Stone Harbor INVESTMENT PARTNERS

July 30, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

The "risk-off" tone earlier in the week receded and market sentiment improved by the end of the week following supportive comments from the US Federal Open Market Committee (FOMC), and as the Chinese government clarified its move to tighten restrictions on private education companies. The US Federal Reserve (Fed) Chairman Jerome Powell reiterated much of the ongoing themes, but provided more language on the Fed continuing to move forward on a tapering path and indicated that this week's meeting was the first deep dive into issues of timing and composition of the taper. In US economic data, the real GDP came in below market consensus and increased by only 6.5% in Q2. Yields on US 10-year Treasuries hovered around 1.25%. Credit spreads generally moved wider and total returns were mixed across major sectors. US high yield debt outperformed emerging markets (EM) high yield debt. The US dollar index (DXY) declined, and EM currencies advanced.

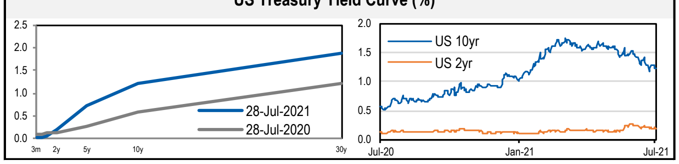
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	358		6	4.47%
EMBI GD IG	161		6	0.26%
EMBI GD HY	607		6	9.65%
Africa	543		2	14.85%
Asia	228		8	1.15%
Europe	286		4	5.52%
LATAM	371		9	2.71%
Middle East	359		2	3.21%
CEMBI BD	266		6	6.78%
CEMBI BD IG	160		3	3.86%
CEMBI BD HY	475		10	10.91%
GBIEM GD (%)	4.93		0	2.01%
EM Blend (%)	4.75		3	4.44%
EMBI ESG	338		6	3.38%
CEMBI ESG	269		5	6.86%
GBI ESG (%)	4.76		1	1.83%
		-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	294		1	11.32%
US HY BB	216		2	9.16%
US HY B	331		1	10.12%
US HY CCC	499		0	21.15%
Pan Euro HY	307		3	9.30%
LSTA 100 (%)	3.89		5	9.47%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.13		-7	-2.97%
1M LIBOR (%)	0.09		1	0.13%
US Agg	34		-2	-0.47%
US IG Corp	85		-2	1.72%
Global Agg	34		-1	0.34%
		-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	1.10%	Gold	1,805	-9.95%	S&P500	4,401	36.73%
USDJPY	109.91	-4.40%	VIX	18	-28.03%	MSCI World	9,215	35.39%
EM FX		1.17%	Brent	75	72.93%	MSCI EM	3,040	19.75%
		Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21			Jul-20 Jan-21 Jul-21

As of: July 28, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The incoming economic data underwhelmed this week. Initial jobless claims rose, from 368,000 to 419,000, for the week of 17 July, while continuing claims fell but to a lesser degree than expected—from 3,265,000 to 3,236,000. The latest Purchasing Managers' Index (PMI) readings paint a mixed picture as manufacturing activity continues to expand while services PMI decelerated for a second consecutive month as the lack of labor suppresses activity.

After several weeks of debate, a bipartisan group of senators and the White House reached agreement on a US$550 billion infrastructure plan that now makes its way to the Senate. While both Democrats and Republicans are expected to seek amendments to the bill, this is a positive step forward for the Biden administration and the US.

Europe

The European Central Bank (ECB) kept policy rates unchanged, however, revised its forward guidance on interest rates and committed to maintaining accommodative policy until inflation reaches its symmetric 2% target on a persistent basis "well ahead of their forecast horizon." The ECB's explicit goal of a sustainable 2% level of inflation and rates remaining at current or lower levels while inflation is above 2% highlights the unlikelihood of tightening anytime soon, especially as the latest inflation reading came in at 1.9%. The ECB also says that the pandemic emergency purchase programme (PEPP) will run at a significantly faster rate than at the start of the year and can be recalibrated if needed.

