June 18, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

The US Federal Reserve (Fed) kept its main policy interest rate at a range of 0% to 0.25% and raised its growth and inflation forecasts. The Fed's median projected path for the policy rate increased from one to two hikes in 2023, a hawkish tilt. The statement and commentary from Fed Chairman Jerome Powell emphasized a continuation of accommodative monetary policies, particularly asset purchases. China reported economic data that disappointed market consensus expectations but showed steady growth. Credit spread movements were muted across the major sectors. Bond issuance continued to mount, particularly in US credit markets. The US dollar appreciated and US Treasury yields moved higher. In response, emerging markets (EM) currencies depreciated and yields on EM domestic bonds increased.

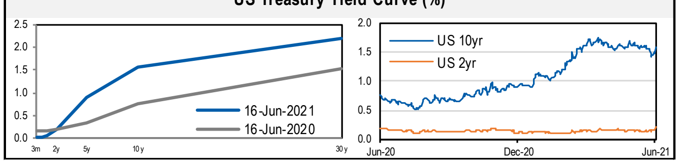
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	328		-1	7.92%
EMBI GD IG	142		-4	3.18%
EMBI GD HY	560		3	13.70%
Africa	494		-2	19.43%
Asia	198		-5	5.86%
Europe	262		-6	6.14%
LATAM	342		3	7.12%
Middle East	340		-4	5.89%
CEMBI BD	243		-8	8.81%
CEMBI BD IG	148		-6	5.48%
CEMBI BD HY	436		-12	13.51%
GBIEM GD (%)	4.96		2	7.28%
EM Blend (%)	4.75		3	8.05%
EMBI ESG	307		-1	7.01%
CEMBI ESG	245		-8	8.63%
GBI ESG (%)	4.76		2	7.85%
		-300 -150 0 150		Jun-20 Dec-20 Jun-21

Developed Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	280		-11	12.62%
US HY BB	210		-10	10.63%
US HY B	305		-10	11.44%
US HY CCC	478		-15	22.27%
Pan Euro HY	287		-1	10.37%
LSTA 100 (%)	3.64		4	10.59%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.47		11	-4.55%
1M LIBOR (%)	0.08		1	0.15%
US Agg	33		1	-0.57%
US IG Corp	81		-4	2.55%
Global Agg	32		-1	0.09%
		-100 0 100 200		Jun-20 Dec-20 Jun-21

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.20	6.49%	Gold	1,861	5.27%	S&P500	4,224	35.17%
USDJPY	110.71	-3.07%	VIX	18	-46.09%	MSCI World	9,023	37.59%
EM FX		4.06%	Brent	74	81.62%	MSCI EM	3,265	41.69%
		Jun-20 Dec-20 Jun-21			Jun-20 Dec-20 Jun-21			Jun-20 Dec-20 Jun-21

As of: June 16, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The Federal Open Market Committee (FOMC) was the center of attention this week with its revised median interest rate forecast pointing towards a more hawkish stance. Along with the two aforementioned 2023 rate increases, seven participants now expect an interest rate increase by the end of 2022 vs only four members back in March. Although Chairmen Powell reiterated there is still some way to go before reaching "substantial further progress," the committee has begun discussions around timing of the tapering. G-7 leaders met over the weekend to discuss a range of topics including global vaccine distribution, infrastructure, and climate change initiatives. Global leaders ended the summit with a common critical stance towards China's economic and human rights practices. Shortly after the G-7 meeting, President Biden met with Russian President Putin in Geneva in efforts to stabilize relations between the two countries. The meeting ended with both countries agreeing to return their respective ambassadors to their posts and continue discussions regarding cyber security, arms control, and re-establishing diplomatic ties. Overall, US vaccinations continue to progress with 64.7% of adults now having received at least one dose, and 54.8% fully vaccinated. Studies show that two doses of the Pfizer and AstraZeneca vaccine proved highly effective against severe symptoms from the more contagious Delta variant.

Europe

As generally expected, the European Central Bank (ECB) kept its policy rates unchanged and reiterated the US$1.85 trillion size of its Pandemic Emergency Purchase Program (PEPP). While prior to the release there were concerns that the ECB may update the language, they have reaffirmed intentions to continue their PEPP purchases at a "significantly higher pace" into Q3. The ECB remains cautious, viewing a premature policy tightening as detrimental to meeting their growth and inflation targets. In efforts to contain spread of the Delta virus variant, UK Prime Minister Johnson delayed plans to lift the final stage of restrictions, originally scheduled for 21 June, by at least four weeks. Models suggest that if restrictions were eased, hospitalizations could reach levels observed during the first wave of infections. The additional month allows more individuals to receive their second vaccine dose, of which Pfizer and AstraZeneca have proven highly effective against the new variant. The EU and US agreed to extend the tariff suspension on US$11.5 billion worth of exports for five years as both sides work towards an agreement involving aircraft subsidies. The two sides are likely to reach an accord given their mutual concerns for China's market position.

