Stone Harbor INVESTMENT PARTNERS

July 9, 2021

WEEKLY COMMENTS ON CREDIT

Listen

Archive

Global Market Summary

There were no significant catalysts for the performance of risk assets this week, other than the volatility in the US Treasury market. The 10-year US Treasury yield dropped to 5-month lows, breaking through the key 1.25% marker. The US Federal Open Market Committee (FOMC) minutes revealed that while the discussion of tapering has begun, further details on potential timing or economic targets are not yet clear. The S&P 500 declined following strong prior sessions, potentially reflecting concerns around the Covid Delta variant and moderating global growth. In other regions, the Reserve Bank of Australia (RBA) left its cash rate unchanged at 0.10% and announced it had begun scaling back its bond purchases. Oil prices declined after the OPEC+ meeting ended with a stalemate between the UAE and Saudi Arabia over a disagreement on supply output. Credit spreads moves were mixed and total returns were generally 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.

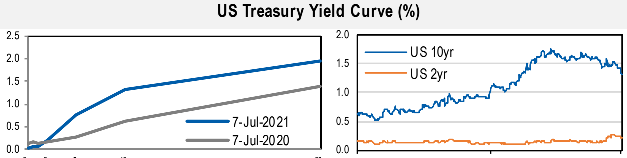
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	349		10	6.39%
EMBI GD IG	154		8	2.46%
EMBI GD HY	596		14	11.19%
Africa	536		16	15.90%
Asia	218		10	3.72%
Europe	283		10	5.88%
LATAM	357		7	5.82%
Middle East	356		14	4.50%
CEMBI BD	256		7	8.35%
CEMBI BD IG	156		6	5.24%
CEMBI BD HY	456		10	12.74%
GBIEM GD (%)	4.99		0	4.70%
EM Blend (%)	4.74		-2	6.52%
EMBI ESG	331		10	5.35%
CEMBI ESG	261		6	8.34%
GBI ESG (%)	4.81		1	4.92%
		-300 -150 0 150		Jul-20 Jan-21 Jul-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	263		-5	14.38%
US HY BB	195		-5	12.10%
US HY B	291		-3	13.17%
US HY CCC	447		-15	25.07%
Pan Euro HY	294		6	10.56%
LSTA 100 (%)	3.74		4	11.10%
		-300 -150 0 150		
US Treasury 7-10 (%)	1.23		-14	-3.33%
1M LIBOR (%)	0.10		0	0.14%
US Agg	35		3	-0.03%
US IG Corp	83		3	3.10%
Global Agg	34		1	0.53%
		-100 0 100 200		Jul-20 Jan-21 Jul-21

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.18	4.58%	Gold	1,802	-2.68%	S&P500	4,358	38.56%
USDJPY	110.66	-2.81%	VIX	16	-44.95%	MSCI World	9,152	37.93%
EM FX		3.05%	Brent	73	70.45%	MSCI EM	3,207	30.20%
		Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21

As of: July 7, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The latest non-farm payrolls report came in stronger than expected as the economy added 850,000 jobs in June — a notable pickup from prior months. June's acceleration follows an upward revision to May's jobs report, adjusted from 559,000 to 583,000. Although the unemployment rate ticked higher, from 5.8% to 5.9%, the gain was largely due to increased labor force participation. The Federal Open Market Committee minutes reaffirmed that the Committee's benchmark of "substantial further progress" was generally considered to fall short although progress is expected to continue as the economy recovers. The members' views varied as some believe the tapering of asset purchases may begin sooner than they expected, while others think the committee should remain patient and monitor incoming data. Overall, members agreed it is prudent to discuss plans to reduce accommodation, if appropriate. Following similar announcements from other vaccine producers, J&J stated its single-dose vaccine offers effective protection against the Delta virus variant. This efficacy could help temper concerns around potential reopening derailments. Despite an abundance of doses readily available, the US did not meet President Biden's goal of inoculating 70% of American adults by 4 July as vaccine hesitancy remains a hindrance in rural areas.