French PMI data disappointed as manufacturing slowed for a second month and services broke its four-month streak of gains. In contrast, Germany surprised to the upside and posted a month-over-month (m/m) bump in manufacturing while services, which rose from 57.5 to 62.2, was the notable outperformer. The divergence between the bloc's two largest economies is a reflection of the local infection rate as Germany seems to be containing the spread of the virus.

German politicians are debating the possibility of restrictions for unvaccinated individuals. France and Italy have already announced similar measures, with the pace of vaccination bookings increasing since the announcement. Tensions between the EU and UK eased this week after the EU withheld from taking legal action against the UK for breaching its agreement on the Northern Ireland protocol. The lack of any imminent procedures will allow time for the two sides to reconcile although the EU has reiterated that the deal cannot be renegotiated.

Japan/Asia

The Australian government will be extending lockdown measures in Sydney for an additional four weeks after the month-long lockdown failed to contain virus spread. In efforts to offset the economic impact of restrictions, Prime Minister Scott Morrison announced additional funding of up to AUD$100,000 per week for smaller businesses and enhanced welfare payments for lower income workers. Elsewhere, Melbourne and Adelaide ended their restrictions this week.

The South Korean economy slowed more than expected as quarterly GDP growth fell from 1.7% in Q1 to 0.7% in Q2, missing estimates of 0.8%. Growth in private consumption and government spending were offset by a slowdown in exports and private fixed investments. According to the Bank of Korea (BoK), the decrease in exports was largely attributable to a decline in autos and display monitors/televisions shipments. The outlook for Q3 looks similarly downbeat as the country tackles its current wave of infections. Over the weekend, South Korean authorities said it will tighten social distancing rules, which includes a curfew and limits on gatherings.

Economist Corner

Seamus Smyth, PhD, Developed Markets

A 6.5% annualized US GDP growth rate would normally represent a very good number, but in the current context, it was a meaningfully disappointing result for Q2. The Q2 pace is essentially the same as Q1, despite the increase in vaccinations over the period and resumption of a significant portion of service sector activity. Though this reading pushes real GDP above the pre-pandemic high, output remains well below the pre-pandemic trend, suggesting there is still lots of ground to be made up.

Why was GDP so soft? The downside miss is not due to consumption failing to rebound, as both services and goods consumption grew by just under 12%. Much of the surprise came from two areas: structures investment, both residential and non-residential, and inventories.

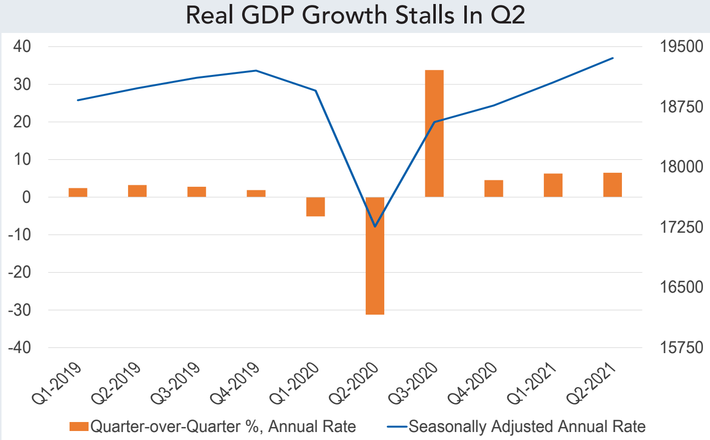
Residential investment fell by nearly 10% in Q2. This decline came despite the contribution from actual new home construction remaining roughly constant; instead, it was due to declines in home improvements and broker commissions. Non-residential structures investment broadly remains very soft as firms have deferred new structures investment in response to the pandemic. Note that though residential and non-residential investments both fell in Q2, their levels indicate a different story: residential investment is up sharply, while non-residential structures are down sharply.

Steffen Reichold, PhD, Emerging Markets

The other large downside was from inventories, which subtracted 1.1 percentage points from GDP growth. Consumption growth has substantially outpaced production, so retail and wholesale firms have drawn down their stocks over the last several quarters.