Japan/Asia

Japanese core machine orders, a leading indicator of capital expenditure, rose 0.6% in April, undershooting estimates for a gain of 2.5%, as a 10.9% rise in manufacturing was offset by the 11% contraction in non-manufacturing orders. We've observed a similar pattern throughout the pandemic, where manufacturing remains resilient while non-manufacturing (i.e. services) falters, which is seemingly the case as restrictions remain in place. On a more positive note, Japan is expected to lift the state of emergency on 20 June and implement a less stringent "quasi-emergency" until mid-July in several prefectures (ie Tokyo and Osaka). Although the case count continues to rise, the infection rate has decelerated with roughly 15% of the population having received at least one vaccine dose. Australia and the UK reached a new post-Brexit free-trade agreement, which will reduce tariffs on agricultural products offering Australian farmers and producers better access to the UK market. The final Agreement in Principle is expected to be published in the coming days.

Economist Corner

Seamus Smyth, PhD, Developed Markets

At the June FOMC meeting the Fed a/ started to "talk about talking about tapering" and b/ on the median forecast for policy rates, penciled in two rate increases by the end of 2023. This combination was more hawkish than expected.

With the information from the June meeting in hand, we continue to expect further details on the FOMC's plan for reducing asset purchases to come in the latter part of the summer or early fall. The annual Jackson Hole symposium or September FOMC meeting look to be the most likely venues for those details. That would be followed by actual implementation or a reduction in purchase in either late 2021 or early 2022, though risks are now higher that implementation happens in late 2021.

Though the June meeting is a real and meaningful shift, it is important to put that shift in the context of significant upward economic forecast revisions. If we compare the level of GDP the FOMC's median projections imply for the end of 2023 to what they projected at previous meetings, that projected level has increased meaningfully.

Relative to December of last year, the projected level has jumped over 3 percentage points. The June meeting's upward revision was worth about ¾ percentage points, so the rate increases are in large part a response to that better economic outlook.

Steffen Reichold, PhD, Emerging Markets

With these upgrades, the Fed's GDP estimates have essentially caught up to ours. That means we don't foresee another large round of GDP upgrades, and consequent Fed fund forecasts changes.

Even with these shifts, the Fed's new framework is still significantly more accommodative than last cycle. Then the first hike came with unemployment around 5% and core PCE around 1 ¼%--now it's unemployment below 4% and core PCE over 2% in the forecast. If realized inflation turns out to be only 1 ¼ heading into the second half of 2023 we don't think this FOMC would start the hiking cycle. That said, we are watching closely for the possibility of the market trying to pull forward rate hike expectations further.

FOMC Meeting Date	Projected GDP Growth by Year			Level of GDP in Q4-2023 (Q4-2020=100)
	2021	2022	2023	
June-21	7.0	3.3	2.4	113.2
March-21	6.5	3.3	2.2	112.4
December-20	4.2	3.2	2.24	110.1

Source: Federal Reserve and Stone Harbor Investment Partners LP Calculations

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 1 basis point (bp) and the JP Morgan EMBI Global Diversified returned (0.28%). Investment grade securities outperformed non-investment grade bonds, on average, though both sectors delivered negative total returns. The top country performers included Mozambique (+3.1%), Suriname (+2.8%), and Belize (+1.5%). The bottom performers included El Salvador (-5.2%), Ecuador (-2.5%), and Sri Lanka (-1.7%).

Local Currency Debt

TThe JP Morgan GBI EM Global Diversified returned -0.7%. EM currencies returned -0.6% in aggregate. Brazil real, Russia ruble, and Turkey lira outperformed, returning 0.8%, 0.4%, and 0.5% in spot FX, respectively. Colombia peso, Mexico peso and Hungary forint underperformed with spot FX returns of (3%), (2.4%), and (1.9%), respectively.

The yield of the JP Morgan GBI EM Global Diversified increased 3 bps to 4.96%. Bond markets from Turkey and Dominican Republic outperformed as yields fell by 42 bps and 22 bps, respectively. Underperforming bond markets included Brazil (+14 bps), Colombia (+17 bps), and Peru (+14 bps).

