



GALLOWAY EMERGING MARKETS BOND FUND – May 2025

In early May, the Fed held its policy rate at 4.25%–4.50%, reiterating that inflation remained above target and that more evidence of sustained disinflation was needed. Later in the month, April's core PCE came in at 2.1% YoY—below expectations and its lowest since early 2021. Despite this, policymakers have resisted pressure from President Trump to begin cutting rates, citing uncertainty over the long-term inflationary effects of his revived tariff agenda. While Trump and Chair Powell met privately for the first time in the president's second term, the Fed stressed that monetary decisions remain independent. Analysts warn that current tariffs could push core inflation back to 3–3.5% later this year, complicating the central bank's reaction function. The 10-year US Treasury yield ended the month up 24bps at 4.40%. Meanwhile our fund had a positive performance of **1.20%** during May.

In Brazil, the Central Bank raised the Selic rate by 50bps to 14.75% in May, reinforcing its commitment to a restrictive monetary stance amid persistent inflation and tight labor market conditions. Despite strong Q1 activity data, the Copom highlighted that inflation expectations remain unanchored and services inflation continues to exert pressure. Later in the month, Moody's revised Brazil's sovereign outlook from positive to stable, citing deteriorating debt affordability, spending rigidity, and slower-than-expected fiscal reform progress. While the Ba1 rating was reaffirmed, the agency now expects interest payments to peak at 21% of revenue in 2025, with debt stabilizing around 88% of GDP. On the corporate side, LD Celulose, one of our largest positions in Brazil and a key exporter of dissolving wood pulp, delivered solid 1Q25 results with R\$541.8 million in EBITDA and a 64.2% margin. Despite scheduled maintenance, net leverage remained contained at around 1.6x, reflecting continued operational and financial discipline.

In Mexico, Banxico cut its policy rate by 50bps to 8.50% in May, reaffirming a shift toward monetary easing amid weak growth and fading inflationary pressures. The central bank's Quarterly Inflation Report (QIR) and meeting minutes underscored a more dovish tone, as core inflation continued converging toward pre-pandemic patterns and wage dynamics normalized. Despite one dissenting voice, most board members saw room to continue with 50bp cuts, supported by a still-restrictive real ex-ante rate and anchored inflation expectations. The QIR also revised GDP forecasts sharply downward (to 0.1% for 2025), reflecting both domestic softness and uncertainty from U.S. trade policy. BBVA Bancomer, one of the top banks in our Mexican portfolio, delivered strong 1Q25 results, supported by lower funding costs, resilient asset quality, and 9.5% YoY net income growth. Despite rising non-interest expenses, ROE remained solid at 26.8%, while the cost of risk declined to 2.8%. Capital ratios also improved, with CET1 at 15.9% and Total Loss Absorbing Capacity comfortably above regulatory minimums.



The fund currently has a yield to worst of **8.88%**, duration of **5.22** years and an average credit rating of **BB-**.

Kind regards,

*Institutional Class