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GALLOWAY CAPITAL

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GALLOWAY EMERGING MARKETS BOND FUND – November 2024

During the November FOMC meeting, the Federal Reserve decided to slow the pace of monetary easing, reducing the federal funds rate by 25 basis points to a target range of 4.5% to 4.75%. The meeting minutes suggest that if economic data evolve as expected—particularly with inflation trending toward the 2% target—gradual rate cuts may continue. In response, market participants are pricing in approximately a 65% probability of another 25-basis-point rate cut in December. Newly elected President Donald Trump indicated plans to impose tariffs on major U.S. trading partners, a move that could drive prices higher and complicate the Fed's inflation outlook. Meanwhile, US 10-year Treasury yields fell by 11.5 basis points during the month to 4.17%, while our fund delivered a positive return of 0.76%.

Our performance this month is mostly due to a macro-driven cycle, as it affects the bottom up of each individual story!

As Colombia makes a series of fiscal adjustments (3.2% of GDP) in 2024 due to a decline in tax revenues, the country is aiming to stabilize its public finances. The government currently projects a gradual improvement in its fiscal deficit in the coming years and economic growth starts to be forecasted at 2.8% in 2025, driven mostly by a more favorable monetary policy and economic recovery. Whilst the country is also focusing on fiscal reforms, including changes to the pension system, we strategically focus in reducing our exposure to some Colombian corporates that no longer offer attractive returns such as O&G minor names. These securities have been replaced by Sovereign bonds, which we view as a better investment opportunity, with lower risk and higher ratings for our portfolio.

In Brazil, it's Central Bank's Monetary Policy Committee (Copom) raised the Selic rate to 11.25% from 10.75%, emphasizing concerns over persistent inflation and fiscal risks. Inflation forecasts for 2024 (4.6%), 2025 (3.9%), and Q2 2026 (3.6%) remain above target, reflecting the need for tight monetary policy. Simultaneously, Finance Minister Fernando Haddad unveiled a spending cut package aimed at saving R$ 71.6 billion by 2026. While the measures included structural reforms, such as adjustments to social programs and military pensions, their impact was overshadowed by the announcement of a personal income tax exemption for earners up to R$ 5,000, which is not to be voted till 2025, according to political leaders. Nevertheless, markets reacted negatively, citing vague compensatory measures and concerns over fiscal neutrality, which undermined confidence in the government's commitment to fiscal discipline. Despite these mixed developments, our positions in Brazil remained largely unaffected. Brazil's offshore US Dollar debt remains hard to find, and new issues seldomly come by with at once, Sovereign, and Corporate, serial issuers now refinancing their obligations locally.

The fund currently has a yield to worst of 8.30%, duration of 4.20 years and an average credit rating of BB-.

Kind Regards,