Following this disappointing Q2 GDP reading, we have marked up our estimate of Q3 growth somewhat. We are relatively optimistic that the inventory drag will abate, and likely turn around as firms rebuild replenished stocks.

Real GDP Growth Stalls In Q2



As of: 30 June 2021
Source: Bureau of Economic Analysis, Haver Analytics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 5 bps and the JP Morgan EMBI Global Diversified returned -0.2%. Non-investment grade securities outperformed investment grade bonds, on average. The top country performers included Zambia (+1.3%), Ivory Coast (+1.2%), and Senegal (+0.7%). The bottom performers included Tunisia (-3.9%), Lebanon (-1.3%), and Colombia (-1.3%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.2%. EM currencies returned 0.1% in aggregate. The top performers included the Brazilian real (+1.7%), the Mexican peso (+1.2%), and the Czech koruna (0.6%). The bottom performers were the South African rand and the Chilean peso, both declining 1.3%, while the Colombian peso depreciated 1.2%.

The yield of the JP Morgan GBI EM Global Diversified was unchanged at 4.93%. Dominican Republic yields continued their rally for the month, moving 16 bps lower in yield, followed by Peru and Russia whose bonds were both 11 bps lower in yield, with South Africa close behind at -10 bps. Brazil and Chile underperformed, where bond yields rose 30 bps and 26 bps, respectively.

In central bank actions, Kazakhstan hiked rates 25 bps to 9.25%, in line with expectations. Russia hiked by a total of 100 bps to 6.50%, as expected. Hungary surprised the market with a 30 bps hike to 1.20%, compared to market expectations of a 20 bps hike.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified posted a negative return of 0.1% for the week. While Latin America underperformed marginally, Central and Eastern Europe, Middle East and Africa (CEEMEA) outperformed marginally. Asia, and specifically China, was the overwhelming driver of performance. China was down 1.27% as market concerns over Chinese homebuilder Evergrande continued to accelerate. The Evergrande curve has now traded down between 20 and 25 points since the beginning of the month. The weakness in Evergrande has now begun to impact the bond prices of other Chinese homebuilders and of Chinese corporates, in general. Bond prices of a Chinese credit we have mentioned in this space previously, Huarong Asset Management, declined by three to five percentage points this week on no company-specific headlines. The negative sentiment in Chinese corporates impacted other Asian markets, as well. Indonesia was one of the hardest hit, down 0.90%, but was also negatively impacted by an extention of the lockdown in Jakarta.

Flows/Issuance

EM sovereign debt issuance this week included offerings from Chile and Ukraine. Chile offered both euro-denominated issues (with maturities of 2027 and 2036) and US dollar-denominated issues (with maturities of 2033 and 2061) totaling approximately US$4.8 billion. Ukraine issued US dollar-denominated bonds totaling US$517 million, maturing in 2029. In EM corporate debt, new issuance for the week was moderate, highlighted by a new green bond from a Turkish renewables project.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$81 million for the week through 27 July, predominantly into local currency funds. We note that EPFR data provides a partial picture of portfolio flows as it accounts for a segment of the total market.

Source: EPFR

Sovereign Soundbites

Lebanon

Lebanese businessman Najib Mikati was named the new prime minister-designate on Monday after Saad Hariri resigned less than two weeks ago, leaving behind a political gridlock. Mr. Mikati, who has served as prime minister twice before – briefly in 2005 and 2011 – won the nomination with 72 out of 118 votes in the parliament. Unlike many of his predecessors, Mr. Mikati does not represent a political bloc, but he has gained support across various political parties. Mr. Mikati has acknowledged the urgency of forming a sustainable government that is capable of implementing reform measures and engaging with the IMF to unlock international aid.