Central banks left key rates unchanged as expected in Hungary (0.75%), Indonesia (3.5%), Egypt (8.25%), Namibia (3.75%), Peru (0.25%), and Turkey (19%). Brazil's central bank hiked the SELIC rate 75 bps to 4.25% with a hawkish communique, as expected, while Ukraine surprised by leaving its policy rate unchanged at 7.5%.

EM Corporate Debt

Another small but positive gain for the JP Morgan CEMBI Broad Diversified this week, with Asia logging a negative return while both Latin America and Central & Eastern Europe, Middle East, Africa (CEEMEA) were positive. With US Treasury rates higher ahead of the June FOMC meeting, high grade underperformed high yield, which also largely explained the negative performance in Asia. The positive momentum from the soy harvest continued in Argentina, which posted a 1.11% return for the week. DP World announced that it was exploring the sale of a stake in a major subsidiary. Proceeds from such a sale could be material and would be used to reduce debt. Oil continued to make new highs, which benefitted most exploration & production (E&P) companies in the index, but more so the independents. Tullow Oil was up on the week, as were the bonds of the Colombian E&P companies.

Flows/Issuance

EM sovereign debt issuance included new offerings from Turkey (US$2.5 billion, 5-year maturity) and Kenya (US$1 billion, 12-year maturity). Year-to-date, sovereign issuance totals over US$125 billion. The EM corporate debt market saw a debut issue from Colombian oil company, SierraCol. The new issue market also saw Brazilian airline Azul bring a new deal, as well as issuance from Akbank, a leading private bank in Turkey.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$1.3 billion for the week through 14 June, driven predominantly by flows into local currency funds. We note that EPFR data provides a partial picture of portfolio flows as it accounts for a segment of the total market.

Source: EPFR

Sovereign Soundbites

Belize

The Ministry of Finance reported that a group of bondholders consented to the government's request to extend the grace period on two coupon payments due on the country's 2034 maturity Eurobond. Belize is in the process of its fifth debt renegotiation in the past 15 years. The government will now defer until 19 September payments that were due in May and August. Negotiations between the government and creditors had reached an impasse over the government's unwillingness to agree to an International Monetary Fund (IMF) lending program prior to debt restructuring.

Chile

The spread between Chile's US dollar Eurobonds and Chilean quasi-sovereign debt has tightened steadily over the past year and has continued to tighten recently despite widening of Chile's spread level this quarter. As an example, the spread between Chile's 2050 Eurobond and Codelco 2050's has narrowed from +72 bps on 24 August 2020 to +20 bps on 16 June 2021. This spread has tightened so far this quarter by approximately 5 bps while the overall level of long duration bond spreads has increased as concerns have mounted over a leftward and populist shift in domestic politics.

China

May marked China's 15th month in economic recovery from Covid, suggesting still robust growth, but at a slower pace than previously. Retail sales increased 12.4% year-over-year (y/y) but the growth rate dropped from 17.7% in the prior month. Industrial production also increased 8.8% y/y but dropped from a gain of 9.8% y/y in April. Fixed assets (ex-rural) jumped 15.4% y/y vs +19.9% in April, while property investment gained 18.3% year-to-date y/y, compared to a gain of 21.6% a month ago. The country's jobless rate was 5%. Please see our Chart of the Week for further discussion.

Colombia

The new finance minister Jose Manuel Restrepo delivered the annual Medium-term Fiscal Framework (MFMP) to congress this week. The government has struggled to pass a more limited version of the reform that led to the resignation of Restrepo's predecessor last month amid street protests and political opposition. The proposed new tax reform would in theory deliver 1.2% of GDP in revenue by 2023 through improved efficiency in tax collection and oil price gains. The administration hopes that the current gradual fiscal consolidation will allow for near-term spending increases and a primary deficit only by 2025, with debt levels edging higher to a proposed new debt ceiling in 2024.

Dominican Republic

Data on passenger arrivals released this week showed that the country received 390,948 visitors in May, maintaining the recovery of the tourism sector. The number of tourists in May equaled 61% of the number from May 2019. Of the total number of passengers arriving in May this year, 273,370 were non-resident foreigners. During the period from January to May 2021, 1,435,107 tourists were counted, representing a growth of 3% compared to the same period of 2020. The government expects that the country could reach its pre-pandemic level of tourist arrivals as early as mid-2022, given the steady rise in arrivals, and vaccination rollout in the US, which accounts for 32% of Dominican Republic's visitors. Tourism comprises approximately 37% of the country's exports.

