July 23, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Renewed concerns around the spread of the Covid-19 Delta variant and its potential impact on the global economic recovery drove the broad market sell-off this week, and the Cboe Volatility Index spiked to its highest level since May. 10-year US Treasury yields fell almost 12 basis points (bps) on Monday and dipped as low as 1.19%, representing the largest one-day decline since March 2020. The S&P 500 fell 1.6% before recovering roughly all of its losses. Oil prices increased on expectations of tighter supplies until the end of the year. In terms of US economic data releases, jobless claims were broadly disappointing as initial claims moved higher and continuing jobless claims reported only a small decline from an upwardly revised level. Outside of the US, the European Central Bank (ECB) held monetary policy steady, but with clear indications of a shift in a dovish direction as it committed to maintaining a "persistently accommodative" stance. Credit spreads moved wider and total returns were mixed across major sectors. Emerging markets (EM) high yield debt outperformed US high yield debt. The US dollar index (DXY) advanced, and EM currencies depreciated, on average, while yields on EM domestic treasuries edged lower.

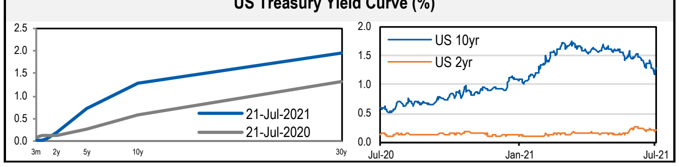
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	352		4	5.12%
EMBI GD IG	156		3	0.87%
EMBI GD HY	601		8	10.35%
Africa	541		9	15.39%
Asia	220		4	2.74%
Europe	283		3	5.63%
LATAM	362		5	3.40%
Middle East	358		2	3.45%
CEMBI BD	260		5	7.52%
CEMBI BD IG	157		2	4.45%
CEMBI BD HY	464		12	11.84%
GBIEM GD (%)	4.93		-4	2.82%
EM Blend (%)	4.72		-3	5.18%
EMBI ESG	332		4	4.01%
CEMBI ESG	264		4	7.54%
GBI ESG (%)	4.75		-5	2.93%
		-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	293		18	11.81%
US HY BB	214		11	9.61%
US HY B	330		23	10.64%
US HY CCC	499		33	21.98%
Pan Euro HY	304		8	9.46%
LSTA 100 (%)	3.84		6	9.82%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.20		-6	-3.30%
1M LIBOR (%)	0.09		0	0.14%
US Agg	36		2	-0.63%
US IG Corp	87		3	1.39%
Global Agg	35		2	0.30%
		-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	2.32%	Gold	1,807	-4.74%	S&P500	4,359	33.81%
USDJPY	110.29	-3.16%	VIX	18	-27.90%	MSCI World	9,116	32.69%
EM FX		1.03%	Brent	72	62.97%	MSCI EM	3,143	23.42%
		Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21

As of: July 21, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Concerns around the more contagious delta variant and its potential to derail the recovery dominated US sentiment this week. Also concerning are instances of vaccinated individuals contracting the virus, raising questions on the need for booster shots. Since last week, the 7-day moving average has risen from 25,000 to 40,000 cases. Areas with lower vaccination rates are most susceptible to rapidly increasing infections and hospitalizations. While the US is lifting a ban on travellers from Europe, the Center for Disease Control (CDC) advised Americans against travel to the UK as that country grapples with a resurgence of infections. The CDC upgraded its travel alert for the UK to "very high," recommending face masks and social distancing for individuals needing to travel. At a town hall, President Biden echoed the Federal Reserve's (Fed) messaging and reiterated the transitory nature of current inflationary pressures. He attributed the near-term inflation to a recovering economy, acknowledging that hospitality and travel sectors may take longer to recover, especially as workers seek better wages and working conditions.