Europe

The European Commission upgraded its 2021 growth and inflation forecast amid reopenings and travel resumption, which may help bolster the bloc's services industry. The EU upgraded its 2021 growth projection by +0.5% to 4.8%, and expects the rebound to carry over into 2022 when growth is expected to be 4.5%. Inflation revisions were more nuanced as 2021 estimates were revised 0.2% higher to 1.9%, but expected to drift down to 1.4% in 2022. The European Central Bank (ECB) is expected to revise its inflation goal from "below, but close to 2%" to a symmetric 2% target over the medium term, allowing more room for inflation to overshoot. The UK's attempt to secure an equivalence deal with the EU, which would have offered access to the EU bloc, seems to have ended in a stalemate. UK Chancellor of the Exchequer, Rishi Sunak, announced the UK will move to seek new financial services agreements with its trading partners. Sunak stated the UK now has the "freedom to do things differently and better, and we intend to use it fully." The Treasury department also highlighted the importance of cultivating a "mature and balanced relationship" with China, which Sunak sees as a vital trading partner. Despite an uptick in cases, Prime Minster Boris Johnson announced the UK will proceed with the final stage of its reopening. All remaining social distancing rules, capacity limits and work from home instructions will be lifted. Face masks will no longer be mandatory and individuals will not be required to provide proof of vaccination and/or negative test results prior to entering venues. The reopening plans are expected to be approved on 12 July and will go into effect on 19 July.

Japan/Asia

The RBA kept its cash rate unchanged at 0.10% and decided against extending its yield curve control program. As the country recovers from Covid, the RBA announced it will begin scaling back bond purchases from the current AUS$5 billion/week pace, which is set to end in September, to AUS$4 billion/week until at least November. While the unemployment rate has receded back to pre-pandemic levels, it will likely be some time before there is a sustained level of wage growth, which in turn limits the near-term inflation outlook. In efforts to control virus spread, the Japanese government will declare another state of emergency in Tokyo, from 12 July to 22 August, just as the Olympics are poised to begin. The measures will restrict spectators from attending the events and further weigh on the economy as consumer spending is likely to decline.

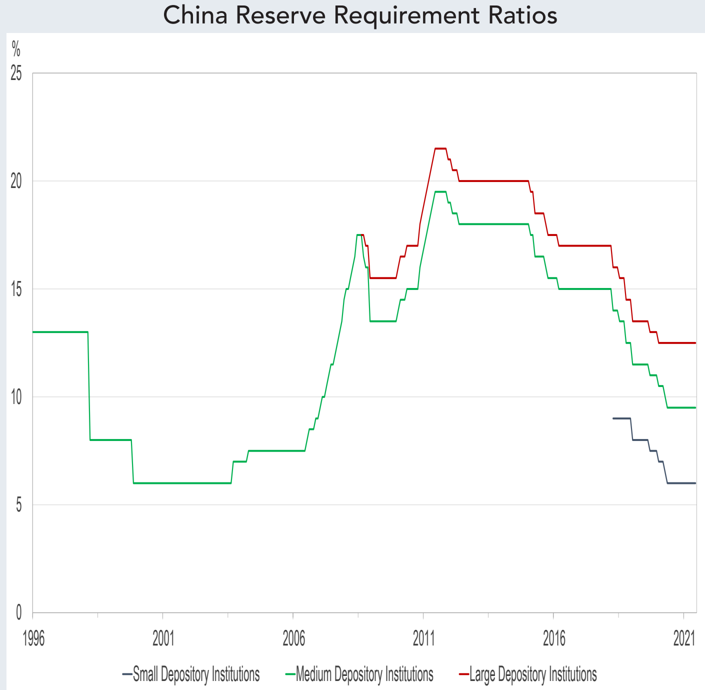
Economist Corner

Seamus Smyth, PhD, Developed Markets

The Chinese State Council chaired by Premier Li said it will use monetary policy tools, including Reserve Requirement Ratio (RRR) cuts, to provide financial support to the economy, particularly small and medium enterprises (SMEs). They also talked about lowering financing costs to help offset the impact of rising commodity prices. While we do not think that this implies large monetary stimulus, it looks like a meaningful adjustment to their rhetoric about the policy stance. Earlier this year, Chinese policy maker's statements have signaled their intentions to withdraw stimulus "in a moderate way" as the economic recovery continues. This announcement is mostly about managing the policy message. We believe that moderately weaker data over the past weeks have raised concerns among policy makers and they want to avoid a situation in which expectations about withdrawal of stimulus contributes to softer activity. The RRR cuts that are expected to follow will likely be limited in scope, e.g., only apply to small and medium banks, and could be implemented with accompanying measures to limit the impact on interbank liquidity. Thus, the main significance of the announcement are the signals that (1) Chinese policy makers are recognizing softer data and (2) they are willing to adjust the policy stance proactively.

