pemex, and the fact that the AMLO's administration used up much of the country's rainy-day funds. State-run Petróleos Mexicanos (Pemex) is the world's most indebted oil company. It used to be the primary revenue generator for Mexico's federal government, with oil contributing more than 44% of government revenue at one point. However, Pemex has become a financial risk for the incoming administration. With more than $101 billion in total debt, Pemex has relied on tax breaks and government cash injections to meet its obligations. The Mexican peso has depreciated by 7% against the dollar since the elections. Despite that, our Mexican returns remained flat during the selloff.

We strategically realigned our portfolio allocation by decreasing our exposure to Mexico reducing it from 15.7% to 5.1% and increasing our exposure to Turkey. Despite these adjustments, we maintained full investment and positioned ourselves to capitalize on further yield compression. Our bond portfolio has an average rating of BB, indicating a strong credit profile, a yield to worst of 8.51%, with 3.40 years' duration.

Kind Regards,