GALLOWAY
GALLOWAY CAPITAL

GALLOWAY EMERGING MARKETS BOND FUND – June 2025

The Federal Reserve held rates steady at 4.25–4.50% in June, reinforcing its cautious, data-dependent stance. Chair Powell emphasized that recent tariff announcements pose upside inflation risks, prompting the Fed to "wait and see" before considering any rate cuts. Political pressure increased as former President Trump publicly criticized Powell's cautious approach, calling for more aggressive easing. Despite geopolitical volatility, Wall Street remains constructive, broadly expecting rate cuts later in the year, provided inflation stays contained, and economic growth slows moderately. This outlook was shaped even as Brent crude oil prices surged from $63.9 at the start of the month to a high of $78.9 amid the intensified Iran-Israel conflict and targeted U.S. strikes on Iranian nuclear sites, before retreating to $67.6 by month-end, easing inflation concerns and contributing to the decline in global yields. Correspondingly, the UST 10-year yield fell 18 bps to close at 4.23%, after spiking intramonth to 4.57%. Meanwhile our fund had a positive performance of **2.23%** during June.

Brazil's Central Bank raised the Selic rate by 25bps to 15.00%, bringing the cumulative tightening to 450bps since mid-2024. The move reflects persistent inflationary pressures, with headline inflation at 5.3% y/y and expectations for 2025 and beyond still above the 3.0% target. While short-term forecasts have eased slightly, structural factors continue to weigh on medium-term expectations. In the minutes, Copom reaffirmed that policy must remain significantly contractionary for a prolonged period and maintained a data-dependent stance. Despite tight financial conditions, activity remains resilient. Q1 GDP grew 1.4% annualized, led by household consumption and services, prompting an upward revision to 2025 growth projections to 2.1%–2.2%. On the corporate side, we participated in Yinson Holdings' new USD 1.2bn senior secured bond (rated BB+/Ba1), backed by FPSO Maria Quitéria under a 22.5-year fixed-rate charter with Petrobras. Compared to legacy FPSOs, the contract structure features significantly reduced reliance on performance-based bonuses, resulting in more stable revenues and cash flow. The DSCR is expected to average around 1.3x, with lower volatility than peers, supported by a fully amortizing structure and robust reserve accounts.

In June, Colombia's central bank held its benchmark rate at 9.25%, pausing the easing cycle amid rising fiscal uncertainty. Although the government triggered the escape clause to revise the 2025 deficit target to 7.1% of GDP, market reaction was relatively contained. Notably, despite recent downgrades, Colombia retains its investment-grade rating with Moody's, reflecting still-sound institutional frameworks and prudent monetary policy. Inflation eased to 5.05% y/y, and the central bank maintained a cautious stance, signaling that further cuts will depend on fiscal developments and inflation convergence toward the 3% target. Growth remained resilient, with 2025 GDP projections near 2.6%–2.7%, supported by domestic demand. While near-term challenges persist, Colombia's macro fundamentals, including an independent central bank, floating FX regime, and credible inflation targeting, continue to provide a solid anchor.

The fund currently has a yield to worst of **8.5%**, duration of **4.93** years and an average credit rating of **BB-**.

Kind regards,

*Institutional Class