GALLOWAY EMERGING MARKETS BOND FUND – February 2025

In February 2025, inflation data showed persistent price pressures in the U.S. The Consumer Price Index (CPI), which for January rose 3.0% year-over-year, (est. 2.9%), while Core CPI, which excludes volatile food and energy costs, increased by 3.3% (est. 3.1%). On a monthly basis CPI grew 0.5%, exceeding the anticipated 0.3%. These figures pointed out ongoing inflationary challenges, prompting close attention from the Federal Reserve. After the stronger-than-expected CPI report in January, Federal Reserve Chair Jerome Powell indicated that the Fed would not rush to lower interest rates further. This came after the central bank had already reduced the benchmark federal funds rate by a full percentage point, to a range of 4.25%-4.50%, between September and December 2024. Meanwhile, President Trump's policies, such as tariffs, contributed to a 33bps decline in the 10-year U.S. Treasury yield to 4.21% as investors sought safe-haven assets, whilst our fund had a positive return of **0.33%** in February.

Mexico faced significant economic challenges driven by escalating trade tensions with the U.S. Early in the month, President Donald Trump announced a 25% tariff on Mexican exports, citing concerns over fentanyl trafficking and illegal immigration control. The move sparked strong opposition from Mexico's government, business leaders, and opposition parties, who united behind President Claudia Sheinbaum to defend the country's economic interests and sovereignty. The peso suffered a sharp depreciation, losing 0.57% in a single session and 1.69% over four consecutive days, making it the worst-performing currency in the period. In response to worsening economic conditions and investors sentiment, Banxico lowered its 2025 GDP growth forecast from 1.2% to 0.6% and as widely anticipated it also cut interest rates by 50bps to 9.50%. Despite the negative macro perspective, most of our positions in Mexico delivered positive returns during the month. Our strategy of investing in high-quality credits in the country, combined with the rally in U.S. Treasuries, helped offset broader market concerns and supported strong performance.

The IPCA-15, a key inflation gauge in Brazil, rose 1.23% in February, below the expected 1.37%, after a modest 0.11% increase in January. Food prices showed early signs of deceleration, and services inflation fell for the first time in five months, suggesting monetary tightening may finally be effective. However, a 15% Selic rate still seems appropriate, with potential discussions on rate cuts in the second half of the year if fiscal risks remain contained. On the corporate side, Cosan delivered positive returns in early 2025, driven by its divestment in Vale to reduce leverage and strengthen its capital structure. In addition, Moody's upgraded Samarco's credit rating from B3 to B2, in line with expectations. The expansion of operations in late 2024 and the final Mariana settlement improved cash flow and reduced financial risks. Further cost reductions and stronger cash generation should continue supporting its recovery.

The fund currently has a yield to worst of **8.46%**, duration of **4.71 years** and an average credit rating of **BB-**.

Kind regards,

*Institutional Class