GALLOWAY EMERGING MARKETS BOND FUND – September 2024

In September, our fund recorded a significant and positive monthly return of 1.18%. The Federal Reserve (FED) cut interest rates by 50 basis points, marking its first reduction since 2020, following two years of fighting inflation. The new FED rate range is now between 4.75% and 5%, with expectations a further 0.25-point cut in each November and December meetings. These cuts aim to prevent significant weakening of the labor market after previous hikes pushed borrowing costs to a two-decade high. This move is seen as an opening of doors for new issuances, particularly in the corporate bond market, as lower borrowing costs improve the feasibility of refinancing and new debt issuance. The emerging market (EM) corporate primary market saw a strong reopening in September, with $21 billion in bond issuances during the first week. Projections for total issuance in 2024 are expected to reach $340 billion. In comparison, dollar-denominated bond issuance from EM in 2023 was $131.9 billion, the lowest since 2015, reflecting a slower year in terms of issuance volume.

In Mexico, the Central Bank reduced its policy rate by 25 basis points to 10.50%, marking the second consecutive cut. Inflation has been easing, with headline inflation down to 4.7% year-over-year and core inflation cooling for 20 consecutive months. Banxico's statement became more dovish, signaling confidence in future rate cuts due to an improving inflation outlook and weakening growth prospects. Banxico is expected to continue rate cuts, with further reductions likely in the coming months. Our top performer was Banco Mercantil del Norte's perpetual bond, which benefited from the rate cuts due to its sensitivity to lower interest rates.

The Brazilian Central Bank's Monetary Policy Committee (Copom) raised the Selic rate from 10.5% to 10.75%, marking the first increase since August 2022, against the global trend of lowering rates, which could place appreciation pressures on the BRL. The Copom minutes reiterated the hawkish tone of the post-decision statement, providing more details on key concerns, such as the stronger-than-expected economic activity, described as surpassing potential growth which has contributed to inflationary pressures. Copom members agreed to a gradual start to the tightening cycle, but the minutes suggest a likely acceleration, with a 50bps rate hike expected in November to ensure inflation converges to the 3% target, signaling a more aggressive approach going forward. Despite this move, our top performer on the corporate side was CSN, which delivered a positive performance of nearly 3%.

We realigned our portfolio allocation by increasing our exposure to Brazil and Mexico. Our bond portfolio has an average rating of BB-, a yield to worst of 8.0% and duration of 3.8 years.

Kind Regards,