April 2021

Stone Harbor
INVESTMENT PARTNERS

Investment Policy Statement

A monthly review of the markets

As Vaccines Become Abundant in the US, Supply Will Start to Rotate

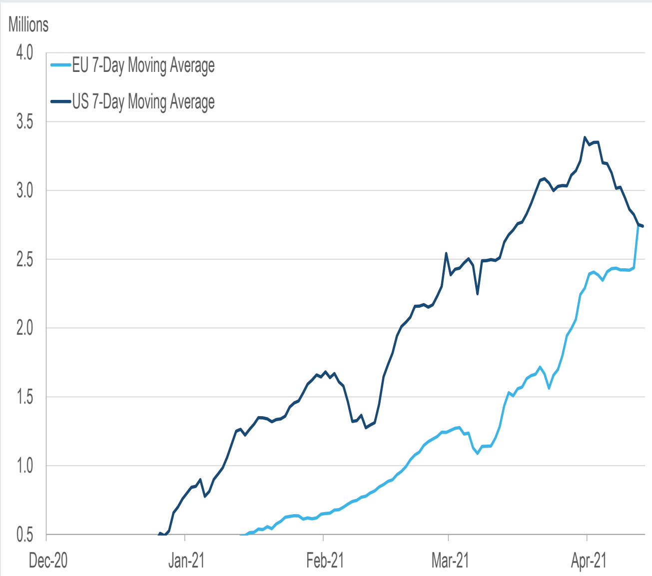
"The good we secure for ourselves is precarious and uncertain until it is secured for all of us and incorporated into our common life."
– Jane Addams, American Activist

As the US steadily approaches a state of vaccine abundance, other developed markets are also moving in the same direction, though currently with varying degrees of lag. After vaccines saturate the US and the UK – which we are already beginning to see unfold – other areas of the world stand to benefit from the expanded vaccine production capacity. The increased supply is likely to be directed towards Europe next, which has struggled with vaccine procurement, among other issues. In emerging markets, a state of vaccine abundance is further out, and while some of the supply for Europe may need to be redirected to areas like India in the near-term, given its latest surge, supply remains supportive, in our view. Importantly, some emerging markets countries are making significant strides towards mass inoculation. Vaccine prospects on a global basis stand to brighten further; the US commitment to share AstraZeneca vaccines, after safety review, is a first step along this path.

Virus and vaccine news in the developed world remains mostly positive, and vaccine production and inoculations continue to increase globally. Pfizer has more than doubled its weekly US output of vaccine doses to about a 50 million per month pace in late March, from a 20 million per month pace at the beginning of February. Moderna is producing roughly 40 million doses per month for the US, compared to 20 million it produced in three months last year. The pace of deliveries is poised to move still higher based on latest indications. In the US, the 7-day average of vaccinations given has declined slightly but remains robust at just under three million per day. While this pace may slow further, the sustained supply moving forward appears abundant, allowing many facilities to open for walk-ins. Looking globally, eight vaccines were approved for full use and five additional vaccines were approved for limited use, as of early April.

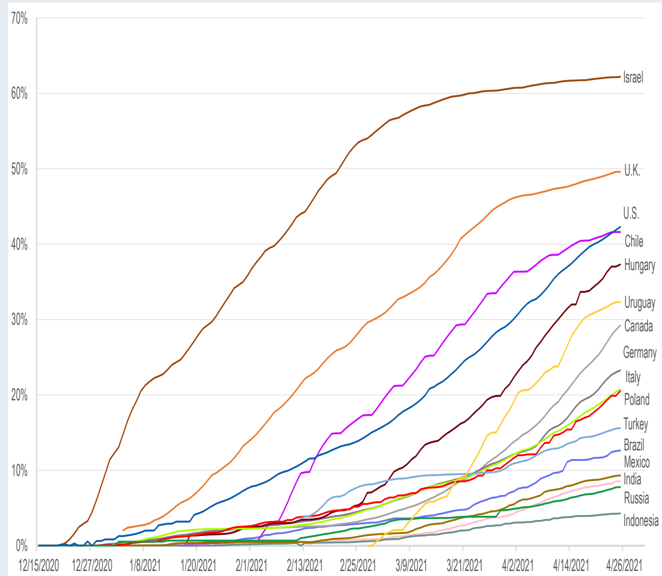
We are starting to see positive effects of widespread vaccinations in the US: hospitalizations and deaths declined over recent weeks despite cases remaining roughly flat and activity, as proxied by movement indexes, increasing. We expect deaths to decline further going forward. With better Covid-related outturns, high frequency and services data indicate marked economic improvement. For