Mexico

Moody's Investors Services (Moody's) downgraded the state-owned company Petroleos Mexicanos (PEMEX) to Ba3 with a negative outlook, citing increased liquidity and business risks. According to Moody's, PEMEX's current strategy of increasing fuel production while faced with high debt maturities will likely lead to further deterioration in cash flow generation in the next three years. Moody's maintained a negative outlook for the company, consistent with Mexico's sovereign debt outlook. For 2021, the government has announced a US$3.5 billion reduction in PEMEX's taxes and cash transfers to help the company repay debt maturities of US$6.5 billion in the year. After the rating action, the company assured investors that it plans to refinance 2022 debt maturities but that it had no intention to issue new debt this year. Moody's analysis assumes that the government will continue to fund PEMEX's cash needs and help the company comply with its debt amortization obligations of US$5.8 billion in 2022 and US$6.4 billion in 2023. In our view, the significant government support for the company under the current administration remains intact and will grow, given the close working relationship between Finance Minister Rogelio Ramirez de la O and Pemex CEO Octavio Romero Oropeza.

Peru

The inauguration of Peru's new President Pedro Castillo took place on Wednesday. The new president appointed Guido Belido, a congressman from Castillo's party Peru Libre, as Prime Minister and reiterated key initiatives in the much-anticipated inaugural speech. Departing from his recent moderate-leaning tone, President Castillo spoke about doubling spending plans for public education, free universal healthcare and pension coverage, as well as forming a constituent assembly to rewrite the constitution. Further clarity around his cabinet appointments as well as whether the well-regarded central bank president will remain in office would help gauge the President's near-term strategy. Peru's external sovereign debt spreads widened.

South Africa

In the wake of recent social unrest and violent protests, the government announced a 38.9 billion rand (approximately US$2.6 billion) relief package for businesses and individuals affected by the riots. The program is expected to be funded through available resources, particularly from better-than-expected tax collections in the mining and financial services industries, and should not require additional borrowing. The largest component of the relief package is the reinstatement of a social grant that will be in effect until March 2022 and will cost 26.7 billion rand. The government also signed a one-year wage hike deal with public sector unions that includes a 1.5% salary increase and a cash payment. This agreement comes as the government is trying to contain its wage bill, which makes up approximately a third of its spending and has been a concern for credit rating agencies. Finance Minister Tito Mboweni reassured investors that the country's economic fundamentals are intact and reforms are being implemented.

Sri Lanka

Sri Lanka repaid a US$1 billion sovereign bond on Monday, following Moody's ratings action last week that placed Sri Lanka's Caa1 rating under review for a downgrade on concerns around deteriorating external liquidity position and default risk. Two additional payments in the amount of US$500 million and US$1 billion are due next year. In our view, this week's payment highlights Sri Lanka's continued willingness to pay, and we view the current bilateral support, including a US$1.5 billion currency swap agreement with China and other negotiated funding from neighboring countries as important sources of support in the near term.

Tunisia

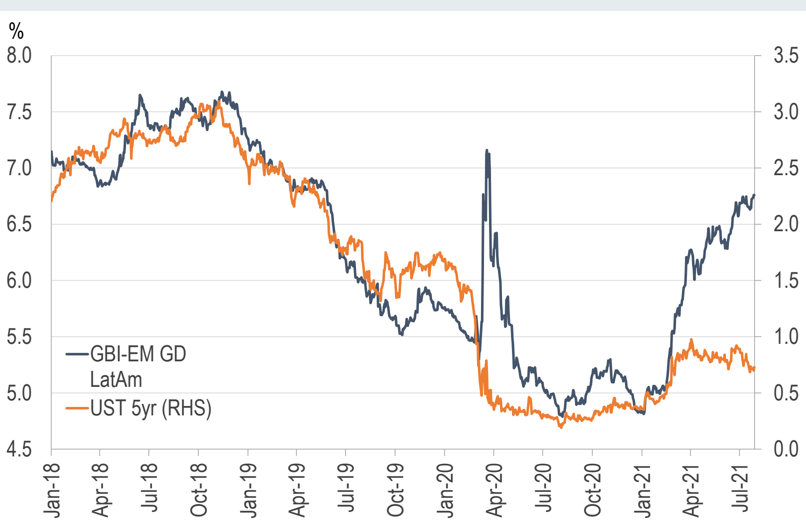
Tunisia's President Kais Saied dismissed Prime Minister Hichem Mechichi and suspended the parliament for 30 days amid anti-government protests, underscoring a year-long political clash between the two leaders, as well as growing social unrest as the health and financial crisis escalate. President Saied has assumed executive authority and now controls the legislative and judicial branches of the government under what he has described as temporary measures that are permitted under the Tunisian Constitution. The President announced he would appoint a new Prime Minister, while the outgoing Prime Minister agreed to concede power. The IMF subsequently reiterated its commitment to support the country, though the ongoing political instability may further delay negotiations on a US$4 billion support package, which would include austerity measures and economic reforms.

