July 2, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Risk assets were generally supported by further incoming US consumer data that continued to broadly line up with rapid economic growth in Q2. US Core Personal Consumption Expenditures (PCE) reported the first lower-than-expected inflation print in the last several months with a gain of 0.4% compared to expectations of 0.5%. On the employment side, ADP data showed an overall good pace of job growth of 692,000 for June; and initial and continuing data are generally pointing to ongoing progress in the labor market. Friday's Nonfarm Payroll report is the next data point likely to provide a gauge for the strength of the economic recovery. Risk assets in Europe were firmer following data that continues to surprise to the upside. Oil prices rose above US$75 a barrel on Thursday on early indication that OPEC+ would be adding limited supplies to the market over the next several months. The proposal would add approximately 2 million barrels per day to OPEC's output between August and December. The S&P 500 reached another record high for the fourth straight session. Credit spreads were mixed and total returns were positive across most major sectors. US high yield debt outperformed emerging markets (EM) high yield debt. The US dollar index (DXY) appreciated, and EM currencies declined, on average.

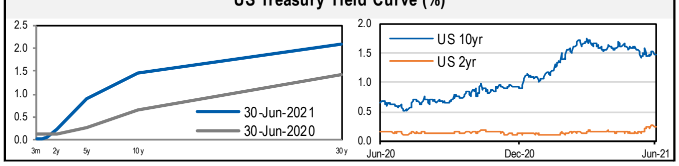
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	339		4	7.53%
EMBI GD IG	145		1	3.02%
EMBI GD HY	582		9	13.08%
Africa	520		10	16.70%
Asia	208		4	4.49%
Europe	273		4	6.34%
LATAM	350		4	7.64%
Middle East	342		0	5.73%
CEMBI BD	249		5	8.67%
CEMBI BD IG	149		0	5.26%
CEMBI BD HY	446		7	13.50%
GBIEM GD (%)	4.98		-4	6.57%
EM Blend (%)	4.75		-1	7.63%
EMBI ESG	320		7	6.70%
CEMBI ESG	255		10	8.51%
GBI ESG (%)	4.80		-3	6.92%

Developed Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	268		-12	15.37%
US HY BB	200		-10	12.92%
US HY B	294		-12	14.33%
US HY CCC	462		-14	26.48%
Pan Euro HY	288		-9	10.99%
LSTA 100 (%)	3.70		2	11.65%
US Treasury 7-10 (%)	1.37		-2	-4.38%
1M LIBOR (%)	0.10		1	0.14%
US Agg	32		-1	-0.33%
US IG Corp	80		-2	3.30%
Global Agg	33		0	0.08%

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD
EURUSD	1.19	5.55%
USDJPY	111.11	-2.86%
EM FX		5.46%

	Level	Commodities
Gold	1,772	-3.36%
VIX	16	-47.98%
Brent	75	82.58%

	Level	Equities
S&P500	4,298	38.62%
MSCI World	9,053	39.04%
MSCI EM	3,283	41.36%

As of: June 30, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Vaccinations in the US edged higher with 66.5% of adults now having received at least one dose of vaccine while 57.4% have been fully vaccinated. Similar to Pfizer and AstraZeneca, Moderna has also confirmed that studies suggests its vaccine is effective against the Delta variant, which remains a concern. The June ADP employment report showed the US economy added 692,000 jobs, more than estimates for a gain of 600,000. Unsurprisingly, the leisure and hospitality sector saw the sharpest increase in payroll growth. Market participants are now focusing their attention on the upcoming jobless claims and nonfarm payroll numbers. Negotiations around the infrastructure and spending bills ebbed and flowed this week. There was some initial confusion around President Biden's remarks, where he was misinterpreted as threatening to veto the US$1.2 trillion bipartisan infrastructure bill. Tensions eased after the President clarified his statement. With the potential support of moderate Senate Republicans, the bipartisan bill is inching towards approval.