El Salvador

El Salvador's Eurobond spreads remained under pressure for most of this week in reaction to President Bukele's acceptance of Bitcoin as legal tender and fears that the decision may jeopardize negotiations with the IMF over a lending program. Bukele's economic team has not yet followed up with comments to quell market concerns, nor explain how El Salvador may address US regulations against Bitcoin-related illicit activities. However, the president of the Central American Bank for Economic Integration (CABEI) Dante Mossie provided his support for the Bitcoin decision, noting the potential lower cost of remittances, which this year have amounted to over 25% of the country's GDP. Market sentiment toward El Salvador bonds improved following Mossie's statement, since CABEI provides roughly half of the US$2 billion in aid that El Salvador receives from international financial institutions.

Peru

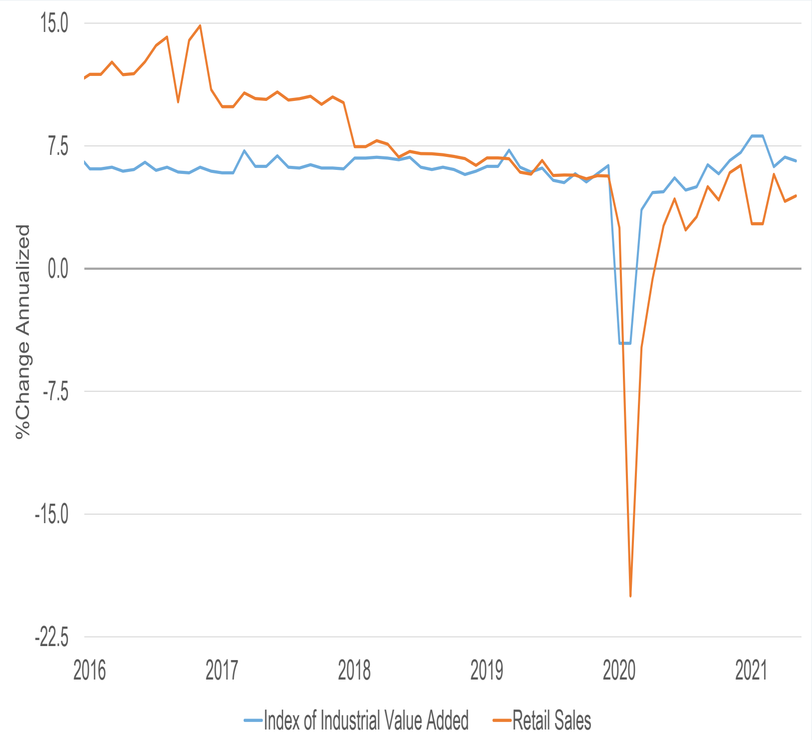
Political uncertainty persisted as the trailing candidate in the recent presidential election insists the vote was stolen and her establishment supporters are demanding a new election. Right-wing candidate Keiko Fujimori, who received 49.9% of the votes against 50.1% for Pedro Castillo with all the ballots counted, is calling for an audit after alleging "grave irregularities." Election officials, however, have rejected her claims of fraud, and international election observers say the vote was transparent and clean. Peru's sovereign debt spread tightened this week.

Philippines

Overseas workers' remittances to the Philippines increased 12.7% y/y in April according to data released this week. While a Bloomberg survey indicated that economists predicted a larger increase (+19.3%), the main news, in our view, was the steady inflow. On average, Filipinos working abroad have collectively returned US$2.5 billion to their families each month since January 2020. The lowest level of remittance was US$2 billion in April 2020 at the height of the pandemic in the US. We believe this figure highlights the resilience of remittances as a source of a social safety net during times of crisis for the Philippines and other countries with large expatriate working populations.

Chart of the Week

China: Retail Trade & Industrial Value Added Growth



As of May 31, 2021
Source: CNBS/Haver Analytics

China data this week showed that consumption continues to lag despite the strong and rapid recovery supported by exceptionally strong export demand and last year's credit stimulus. Headline year-over-year growth rates are still distorted by last year's shut-downs and re-openings. We get a clearer picture by looking at 24-month growth rates thus using pre pandemic levels as the comparison. Industrial value added grew at an annual rate of 6.6% over the past two years, in line with pre-pandemic growth. However, retail trade with an annual growth rate of 4.4% is still lagging. Moreover, we have not yet seen any acceleration in retail trade growth this year. We believe that pandemic-related uncertainties are still holding back consumers in many EM countries, including China. While negative in the near-term, we believe it leaves more upside growth potential later this year as more EM countries step up vaccinations allowing the normalization of demand we are already seeing in many developed markets.