Europe

UK infections picked up for another week with daily cases surpassing 50,000 for the first time since January. England's National Health Service (NHS) contact tracing app advised a record 520,000 people to self-isolate after they were determined to have made close contact with an infected person. This is the app that pinged Prime Minister Johnson and Finance Minister Sunak following meetings with Health Secretary Sajid Javid, who tested positive for Covid-19. Despite rising infections, the government lifted all remaining social distancing restrictions effective 19 July. While face masks are no longer mandatory, many UK businesses (including Stone Harbor) have adopted a mask policy within offices. Tensions between the UK and EU are likely to re-escalate as Prime Minister Johnson's government is set to announce an overhaul to the Northern Ireland protocol. The government is expected to outline plans to remove most checks, which they claim to be too onerous. UK minister for EU affairs David Frost warned that while now may not be the time, the UK could trigger Article 16, allowing both sides to unilaterally override components of the Northern Ireland protocol. Similarly, Gibraltar is adding strain between both sides. The EU looks to begin post-Brexit negotiations around the territory but British Foreign Secretary Dominic Raab stated the draft mandate undermines the UK's sovereignty and cannot form the basis for negotiations.

Japan/Asia

The Asia-Pacific region continues to grapple with accelerating infection rates. Tokyo recorded over 1,800 cases on Wednesday, its largest daily infection rate in six months, just days ahead of the Olympics. Japanese experts believe Tokyo's average daily case count could reach up to 2,600 in the coming weeks. Elsewhere, Thailand and South Korea reported new record daily infections. In Australia, Victoria extended its lockdown measures and South Australia imposed a week-long lockdown after detection of the delta variant in the region. Along with Sydney, in its fourth week of lockdown, this leaves over half the country under restrictions. Earlier in July, the Royal Bank of Australia (RBA) announced it will begin scaling back bond purchases from the current AUS 5 billion/week pace, which was set to end in September, down to AUS 4 billion/week until at least November. The July meeting minutes, however, suggest the bank seeks to maintain flexibility to increase/reduce its weekly asset purchases given economic outlook uncertainty due to the recent virus outbreak and subsequent lockdown measures.

Economist Corner

Seamus Smyth, PhD, Developed Markets

EM external balances have improved sharply over the past three years. The trend already started to change in 2019, but significantly accelerated since the outbreak of the Covid pandemic last year. Obviously, economic downturns tend to contract demand and thus reduce imports. However, this downturn was not limited to EMs but was synchronized globally, affecting all countries. This should have reduced demand for exports across the globe. But that is not what happened. Unprecedented fiscal and monetary stimulus in developed economies supported demand and led to a surge in global trade. For most EMs, that implied a very asymmetric impact with reduced imports but strong exports. For commodity exporters, the commodity price surge further benefited external positions.

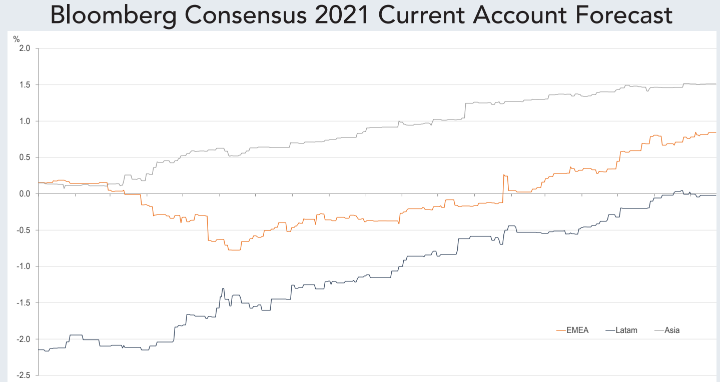
Steffen Reichold, PhD, Emerging Markets

As the global economic recovery proceeds, some reversal of the external balance should be expected as EM demand for imports picks up again. We have seen some evidence of this earlier in 2021 but recent trade data continues to show strong EM trade surpluses. As a result, consensus forecasts for this year's EM current accounts have continued to trend higher. It is perhaps somewhat counterintuitive, but a global recovery that is led by developed markets, in particular the US, actually benefits EMs because the recovery supports strong export demand and thus enables EMs to maintain current account surplus positions.

EM Ex-China Current Account Balance (4Qma)

As of: May 2021
Source: Haver, Stone Harbor Investment Partners LP

Bloomberg Consensus 2021 Current Account Forecast



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

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 4 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 El Salvador (+2.2%), Costa Rica (+1.9%), and Venezuela (+0.9%). The bottom performers included Lebanon (-2.5%), Tunisia (-2.3%), and Sri Lanka (-1.9%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.4%. EM currencies returned -0.8% in aggregate, with only four currencies posting positive returns. The top performers included the Peruvian peso (+0.4%), the Turkish lira (+0.2%), and the Uruguayan peso (+0.1%). The bottom performers included the Brazilian real (-3.4%), and pesos from Mexico and Colombia, both returning -1.4%.