Zambia

The Zambian kwacha has broadly stabilized after having been under significant pressure in 2020 amid the weakening macroeconomic environment. The Bank of Zambia issued a statement over the weekend addressing the recent appreciation of the kwacha against the US dollar. According to the statement, the currency appreciation reflects changes in the supply of foreign exchange (FX) and expectations of further increases in supply from upcoming IMF Special Drawing Right (SDR) allocation and improved prospects for an Extended Credit Facility (ECF) with the IMF. In addition, high copper prices have contributed to strong export earnings, which in turn have improved FX flows from the mining sector through tax receipts sent directly to the Bank of Zambia in US dollars. Year-to-date, as of 23 July, 2021, the Bank of Zambia sold US$688 million to the market compared to US$86 million in the same period last year, increasing the FX liquidity in the market. This increase in FX liquidity has been augmented by FX inflows from non-resident investors. At the same time the Bank has increased international reserves to US$1.4 billion at the end of May from US$1.2 billion in March, which places the country in a better position to respond to external shocks and to address exchange rate volatility. Presidential elections are currently slated for 12 August. The incumbent Edgar Lungu of the Patriotic Front party is expected to face Hakainde Hichilema, the main opposition candidate from the United Party for National Development.

Chart of the Week

Latam Local Yields vs US Treasuries



As of: 27July 2021
Source: Bloomberg, J.P. Morgan, Stone Harbor Investment Partners LP

The spread of EM local currency yields over US Treasuries has widened significantly since March. This move has been even more pronounced for the Latin America (Latam) component of the index. We believe one of the key drivers of the sharp repricing of Latam local curves was the uncertainty over the path of US inflation and Fed policy. Higher local yields reflect the perceived risk of another "taper tantrum" event. The other key driver was rising inflation numbers across Latam and the more hawkish shift by Latin American central banks. We are now starting to get closer to the inflection point on inflation. In Brazil, we expect annual inflation rates to peak in the next months, followed by other Latam economies later this year. We also expect some resolution of the uncertainty surrounding US inflation and future Fed policy in the coming months. This could set the stage for a replay of the usual pattern. Historically, such wide yield spread over US Treasuries have been associated with subsequent yield compression in Latam.

Global High Yield

US High Yield

The high yield market gained 0.11% on the week with decompression remaining the theme as investors focus on adding higher quality, longer duration bonds driving BB credits up 0.17% compared to a gain of only 0.02% for CCC issues. Uneasiness around the Delta variant and related uncertainty heading into quarterly earnings are driving the more defensive positioning. Earnings have largely come in better-than-expected with many companies increasing guidance. Airlines and metals/mining both outperformed due to strong quarterly results and favorable forecasts. Underperforming industries included higher beta energy such as drillers and refiners as well as reopening beneficiaries such as gaming and leisure. Lumen Technologies announced a sale of its Latin American business to Stonepeak, a leading alternative investment firm, for US$2.7 billion. This sale monetizes the asset at ~9x and provides capital to accelerate investments in key growth areas. ModivCare Inc. agreed to acquire Carefinders Total Care LLC, a Northeastern personal care provider, for US$340 million.

Leveraged Loans

Following a volatile week, the loan market remained under modest pressure. The S&P/LSTA Leveraged Loan Index returned -0.06%, the average bid price declined 13 bps to US$98.08, and the spread-to-maturity widened 1 bp to L+406. As the market remained under pressure, investor demand for lower quality CCC loans outpaced demand for higher quality issuers. We saw a recovery in reopening themed sectors following the previous weeks' concerns over spread of the Delta variant, while idiosyncratic headlines drove underperformance in the media other, drillers, and satellite sectors. There were no defaults in the index this week.