Steffen Reichold, PhD, Emerging Markets

China Reserve Requirement Ratios



As of June 2021
Source: People's Bank of China, Haver Analytics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 10 basis points (bps) and the JP Morgan EMBI Global Diversified returned 0.2%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Ecuador (+2.4%), Mexico (+1.1%) and Peru (+1.0%). The bottom performers included Sri Lanka (-5.7%), El Salvador (-1.7%), and Zambia (-1.0%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -1.2%. EM currencies returned -1.3% in aggregate, with only Dominican Republic and Indonesia posting positive returns of 0.2% and 0.1%, respectively. The Brazil real underperformed, returning -4.6%, followed by the pesos from Chile and Peru, returning 3.4% and 3.0%, respectively.

The yield of the JP Morgan GBI EM Global Diversified was essentially unchanged at 4.99%. Bond markets from Dominican Republic, Malaysia, and Thailand outperformed this week as yields fell by 10 bps, 8 bps, and 7 bps, respectively. Underperforming bond markets included Peru (+45 bps), Turkey (+20 bps), and Brazil (+17 bps).

In central bank actions, key rates were unchanged in Poland (0.10%), Romania (1.25%), Serbia (1.00%), Sri Lanka (5.50%), and Uruguay (4.50%). Angola hiked the benchmark interest rate from 15.5% to a record of 20.0%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified returned 0.21% this week, with Asia and Latin America outperforming Central and Eastern Europe, Middle East, Africa (CEEMEA). However, once again, volatility in US Treasury rates proved to be a primary factor in returns. Most of the high grade Asian markets – e.g., Hong Kong, Singapore, and South Korea – had higher returns relative to the index. The exception was China, where concerns over the leverage of the homebuilder sector pushed returns negative. Ecopetrol and a number of other Colombian corporates were downgraded by Fitch, following the agency's downgrade of the sovereign. Both S&P and Fitch now have the sovereign rating below investment grade. Despite the rating action, Colombia finished up on the week.

Flows/Issuance

EM sovereign debt issuance this week included offerings from Pakistan (totaling approximately US$1 billion, 5-year, 10-year, and 20-year maturities); Mexico (totaling approximately US$1.5 billion, due 2036); The Emirate of Sharjah (totaling approximately US$750 million, 10-year maturity); and Romania (approximately US$4.1 billion, due 2030 and 2042). In EM corporate debt, the new issuance calendar for the US holiday-shortened week was very light, with one of the few deals being a retap of its existing bond maturing in 2031.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$2 billion for the week through 5 July, 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

Brazil

Brazil's Supreme Court authorized a criminal investigation to determine whether President Jair Bolsonaro committed the crime of "prevarication," which involves delaying or refraining from action required as part of a public official's duty to benefit personal interest. Protestors gathered in more than 40 cities to demand Bolsonaro's impeachment or greater access to vaccines. We note two facts that may impact the political environment in Brazil. First, the country's Supreme Court has annulled all previous convictions against former President Lula, clearing the path for him to run for President next October. Initial opinion polling shows Lula leading in the first round of voting, and easily beating Bolsanaro in the 2nd round. Second, data on Brazil's Covid-19 cases and deaths indicates an improving trend, which if it continues, may ease tensions over Bolsonaro's oversight of the pandemic. Brazil external sovereign debt spreads widened and the real depreciated relative to the US dollar this week.

Chile

On Sunday, Chile held the inaugural session of its Constitutional Convention that was elected in May, following the tumultuous protests against social inequality in late 2019. Elisa Loncón, a political independent and indigenous representative of the Mapuche people, was elected as president of the 155-member constitutional body, obtaining 96 votes in a two-rounds vote. (Of the 155 delegates chosen to draft Chile's new constitution, only 34, or 22%, had ever run for elected office, and only 20, or 12.9%, had held elected office.) Achieving the required two-third majority to approve the new constitution remains challenging in Chile's highly fragmented political environment. Based on preliminarily observations, the group of 11 non-neutral independents, who did not join coalitions, may serve as centrist "swing voters," key to achieving the two-third majority. The convention will have nine months, with a possible three-month extension, to complete its work. The resulting document will be submitted for approval in a national vote.

