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GALLOWAY EMERGING MARKETS BOND FUND – March 2026

In recent communications, the tone from the Federal Reserve has subtly shifted. Governor Christopher Waller signaled a more conditional and less automatically dovish stance, emphasizing that January's upside payroll surprise must be validated by February data before drawing conclusions about labor-market strength or the appropriate rate path. He acknowledged that the weakness observed throughout 2025 still warrants caution, effectively framing the next policy decision as highly data-dependent, with employment now at the center of the reaction function. At the same time, renewed tariff uncertainty and escalating tensions in the Middle East, including the Iranian attack and disruptions around key oil routes, triggered a risk-off move in equities and pushed crude prices higher. The spillover effects are likely to shape market dynamics into March. The 10-year Treasury yield ended the month 30bps lower at 3.91%, our fund recorded a negative return of **-1.73%** in March.

In Brazil, February's IPCA-15 rose 0.84% m/m, above expectations, driven mainly by seasonal pressures in Education and Transportation. Despite the surprise, the 12-month inflation rate remains relatively contained and medium-term expectations continue to show signs of anchoring. Against this backdrop, markets still price a probability above 80% of a 50bp Selic cut at the March Copom meeting. On the corporate side, Raízen was the main detractor to performance during the month. We initiated the position at a meaningful discount to par, fully aware that the company would likely require an equity injection to rebalance its capital structure. While this expectation was embedded in our underwriting, the bond continued to trade lower amid negative sentiment and technical pressure. Importantly, the company does not face an immediate liquidity constraint, with BRL 17.3bn (approximately US$3.3bn) in cash and no significant near-term maturities. Even in a downside scenario involving a broader restructuring, we believe recovery value would be materially above current trading levels. At the time of this writing, Shell has shown the willingness to inject R$3.5 bn into company.

Banxico kept rates on hold in early February, reinforcing a cautious but increasingly dovish stance. The minutes suggest the pause may be brief, as most board members view tariff impacts as limited and growth as subdued, while inflation is projected near 4% in 1Q. The board emphasized vigilance on upcoming price data, particularly core dynamics, but signaled that easing could resume as soon as March if inflation evolves in line with expectations. BBVA México delivered another strong year, with asset quality remaining robust. The NPL ratio closed at 1.6%, well below system levels, while coverage stood at a solid 185.8%, underscoring conservative provisioning. Capitalization remains very strong, with a total capital ratio of 20.2%, comfortably above regulatory requirements. Liquidity is ample, with an LCR of 158.3%, supported by a stable deposit base growing 10.3% YoY.

The fund currently has a yield to worst of **8.69%**, duration of **5.73** years and an average credit rating of **B+**.

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Kind regards,

*Institutional Class