European High Yield

Overall, European high yield gained 0.14% due to better-than-expected earnings with positive guidance and a recovery in risk appetite from easing fears over China's recent regulatory crackdown. All quality segments of the market performed well with index spreads flat on the week. Outperforming industries include airlines and E&P, reflecting the recovery in recent underperforming higher beta bonds. Underperforming industries included retail food/drug, technology, and wirelines. Technicals were more mixed given retail outflows and a quiet primary calendar. Softbank bonds were volatile with bonds down early in the week as China's regulatory crackdown caused certain technology holdings to drop in value. However, the bonds rallied to end the week as Softbank announced plans to sell more than US$2 billion of its Uber holdings.

Flows/Issuance

US high yield flows ended a two-week withdrawal with a positive US$797 million primarily driven by ETFs. Primary issuance picked up the pace with 14 deals coming to market for US$13.8 billion. Three large deals dominated the issuance with Carnival Corp. tapping the market once again raising US$2.4 billion, DirecTV Holdings Inc pricing US$2.3 billion to refinance AT&T debt, and Air Canada issuing US$1.2 billion also using proceeds to refinance debt. All deals were met with oversized demand and tightened pricing from original talks.

Loans notably experienced its first outflow in twenty-seven weeks; however, last week's flow was small, and we've seen US$21 billion of inflows for the year-to-date from retail loan mutual funds and Exchange Traded Funds (ETFs). As in recent weeks, mutual funds led the way with inflows of US$277.9 million, and U$S20.2 million from ETFs. This week exhibited a mix of inflows and outflows; however, the magnitude of daily flows has declined significantly. As inflows have been a key driver of supportive technicals year-to-date, we will watch this trend closely. Further, demand from Collateralized Loan Obligation (CLO) formation has slowed a bit, which is typical seasonality for July, and month-to-date issuance is at its lowest level year-to-date. Despite lower demand levels from retail investors and CLO formation, arrangers continued to launch new issues, which was well received by investors. For the week, 17 deals were launched for US$13 billion with varied proceeds. Standard Industries Inc. launched a multi-billion dollar deal to fund a distribution to its parent company in connection with its acquisition of chemical company W.R. Grace & Co, while Parexel International Corp launched a multi-billion dollar deal to support the LBO by private equity firms EQT and Goldman Sachs Asset Management.

In European high yield, EPFR data showed an outflow of US$171 million, lowering the July inflow to US$364 million.

Source: Lipper, EPFR

Industry Insights

Airlines: Following positive earnings reports from Delta and United Airlines, Air Canada posted its own numbers reflecting a significant rebound from pandemic levels. Air Canada has seen a jump in domestic demand after the relatively tight travel restrictions between provinces within Canada was lifted. Internationally, management expects the recovery to be strongest in the Atlantic, with the Pacific and Australia to follow. From a demand perspective, management believes the domestic market has already come close to pre-Covid levels, with the Pacific and South America regions lagging. It expects those two markets could recover in the back half of 2022. Air Canada took advantage of its improving outlook to refinance existing debt with US$5.7 billion of new secured term loans and bonds secured by the airline's international slots, gates and routes. The transaction is Air Canada's first major debt financing since receiving a federal bailout in April 2020 consisting of loans and equity worth US$4.7 billion.

Chemicals: Most chemical companies reported earnings that beat expectations and raised guidance due to the positive outlook for the remainder of 2021. Demand remains robust across all regions and end markets, leading to strong volumes and pricing. Negatively, raw material inflation and supply constraints have partly offset the benefit from stronger revenues. Continued tightness in the plastics industry along with rising oil prices create a favorable backdrop for prices to remain stable to slightly higher in the near term. Demand for finished products in the building and construction end markets remains robust, supporting polyvinyl chloride (PVC) demand.