Europe

The latest round of confidence readings reflect an overall optimistic tone in the Euro-area. Economic, industrial, and services sentiment indicators all posted their fourth consecutive month of improvement to reach new post-pandemic highs. The overall Euro-area consumer confidence index remains negative at -3.3, but is an improvement from May's -5.1 reading. Meanwhile, French consumer confidence rose for the second consecutive month, from 98 in May, to a new post-pandemic high of 102 for June. The EU and UK are expected to agree to a three-month extension of the current post-Brexit grace period for trading rules in Northern Ireland. The truce should reduce tensions and allow the two sides more time to reach a longer term solution around Northern Ireland. Following its departure from the EU, the UK government announced a new subsidy control system which it says will provide faster and more flexible support to UK small businesses than when Britain was part of the EU. The UK has successfully secured an exemption for its financial services sector from the new global tax regime, which was agreed upon by G7 leaders several weeks ago. The new global tax scheme includes a minimum 15% corporate tax rate and allows countries to tax multinationals on where earnings are generated.

Japan/Asia

The resurgence of Covid-19 cases was the focus in the Asia-Pacific Rim region this week. Hong Kong reclassified the UK as "extremely high risk" and will ban all passenger flights from the UK beginning on 1 July. In efforts to contain the spread of the Delta variant, regional Australian governments have implemented lockdown measures in Sydney, Brisbane, Perth and smaller towns such as Alice Springs. Nearly half of Australia's population is now in lockdown. In contrast, the situation in India is stabilizing as the daily case count remains below 50,000 while the daily death rate fell below 1,000 for the first time in over two months. Japan's incoming economic data continues to reflect the negative impact of the state of emergency restrictions. Unemployment in Japan rose for a second month as the jobless rate grew from 2.8% in April to 3.0% in May. Estimates were for a rise to 2.9%. The Job-to-Applicant ratio remained unchanged at 1.09, suggesting some mismatch between job openings and workers' skillsets. Industrial production fell 5.9%, its sharpest month-over-month (m/m) decline in a year, amid ongoing restrictions and some supply chain shortages (i.e., semiconductors), which ultimately weighed on auto manufacturing.

Economist Corner

Seamus Smyth, PhD, Developed Markets

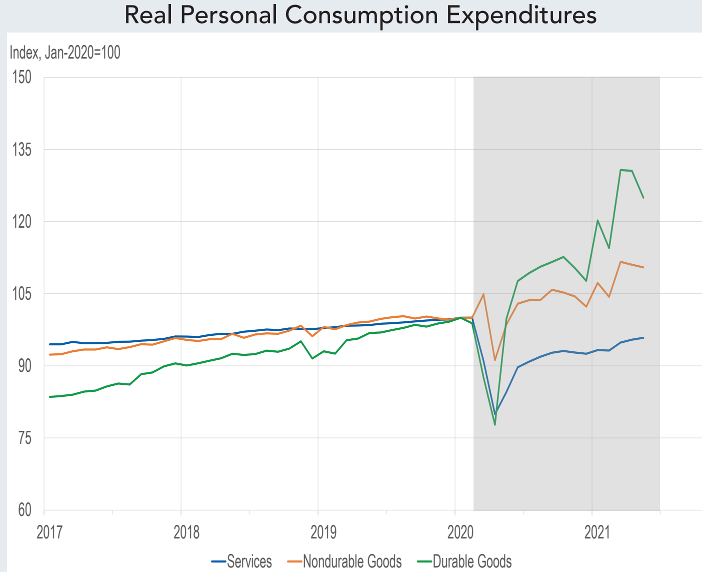
Steffen Reichold, PhD, Emerging Markets

Overall consumption in the US economy has essentially returned to its pre-pandemic trend. Relative to January 2020, real consumption expenditures are up by just under 2%, only slightly below what might have been expected if Covid-19 had never hit.

Though overall consumption has rebounded, there have been enormous underlying shifts in the distribution of consumption. Durable goods consumption is up over 20% through May. Meanwhile, services consumption was over 4% lower. This pattern is extremely unusual—in prior recessions, durable goods consumption was generally what slumped the most, while services consumption was resilient. The difference stems from several factors: 1) services consumption, especially in person, was very dangerous in the pre-vaccine world; 2) incomes held up better and consumers rotated their spending; and 3) substantial fiscal support, especially to lower-income consumers, helped to relieve credit constraints allowing purchases of big-ticket items.

We think the distribution of consumption is likely to normalize going forward. Indeed, we might already be seeing the first signs of this normalization as real durable goods consumption dropped by a little bit in April and by more in May. It is possible that the much discussed supply constraints could be crimping durables consumption, but to our eyes it looks more like the start of a broader reversion. Goods consumption could slump by 10%—or potentially even more—over the back half of 2021.

