



GALLOWAY EMERGING MARKETS BOND FUND – July 2025

The Federal Reserve held its benchmark rate at 4.25%–4.50%, noting that while inflation continues to ease, additional evidence is needed to ensure a sustained return to target. Several Fed officials reiterated a cautious, data-dependent approach, and Chairman Powell emphasized that it is too early to commit to any specific path for monetary easing. Nonetheless, two voting members, Governors Bowman and Waller, dissented, favoring an immediate 25 bps cut in response to growing signs of labor market softening. Their position gained traction in markets after July’s payroll report came in significantly below expectations, leading investors to price in a high probability of a September cut. The 10-year Treasury yield ended the month 15bps higher, around 4.38%, as markets recalibrated expectations for the pace of monetary adjustment. Meanwhile our fund had a positive performance of **1.00%** during July.

Brazil’s macroeconomic environment was marked by the Central Bank’s decision to hold the Selic rate at 15.0%, signaling the end of a prolonged tightening cycle. The Copom emphasized that a sustained decline in inflation is still required before initiating rate cuts. Mid-month inflation reached 5.3% y/y, remaining well above the 3% target, which justifies a more prolonged restrictive stance. On the external front, the U.S. government imposed 50% tariffs on a broad range of Brazilian exports, excluding a few strategic sectors like aviation, orange juice, and energy. According to Brazil’s foreign trade office, nearly 36% of exports to the U.S. will be impacted, particularly in commodities such as coffee and meat. Political tensions escalated after the U.S. sanctioned a sitting Brazilian Supreme Court justice, further deteriorating bilateral relations. We would like to highlight that the fund has no exposure to the sectors most directly affected by the new tariffs. Our credit portfolio remains concentrated in issuers with strong fundamentals and low external sensitivity, such as in the infrastructure sector, which tend to be more resilient in the current environment.

In Mexico, July brought a combination of macroeconomic stabilization and rising external uncertainty. Headline inflation continued to slow, reaching 3.55% y/y in mid-July, allowing Banxico to keep its cutting cycle, lowering rates by 50 bps to 8.00%, though signaling a more cautious pace going forward. Preliminary Q2 GDP data surprised to the upside, with 0.7% quarterly growth, led by industrial production and services. On the external front, tensions with the U.S. persisted: after threats of additional tariffs of up to 30%, Mexico secured a 90-day reprieve to renegotiate trade terms, temporarily preserving preferential access under USMCA. On the corporate side, Banorte posted solid 2Q25 results, with \$613mn in net income, 30% ROE, and 8% YoY loan growth. Asset quality remained strong, with NPLs at 1.1%, lowest among peers, and capitalization was robust, with CET1 at 14.0%, and total capital at 21.7%, supporting profitability and balance sheet strength.

The fund currently has a yield to worst of **8.17%**, duration of **5.04** years and an average credit rating of **BB-**.



Kind regards,

*Institutional Class