GALLOWAY
GALLOWAY CAPITAL

GALLOWAY EMERGING MARKETS BOND FUND – January 2025

The Federal Open Market Committee (FOMC) unanimously decided to keep its benchmark interest rate unchanged at 4.25%-4.50%, in line with market expectations. In its accompanying statement, the FOMC highlighted that inflation remains “somewhat elevated” but continues to move toward the 2% long-term target. The U.S. economy remains on a solid expansion path, while labor market conditions have stabilized at historically low unemployment levels. The FOMC reiterated its readiness to adjust its monetary policy stance should inflation or employment risks warrant a shift. Meanwhile, newly imposed tariffs by the U.S. government are expected to introduce additional inflationary pressures, particularly in core goods, potentially limiting the FOMC’s ability to resume rate cuts. If these pressures persist, they could even lead to rate hikes further down the line. Tariffs are also likely to weigh on consumer purchasing power and corporate investment, creating headwinds for economic activity. Given these factors, the market has adjusted expectations, with CME FedWatch data indicating June as the earliest likely timing for a Fed Fuds rate cut. The 10-year U.S. Treasury yield remained nearly unchanged, closing the month at 4.54%, while our fund had a positive performance of 1.22%.

In its first meeting under Gabriel Galípolo’s leadership, the Brazilian Central Bank raised the Selic rate by 100bps to 13.25%, in a widely expected unanimous decision. The statement maintained a hawkish tone, highlighting persistent inflationary pressures and external uncertainties, particularly regarding U.S. monetary policy. Most importantly, the guidance for another 100bps rate hike in March was reaffirmed, with future monetary policy decisions hinging on inflation dynamics, economic activity, and fiscal developments. Given this backdrop, we further reduced our exposure to Brazil, continuing our strategy of lowering positions in highly leveraged companies, such as CSN, with greater sensitivity to rising interest rates. We remain cautious about the impact of tighter financial conditions on corporate balance sheets and credit spreads, particularly in a scenario where inflation risks, and fiscal uncertainties persist.

In Chile, we are pleased to announce that our position in AES Mercury Chile was fully called by the company. The bond, which was trading at 99.00 before the announcement, was redeemed at 101.625. This highlights the company’s solid balance sheet and effective liability management, demonstrating its commitment to optimizing its capital structure and maintaining financial strength.

The Bank of Mexico (Banxico) is expected to cut its interest rate to 9.5% in the upcoming meeting, while maintaining a cautious stance on further reductions. Slowing inflation, which is set to fall below the target ceiling for the first time since 2021, supports this adjustment. However, the decision could be influenced by the recently imposed 25% U.S. tariffs on Mexican goods, now postponed to March. If these tariffs trigger a significant peso depreciation, the resulting inflationary pressure may limit Banxico’s ability to continue easing monetary policy. Despite this challenging backdrop, Mexico continues to show resilience, supported by a diversified economy and strong macroeconomic fundamentals. The ongoing monetary normalization, combined with more controlled inflation, reinforces our constructive outlook on the country. We remain attentive to developments in U.S. trade policy and its potential impacts, but for now, we maintain our position in Mexico, confident in the country's ability to navigate this challenging environment.

The fund currently has a yield to worst of **8.88%**, duration of **4.61** years and an average credit rating of **BB-**.

Kind regards,

*Institutional Class