Real Personal Consumption Expenditures



As of May 2021
Source: Bureau of Economic Analysis, Haver Anlytics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 4 basis points (bps) and the JP Morgan EMBI Global Diversified returned 0.0%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Mozamique (+1.3%), Chile (+1.2%), and Peru (+1.1%). The bottom performers included Argentina (-3.5%), Lebanon (-3.1%), and Sri Lanka (-2.5%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.1%. EM currencies returned -0.1% in aggregate. The Brazil real, Czech koruna, and Serbia dinar underperformed, returning -1.0%, -1.2%, and -0.9%, respectively. The pesos from Peru, Mexico, and Colombia outperformed with spot FX returns of 3.8%, 2.0%, and 1.1%, respectively.

The yield of the JP Morgan GBI EM Global Diversified declined 4 bps to 4.98%. Bond markets from Peru, Brazil, and Turkey outperformed this week as yields fell by 36 bps, 17 bps, and 11 bps, respectively. Underperforming bond markets included Chile (+24 bps), Colombia (+16 bps), and Russia (+8 bps).

In central bank actions, key rates were unchanged in Colombia, Dominican Republic, Malaysia, and Uruguay at 1.75%, 3.00%, 1.75%, and 4.50%, respectively. Mexico's central bank hiked rates by 25 bps to 4.25%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified continued its streak of weekly gains with a 0.2% return. Latin America outperformed relative to both Asia, and Central and Eastern Europe, Middle East and Africa (CEEMEA). Returns from high grade and high yield were identical with high grade spreads flat and high yield spreads wider by 7 bps. China had a negative return for the week as investors continued to have concerns about the ability of high yield homebuilders to delever. Most of the major Latin American markets had positive returns, primarily buoyed by the continued strength in key commodities.

Flows/Issuance

EM sovereign debt issuance activity picked up this week with offerings from Mongolia (totaling approximately US$983 billion, with 6-year and 10-year maturity); Philippines (totaling approximately US$3 billion, due 2032 and 2046); Brazil (totaling approximately US$2.2 billion, due 2050 and 2031); Latvia (approximately US$593 million, due 2029); Cameroon (approximately US$812 million, due 2032); and Turkey (approximately US$1.8 billion, due 2027). In EM corporate debt, new issuance was generally quiet with only a handful of deals outside of the usual China issuance.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$2 billion for the week through 29 June, predominantly into hard 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

Belarus

The Belarusian Finance Ministry will sign an agreement with ten Russian banks to organize issuance of Belarusian government bonds denominated in the Russian currency. Separately, Belarus and Russia announced they will establish a joint business council to address further development of cooperation mechanisms at the regional level, joint projects, equal market access for Russian and Belarusian trade and industrial entities, as well as other systemic issues related to mutual trade and export of products to other countries. In our view, these developments are further indications of Belarus's increasing reliance on Russia as a source of financing and political support.

Bolivia

Bolivian authorities arrested a former treasury official, Carlos Schlink, as part of an investigation into a US$327 million loan from the IMF. The credit was agreed upon by the government of former interim President Jeanine Anez and was intended to support medical spending and relief measures during the pandemic. Bolivia's current socialist government under President Luis Arce, who came to power after winning a landslide last October, repaid the IMF debt early. The current government renounced the loan, citing illegality due to lack of congressional approval and alleging that the loan imposed "a series of fiscal, financial, exchange and monetary" conditions that violate Bolivia's sovereignty and economic interests, according to the central bank. We note that Bolivia's general government debt levels have increased, and the government needs to take necessary steps to cut capital expenditures, relax the FX or monetary policy, or both. Bolivia's external sovereign debt credit spreads tightened.

China

China's industrial profits grew 36.4% in May, compared to 57.0% in April. Given that the growth rate in macro indicators for the first few months of this year were boosted largely by the low base effect, the latest figure still suggests a strong average annual growth rate. While imbalances in profitability became evident between upstream and downstream firms due to high commodity prices, details regarding the latest industrial corporate dynamics indicate continued underlying strength with 31 out of 41 major industries showing positive profit growth compared to the same period in 2019. Profit growth at state-owned enterprises continue to outperform.