Electric: PG&E, the Californian electric utility company that was forced into bankruptcy in 2019 after its equipment caused catastrophic fires, leading to many deaths and significant destruction, is again battling a significant blaze. The company said it detected equipment problems along with a tree that fell on the power lines. The fire that started on 13 July has burned more than 213,000 acres in Butte and Plumas and is only 23% contained. As a result, PG&E announced it is moving ahead to bury about 10,000 miles of electric distribution power lines in a multi-year program to reduce fire risk in its highest-threat service areas in northern and central California. The utility company says the undergrounding initiative is the largest US effort as a wildfire risk reduction measure. The 10,000 miles is about 12% of the company's overhead power line total and the program is estimated to cost at least US$15 – 20 billion.

Investment Grade

Governments

After the repricing of growth and inflation expectations since the end of June, US Treasuries stabilized this week and traded within a tighter range. The yield on 10-year Treasuries ended the period 6 bps lower to 1.23%. Treasury volatility, as measured by the ICE BofAML MOVE Index, remains elevated, reaching another three-month high of 70.07 before retracing to end the period 3 points lower to 62. In contrast to the recent decline, 10-year Breakevens, a proxy of inflation expectations, rose 11 bps to 2.41%. US real yields, which excludes the expected impact of inflation, have been trending lower since June with the 10-year real yield falling to a multi-year low of -1.18%, indicating a sense of waning sentiment towards the economic outlook. The Treasury curve flattened with the US 5s30s falling 4 bps to 117 bps as longer dated bonds saw better demand.

Across the pond, core European rates also ended the period lower with the yield on 10-year Gilts and Bunds falling 3 bps and 6 bps to 0.58% and -0.45%, respectively, as concerns around rising virus cases weighed on sentiment. There was some divergence in peripherals this week as the spread on 10-year Spanish bonds, over German Bunds, rose 5 bps while the spread on 10-year Italian BTPs narrowed 2 bps. The contrasting move in spreads is largely a reflection of escalating infections in Spain, relative to Italy. The yield on 10-year Australian and Japanese government bonds ended the period unchanged at 1.15% and 0.02%, respectively.

Corporates

Investment grade corporates were mostly mixed to start the week after spreads recovered from last week's sell off, but firmed up as the week progressed on the back of strong earnings and moderate Fed comments on tapering. The Bloomberg Barclay's Corporate OAS tightened by 2 bps to +85 bps, which is 5 bps off the post-pandemic tights, while yields on the index have declined to 1.93%, keeping year-to-date total returns in positive territory by 11 bps. Trading flows showed customers as better buyers of corporates, with buying concentrated in the 1-3 year bucket while the treasury rally has softened demand for corporates at the long end. Chinese tech names underperformed on the week as Beijing increased regulation in an effort to curb the influence of large dominant companies, while Boeing outperformed as it reported a profit for the first time in two years.

Securitized

The mortgage current coupon tightened 4 bps on the week after the FOMC left their mortgage purchase program in place. President Biden expanded a modification program to offer a 20-25% payment reduction to Federal Housing Administration / Veterans Affairs (FHA/VA) mortgage borrowers. The goal is to move people out of temporary forbearance and into permanent modifications, which could lead to more buyouts in Government National Mortgage Association's (GNMAs). Asset-backed securities (ABS) spreads remain firm in the face of heavy new issuance. Dealer floorplan ABS are approaching excess cash triggers with high payment rates but replenishing receivables has been difficult at current low car inventory levels. Federal student loans end forbearance periods at the end of next month. The swaps market switched to the secured overnight financing rate (SOFR) Index from LIBOR and the markets now wait for Alternative Reference Rates Committee (ARRC) to recommend SOFR term rates.