Figure 1: EU Vaccinations Catching Up to the US



As of April 26, 2021
Source: Bloomberg, Stone Harbor Investment Partners LP

Figure 2: Share of People Who Received at Least One Dose of Covid-19 Vaccine



As of April 26, 2021
Source: Our World in Data, Stone Harbor Investment Partners LP

instance, the New York Fed's Business Leaders Survey improved to 30.2 in April, the second highest reading in its almost two-decade history. Initial jobless claims, after being stuck around 800k through late-2020 and early-2021, have started to move down in April. However, there is still room for very substantial further recovery on the employment side—even considering addition of one million jobs in March, the largest employment gain since August of last year. A significant portion of remaining job losses are in high virus risk industries (e.g., healthcare, air travel, and restaurants and bars), which we anticipate will recover notably with widespread inoculation. In broad terms, the economy is still short about 10 million jobs.

Europe continues to make meaningful progress on vaccinations despite negative headlines around their vaccination efforts rollout and reports of general vaccine hesitancy. Since the start of March, the 7-day moving average of vaccines dispensed has doubled and now sits at almost 2.5 million per day.

Europe's economic activity appears to be holding up better in the face of the latest pickup in cases. Even with broader restrictions in response to the latest rise in infection rates, Europe appears to be learning how to better function within the constraints. Economic data indicates improving sentiment especially in manufacturing PMIs, but services PMIs have held up too. Whether that persists with additional measures remains to be seen, but the prospects are encouraging. Broadly, we think Europe is lagging the US in terms of vaccination by approximately 6-8 weeks; the US was at Europe's current pace of vaccinations roughly in mid-March. We expect the recent progress to continue as vaccine deliveries rotate out of the US and the UK and into Europe.

In emerging markets, case growth is more pronounced and accelerating in some countries, as virus variants interact with limited vaccine supply. While developed markets appear to be out-vaccinating the variants, the situation remains more concerning in EM; they need to rely more heavily on behavioral changes to quickly control the spread of the virus for the time being until vaccines become more widely available.

Vaccinations remain much lower in many of emerging markets world, though there are a few notable exceptions. In the past month, several EM countries have made considerable efforts to inoculate their populations, with significant gains made in Latin America. As an example, Uruguay has increased the percentage of its population that has received at least one dose from 5.6% in March to nearly 33% in late-April. The government of Uruguay has an ambitious plan to vaccinate all eligible Uruguayans by September 2021. Chile also remains a leader in vaccine distribution, with the latest count of nearly 42% of its population already receiving at least one dose.

In the case of India, where the latest spike in cases is setting new records, the vaccination rate of only 8.5% of the population is still too low to significantly slow down the virus spread. However, India is home to the world's largest vaccine manufacturer and domestic vaccine production is expected to rise substantially in May. This will likely be further supported by international aid including from the US, UK, and Europe.

While absolute vaccination rates remain low in several emerging markets countries, including Brazil, Indonesia, Malaysia, Mexico, Ukraine, and Russia, we expect these countries and many others to continue to make progress in the months ahead as the vaccine production capacity continues to expand and accelerate, and vaccine supply rotates toward them in the second half of the year.

US MACRO RISK SCENARIO ASSUMPTIONS AND MARKET OUTLOOK[1]

Base Case: Slow Grind Transitions to Sharp Vaccine-Led Rebound (40%)

- Vaccine distribution acceleration continues; vaccines provide at least partial protection against variants.
- Travel, restaurants, sports, conventions and large gatherings improve with wider vaccination.
- European countries keep containment measures in place over short-term hurting activity. Near-term shortfalls made up for by more rapid future growth.
- Vaccines become broadly available across EM countries by late-21/early-22; in some EMs already by the summer.
- US stimulus disbursed over next several quarters boosting recovery. Other countries continue to provide further fiscal support.
- US/China tensions remain cooler, but do not return to pre-Trump status quo.
- Core inflation picks up sharply—to around 2½%—in Q2-2021 as year-over-year measures lap the declines from 2020. The Fed and other DM central banks look through and core inflation drops back below 2% by mid-summer.
- Central banks maintain stimulatory policies.
- Oil moderates slightly: ~$60/barrel WTI, Brent ~$65.
- Dollar broadly weakens over 1-year horizon, partly due to closing of interest rate differentials and partly from lower US real rates associated with Fed policy shift.

Medical & Stimulus Led Acceleration (40%)

- Pharmaceutical progress further exceeds expectations. Additional vaccines approved and get to the populace quickly. At the same time, the use of monoclonal antibodies meaningfully increases which helps push death rates down.
- US continues to lift containment measures without a surge. Europe case numbers come back down and they are able, with better vaccinations, to lift restrictions in summer. Asia remains in relatively good shape. EM countries start ramping up vaccines by late summer.
- With better-than-expected containment, treatment and vaccination, activity improves substantially and rapidly.
- The Democratic Senate moves on to infrastructure and passes a meaningful bill, further accelerating the recovery.
- Supportive monetary policies gain traction.
- Improvement is global as better treatments spread.
- Fed maintains accommodative policy, but doesn't feel need to push further. Similarly ECB only maintains PEPP.
- Oil: WTI at ~$70/barrel; Brent ~$75/barrel.