In terms of the latest PMI data, China's June manufacturing PMI eased modestly to 50.9 from 51.0 in May, according to the National Bureau of Statistics, marking 16 consecutive months of expansion. The non-manufacturing PMI, which includes services and construction activity, fell more notably to 53.5 from 55.2 in May, reflecting in part the impact of Covid-19 cases in select regions and the associated mobility restrictions and consumer sentiments.

Ethiopia

Ethiopia's Prime Minister Abiy Ahmed has called a temporary ceasefire in the Tigray region following the Tigrayan counter offensive, which accelerated as rebels captured heavy weaponry from Ethiopian forces. This development could potentially reshape geopolitics and fuel further support for the independence of the Tigray region. Prime Minister Ahmed remains popular across a large portion of the country, and his coalition will likely win the elections held last week, but the ongoing conflict in Tigray has imbedded opposition to his administration, highlighting the challenge of a permanent resolution to the conflict. Ethiopia's external sovereign debt spreads widened.

Pakistan

The World Bank's Board approved US$800 million worth of loans for two programs in Pakistan—the Pakistan Program for Affordable and Clean Energy (PACE), and the Second Securing Human Investments to Foster Transformation (SHIFT II). The US$400 million PACE initiative focuses on measures to initiate power sector reforms and support the country's transition to low carbon energy, with the long-term goal of reducing circular debt. Priorities of the program include: reducing power generation costs, better targeting of subsidies and tariffs for consumers, and improving efficiencies in electricity distribution with the involvement of the private sector. The US$400 SHIFT II reforms are designed to support a government structure that strengthens health and education services, improve income-generation opportunities for the poor, and promote inclusive economic growth. The loan approval does not indicate disbursement of the funds, but it shows the World Bank's willingness to engage with the authorities in supporting a series of expected reforms in the coming months, despite recent decisions to delay power tariff increases.

Peru

During a public address, Pedro Castillo asked current central bank President Julio Velarde to continue as Chairman of the Board. While the official announcement on the president elect is yet to be made by the Peruvian National Jury of Elections (JNE), Castillo is communicating his economic and financial strategy, reiterating his message of moderation and commitment to respect private property and institutions, including upholding the autonomy of the central bank. We will be watching to see if the new cabinet will reflect Castillo's moderate platform. Peru's external soverign debt spreads tightened.

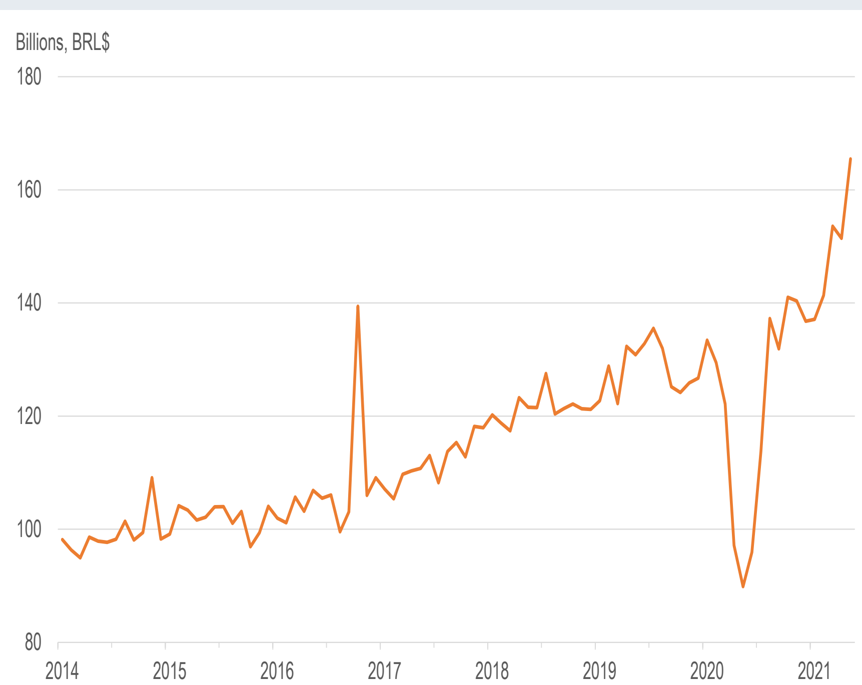
Ukraine

Ukraine approved the second reading of a legislation re-establishing High Qualifications Commissions of Judges (HQCJ) with a key amendment to give international experts a decisive role in the judge selection process. The amendment will allow foreign experts to veto candidates for HQCJ. The European Commission for Democracy through Law (Venice Commission) had earlier announced its disagreement with the legislation that was voted in the first reading. It is yet to be determined whether the latest legislation will be acceptable to Venice Commission and to the IMF. After a series of disappointing developments earlier this year surrounding the appointment of high court judges and the fight against corruption, the latest move indicates progress that may be acceptable to international and multilateral partners, in our view.