Concurrently, Chile is gearing up for the Presidential primaries, which will be held on 18 July, ahead of the general elections on 21 November. Results from elections of regional governors indicate a decline in support for parties that have dominated government for the past 30 years. Independents and smaller parties on the far left fared better, leaving a deeply fractured political scene. Chile's external sovereign debt spreads widened this week.

China

China's State Council released a statement following an executive meeting focused on the promotion of medical insurance services and called for the "use of monetary policy tools such as cuts in the RRR" to reduce financing costs for enterprises. Markets took this comment seriously as the State Council has often signaled RRR cuts for banks before being implemented by the People's Bank of China. Yields on 10-year China domestic government bonds declined following the statement release.

Dominican Republic

The International Monetary Fund (IMF) Executive Board concluded the Article IV consultation with the Dominican Republic last week. The summary of the Executive Board's discussions highlighted sound fundamentals and policy response that effectively supported the economic recovery following the depth of the pandemic in 2020. The Board agreed that the Dominican Republic is set for a strong economic recovery in 2021, helped by the swift vaccination campaign, global growth, resilient foreign direct investment (FDI), and strong remittances. They also noted that risks to the outlook are broadly balanced, mainly associated with the strength and speed of the global recovery. The Board concluded that policies appropriately balance continued support of the recovery with the need to secure debt sustainability.

Ethiopia

Ethiopia announced it is in negotiations to restructure an additional US$1 billion of debt, according to the Ministry of Finance. The restructuring will provide a grace period of up to six years and extend the maturity by 10 years. US$2.5 billion in principal and interest payments has been postponed for five years by commercial creditors under the first external debt restructuring scheme. As of this writing, the plan does not include Eurobonds. However, there remains uncertainty over how this can be avoided under the G20 Common Framework for Debt, which stresses that commercial and bilateral debt receive equal treatment. Exceptions may be made in the case of Eurobonds as they represent a very small portion of overall debt. Accordingly, Ethiopia's case remains unclear. Separately, the IMF issued a statement this week urging a swift formation of a creditor committee to support Ethiopia's debt plans. The IMF urges Ethiopia's creditors to create fiscal space for development spending and lower the risks associated with debt restructuring. This recommendation is consistent with IMF's support for Ethiopia to rework its debt under the G-20 program, which would strengthen debt sustainability.

Ghana

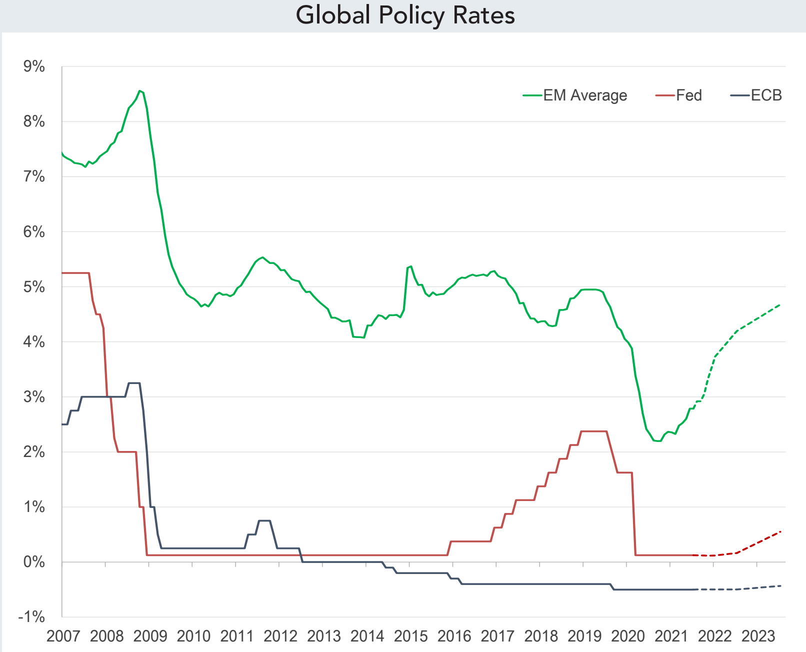
Ghana's finance minister announced that the country will issue up to US$2 billion in green and social bonds by November 2021, a part of the plan to borrow up to US$5 billion in the international markets this year. Ghana would be the first African nation to issue social bonds. Earlier this year, Ghana had issued Euro-denominated bonds with 20-year, 12-year, and 7-year maturities and totaling approximately US$3 billion. Ghana would use the proceeds from these sustainable bonds to refinance debt used for social and environmental projects and pay for education and health initiatives. We note that Ghana is targeting a budget gap of 9.5% of GDP this year, from an 11.7% shortfall in 2020. In the 2021 budget, the primary balance remains in deficit (-1.2% vs -5.3% in the 2020 provisional accounts) and interest costs are forecast to jump to US$5.8 billion (8.1% GDP) from US$4.3 billion in 2020 (6.4% GDP). Ghana's debt-to-GDP ratio has increased from 63% in 2019 to 76% in 2020. Credit spreads widened this week.