Variants Derail Vaccine-Led Recovery (10%)

- Coronavirus variants prove resistant to current vaccines; the new strains spread rapidly. As a result the recovery lags as social distancing and government restrictions remain in place. With growth lagging, economic scars turn lasting.
- The scars come from a variety of lingering effects: 1/ business bankruptcies increase; 2/ risk taking sentiment is depressed leading to less investment and fewer new business formations; 3/ layoffs turn permanent and unemployment rates increase in many countries and 4/ elevated sovereign balance sheets lead to payment stress in some countries.
- Malaise not limited to the US: other DMs and most EMs underperform expectations through 2021.
- Fed institutes yield curve control (YCC) and pegs 10y at 0.25%. Additional financing facilities put in place; Fed pushes further out risk spectrum
- Trade tensions persist, as in the base case.
- Dollar sees renewed flight to safety support.
- Oil prices hit by lower growth: ~$35-30/barrel for WTI; Brent ~$30-35.

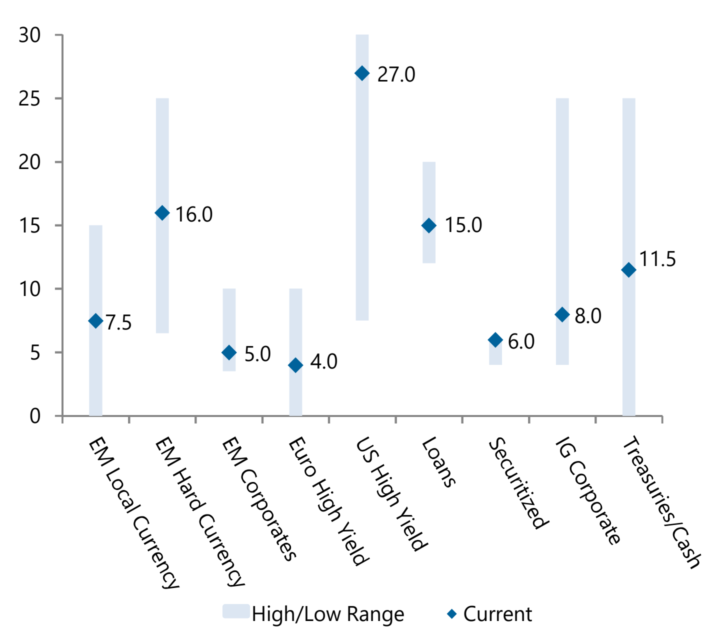
Inflation Accelerates (10%)

- Next several months proceed as in the base case, but inflation does not come back down in the summer.
- Stimulus induced demand crashes into still constrained supply, and firms respond by raising prices. Firms start to materially bid up wages attempting to pull workers in.
- Core inflation remains well over 2%, and is around 2½% heading into the end of 2021 for the US, and similarly higher in other DMs.
- Despite the rise in inflation, central banks initially maintain accommodative policies. Toward the end of the year they being to react pulling back on asset purchases and indicating that rates are likely to rise much sooner than anticipated.
- Rates move sharply higher along the curve.
- Interest rate sensitive sectors start to drag, but that is offset in the broader economy by growth elsewhere.
- Oil prices rise notably with growth and inflation fears: WTI to $75/barrel, Brent $80/barrel.

	Base Case: Slow Grind Transitions to Sharp Vaccine-Led Rebound (40%)	Medical & Stimulus Led Acceleration (40%)	Variants Derail Vaccine-Led Recovery (10%)	Inflation Accelerates (10%)
US Real 4Q GDP (%)	6.50	8.00	3.00	6.50
Fed Funds (%)	0.13	0.13	0.13	0.13
US Core PCE (%)	1.70	1.90	1.10	2.60
2yr Treasury (%)	0.45	0.65	0.13	1.00
10yr Treasury (%)	1.75	2.25	0.25	2.50
10yr Bund (%)	-0.35	0.10	-0.75	0.75
China 4Q GDP (%)	5.25	5.50	4.50	5.25
EM 4Q GDP (%)	5.50	6.50	3.50	5.00

[1]Forecast Period: Next 12 months. Source: Stone Harbor.