Global High Yield

US High Yield

The US high yield market continued its positive momentum led by lower rated issues, which compressed spreads versus BB's by a decent margin. CCC issues, which have posted gains for 18 straight sessions, returned 31 bps and tightened by 15 bps, while BB's returned 10 bps and tightened by 6 bps. Index yields hit record lows (3.84%) before widening to 3.89% following the FOMC results. Oil prices at 16-month highs led to outperformance of the drilling, E&P, midstream, and refining sectors. Tenet Healthcare Corp. announced a sale of five hospitals and related hospital operations to Steward Health Care Systems for US$1.1 billion (9.0x multiple), as Tenet moves toward its long-term target of increasing exposure to the better margin ASC (Ambulatory Surgery Centers) business. Occidental Petroleum Corp agreed to sell drilling rights in the Permian Basin to Colgate Energy Partners III LLC for US$508 million with proceeds used to pay down debt.

Leveraged Loans

The loan market remained resilient and posted another week of positive gains. Returns across all ratings cohorts were once again positive and led by lower quality CCC issuers. The S&P/LSTA Leveraged Loan Index returned 0.08%, the average bid price increased 20 bps to US$98.39, and the spread-to-maturity was flat at L+400. Notably, the firm tone in the secondary market has led to a 31 bps increase in the average bid price of the index month-to-date. We saw strength in the metals/mining/steel, airlines, and drillers/services sectors, while media other, satellites, and media cable lagged. Industry returns were mostly driven by idiosyncratic events such as ratings upgrades in the case of Peabody Energy Corp (metals/mining/steel) and news of lender groups forming in the case of Diamond Sports Group (media other). There were no defaults in the index this week.

European High Yield

Overall, European high yield returned +0.18% week-over-week (w/w). Performance across rating categories ranged from +0.18% to +0.39% with lower rated names outperforming. Overall, spreads were 2 bps tighter (18 bps tighter for CCC). With European stocks rallying and rates compressing, we continue to see spreads coming in and outperformance for lower rated issuers. JP Morgan adjusted down its default rate to 1.25%, reflecting the abundance of funding sources for even the lower rated credits in the current environment. Similar to the previous week, we witnessed a number of new issuances in the consumer retail segment such as US-based battery manufacturer Energizer, Philips domestic appliances, and car interior product supplier Grupo Antolin.

Flows/Issuance

In US high yield, the pace of new issues picked up as index yields hit all-time lows and uncertainty of the FOMC meetings outcome brought 22 companies for US$14.75 billion - more than doubling last week's issuance. Proceeds were used mostly for refinancing existing debt but also for mergers and acquisition (M&A). Madison IAQ LLC priced a US$1.735 billion secured and unsecured issue to fund the acquisition of Nortek Air. Clarivate Science Holdings Corp. priced a secured and unsecured US$2 billion issue to fund the acquisition of ProQuest.

In loans, technicals remain balanced and the demand for floating rate assets continues. Through the week, 24 deals were launched for US$11.7 billion, bringing month-to-date issuance to US$42.1 billion, and exceeding last month's issuance. While refinancings remain prevalent, we see continued M&A and leveraged buyout (LBO) related activity. Notably, late in the week, we saw the launch of LBO financing for At Home Group Inc., which is being acquired by private equity firm Hellman & Friedman. On the demand front, we see continued robust interest from structured credit buyers in the form of Collateralized Loan Obligation (CLO) formation. Another seven deals priced for US$3.19 billion, bringing year-to-date issuance to US$71.6 billion. We see continuing inflows from retail loan mutual funds and Exchange Traded Funds (ETFs). Further, we continue to see strong inflows with US loan funds posting a net inflow of US$559 million for the week ended 16 June, marking the 23rd consecutive positive week, according to Lipper.

The expected European recovery continues to attract inflows. EPFR data showed an inflow for the week of US$650 million for a relative large monthly number of US$820 million. Source: Lipper, EPFR

Industry Insights

Gaming: Over the spring and early summer we've seen a sharp recovery in gaming activity across US regions. As vaccinations increase and infections decline, we see a spike in activity at casinos. Through the end of April/May, gambling revenues in virtually every US region is at, if not above, comparable 2019 levels. Based on June high frequency credit card spending data, it appears this recovery continues to gain speed as consumers rapidly return to venues, demonstrating pent up demand for leisure and entertainment activities now that Covid-related restrictions are largely lifted. On the Las Vegas strip, weekend room rates are above 2019 pre-pandemic levels and operators are slowly seeing midweek group activity return. With roughly fourteen months of closures and Covid operating restrictions, operators significantly reduced their costs structures, which bodes well for margins and cash flows generation for the rest of 2021 and into 2022 as we see further normalization in revenue trends in 3Q2021 and beyond.