Mexico

Mexico's government announced on Monday that it has given control of the Zama oil field -- one of the country's largest oil discoveries -- to state-owned oil company Pemex. The decision by Mexico's energy minister to suddenly award operatorship to Pemex drew criticism from the consortium comprising the US's Talos Energy, the UK's Premier Oil, and Germany's Wintershall DEA, which jointly discovered the field in 2017 and invested roughly US$325 million in the project to date. While the news reflected negatively on how the Mexican government may view private sector investment in the Mexican energy sector, Pemex bonds benefited from the development.

Chart of the Week

Global Policy Rates



As of 30 June 2021
Source: Haver Analytics, J.P. Morgan, Stone Harbor Investment Partners LP
Benchmark: J.P. Morgan GBI-EM Global Diversified
EM Average based on GBI-EM GD weights. Information above contains forecasts based on implied forward rates. China, Dominican Republic, Indonesia, and Peru are excluded from forecasts. For illustrative purposes only.

A growing number of EM central banks have already started normalizing monetary policy as the global economic recovery continues and high commodity prices have put some pressure on headline inflation rates. As a result, the emerging markets – developed markets (EM-DM) rate differential is already moving in favor of EMs. But more importantly, markets are already pricing substantial additional hikes over the next two years, most of that over the next 12 months. This has two key implications: (1) EM central banks can raise rates without requiring the repricing of local bond curves, and (2) the EM-DM rate differential is likely going to increase sharply over the next 12-24 months, providing a supportive backdrop for flows into EM local markets, in our view.

Global High Yield

US High Yield

US High yield posted another week of strong gains with bonds supported by falling interest rates, elevated oil prices, and positive technicals. Higher quality, longer duration credits meaningfully outperformed as another week of declining long-term interest rates increased demand from longer duration bonds. Rising star candidates were especially in demand, with buy interest coming from traditional high yield investors as well as cross-over interest from investment grade managers. Energy continued to outperform due to high oil and gas prices, with refining the only segment of energy underperforming due to weak fundamentals. Other outperformers included industries with sizeable longer duration segments including food and wireless. Underperformers included some of the reopening industries that have experienced profit taking such as airlines and leisure. Chobani, the maker of Greek yogurt, filed for an initial public offering. Press reports have indicated the company could be valued at US$10 billion. Scientific Games is reportedly considering a listing on the Australian Securities Exchange for its global lotteries business with a potential valuation of US$5 billion.

Leveraged Loans

During the holiday-shortened week, the loan market maintained its upward trajectory, and demand for floating rate assets remained solid. The S&P/LSTA Leveraged Loan Index returned 0.10%, the average bid price increased 3 bps to US$98.40, and the spread-to-maturity widened 1 bp to L+401. Similar to previous weeks, lower quality CCC and B-rated loans outperformed higher quality BB's and the broader Index; however, outperformance was more muted than previous weeks. With the exception of exploration & production (E&P) outperformance on the back of an upward move in oil price, returns were fairly consistent. There were no defaults in the Index this week, and the default rate declined to 1.25% in June.

European High Yield

Overall, European high yield returned 0.12% week-over-week (w/w). Higher quality credits outperformed with a 0.15% gain despite flat spreads as the bonds kept pace with the move lower in rates. Lower quality credits widened 3 bps but gained 0.10%, while B-rated credits only gained 0.04%. The market focus was on interest rate and oil volatility, which increased demand for higher quality, more rate sensitive bonds. Positive technicals from a solid week of inflows and slow primary activity contributed to the positive returns. Jaguar Land Rover bonds dropped up to 1 point as the company warned of weaker than expected 2Q results, with the semiconductor chip shortage negatively impacting cash flows and margins.

Flows/Issuance

US high yield technicals were positive during the week with strong retail fund inflows and a limited new issue calendar. The primary market remained quiet around the July 4th holiday with only US$1.2 billion of new issuance pricing. Expectations are for an increase next week, but July is typically the third slowest month of the year for new issues. Inflows into high yield have increased with the drop in interest rates, with over US$500 million of flows into retail funds during the week and over US$700 million of inflows already in July.