The Rada still needs to have the second voting on HQCJ and the National Anti-Corruption Bureau of Ukraine (NABU) legislation, which has been a key obstacle to moving forward with the IMF review. The IMF had also expressed concern about the tax amnesty bill (i.e., legislation being exposed to money laundering risks). The parliament now has two weeks before the summer recess to complete the required legislation(s)/amendment(s) by the IMF. If requirements are not met, the IMF review could be delayed beyond Q3 2021.

Chart of the Week

Brazil: Federal Tax Revenue



As of May 2021
Source: Secretaria da Receita Federal do Brasil, Haver Analytics

Tax revenues in Brazil continue to surprise positively. May tax collections printed another record number reflecting resilient economic activity. The lastest figure also includes unexpectedly strong collection of taxes that were deferred last year. While the latter is a one-off item, the underlying recurring tax revenue this year has also been surprisingly strong. This contributed to a smaller-than-expected fiscal deficit and lower debt ratios. Looking ahead, it also relieves political pressure to accommodate higher deficits, including by potentially watering down the spending caps, which continue to be an important anchor of Brazil's medium-term fiscal outlook. This data point also highlights the positive impact of commodity prices on key EMs and, more generally, the resilience of EM economies in the face of the latest global Covid variant waves.

Global High Yield

US High Yield

The US high yield market returned 48 bps for the week. Strength was driven by high cash levels, low new issue supply, supportive equities, rising oil prices, and tightening rates. Volumes have been light and demand has focused on searching for yield by adding to investment grade upgrade candidates, high quality duration credits, senior distressed names, and any other opportunities to pick up convexity. Index yields fell to an all-time low of 3.75%, while spreads closed at another 14-year tight of +268 bps. The energy, technology, drillers, and healthcare sectors outperformed, while leisure, refiners, and airlines underperformed. Scientific Games Corp. is looking to divest its lottery and sports-betting business through a sale, IPO, or merger with a special purpose acquisition company (SPAC). The two proposed business units could be worth close to US$6.3 billion and enable them to delever and target investments in their largest growth opportunities. Merger and acquisition (M&A) activity picked up in the building product sector, where Builders FirstSource Inc. acquired WTS Paradigm LLC for US$450 million and PrimeSource Building Products Inc. acquired Wolf Home Products with private equity firm Clearlake contributing equity toward the transaction.

Leveraged Loans

Heading into the US holiday weekend, loans trading volumes slowed, returns resumed their upward move, and demand for the asset class remained strong. The S&P/LSTA Leveraged Loan Index returned 9 bps, the average bid price increased 3 bps to US$98.37, and the spread-to-maturity was unchanged at L+401. Lower quality CCC and B rated loans continued to outperform higher quality BB issuers along with the broader index. We saw strength in the refining, electric, and services sectors while media other, satellites, and transportation underperformed. There were no defaults in the Index this week.

European High Yield

Overall, European high yield returned 0.02% week-over-week (w/w). Performance across rating categories ranged from +0.01% to +0.06% with lower rated names outperforming. Spreads were flat on the week overall. The market was generally lackluster with concerns about spread of the Delta variant and weak equities weighing on sentiment.

Flows/Issuance

US high yield funds saw inflows close to US$1.8 billion primarily driven by ETFs. The pace of new issuance slowed into month-end with 11 deals for US$7.2 billion. Three deals were used to finance acquisitions, one was used to spinoff a subsidiary, while the rest were refinancing. The majority of the issues came tighter than original talks and all saw outsized demand.

