



GALLOWAY EMERGING MARKETS BOND FUND – September 2026

The Federal Reserve raised the target range for the federal funds rate by 25 basis points, to 3.75%–4.00%, on September 16, by a unanimous 12–0 vote. It was the first increase since 2023 and the first under Chair Kevin Warsh, and the statement again offered no forward guidance. The median projection for the end-2026 policy rate rose to 4.125% (from 3.8% in June), with 16 of 18 participants expecting at least one more 25-basis-point increase this year, and the median 2026 PCE inflation projection was lifted to 3.7% from 3.6%. Treasury yields moved sharply higher: the 10-year ended the month at 5.29%, up 54 basis points from the end of August, while the 2-year closed at 4.88% and the 30-year at 5.64%. In this environment, the fund posted a negative return of **-2.62%** in September.

In Brazil, the Copom lowered the Selic by 25 basis points, to 13.75%, on September 16, in a unanimous vote. It was the fifth consecutive cut of identical size, and the committee reiterated that the full magnitude of the cycle will be defined as new information emerges. The August IPCA, published on September 11, showed deflation of 0.32%, taking the twelve-month rate to 4.22%, below the 4.5% tolerance ceiling, although the September IPCA-15 rose 0.70%, above every estimate in the Broadcast survey, and the twelve-month figure returned to 4.47%. The presidential election dominated the month, with the latest polls pointing to a technical tie in a runoff between President Lula and Senator Flávio Bolsonaro: Datafolha (September 22–23) showed 47% to 45% and AtlasIntel/Bloomberg (September 17–22) 47.7% to 47.4%. The announcement on September 17 of a 15.04% increase in the Bolsa Família benefit floor, at an estimated cost of about R\$ 22 billion in 2027, renewed concerns over the fiscal trajectory. The first round takes place on October 4, and we expect Brazilian risk premia to remain highly sensitive to polling data and to the fiscal agenda of the next administration.

In Colombia, the Banco de la República surprised the market on September 30 by raising its policy rate by 25 basis points, to 12.25%, when a hold at 12.00% had been expected. Four board members voted for the increase, two for a hold and one for 50 basis points, as annual inflation reached 6.24% in August and analysts now expect 6.8% by year-end. It was the first-rate decision with the new government represented on the board by Finance Minister Miguel Gómez. On the fiscal side, the government's 2027 budget advanced in Congress, but the question of how to finance it remains open.

As we enter the last election, Brazil, of what we have been telling our clients for 2 years has been the “Latam super election cycle,” and as we predicted all countries have gone to the right, and Brazil stands at a 50/50. Let’s wait and see what this coming weekend has in store for us.

In this context, the fund has a yield to worst of **9.33%**, a duration of **3.87** years and an average credit rating of **B**. We have deliberately kept a shorter duration, which reduces the portfolio's sensitivity to higher interest rates, and we used the volatility during the month to improve the portfolio's risk profile while preserving a high level of yield.