In loans, as expected, new issue launches were fairly muted ahead of the holiday weekend and picked up modestly later in the week. Over the week, 13 deals launched for approximately US$13 billion. Notable launches include Asurion LLC, planning a multi-billion dollar dividend, as well as Flutter Entertainment plc's cross-border term loan with proceeds going to extend and reprice its existing term loan, and include a new incremental facility to redeem the company's unsecured notes. Demand for loans remained solid for the week, and heading into the last week of the quarter, eight additional Collateralized Loan Obligations (CLOs) priced, bringing June's monthly issuance to US$15.7 billion, and year-to-date issuance to US$82.3 billion. The asset class continued to see daily inflows from retail loan mutual funds and Exchange Traded Funds (ETFs), and the asset class posted US$629 million in inflows, bringing the year-to-date total to almost $US21 billion, for the 26th week of net positive inflows.

In European high yield, EPFR data showed an inflow of over US$200 million, coming after a strong total June inflow of US$1.2 billion.

Source: Lipper, EPFR

Industry Insights

Industrials: After growing by 5% in 1Q21, Short Cycle Industrial (SCI) sales are expected to grow by a greater amount in 2Q21. The Institute for Supply Management Index (ISM) historically tends to lead SCI revenue trends by several months, suggesting very strong top-line growth for the remainder of 2021. After a very weak 12-15 months, non-residential indicators have started to trend positively. The American Institute of Architects' Architecture Billings Index (ABI) score improved to 58.5 in May, the 5th consecutive increase and the 4th positive score in a row. All sectors were positive in May, led by Commercial/Industrial (60.6 - the highest on record).

Restaurants: As states have reopened, vaccine rollouts continue, and government stimulus checks are being distributed, pent-up demand has driven a strong recovery in the sector. We've seen restaurant capacity across the country approach 100% over the last several months, and May year-over-year (y/y) Same Store Sales (SSS) jump in the low 20% range at quick-serve restaurants, as well as a continued weekly low-single-digit SSS improvement in the casual dining sector. Looking forward, we anticipate a pull-back in demand as rising commodity and labor costs are likely to increase menu prices, pent-up demand fades, and stimulus checks begin to taper off.

Retail Food/Drug: After an outstanding 2020 due to a spike in demand early in the pandemic and gross margin expansion due to leveraging of fixed operating costs and reduced promotions - as retailers focused on maintaining strong in-stock positions - the sector faces challenging comparisons. However, we believe the sector is well positioned for solid results in the medium term given a number of factors including: sustained strong demand for food-at-home (FAH), consumers are trading up to higher-priced products, food inflation is expected to be favorable for grocers, and the promotional environment is expected to remain below historical levels. While these near term tailwinds should be supportive, we remain focused on increasing distribution, labor and logistics costs impacting margins in the second-half of the year.

Investment Grade

Governments

Government rates have been on a gradual descent since the start of May and, after being confined to a range, accelerated lower this week. The incoming economic data points towards further improvement, albeit at a slow pace, which may hint at a peak of growth momentum. In terms of positioning, the weekly Commitment of Traders report suggests participants were generally short duration, which likely exacerbated the move in rates as shorts began covering. The yield on 10-year Treasuries fell 15 bps lower to a new multi-month low of 1.32% amid elevated volatility, as measured by the ICE BofAML MOVE Index, which closed 3 pts higher at 61. Inflation expectations unwound for another consecutive week as 10-year Breakevens fell another 6 bps to 2.28%. The Treasury curve continues to flatten with 5s30s falling another 4 bps to 116 bps as longer dated maturities saw better demand.

Similarly, core European rates also gapped lower with the yield on 10-year Bunds and Gilts falling 9 bps and 12 bps, to -0.30% and 0.60%, respectively. Spreads in peripherals were unchanged on the week with the spread on 10-year Spanish and Italian bonds, over Bunds, steady at 0.63% and 1.04%, respectively. In Asia-Pac, 10-year Japanese government bonds ended the period 2 bps lower to 0.03% while Australian government bonds closed 14 bps lower to 1.39%.