In loans, arrangers made a final push of issuance ahead of the holiday, with seven deals launching over the week for approximately US$4 billion. Proceeds from the week's transactions were mixed between repricing as well as M&A and leveraged buyout (LBO) activity. Demand for the asset class remained strong with another US$2.5 billion of Collateralized Loan Obligation (CLO) formation, and continued daily 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$592 million for the week ended 30 June, marking the 25th consecutive positive week, according to Lipper.

In European high yield, despite the muted market, primary issuance continues to be active: we saw Picard, the French frozen food retailer, price a EUR 1.71 billion triple tranche refinancing while Softbank issued a US$6 billion+ equivalent in EUR and USD bonds. EPFR data showed no flow movement for the week, but reported a strong total monthly inflow of US$1.2 billion.

Source: Lipper, EPFR

Industry Insights

Energy: OPEC+ decided to extend deliberations of their monthly meeting to tomorrow, 2 July. Early leaks from the meetings surprised the market with indications of the Joint Ministerial Monitoring Committee (JMMC) recommending an estimated 400,000 barrels per day (kbpd) production increase, smaller than the 550 kbpd hike expected. WTI and Brent prices both strengthened on the news, with the oil curve steepening further into backwardation and Brent and WTI prices trading to a US$0.60 differential vs YTD average of US$3/barrel (brl), both bullish signals. With deliberations extended to tomorrow, estimates are that Russian Oil Minister Novak is pushing back on this lower-than-estimated production increase. Novak previously expressed concern about throwing a lifeline to allow US shale producers to fund production growth, and Russia is less beholden to higher oil prices as some of the Persian Gulf producers. OPEC+ is also deciding whether to extend the timeframe for their "Agreement of Cooperation" from its scheduled expiration date of April 2022 to December 2022. Further, the US/Iranian talks face new delays as diplomats negotiating the deal did not reconvene as planned this week and aren't sure when the next round of diplomacy will occur. Sunday's US air strike against Iranian-backed militias in Iraq and Syria will further complicate the process. This pushes any return of Iranian barrels, estimated to be between 1 and 1.5mbpd, to 4Q21, at the earliest.

Gaming: On 30 June, Nevada Gaming Commission released gaming data for the month of May, showing Las Vegas Strip gaming revenues up 26.7% relative to May 2019, while Las Vegas Locals gaming revenue was up 25.2% as compared to May 2019. These results continue to point to a stronger-than-expected rebound for the gaming sector as Las Vegas visitations for the month were still down mid-teens as compared to 2019, but based on high frequency data are pointing to much flatter trends in June. MGM announced it was buying the 50% of City Center it doesn't already own from Infinity World, and at the same time will sell the Aria and Vdara properties to Blackstone. The property sale is valued at roughly 18x, which continues a trend of supportive Las Vegas Strip property valuations.

Refiners: In a 6-3 decision, the US Supreme Court (SCOTUS) overturned a unanimous ruling by the 10th Circuit Court of Appeals allowing small refiners to receive extensions on their exemptions to the Renewable Fuel Standards requirements, even if there was a lapse in their exemption requests. This was a victory for small refiners who suffered under low demand through 2020 followed by escalating Renewable Identification Number (RIN) obligation costs in 2021. RIN costs fell 8% after the ruling and are down 23% since mid-June when, separately, the Biden administration agreed to review the current Renewable Fuel Standards. RIN costs, however, are still elevated at US$1.55 vs the 5-year average of US$0.50. Crack spreads, the margin refiners get for processing a barrel of oil, fell -13% after the SCOTUS ruling, reflecting the imbedded RIN costs included in crack spreads.

Investment Grade

Governments

US Treasury yields oscillated but remains confined to its recent levels. Volatility, as measured by the ICE BofAML MOVE Index, ended the period 2 points higher and is back towards the top end of its range at 57. The yield on 10-year Treasuries drifted higher to 1.54% before retracing the move to end the period 2 bps lower at 1.47%. The flattening of the Treasury curve observed since mid-May continued this week with 5s30s falling another 3 bps to 119 as longer dated maturities saw better demand, while 5-year Treasuries were offered. 10-year Breakevens, a proxy of inflation expectations, have stabilized within the 2.3% range and ended the period 2 bps lower to 2.34%.

