GALLOWAY EMERGING MARKETS BOND FUND – March 2025

In March, the Federal Open Market Committee (FOMC) decided to keep interest rates within the 4.25%-4.50% range, citing economic uncertainties, particularly the impact of President Trump's new tariff policies. While intended to correct trade imbalances, these measures have raised concerns over inflationary pressures and potential economic slowdown. Economic indicators for the month signaled early signs of stagflation as the core Personal Consumption Expenditures (PCE) index increased 0.4% in February, with a three-month annualized rate of 3.6%, while consumer spending slowed considerably. Additionally, GDP projections indicated a possible contraction as businesses accelerated imports ahead of the tariff hikes. These developments contributed to a broad risk-off sentiment in financial markets. Investors sought safety in U.S. Treasuries, driving yields lower. The 10-year Treasury yield, which peaked at 4.36% during the month, declined steadily, closing March at 4.14%, reflecting growing concerns over economic conditions, whilst our fund had a negative return of **-0.58%** in March.

As expected, the Brazilian Central Bank raised the Selic rate by 100 basis points to 14.25%, citing persistent inflation and global uncertainties. The Copom minutes suggested that monetary policy will remain restrictive for an extended period, though future hikes may be smaller. Despite these measures, the Central Bank revised its GDP growth forecast for 2025 down to 1.9%, reflecting tighter financial conditions and external risks. However, there are signs of resilience. Planning and Budget Minister Simone Tebet emphasized that if fiscal discipline is maintained, there will be room for interest rate cuts in the second half of the year, which could support economic recovery. Markets responded positively, with the Ibovespa index rising 6% in March and the Brazilian real stabilizing. If inflation eases and economic reforms advance, Brazil could regain stronger growth momentum, positioning itself favorably in the global economy.

Turkey faced significant economic and political developments. The Central Bank cut its benchmark interest rate by 250 basis points to 42.5%, in line with market expectations. The decision was driven by a decline in inflation, which fell to 39.05% in February. At the same time, political tensions escalated following the arrest of Istanbul's mayor, Ekrem İmamoğlu, on corruption charges. His detention triggered widespread protests across major cities, including Istanbul, Ankara, and Izmir. Demonstrations led to clashes with security forces, resulting in over a thousand arrests and heightened concerns about political stability. These developments contributed to a rise in Turkey's sovereign risk, as reflected in the widening of the 5-year Credit Default Swap (CDS) spreads, which increased to 318 from 253 basis points. However, despite the higher country risk, the credit fundamentals of the companies in which we invest have remained solid, with no material deterioration in their financial or operational metrics.

Given this stability at the corporate level, we have chosen to maintain our exposure to Turkey at the moment, while closely monitoring both economic and political risks.

The fund currently has a yield to worst of **8.82%**, duration of **4.52** years and an average credit rating of **BB-**.

Kind regards,

*Institutional Class