Corporates

Investment grade corporates saw spreads wider on the week moving the Bloomberg/Barclay's Corporate OAS to +83 bps. Spreads widened mostly on account of the downward movement in rates with the brunt of the widening taking place on the longer end of the curve. Despite the lower yields, there is still fairly strong demand for corporates especially in the intermediate part of the curve. Accounting for the recent market moves, year-to-date excess returns are slightly lower at +181 bps, down from a little over 200 bps at month–end, while total returns for the year are only down 0.40% after having been down roughly 5% back in March.

Securitized

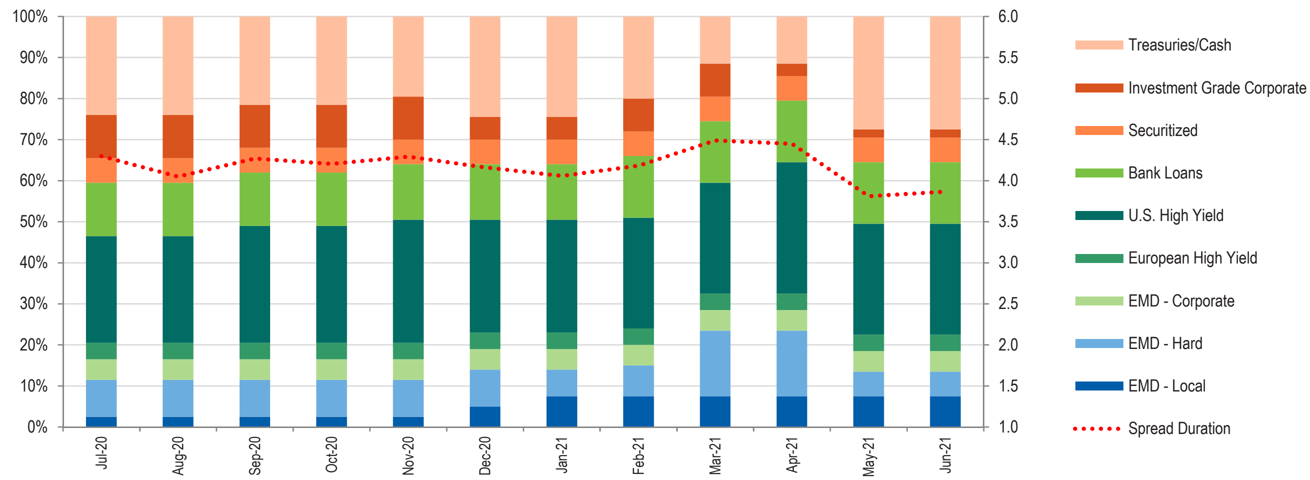
Mortgages widened 5 bps on the week in the face of the Treasury rally. In the month of June, the mortgage index lost 36 bps in excess return on the rate movement and taper talk. June prepayments were released and showed a 5% rise, less than expected and down 33% from the peak in October. Higher coupons are exhibiting some modest prepayment burnout. The Mortgage Bankers Association (MBA) Refinance Application Index is now at its lowest level since January, and July prepayments are expected to drop.

Flows/Issuance

Given the US holiday-shortened week, investment grade corporate debt supply was on the lighter side but still printed US$19 billion. Deals were heavily skewed towards Yankee banks, while Enel Finance issued the largest sustainability-linked deal on record at US$4 billion. Supply for the year is just under US$830 billion, which is down 32% from this time last year. Investment grade fund flows were positive by +US$3,547 billion according to EPFR. The bulk of the inflow was from Aggregate funds (+US$3,796 billion), while total return funds were also positive at +US$830 billion. Corporate only funds had outflows of -US$1,431 billion, the result of an outflow in the intermediate bucket from mutual funds. Securitized issuance dwindled heading into quarter-end and the July 4th holiday weekend, but the pipeline is beginning to build again.