Core European rates saw a more pronounced move lower as members of both the Bank of England (BoE) and European Central Bank (ECB) maintained their dovish stance. The yield on 10-year Gilts fell 6 bps to 0.72%, while Bunds ended the period 3 bps lower at -0.21%. Peripheral spreads compressed over the week with the spread on 10-year Spanish and Italian bonds tightened 4 bps over comparable Bunds. 10-year Japanese Government Bonds were unchanged at 0.06%, while Australian Government Bonds ended the period 3 bps lower to 1.53%.

Corporates

Investment grade corporate spreads were better by a few basis points this week and closed the month at post-pandemic tights of +80 bps. Spreads have not been at these levels since the beginning of 2005 and most investors see spreads at current levels offering little if any value especially when adjusting for ratings and duration. Countering this is the fact that we continue to see flows into the sector, Fed accommodation, higher vaccination rates, good forward earnings guidance, and a history (i.e., 2004-2007) that shows spreads can remain at these levels for a longer period. Month-to-date spreads are better by 4 bps with total and excess returns showing positive 0.5% and 1.63%, respectively. On the year, spreads are better by 16 bps with +204 bps of excess return vs total returns of -1.27%. Industrials outperformed financials during June with the best performing sectors media entertainment, wireless, and airlines, and the worst performers industrial other, construction machinery, and integrated energy. Lower rated credits outperformed as did bonds in the longer end of the curve.

Securitized

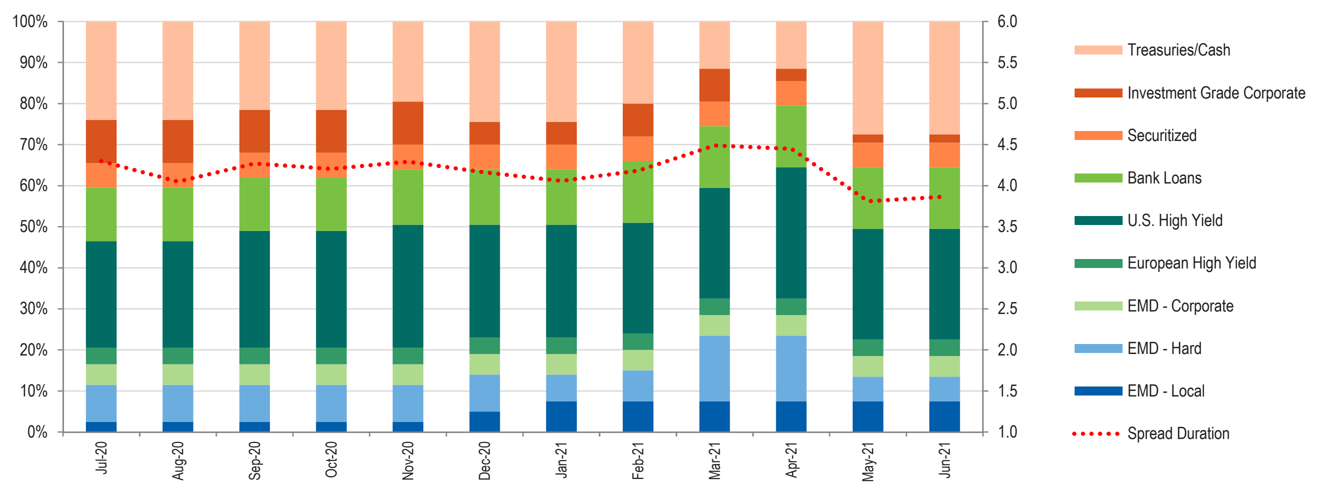
The mortgage current coupon spread tightened 4 bps this week. Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) spreads were unchanged. On the month, the Bloomberg Barclays Mortgage Index lost 36 bps in excess return on a flattening curve and taper talk, while CMBS gained 5 bps and ABS gained 6 bps. The Government-Sponsored Enterprises (GSEs) have extended a moratorium on foreclosures and evictions until July to bridge the gap until federal rental assistance can be distributed. The MBA Refinance Index fell 8.2%.

Flows/Issuance

Investment grade corporate fund flows slowed significantly this week but remain positive with inflows of US$1.995 billion. Corporate only funds saw significant outflows out of the long end, largely attributable to a large outflow from a long corporate ETF (LQD). Aggregate and total return accounts were positive by US$2.406 billion and US$866 billion, respectively, with the majority of flows coming into the intermediate aggregate funds. Supply for the week was light at under US$12 billion. Salesforce.com issued US$8 billion with maturities across the curve. The deal saw good demand at 4x over and priced right on top of existing issues. June supply was a record for the month at US$119.06 billion, following last year's outsized US$175.9 billion. Supply estimates for July are at the mid US$80 billion range.