The yield of the JP Morgan GBI EM Global Diversified declined 4 bps and ended at 4.93%. Bond markets from Chile, Russia, and Peru outperformed this week as yields fell by 17 bps, 14 bps, and 12 bps, respectively. Underperforming bond markets included Turkey (+13 bps), Mexico (+73 bps), and Philippines (+4 bps).

In central bank actions, Ukraine surprised with a 50 bps hike in the key rate to 8%. Market consensus expectation was for no change. Indonesia and South Africa left their policy interest rates unchanged, both at 3.5%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified outperformed US high yield and underperformed the EMBI Global Diversified. Once again, movements in US Treasury yields drove much of the country performance as the higher-rated Asian markets such as Hong Kong and Singapore outperformed the major Latin American and African markets. Two important developments in China continue to generate headlines and market movements. Huarong Asset Management announced that the company would be redeeming one of its perpetual bond issuances when it is due in September of this year, resulting in a price rally across much of the company's bond curve. Also in China, the bonds of homebuilder Evergrande were under additional pressure as news that some Hong Kong-based banks had stopped offering mortgages on the company's properties. The negative price action in Evergrande bonds spilled over into other high yield Chinese homebuilders.

Flows/Issuance

EM sovereign debt issuance this week included euro-denominated issues from the Republic of Benin and Chile, as well as US dollar-denominated issues from Indonesia. Benin's offering totalled approximately US$575 million, with maturity of 2035; Chile's offering totalled roughly US$2 billion, with maturities of 2027 and 2036; and Indonesia's offerings totalled approximately US$2.2 billion, with maturities of 2071, 2051, 2031, and 2029. In EM corporate debt, new issuance activity outside of Asia was light, but with a notable 35-year transaction from a Chilean utility and a Peruvian mining compay.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$1 billion for the week through 20 July, with local currency funds and hard currency funds taking roughly equal shares of the total inflows. 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

Chile

Chile held its presidential primaries over the weekend in an initial step towards a first-round election on 21 November. Sebastián Sichel -- former cabinet minister with the Christian Democratic Party and former president of Chile's Banco del Estado -- ran as an independent and secured the nomination with 49% of votes in a four-candidate race. On the left, Gabriel Boric from the Social Convergence Party won the nomination with 60% of votes from his coalition, defeating the Communist Party candidate Daniel Jadue. Boric's platform stands in contrast to the more radical Jadue's communist party, as evidenced by Boric's participation in the political agreement with the right and center-left that led to the constitutional reform process. The center-left coalition, Unión Constituyente – an important segment of Chile's political field -- did not put forward candidates for the primaries and will instead make a direct nomination. According to local sources, the current President of the Senate Yasna Provoste is the frontrunner of the Unión Constituyente's coalition. The deadline to register presidential candidates is 23 August.

Colombia

The government submitted a new Tax Reform bill to Congress earlier this week, delivering a strong message of fiscal responsibility. President Ivan Duque highlighted that political support for the legislation is broad-based. The reform bill aims to increase fiscal income by an estimated COP15.2 trillion in total (1.3% of GDP), comprising tax increases (COP10.6 trillion), spending cuts (COP1.9 trillion), and improvements to the tax collection agency (COP2.7 trillion). The details of the tax reform include an increase in corporate tax to 35% (compared to 32% proposed in the previously withdrawn proposal in May), the reduction of a regional corporate tax break, and a 3% corporate tax surcharge on financial institutions in 2022-2025. For foreign investors, the tax on fixed income investments was reduced to 0%. The reform package also outlines changes to the fiscal rule, shifting the anchor from the fiscal deficit to the debt-to-GDP ratio (55% of GDP in the long run), with the debt ceiling set to 71% of GDP in the near term. The new proposal targets a structural net primary balance that will be computed as the deviation of the previous year's net debt from a long run goal of 55% debt-to-GDP. The proposal includes social spending measures to support vulnerable households and low-income students.