MULTI-ASSET CREDIT TARGET ALLOCATIONS (%) SINCE INCEPTION & RECENT ALLOCATION CHANGES[2]



Latest Allocation Changes	Month	Change (%)
EM Local Currency	Dec-Jan 2021	+2.5
EM Hard Currency	Feb-Mar 2021	+8.5
EM Corporates	May-June 2018	+1.5
Euro High Yield	May-June 2020	-2.5
US High Yield	Jan-Feb 2021	-0.5
Loans	Jan-Feb 2021	+1.5
Securitized	Mar-April 2019	+1.0
IG Corporate	Jan-Feb 2021	+2.5
Treasuries/Cash	Feb-Mar 2021	-8.5

[2]Since Inception: September 2013. Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 March 2021. Actual allocations within any account may be significantly different from the target allocations shown here. For illustrative purposes only.

MARCH CREDIT MARKET TOTAL RETURNS & ATTRIBUTION

	US High Yield	EM Hard	Loans	EM Local	EM Corp	Euro High Yield	IG Corporate
Total Return	0.18	-0.96	0.00	-3.07	-0.64	0.58	-1.02
Duration (Returns from Interest Rates %)	-0.64	-1.54	0.02	-0.93	-0.70	0.15	-0.95
Credit Beta (Returns from Spreads %)	0.82	0.58	-0.02	-2.14	0.06	0.43	-0.07

Month Ended 31 March 2021. Performance reflects representative asset class benchmarks.HY: ICE BofAML US High Yield Constrained Index; EMD: J.P. Morgan EMBI Global Diversified; EMDLC: J.P. Morgan GBI-EM Global Diversified; EMDCR: J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified; EUR HY: ICE BofAML European Currency High Yield 2% Constrained Ex Financial; IG Corp: Bloomberg Barclays Global Agg Corporate Index; Loans: S&P/LSTA Leveraged Loan Index; Past performance is not a guarantee of future results. Returns are shown gross of fees. For illustrative purposes only.

STONE HARBOR INVESTMENT PARTNERS

- Institutional fixed income investment firm focused on credit risk strategies and asset allocation.
- 100% employee-owned
- Over 30-year performance history
- Offices in New York, Chicago, London, and Singapore.

Stone Harbor Investment Partners LP manages institutional clients' assets across a range of investment products including multi-sector credit, emerging markets debt, core fixed income, securitized, high yield, and bank loan strategies. Across all strategies, we seek to generate attractive risk-adjusted returns through a disciplined process of fundamental credit analysis complemented by solid portfolio management skills and sound risk management. Experience, teamwork and dedicated client service - the cornerstones of our success - help us achieve sustainable results.

Indices referred to herein are broad-based securities market indices. Broad-based securities indices are unmanaged and are not subject to fees and expenses typically associated with managed accounts or investment funds. Investments cannot be made directly in an index.

Index Definitions

The J.P. Morgan CEMBI Broad Diversified (CEMBI Broad Diversified) tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in emerging market countries and consists of an investable universe of corporate bonds. The minimum amount outstanding required is $350 mm for the CEMBI Broad Diversified. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding.

The J.P. Morgan EMBI Global Diversified (EMBI Global Diversified) limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global.

The J.P. Morgan GBI-EM Global Diversified (GBI EM Global Diversified) consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index.

The ICE BofAML European Currency Non-Financial High Yield 2% Constrained Index contains all non-Financial securities in The ICE BofAML European Currency High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis.

The ICE BofAML U.S. High Yield Constrained Index (HUC0) contains all securities in ICE BofAML U.S. High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issues in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis.

The S&P/LSTA Leveraged Loan Index is a partnership between Standard & Poor's and the Loan Syndications and Trading Association, tracking returns in the leveraged loan market and capturing a broad cross-section of the U.S. leveraged loan market - including dollar-denominated, U.S.-syndicated loans to overseas issuers.

The Bloomberg Barclays US Aggregate Index is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States

The Bloomberg Barclays Global Aggregate Bond Index provides a broad-based measure of the global investment grade fixed-rate debt markets. It is comprised of the U.S. Aggregate, PanEuropean Aggregate, and the Asian-Pacific Aggregate Indexes. It also includes a wide range of standard and customized subindices by liquidity constraint, sector, quality and maturity.

Important Disclosures

Stone Harbor
INVESTMENT PARTNERS

CONTACT

Main Office - New York

31 W. 52 Street
16th Floor
New York, NY 10019
+ 1 212 548 1200

Chicago Office

10 S. Riverside Plaza
Suite 875
Chicago, IL
+ 1 312 492 4251

London Office

48 Dover Street
5th Floor London,
W1S 4FF
+ 44 20 3205 4100

Singapore Office

3 Killiney Road
Winsland House 1
Singapore 239519
+ 65 6671 9711

www.shiplp.com