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 July 7, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	349	10	10	10	(1)	(109)	0.2	0.2	0.2	(0.4)	6.4
	CEMBI Broad Diversified	256	7	7	7	(14)	(151)	0.2	0.2	0.2	1.5	8.4
	GBI EM Global Diversified Yield	4.99	0.00	0.00	0.00	0.77	0.45	(1.2)	(1.2)	(1.2)	(4.5)	4.7
EM Sovereign Debt	EMBI Global Diversified	349	10	10	10	(1)	(109)	0.2	0.2	0.2	(0.4)	6.4
	EMBI GD Investment Grade	154	8	8	8	6	(52)	0.4	0.4	0.4	(2.0)	2.5
	EMBI GD High Yield	596	14	14	14	(12)	(209)	(0.0)	(0.0)	(0.0)	1.4	11.2
EM Sovereign Debt Regions	Africa	536	16	16	16	(19)	(188)	(0.2)	(0.2)	(0.2)	1.5	15.9
	Asia	218	10	10	10	(14)	(68)	0.2	0.2	0.2	0.5	3.7
	Europe	283	10	10	10	18	(68)	0.1	0.1	0.1	(0.9)	5.9
	LATAM	357	7	7	7	3	(136)	0.6	0.6	0.6	(1.7)	5.8
	Middle East	356	14	14	14	(12)	(76)	(0.0)	(0.0)	(0.0)	0.1	4.5
EM Corporates	CEMBI Broad Diversified	256	7	7	7	(14)	(151)	0.2	0.2	0.2	1.5	8.4
	CEMBI BD Investment Grade	156	6	6	6	(13)	(97)	0.3	0.3	0.3	0.2	5.2
	CEMBI BD High Yield	456	10	10	10	(30)	(224)	0.1	0.1	0.1	3.3	12.7
US High Yield	US High Yield	263	(5)	(5)	(5)	(97)	(326)	0.5	0.5	0.5	4.1	14.4
	US High Yield BB	195	(5)	(5)	(5)	(69)	(225)	0.6	0.6	0.6	3.3	12.1
	US High Yield B	291	(3)	(3)	(3)	(88)	(310)	0.3	0.3	0.3	3.7	13.2
	US High Yield CCC	447	(15)	(15)	(15)	(211)	(702)	0.3	0.3	0.3	7.5	25.1
European High Yield	Barclays PanEur HY	294	6	6	6	(62)	(231)	0.1	0.1	0.1	3.1	10.6
	2% Ex Financials Yield	3.06	0.02	0.02	0.02	(0.39)	(2.72)	-	-	-	-	-
Bank Loans	LSTA Price	98.4	0.0	0.0	0.0	2.2	7.9	0.1	0.1	0.1	3.4	11.1
	LSTA 100 Yield	3.74	0.04	0.04	0.04	(0.24)	(1.99)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.23	(0.14)	(0.14)	(0.14)	0.45	0.67	1.1	1.1	1.1	(2.3)	(3.3)
	1M LIBOR	0.10	0.00	0.00	0.00	(0.04)	(0.08)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	35	3	3	3	(7)	(29)	0.7	0.7	0.7	(0.9)	(0.0)
	US Investment Grade Corporates	83	3	3	3	(13)	(58)	0.9	0.9	0.9	(0.4)	3.1
	Global Aggregate	34	1	1	1	(3)	(22)	0.6	0.6	0.6	(0.9)	0.5
	Barclays 1-5 Year Credit	36	1	1	1	(5)	(39)	0.2	0.2	0.2	0.2	1.8
FX	DXY (US dollar)	92.64						0.2	0.2	0.2	3.0	(4.4)
	GBI EM FX							(1.3)	(1.3)	(1.3)	(2.8)	2.7

1W reflects data from June 30 close through July 7 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.

The opinions expressed herein represent the current, good faith views of the author(s) at the time of publication and are provided for limited purposes, are not definitive investment advice, and should not be relied on as such. The information presented in this material has been developed internally and/or obtained from sources believed to be reliable; however, Stone Harbor Investment Partners LP ("Stone Harbor") does not guarantee the accuracy, adequacy or completeness of such information. This material includes statements that constitute "forward-looking statements". Forward-looking statements include, among other things, projections, estimates, and information about possible or future results related to market, geopolitical, regulatory or other developments. Any forward-looking statements speak only as of the date they are made, and Stone Harbor assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and are based on current market trends, all of which change over time. The views expressed herein are not guarantees of future performance or economic results and involve certain risks, uncertainties and assumptions that could cause actual outcomes and results to differ materially from the views expressed herein. The views contained in this material are subject to change continually and without notice of any kind and may no longer be true after the date indicated. All investments involve risk including possible loss of principal. There may be additional risks associated with international investments involving foreign economic, political, monetary and/or legal factors. These risks may be heightened in emerging markets. Past performance is not a guarantee of future results. This material is solely for informational purposes and should not be viewed as a current or past recommendation or an offer to sell or the solicitation to buy securities or to adopt any investment strategy. This material is directed exclusively at investment professionals.

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