GALLOWAY
GALLOWAY CAPITAL

GALLOWAY EMERGING MARKETS BOND FUND – July 2026

The U.S. economy remained resilient in July, although the monetary policy debate intensified amid inflation driven primarily by supply-side shocks. With the labor market broadly balanced and wage pressures moderate, the Federal Reserve kept the federal funds rate unchanged at 3.50%–3.75% under Chairman Kevin Warsh. Nevertheless, the decision was passed by a 9–3 vote, with three policymakers favoring a 25-basis-point hike, marking the first such dissent since 2016. With inflation remaining above target for more than five years and additional pressure stemming from tariffs and the conflict involving Iran, markets once again began pricing in the possibility of a rate hike in September. Economic data remained solid, with retail sales rising 0.2% in June, initial jobless claims falling to 197k, and the 10-year Treasury yield increasing from 4.46% to 4.73%. Against this backdrop, the Fund returned **-0.12%** in July, bringing year-to-date performance to **2.44%**.

Brazil's macroeconomic environment remained broadly supportive in July despite rising political and external uncertainty. Foreign direct investment reached US$9.1 billion in June, with first-half inflows up 33% year-on-year. The current account deficit narrowed to US$2.3 billion and remained comfortably financed by long-term capital, standing at a moderate 2.5% of GDP on a rolling twelve-month basis. Externally, new U.S. tariffs pose a downside risk, although broad product exemptions should limit the macroeconomic impact. Meanwhile, attention is increasingly shifting to the October presidential election, with recent polls pointing to a highly competitive race and continued political uncertainty in the months ahead. Within the portfolio, Braskem and Acelen were among the strongest contributors in July, the latter supported by favourable refining spreads.

In Mexico, disinflation continued as growth surprised to the upside. Headline inflation eased to 3.10% in the first half of July, its lowest since December 2020 and back within Banco de México's 3% (±1 pp) target band. The decline came mainly from volatile food and energy prices, while core inflation stayed elevated at 3.95%, with services still above 4%. Given persistent underlying pressures and energy risks tied to the U.S.–Iran conflict, Banco de México held the overnight rate at 6.50%. The economy, meanwhile, expanded 1.5% in the second quarter, its strongest quarterly pace since late 2020. Among corporate developments, Banorte delivered a strong quarter, with group net income up 6% year-on-year to MXN 15.6 billion (about US$889 million), return on equity of 25.7% and loan growth of 8%, while the bank's net interest margin of 6.9% came in above guidance.

In Colombia, economic activity strengthened in the second quarter, prompting upward revisions to 2026 growth forecasts, while the appreciation of the Colombian peso helped ease underlying inflationary pressures. Inflation nevertheless remains above target, and Banco de la República has maintained a restrictive monetary stance. Following the presidential election, attention has shifted to the incoming administration, which inherits a challenging fiscal backdrop, including a central government deficit of 6.4% of GDP, net debt of 58.5% of GDP and weak productivity, leaving limited room for fiscal stimulus. On the corporate front, Parex Resources became Colombia's largest independent producer after acquiring Frontera's local E&P assets, and reported second-quarter net income of US$444 million, though largely driven by a one-off US$302 million acquisition gain.

In this context, the fund has a yield to worst of **8.50%**, a duration of **4.08 years**, and an average credit rating of **B+.**

*Institutional Class (CLASS C USD) – ISIN: LU1090153773 – TICKER: GALGEMC.