Energy: While a deal between the US and Iran to restart the Joint Comprehensive Plan of Action (JCPOA) is estimated to be resolved after Iran's 18 June elections, the Supreme Leader Khamenei has reportedly blessed the Vienna talks in order to secure economic relief for Iran. Further, though, he expresses desires to delay the process to secure an early victory for ultra conservative Ebrahim Raisi, the expected winner of Iran's Presidential elections. Oil volumes are estimated to follow soon after the restart, with OPEC+ signaling they will make accommodations for Iran's return in their monthly meetings. We still estimate OPEC+ to add approximately 500 thousand barrels per day (kbpd) each month after July 2021 and through March 2022, when their "Agreement of Cooperation" expires. An additional 0.5-1 million barrels per day (mbbpd) is estimated to come from Iran, once they re-enter the JCPOA sometime after August 2021. This additional supply is expected to be met with 4Q21 global demand of 99mbpd, close to pre-pandemic levels.

Refiners: Renewable Identification Number ("RIN") prices fell 40% from elevated levels this week as the Biden Administration agreed to review the current Renewable Fuel Standards (RFS) with the EPA describing RIN pricing as a "big problem." This is a positive for small refiners burdened with elevated RIN costs after the 10th Circuit Court of Appeals ruling removed waiver allocation options to small refiners in January 2021. We still await the US Supreme Court ruling on the 10th Circuit's decision. Many options are available to the executive branch on dealing with the RIN shortage in the near-term, including providing a general waiver across all refiners based on lower domestic supply. Any relief would be favorable for small refiners with no retail outlets and negative for fully integrated refiners and ethanol plants.

Investment Grade

Governments

US Treasury yields were on a gradual ascent leading up to Wednesday's FOMC but gapped higher after the central bank signalled a more hawkish stance. As noted previously, the latest "dots" suggest two rate increases in 2023, up from zero in its March projections, with 13 out of 18 committee members now expecting an increase by then. The release led to a spike in bond yields with the 2-year ending 5 bps higher at 0.21% while the 10-year yield closed 9 bps higher to 1.58%. The hawkish Fed caused the US Treasury curve to bear flatten further, as the shorter end of the curve incurred more weakness, with 5s30s contracting another 11 bps to 131 bps. Following several weeks of moderation, 10-year Breakevens, a proxy of inflation expectations, stabilized and ended the period unchanged at 2.32%.

Core European rates ended the period unchanged with the yield on 10-year Gilts and Bunds steady at 0.74% and -0.25%, respectively, but will likely respond to the move in higher in US Treasuries in the following period. Peripheral spreads were mixed with the spread on 10-year Spanish bonds unchanged at 0.65% while Italian BTPs tightened 4 bps to 1.03%.

Corporates

Spreads on investment grade corporates tightened 4 bps on the week, leaving the OAS on the Bloomberg/Barclay's Corporate Index at +81 bps. Valuation on corporates continue to look rich, considering the last time spreads touched these levels was before the Global Financial Crisis back in March 2005. Post yesterday's FOMC, corporates spreads held firm despite the hawkish tone, with street inventories looking bare and leaving plenty of capacity to add paper, while high grade inflows continue to pour into corporates. Trading flows over the week saw better customer buying across the curve while the primary calendar was on the lighter end, which only exasperated market technicals. Recent reports have shown broad based leverage is falling as earnings recover from the pandemic and companies are flush with cash. Whether this cash is used for capital expenditures, M&A, or stock buyback will be forthcoming, however we are already seeing an increase in M&A and share buybacks while Cap-ex remains tepid.

Securitized

Agency mortgages widened 5 bps this week on a reduced Fed purchase schedule and taper talk. Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) were largely unchanged in spread. The MBA Refi Index rose 5.5% this week with the average 30-year fixed rate at 3.11%. Washington Prime Group, a mall owner, filed for Chapter 11 bankruptcy and its malls have been securitized into some CMBS. Another large CMBS deal has come to market, the US$4.6 billion Extended Stay hotel portfolio from Blackstone. This deal is the 4th securitization of the portfolio beginning in 2007. Federal Home Loan Mortgage Corporation (FHLMC) issued their second social agency CMBS deal. To date they have also issued five green bonds and ten sustainability bonds. Toyota priced a US$1.6 billion green auto deal, their first green deal since 2016, and notably the seniors priced at a spread of 0 bps, surpassing previous lows.