Costa Rica

The Costa Rican Congress approved a 3-year, US$1.8 billion IMF Extended Fund Facility (EFF) with a two-thirds majority in the second and final vote, after the credit line was negotiated with the IMF earlier this year. The conditions of the program include a fiscal adjustment of approximately 4% of GDP. Costa Rica's funding needs this year amount to nearly 12% of GDP, but the government has been successful at meeting its financing requirements through domestic and multilateral sources. The government has also progressed with efforts in tax collection and the economic recovery – both helping to narrow the fiscal deficit and removing the need to issue debt in external markets. The IMF loan will provide meaningful support and help generate further multilateral financing. Once President Carlos Alvarado signs the bill into law, Costa Rica will received the first disbursement of US$300 million. Disbursement of the remaining loan will depend on fiscal performance.

El Salvador

El Salvador bond spreads have been under pressure since April as markets grew more concerned over the country's likelihood to secure an IMF lending program, given strong-armed tactics of President Nayib Bukele, including sending troops into congress to coerce a vote and ousting independent judges from the county's highest court. However, a recent publication from the Finance Ministry showed that total tax revenues for the first half of 2021 were US$200 million, or 0.8% of GDP, higher than budgeted. The government owes US$122 million in interest payments this month, US$51 million in August and less than US$40 million per month through December. According to El Salvador's central bank (BCR), the government has over US$1 billion in its accounts with banks and the BCR as of the end of May. In addition, El Salvador stands to receive a reserve boost of approximately US$390 million (1.5% of GDP) via Special Drawing Rights (SDR) from the IMF's recently approved US$650 billion increase in SDR allocations for member countries. While SDRs are not a direct transfer to the fiscal accounts, they can be used for fiscal purposes at a very low cost, approximately 0.05% per annum. These figures suggest, in our view, that El Salvador has resources in the near-term to repay its debts, and that the recent widening in the sovereign spread may overstate near term repayment challenges. El Salvador spreads tightened this week.

Peru

Pedro Castillo was officially declared President-elect for the 2021-2026 term by Peru's Elections Board early this week. Castillo now has about a week before his inauguration on 28 July to assemble a cabinet, coordinate the transfer of power, and prepare for his inauguration speech, which together will help define the Castillo government and provide visibility into its policies and priorities. Mr. Castillo's party, Free Peru, will hold 37 of 130 seats (28%) in the legislature against the runner-up Keiko Fujimori's Popular Force's 24/130 (18%). Key upcoming events over the next several weeks include: 1) the Presidential inauguration and ministerial cabinet appointments on 28 July, 2) the possible announcement of a Constitutional reform referendum in early August, and 3) a multi-Annual Macroeconomic Framework, including details on new fiscal rule, and the 2022 budget in mid-August. Peru's currency appreciated and local bond yields declined.

Sri Lanka

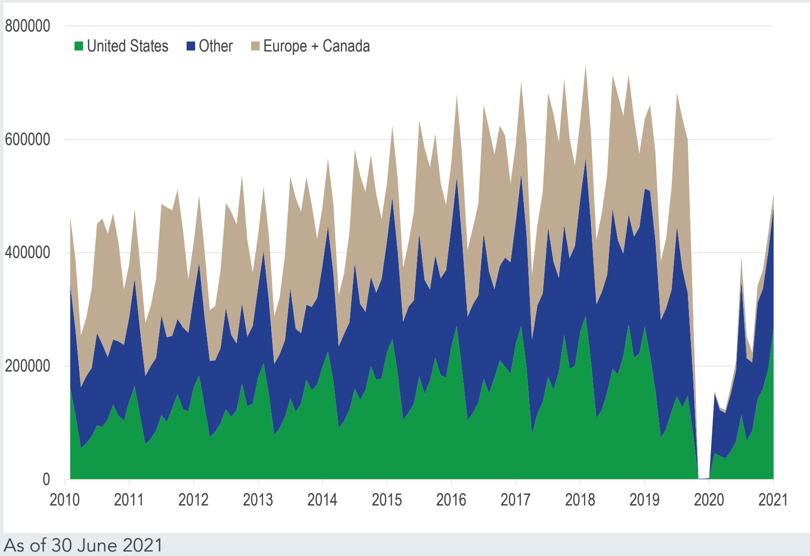
Moody's placed Sri Lanka's Caa1 rating under downgrade review, citing low and declining reserves, high interest burden, and limited external financing sources. The rating agency does not expect the IMF to provide program-based financing support. In addition, Moody's expects the country's fiscal deficit to remain around 9.5-10% of GDP this year and average 8.5% in the next two years, resulting in a rising debt burden. Despite these challenges, Sri Lanka has demonstrated strong historical willingness to pay, and has secured significant bilateral support that may, in our view, outweigh the country's fragile fiscal position in the near term. Sri Lanka's external debt spreads widened this week.

