



GALLOWAY EMERGING MARKETS BOND FUND – October 2024

Recent U.S. economic data suggests a gradual cooling in the economy, particularly in job growth and inflation trends. In October, nonfarm payrolls rose by just 12,000, well below the Dow Jones estimate of 100,000. The unemployment rate held steady at 4.1%, signaling resilience in labor market participation despite weaker job growth. Meanwhile, the September Personal Consumption Expenditure (PCE) price index, a key inflation measure, dropped to 2.1%, approaching the Federal Reserve's 2% target. Alongside these economic trends, the upcoming U.S. election remains highly contested, with polls showing no clear frontrunner between Kamala Harris and Donald Trump. The 10-year Treasury yield remains volatile amid market anticipation of a potential Trump victory. During October, the 10-year treasury yield surged 50bps to 4.285% while our fund performed -0.36%.

In October, we strategically reduced our exposure to India, prompted by persistent yield compression across the market, which limits potential return. Meanwhile, we increased our positions in Turkey, where we identified strong companies with promising returns supported by an improving economic outlook. On the macro side, even though Turkey's inflation rate has dropped less than anticipated—standing at 48.6% in October—and a monetary easing cycle is unlikely to begin this year, S&P recently upgraded the country's rating, raising it from single B range to BB-. This upgrade reflects the positive impact of the Central Bank of the Republic of Turkey's (CBRT) strict monetary policies, which have helped stabilize the lira, reduce inflation, rebuild reserves, and support a move away from dollar-based financial transactions. Additionally, Turkey's current account deficit has narrowed by approximately four percentage points of GDP since 2022, showing a significant improvement in the country's external balances. The upgrade also considers Turkey's stable economic outlook, which includes a plan to control inflation further, moderate wage expectations, and restore confidence in its currency. If Turkey continues this path of fiscal and monetary rigor, further upgrades may follow as inflation and de-dollarization trends stabilize.

The investment in Samarco Minerações, a Brazilian mining company, performed well this month, as the company is ahead of schedule with its new plant, which is expected to boost production capacity by 26% to 60% around year-end, consequently enhancing cash generation and improving leverage. Additionally, Vale and BHP (Samarco's shareholders) have signed a definitive agreement with the Brazilian government, effectively capping Samarco's liability and providing greater visibility for the company's future cash flow generation.

Besides Samarco, the EKT bond (issued by Grupo Elektra) a leading Mexican company specializing in remittance services for individuals and families across Mexico and the U.S., has shown solid returns. With Grupo Elektra announcing the issuance of a new bond, our current holding—maturing in early 2028 and priced at 91.00 at the beginning of October—will be called around par.



The fund currently has a yield to worst of 8.31%, duration of 4.06 years and an average credit rating of BB-.

Kind Regards,