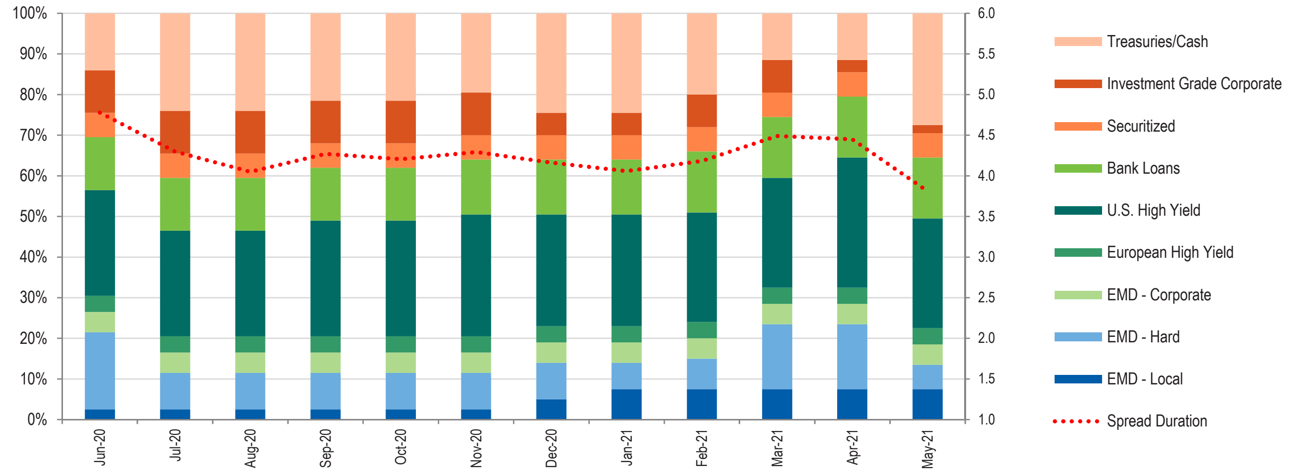
Flows/Issuance

High grade funds saw inflows of US$5.7 billion according to EPFR. Corporate only funds had positive flows of US$223 million, but saw outflows in the long end, while Aggregate funds and total return funds took in the bulk of the flows at US$3.65 billion and US$2.502 billion, respectively.

In the primary markets the calendar was lighter at just under US$22 billion, leaving total supply for June at roughly US$85 billion.

Source: EPFR

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 May 2021. Actual allocations within any account may be significantly different from the target allocations shown here. For illustrative purposes only.