South Africa

The recent jailing of former President Jacob Zuma, who was convicted for contempt of court charges, triggered violent protests in the provinces of Gauteng and KwaZulu-Natal. South African authorities have managed to bring the violence and rioting under control as President Cyril Ramaphosa has pledged to stabilize the country, but the events led to a negative market response last week, particularly in the rand. However, the currency has stabilized this week and the rand remains one of the strongest EM currencies year-to-date. We believe the currency's strength so far this year reflects the country's rising trade surpluses on the back of improved commodity prices and prospects for narrowing the elevated budget deficit as growth recovers. While external debt spreads widened in the past week, they have already begun to narrow and remain 38 basis points tighter than at the start of 2021.

Chart of the Week

Dominican Republic: Tourist Arrivals By Air



As of 30 June 2021
Source: Banco Central de la Republica Dominicana, Haver Analytics

Tourist arrivals continue to pick up in the Dominican Republic. June arrivals by air already reached 79% of the pre-Covid level. Notably, European and Canadian tourists have barely started to return but arrivals from the US have already fully recovered. Tourists from all other regions have also mostly returned. While we see this as a positive sign for tourism-dependent countries, like the Dominican Republic, it also highlights the stark differences across countries. So far, tourists have mostly avoided far away destinations involving long air travel, but the US arrivals in the Dominican Republic show an increasing willingness to travel to overseas locations. However, many other tourist destinations are still far behind, especially across Asia. Thailand, for example, still remains virtually closed for tourists.

Global High Yield

US High Yield

US high yield experienced a 1-day decline of 0.5% before rallying at the end of the week to finish down only 0.23%. Recent concerns over spread of the Delta variant and the impact of additional restrictions on global growth weighed on the market, with positive corporate earnings providing support. Higher quality, longer duration credits outperformed as higher beta credits bore the brunt of the sell-off. Negative retail flows magnified the downturn as many other investors were looking to buy the dip. Energy declined significantly as oil prices dropped into the mid 60s, but quickly snapped back as oil prices rebounded. Similarly, industries most exposed to travel restrictions, such as airlines and leisure, suffered a large decline early in the week, but ended the week on a strong note with investors attempting to add exposure at lower prices. Healthcare outperformed due to strong earnings from hospitals. Carnival Cruise Lines came to the market with another large deal, issuing US$2.4 billion of first-priority senior secured 4% notes due 2028. The company will use the proceeds to repay a portion of its 11.5% first-priority notes issued in April 2020.

Leveraged Loans

Amidst a volatile backdrop due to concerns over spread of the Delta variant, the loan market held in relatively well compared to other risk markets. The S&P/LSTA Leveraged Loan Index returned -0.08%, the average bid price decreased 15 bps to US$98.21, and the spread-to-maturity widened 2 bps to L+404. Concerns over slowing global growth as a result of additional lockdowns drove risk sentiment lower this week, best evidenced by higher quality BB and B-rated issuers outperforming lower quality CCC-rated loans. Not surprisingly, we saw weakness in sectors tied to the re-opening including leisure and airlines, while more defensive credits in the retail food/drug and wirelines sectors outperformed. There were no defaults in the Index this week.

European High Yield

Overall, European high yield declined 0.04% week-over-week (w/w). Higher quality credits were unchanged, meaningfully outperforming CCC issues, which dropped 0.14%. Index spreads widened by 9 bps, with BB spreads only 6 bps wider, while CCC spreads widened 31 bps. Lingering growth concerns and worries about additional Delta variant-related lockdowns pressured the market, leading to continued decompression with re-opening and higher beta bonds underperforming higher quality issues. Under-performing industries included airlines and lodging. Media out-performed due to strong earnings from Netflix. Technicals were supportive with continued inflows and a quiet primary calendar with only one deal pricing. Telecom Italia boosted its mid-term targets due to an agreement with streaming service DZAN for the distribution of the Serie A soccer championship.

Flows/Issuance

US technicals were mixed this week with sizeable retail fund outflows, but a smaller new issue calendar. The primary market remained quiet early in the week, but picked up as the market rebounded to finish the week with US$5.4 billion, and $15.7 billion for July. Retail outflows of US$1 billion pressured the market lower, adding to the volatility. July outflows total US$1.7 billion.

