GALLOWAY
GALLOWAY CAPITAL

GALLOWAY EMERGING MARKETS BOND FUND – August 2024

In August, Federal Reserve Chair Jerome Powell signaled that interest rate cuts are imminent as the central bank aims to prevent further weakening in the U.S. labor market. Speaking at the Jackson Hole gathering, Powell emphasized the Fed's readiness to adjust policy. This marks a shift from the Fed's aggressive inflation-fighting stance, with the focus now on supporting employment. With unemployment rising and inflation steadily decreasing, as evidenced by the Personal Consumption Expenditures index, which rose 0.2% for the month as expected, the Fed is anticipated to cut rates at its upcoming September meeting, although the extent of the cuts remains uncertain. Powell’s leadership in navigating these challenges will be closely scrutinized, given the broader implications for the U.S. economy. Consequently, 10-year Treasury note yields decreased by around 13 basis points, and our fund recorded a significant and positive monthly return of 1.86%.

India's central bank, under Governor Shaktikanta Das, opted to keep its policy repo rate unchanged at 6.50%, aiming to manage high inflation, driven in part by rising food prices. The decision, consistent with economists' forecasts, underscores the bank's focus on withdrawing monetary accommodation while sustaining economic stability. Despite global financial turbulence, India’s economic fundamentals remain strong, with the central bank projecting 7.2% growth for the year ending March 2025 and maintaining its inflation forecast at 4.5%. The consumer-price index rose 5.1% in June, up from 4.75% in May, against the bank's 4% inflation target. The RBI raised rates by 2.5 percentage points between May 2022 and February 2023 in response to inflationary pressures from the Russia-Ukraine war and pandemic recovery. The central bank's cautious approach reflects concerns over persistently high inflation, particularly in food prices, even as economic growth momentum remains solid.

In Brazil, the market has speculated that the Central Bank may raise the Selic rate in September due to an overheating economy. Inflation is rising, and the economy is accelerating, with GDP expected to grow by around 3%. Wage growth is significantly outpacing inflation, adding to inflationary pressures. The Central Bank's current monetary stance appears misaligned with economic conditions, and a Selic rate hike, potentially driven by Monetary Policy Director Gabriel Galípolo, is anticipated to restore the institution's credibility. The Brazilian economy is being fueled by high public spending, which has intensified since the 2022 election, leading to robust demand and elevated inflation.

We strategically realigned our portfolio allocation by increasing our exposure to India to 6.9% from 2.3%. We were fully invested in August 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 8.20% and duration of 3.38 years.

Kind Regards,