Credit Market Indices Snapshot

As of June 16, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	328	(1)	(3)	(25)	(22)	(139)	(0.3)	0.7	4.0	(0.7)	7.9
	CEMBI Broad Diversified	243	(8)	(9)	(14)	(26)	(174)	0.1	0.5	1.8	1.0	8.8
	GBI EM Global Diversified Yield	4.96	0.03	0.01	(0.03)	0.74	0.33	(0.7)	0.2	5.1	(2.0)	7.3
EM Sovereign Debt	EMBI Global Diversified	328	(1)	(3)	(25)	(22)	(139)	(0.3)	0.7	4.0	(0.7)	7.9
	EMBI GD Investment Grade	142	(4)	(1)	0	(7)	(70)	(0.1)	0.7	2.3	(3.1)	3.2
	EMBI GD High Yield	560	3	(5)	(60)	(48)	(255)	(0.5)	0.7	6.0	2.2	13.7
EM Sovereign Debt Regions	Africa	494	(2)	(8)	(62)	(61)	(236)	(0.2)	1.0	6.9	2.6	19.4
	Asia	198	(5)	(6)	(15)	(34)	(108)	(0.1)	0.8	3.1	0.4	5.9
	Europe	262	(6)	(7)	(28)	(3)	(81)	0.0	0.7	3.5	(1.0)	6.1
	LATAM	342	3	2	(19)	(12)	(166)	(0.7)	0.5	4.3	(2.6)	7.1
	Middle East	340	(4)	(4)	(19)	(28)	(102)	(0.1)	0.7	3.0	(0.3)	5.9
EM Corporates	CEMBI Broad Diversified	243	(8)	(9)	(14)	(26)	(174)	0.1	0.5	1.8	1.0	8.8
	CEMBI BD Investment Grade	148	(6)	(4)	(1)	(21)	(108)	(0.1)	0.4	1.2	(0.5)	5.5
	CEMBI BD High Yield	436	(12)	(16)	(34)	(49)	(258)	0.2	0.7	2.6	3.0	13.5
US High Yield	US High Yield	280	(11)	(16)	(30)	(80)	(273)	0.2	0.8	2.2	3.1	12.6
	US High Yield BB	210	(10)	(16)	(17)	(54)	(184)	0.2	0.8	2.2	2.0	10.6
	US High Yield B	305	(10)	(16)	(29)	(74)	(239)	0.2	0.7	1.8	3.0	11.4
	US High Yield CCC	478	(15)	(15)	(70)	(180)	(597)	0.2	1.1	3.0	6.7	22.3
European High Yield	Barclays PanEur HY	287	(1)	(8)	(26)	(70)	(230)	0.2	0.7	1.5	3.1	10.4
	2% Ex Financials Yield	3.00	(0.01)	(0.11)	(0.30)	(0.45)	(2.74)	-	-	-	-	-
Bank Loans	LSTA Price	98.4	0.2	0.3	0.8	2.2	7.7	0.1	0.3	1.4	3.2	10.6
	LSTA 100 Yield	3.64	0.04	0.00	(0.10)	(0.34)	(2.00)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.47	0.11	0.02	(0.13)	0.69	0.81	(0.8)	(0.1)	1.6	(4.3)	(4.5)
	1M LIBOR	0.08	0.01	(0.00)	(0.03)	(0.06)	(0.11)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	33	1	3	2	(9)	(32)	(0.4)	0.1	1.2	(2.2)	(0.6)
	US Investment Grade Corporates	81	(4)	(3)	(10)	(15)	(63)	(0.1)	0.6	2.5	(2.3)	2.5
	Global Aggregate	32	0	1	0	(4)	(24)	(0.2)	0.2	0.7	(1.8)	0.1
	Barclays 1-5 Year Credit	36	(1)	(1)	(11)	(5)	(45)	(0.2)	(0.2)	0.6	(0.0)	2.0
FX	DXY (US dollar)	91.13						1.1	1.4	(2.3)	1.3	(6.0)
	GBI EM FX							(0.6)	0.0	3.5	(0.2)	4.6

1W reflects data from June 9 close through June 16 close. Source: Stone Harbor; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Important Information

Representative asset class benchmarks referenced herein are defined as follows: US HY: ICE BofAML U.S. High Yield Constrained Index (HUC0); EMD: J.P. Morgan EMBI Global Diversified; Loans: S&P/LSTA Leveraged Loan Index; EMDLC: J.P. Morgan GBI-EM Global Diversified; EMDCR: J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified; EUR HY: Bloomberg Barclays PanEuropean High Yield; IG Corp: Bloomberg Barclays Global Aggregate Corporate Index. The J.P. Morgan ESG Index applies a multidimensional approach to ESG investing for fixed income investors. It incorporates ESG score integration, positive screening (e.g. green bonds) as well as exclusions of controversial sectors and UN Global Compact violators. The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The MSCI World index captures large and mid-cap representation across 23 Developed Markets. Index constituents cover approximately 85% of the free float- adjusted market capitalization in each country. The index is a broad global equity benchmark without emerging markets exposure. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of January 2009 the MSCI Emerging Markets Index consisted of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates. The U.S. Dollar Index (USDX) indicated the genera int'l value of the USD. The USDX does this by averaging the exchange rated between the USD and major world currencies. The ICE U.S. computed this by using the rates supplies by some 500 banks. VIX is a real-time market index that represents the market's expectation of 30-day forward-looking volatility.

Investments may not be made directly in an index. 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 Bloomberg Barclays Treasury Index tracks the obligations of the U.S. Treasury with a remaining maturity of one year or more. The Bloomberg Barclays Pan-European High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. 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 U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and assetbacked securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The Bloomberg Barclays U.S. Corporate Investment Grade Index is a sub-index of the U.S. Aggregate Index. It measures the investment grade, fixed rate, taxable corporate bond market and includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multicurrency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. The Bloomberg Barclays 1-5 Year Credit Index tracks publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity of between one and five years, liquidity, and quality requirements. Qualifying bonds must be SEC-registered.

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Stone Harbor
INVESTMENT PARTNERS

CONTACT

Main Office - New York

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

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

ClientService@shiplp.com **www.shiplp.com**