Loans new issuance remained steady with approximately 20 deals launching for US$13.7 billion. The week's issuance showed proceeds going to mixed uses. Pilot Travel Centers LLC launched a multi-billion dollar term loan to fund redemption of preferred equity and to refinance outstanding revolver and term loan debt, while Atlantic Broadband launched an incremental facility to fund the acquisition of broadband systems incremental facility to fund the acquisition of broadband systems in Ohio from WideOpenWest Inc., and satellite provider Iridium Communications launched a repricing of their existing term loan. Demand for floating rate assets remains solid albeit not as robust as prior weeks. As the yield on 10-year US Treasuries declined, we saw a moderation of flows into the market from retail loan mutual funds and Exchange Traded Funds (ETFs), however the asset class has seen twenty-seven consecutive weeks of inflows. Loan funds posted their first redemption in 27 weeks, with US$67 million in outflows. Further, we saw continued Collateralized Loan Obligation (CLO) formation with 5 deals pricing, bringing July's tally to 13 deals for US$6.1 billion.

In Europe, EPFR data showed an inflow of US$129 million, bringing July's inflow to greater than US$500 million.

Source: Lipper, EPFR

Industry Insights

Healthcare: The sector focused this week on HCA Healthcare Inc.'s (HCA) earnings as well as opioid-related settlements. Notably, HCA's earnings came in well ahead of expectations and comments regarding the rebound in volumes, acuity, and mix drove optimism throughout the healthcare facilities sector. The three largest US drug distributors along with Johnson & Johnson agreed to settle one of the most complex opiod cases in the US judicial system, and while the deal hasn't been officially ratified, several key states have signed on. Endo Pharmaceuticals made headlines as they proposed a settlement to a separate case in Tennessee in response to a previous adverse ruling. Endo's proposed settlement was reportedly accepted by some counties, while others were reviewing the offer. HCA's strong earnings and news of the distributor settlement and potential Endo settlement drove healthcare spreads tighter later in the week.

Oil: OPEC+ reached an agreement to raise production by 400,000 barrels per day (bpd), similar to guidance from their earlier July meeting that ended with no agreement due to the UAE requesting a baseline increase. OPEC+ agreed to UAE's request and also increased base production levels for Russia, Saudi Arabia, Iraq and Kuwait for a combined baseline increase of 1.63 million bpd, beginning in May '22, which will equate to a collective production increase to 432,000 bpd, starting in May 22 until they complete adding back 5.8 million bpd, estimated to be reached by September '22. Also, their Agreement of Cooperation has been extended an additional 7 months to Dec '22. As monthly meetings will now be permanent, production can be adjusted in a timely manner, allowing OPEC+ to pivot for key contingencies such as Iran, Venezuela, and the Delta variant threat. Along with Delta variant threats, on Monday, weak demand numbers from China (the government tapped into their strategic reserves in hopes of cooling prices, impacting short-term demand) led to price volatility, with oil dropping over US$5/barrel. After the US Department of Energy's weekly release showed domestic demand remaining strong, oil rebounded from Monday's drop.

Telecommunications: This week kicked off Q2 telecommunications data with strong earnings from AT&T, Verizon, and Crown Castle reporting strong results, boding well for the rest of the wireless segment. Next week, high yield telecomm earnings will commence when T-Mobile (TMUS) reports after Thursday's close, followed by SBA Communications (SBAC) next Monday. The setup for both issuers should be positive with TMUS continuing to aggressively integrate the Sprint merger and SBAC benefiting from C-Band network investments and DISH's broader network build. Given TMUS' latest comments on the Sprint integration, we wouldn't be surprised if they, yet again, up guidance for 2021 as they exceed their own timing and expectations for the integration.