Source: EPFR

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 30 June 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 30, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	339	4	7	(14)	(12)	(135)	0.0	0.7	4.1	(0.7)	7.5
	CEMBI Broad Diversified	249	5	(3)	(8)	(21)	(167)	0.2	0.8	2.1	1.3	8.7
	GBI EM Global Diversified Yield	4.98	(0.04)	0.04	(0.01)	0.77	0.47	0.1	(1.2)	3.5	(3.4)	6.6
EM Sovereign Debt	EMBI Global Diversified	339	4	7	(14)	(12)	(135)	0.0	0.7	4.1	(0.7)	7.5
	EMBI GD Investment Grade	145	1	3	4	(3)	(69)	0.3	1.4	3.0	(2.5)	3.0
	EMBI GD High Yield	582	9	18	(37)	(26)	(250)	(0.2)	(0.0)	5.3	1.4	13.1
EM Sovereign Debt Regions	Africa	520	10	17	(36)	(36)	(208)	(0.3)	0.1	5.9	1.7	16.7
	Asia	208	4	4	(5)	(24)	(91)	(0.1)	0.7	3.0	0.3	4.5
	Europe	273	4	4	(16)	8	(85)	0.1	0.7	3.5	(1.0)	6.3
	LATAM	350	4	11	(11)	(4)	(169)	0.1	0.8	4.6	(2.3)	7.6
	Middle East	342	0	(2)	(16)	(25)	(104)	0.1	1.1	3.4	0.1	5.7
EM Corporates	CEMBI Broad Diversified	249	5	(3)	(8)	(21)	(167)	0.2	0.8	2.1	1.3	8.7
	CEMBI BD Investment Grade	149	0	(3)	0	(20)	(108)	0.2	0.8	1.6	(0.1)	5.3
	CEMBI BD High Yield	446	7	(7)	(24)	(40)	(247)	0.2	0.9	2.8	3.2	13.5
US High Yield	US High Yield	268	(12)	(28)	(42)	(92)	(358)	0.4	1.3	2.7	3.6	15.4
	US High Yield BB	200	(10)	(26)	(27)	(64)	(256)	0.5	1.5	2.9	2.7	12.9
	US High Yield B	294	(12)	(27)	(40)	(85)	(349)	0.3	1.0	2.2	3.3	14.3
	US High Yield CCC	462	(14)	(31)	(86)	(196)	(747)	0.4	1.5	3.5	7.2	26.5
European High Yield	Barclays PanEur HY	288	(9)	(7)	(25)	(68)	(253)	0.0	0.6	1.4	3.0	11.0
	2% Ex Financials Yield	3.03	(0.01)	(0.07)	(0.26)	(0.42)	(2.81)	-	-	-	-	-
Bank Loans	LSTA Price	98.4	0.0	0.3	0.8	2.2	8.5	0.1	0.4	1.5	3.3	11.7
	LSTA 100 Yield	3.70	0.02	0.06	(0.04)	(0.28)	(2.42)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.37	(0.02)	(0.08)	(0.23)	0.59	0.80	0.3	0.9	2.5	(3.4)	(4.4)
	1M LIBOR	0.10	0.01	0.01	(0.01)	(0.04)	(0.06)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	32	(1)	2	1	(10)	(36)	0.3	0.7	1.8	(1.6)	(0.3)
	US Investment Grade Corporates	80	(2)	(4)	(11)	(16)	(70)	0.5	1.6	3.5	(1.3)	3.3
	Global Aggregate	33	0	1	0	(4)	(25)	0.2	0.5	1.0	(1.5)	0.1
	Barclays 1-5 Year Credit	35	(1)	(2)	(12)	(6)	(46)	0.1	(0.1)	0.6	0.0	1.8
FX	DXY (US dollar)	92.44						0.7	2.9	(0.9)	2.8	(5.1)
	GBI EM FX							(0.1)	(1.3)	2.1	(1.6)	4.7

1W reflects data from June 23 close through June 30 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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