GALLOWAY
GALLOWAY CAPITAL

GALLOWAY EMERGING MARKETS BOND FUND – October 2026

The Federal Reserve kept the target range for the federal funds rate unchanged at 3.75%–4.00% on October 28, by a 10–2 vote, with both dissents favoring a further increase. The decision followed September's 25-basis-point hike, and markets continue to price another increase at the December meeting. After the sharp selloff in September, Treasuries retraced part of the move: the 10-year yield reached a closing high of 5.31% on October 5, its highest close since 2002, but ended the month at 4.94%, 35 basis points below the end of September. In this environment, the fund posted a return of **-0.22%*** in October.

In Mexico, the economy continued to show resilience. The flash estimate from INEGI (Mexico's National Institute of Statistics and Geography), published on October 30, showed GDP growth of 0.9% quarter on quarter in the third quarter, the third consecutive quarterly expansion, and 3.2% year on year, the strongest annual pace in three years, led by services and industry. Inflation picked up at the margin, with the headline rate rising to 3.62% year on year in the first half of October, driven by electricity and some agricultural prices, while core inflation stood at 3.78%. Banxico, which kept its policy rate at 6.50% in September for a third consecutive pause, did not meet in October, and the next decision is due in November.

In Brazil, the presidential election dominated the month. Senator Flávio Bolsonaro finished ahead in the first round on October 4, and local markets rallied on expectations of a change in government. In the runoff on October 25, however, President Lula was re-elected with approximately 51.7% of valid votes. The reversal was abrupt: on October 26 the Ibovespa fell 13.88%, triggering the B3 circuit breaker for the first time since 2020, and the real weakened 8.21% to R$ 5.40 per dollar, its largest daily move this century. The Ibovespa ended October down nearly 10%, its worst monthly performance since 2022. Our portfolio, by contrast, was only marginally affected, reflecting the greater resilience of the credits to which we are exposed, whose hard-currency cash flows and balance sheets are far less dependent on local risk premia and the domestic fiscal debate. Brazil thus closes what we have described to our clients for the past two years as the "Latam super election cycle" as the exception to the region's shift to the right, and we expect the composition of the new economic team and its fiscal framework to be the key drivers of Brazilian risk premia in the coming months.

On a positive note, the Braskem 2051 bonds, our only distressed name in the portfolio, which we purchased at an average price of 37 cents, are now trading close to 50 cents on the dollar, supported by progress in the restructuring negotiations among bondholders, Petrobras and IG4, with both sides now converging on a meaningful shareholder capital injection as part of the agreement. In this context, the fund has a yield to worst of **9.74%**, a duration of **4.47 years** and an average credit rating of **B**. We have maintained a shorter duration and a selective exposure to Brazilian credit, which limited the

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impact of the post-election volatility on the portfolio, and we remain focused on preserving a high level of yield while continuing to improve the portfolio's risk profile.

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