Investment Grade

Governments

The recent move lower in government rates reaccelerated this week as the yield on 10-year Treasuries traded down to 1.125% intra-day before retracing to end the period 6 bps lower at 1.29%. Given the velocity of the move, Treasury volatility, as measured by the ICE BofAML MOVE Index, reached a 3-month high of 69. The confluence of fears around spread of the Delta variant, along with the potential for peak growth momentum, saw a meaningful repricing since the beginning of the month. The latest weekly Commitment of Traders report confirmed the short squeeze in Treasuries observed earlier this month. Inflation expectations unwound for another consecutive week as 10-year Breakevens fell another 6 bps to 2.30%. Interestingly, the recent flattening of the Treasury curve seems to have plateaued as 5s30s rose for a second consecutive week, ending the period 3 bps higher to 120 bps as shorter dated maturities saw better demand. Core European rates followed Treasuries lower with the yield on 10-year Gilts and Bunds falling 2 bps and 8 bps to 0.60% and -0.40%, respectively. Peripheral spreads widened amid decelerating economic data, with the spread on 10-year Spanish and Italian bonds rising 5 bps over Bunds to 0.67% and 1.08%, respectively. Australian government bonds closed 18 bps lower to 1.16% after rising infections leaves half the country under lockdown measures. 10-year Japanese government bonds ended the period unchanged at 0.02%.

Corporates

Investment grade corporates sold off hard earlier in the week following worries regarding the Delta variant spread, pushing 10-year Treasury rates to intra-day lows of 1.13%, and causing spreads in the cash markets to widen by 2-10 bps. The OAS on the Bloomberg/Barclay's Corporate Index broke out to +89 bps at its peak, while total returns on the corporate index crossed into positive territory for the first time this year on the rate rally. Whatever weakness there was on Monday was quickly reversed as the week progressed with aggressive purchases from fast money buying the dip and dealers scrambling to buy bonds they had let go earlier in the week. Spreads ended the week mostly unchanged, although the corporate index OAS is slightly wider while treasury rates backed off the lows.

Securitized

The mortgage current coupon widened 4 bps this week, and the spread stands at the highest level in the past 16 weeks. The Federal Housing Finance Agency (FHFA) is removing the 50 bps Adverse Market Delivery Fee starting 1 August. The fee was intended to cover Covid. The fee removal could bring more mortgages into the refinancing window. Asset-backed securities (ABS) spreads remain firm amidst heavy new issue supply, which is running about 10% higher than 2019 levels. A rare credit card ABS came to market from Capitol One which upsized to US$3 billion from US$1 billion.

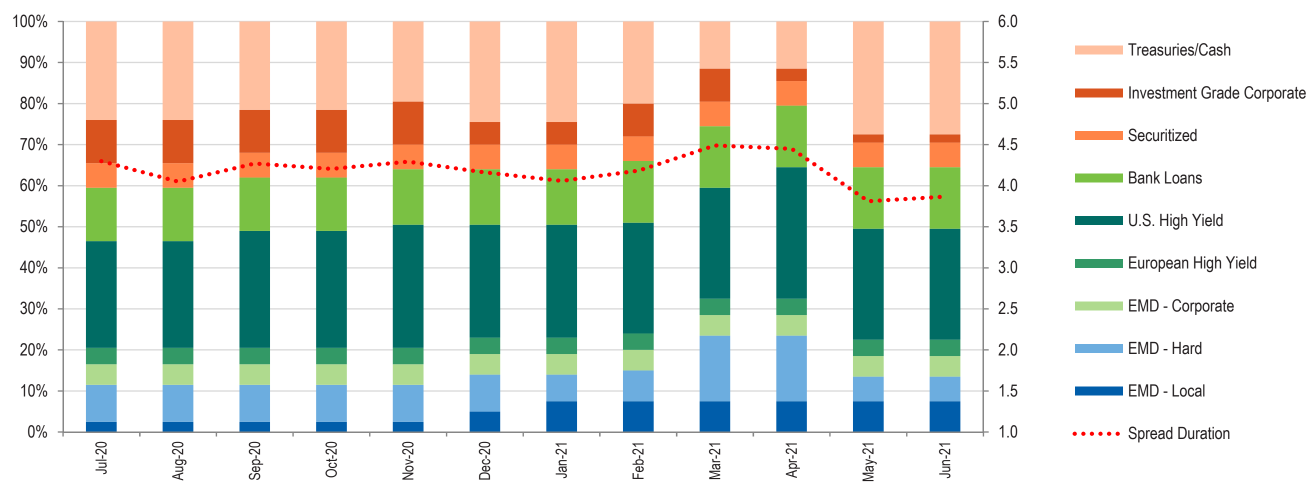
Flows/Issuance

Flows into high grade funds were again elevated this week, with an inflow of US$6 billion, according to EPFR. Corporate-only funds picked up this week with inflows of US$2.135 billion coming into the long end from ETF oriented flows (LQD). Aggregate and total return funds also showed inflows of US$2.771 billion and US$1.105 billion respectively but most of that inflow was from the short end.

