GALLOWAY EMERGING MARKETS BOND FUND - July 2024

In July, Federal Reserve (Fed) officials indicated they are considering lowering interest rates soon, potentially as early as September, after holding rates steady at their recent meeting. Fed Chair Jerome Powell emphasized that while they are nearing the point for a rate reduction, they haven't yet made a firm decision. The Fed's policy statement was updated to reflect progress in managing inflation, describing it as "somewhat elevated" rather than a significant concern, suggesting a shift towards a more balanced approach in their dual mandate of controlling inflation and supporting employment. Recent economic data show a cooling in inflation and wage growth, alongside stable but cautious consumer and corporate spending, which may support the case for rate cuts. Powell highlighted that while the labor market remains strong, further cooling would not be desirable, indicating a careful watch on economic conditions as the Fed considers its next steps. The US 2024 presidential race, initially a rematch between Joe Biden and Donald Trump, changed dramatically when Biden withdrew and endorsed Kamala Harris after a failed assassination attempt on Trump. The election will also determine control of Congress, impacting overall policy direction. Consequently, 10-year Treasury note yields decreased by around 65 basis points, and our fund recorded a positive monthly return of 1.28%.

India experienced moderate to high growth across most high-frequency indicators compared to the previous year. The Index of Industrial Production (IIP) surged due to strong mining and manufacturing activity, with notable increases in steel and power consumption, though cement production slightly declined. The auto sector saw improved sales of passenger vehicles and tractors, while electric vehicle registrations grew by 60% YoY. The merchandise trade deficit narrowed, driven by a reduction in gold imports, and forex reserves saw marginal growth. Consumer Price Index (CPI) inflation reached a 4-month high of 5.1% YoY, and the Wholesale Price Index (WPI) climbed to a 16-month high of 3.36% YoY. Analysts forecast GDP growth of 6.6%-7.2% YoY for FY25. Consequently, we increased our exposure to 5.3% from 2%.

We strategically realigned our portfolio allocation by decreasing exposure in Peru and Indonesia due to the rally in these countries, reduced exposure to oil and increased our allocation to India. Given these adjustments, we were fully invested in July and continue to be positioned to capitalize on further yield compression. Our bond portfolio has an average rating of BB-, a yield to worst of 8.44% and duration of 3.6 years.

Kind Regards,