In the primary markets just under US$15 billion priced this week, much less than the median forecast the street was expecting. VMware was the largest transaction of the week, printing US$6 billion across 5 tranches. Overall, the deal saw robust demand with a final book just above US$20 billion. Supply for July is now just above US$65 billion and year-to-date supply is US$900 billion.

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 21, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	352	4	13	13	2	(94)	0.2	0.4	0.4	(0.3)	5.1
	CEMBI Broad Diversified	260	5	10	10	(10)	(137)	0.1	0.3	0.3	1.6	7.5
	GBI EM Global Diversified Yield	4.93	(0.04)	(0.05)	(0.05)	0.71	0.47	(0.4)	(1.3)	(1.3)	(4.7)	2.8
EM Sovereign Debt	EMBI Global Diversified	352	4	13	13	2	(94)	0.2	0.4	0.4	(0.3)	5.1
	EMBI GD Investment Grade	156	3	10	10	7	(39)	0.4	0.6	0.6	(1.9)	0.9
	EMBI GD High Yield	601	8	19	19	(7)	(197)	0.1	0.2	0.2	1.6	10.4
EM Sovereign Debt Regions	Africa	541	9	21	21	(14)	(184)	(0.0)	(0.1)	(0.1)	1.6	15.4
	Asia	220	4	12	12	(12)	(56)	0.2	0.4	0.4	0.7	2.7
	Europe	283	3	9	9	17	(66)	0.2	0.5	0.5	(0.5)	5.6
	LATAM	362	5	12	12	8	(110)	0.3	0.6	0.6	(1.7)	3.4
	Middle East	358	2	15	15	(10)	(64)	0.4	0.2	0.2	0.4	3.5
EM Corporates	CEMBI Broad Diversified	260	5	10	10	(10)	(137)	0.1	0.3	0.3	1.6	7.5
	CEMBI BD Investment Grade	157	2	8	8	(12)	(85)	0.3	0.5	0.5	0.4	4.5
	CEMBI BD High Yield	464	12	18	18	(21)	(209)	(0.1)	0.1	0.1	3.3	11.8
US High Yield	US High Yield	293	18	25	25	(67)	(213)	(0.2)	0.2	0.2	3.8	11.8
	US High Yield BB	214	11	14	14	(50)	(134)	(0.1)	0.4	0.4	3.2	9.6
	US High Yield B	330	23	36	36	(49)	(199)	(0.2)	(0.0)	(0.0)	3.3	10.6
	US High Yield CCC	499	33	37	37	(159)	(541)	(0.4)	(0.4)	(0.4)	6.8	22.0
European High Yield	Barclays PanEur HY	304	8	16	16	(53)	(195)	(0.0)	0.1	0.1	3.1	9.5
	2% Ex Financials Yield	3.27	0.16	0.23	0.23	(0.18)	(1.55)	-	-	-	-	-
Bank Loans	LSTA Price	98.2	(0.2)	(0.2)	(0.2)	2.0	6.8	(0.1)	0.1	0.1	3.3	9.8
	LSTA 100 Yield	3.84	0.06	0.14	0.14	(0.14)	(1.59)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.20	(0.06)	(0.17)	(0.17)	0.42	0.67	0.5	1.5	1.5	(2.0)	(3.3)
	1M LIBOR	0.09	(0.00)	(0.01)	(0.01)	(0.06)	(0.09)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	36	2	4	4	(6)	(25)	0.2	0.7	0.7	(0.9)	(0.6)
	US Investment Grade Corporates	87	3	7	7	(9)	(43)	0.2	0.8	0.8	(0.5)	1.4
	Global Aggregate	35	1	2	2	(2)	(18)	0.3	0.9	0.9	(0.6)	0.3
	Barclays 1-5 Year Credit	38	1	3	3	(3)	(30)	0.1	0.2	0.2	0.3	1.5
FX	DXY (US dollar)	92.75						0.4	0.3	0.3	3.1	(2.5)
	GBI EM FX							(0.8)	(1.9)	(1.9)	(3.4)	1.0

1W reflects data from July 14 close through July 21 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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