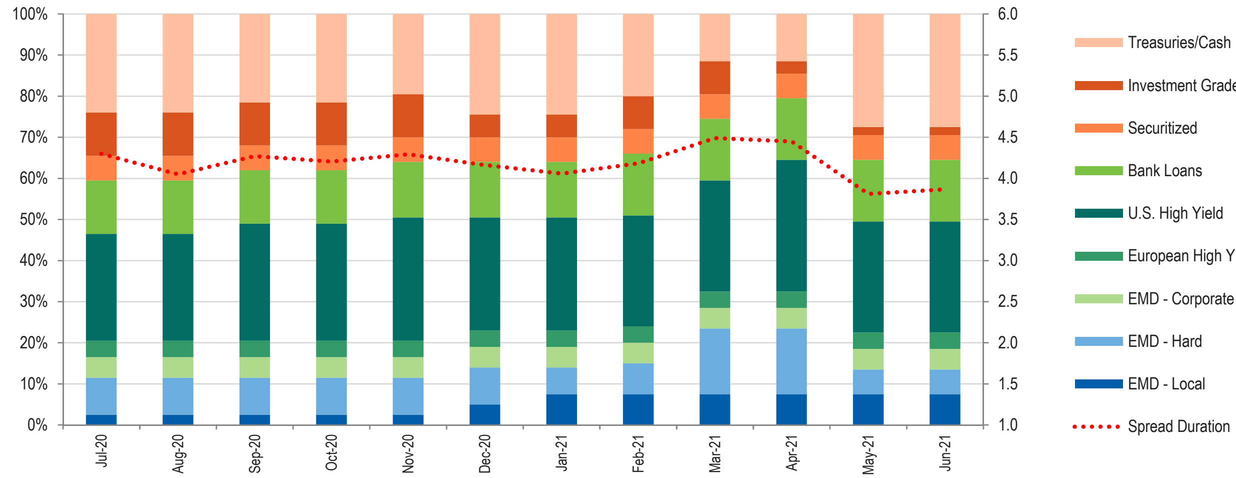
Flows/Issuance

High grade fund flows saw a decline in inflows this week but managed to see positive inflows of US$1.7 billion according to EPFR. The decline was attributed to outflows from long corporate only funds and long aggregate funds with the largest source of outflows coming from corporate ETF (LQD).

In the primary markets, supply picked up towards the latter part of the week with large issues from Apple, Humana, Blackstone Holdings, and Synnex Corporation. Supply for the week was just under US$25 billion, leaving supply for the month at an elevated level of roughly US$90 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

		Spread or Yield Change (bps or %)						Total Return (%)				
As of July 28, 2021		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	358	6	19	19	7	(88)	(0.2)	0.2	0.2	(0.5)	4.5
	CEMBI Broad Diversified	266	6	17	17	(4)	(123)	(0.1)	0.2	0.2	1.5	6.8
	GBI EM Global Diversified Yield	4.93	0.00	(0.05)	(0.05)	0.71	0.52	0.2	(1.1)	(1.1)	(4.5)	2.0
EM Sovereign Debt	EMBI Global Diversified	358	6	19	19	7	(88)	(0.2)	0.2	0.2	(0.5)	4.5
	EMBI GD Investment Grade	161	6	16	16	13	(36)	(0.3)	0.3	0.3	(2.1)	0.3
	EMBI GD High Yield	607	6	24	24	(1)	(188)	(0.1)	0.0	0.0	1.5	9.7
EM Sovereign Debt Regions	Africa	543	2	23	23	(12)	(180)	0.1	0.0	0.0	1.7	14.9
	Asia	228	8	20	20	(4)	(36)	(0.4)	0.0	0.0	0.3	1.2
	Europe	286	4	13	13	21	(67)	(0.0)	0.5	0.5	(0.5)	5.5
	LATAM	371	9	20	20	17	(105)	(0.5)	0.1	0.1	(2.2)	2.7
	Middle East	359	2	17	17	(8)	(63)	0.0	0.3	0.3	0.4	3.2
EM Corporates	CEMBI Broad Diversified	266	6	17	17	(4)	(123)	(0.1)	0.2	0.2	1.5	6.8
	CEMBI BD Investment Grade	160	3	11	11	(9)	(77)	(0.0)	0.5	0.5	0.3	3.9
	CEMBI BD High Yield	475	10	29	29	(11)	(191)	(0.3)	(0.2)	(0.2)	3.0	10.9
US High Yield	US High Yield	294	1	26	26	(66)	(211)	0.1	0.3	0.3	3.9	11.3
	US High Yield BB	216	2	16	16	(48)	(135)	0.2	0.6	0.6	3.3	9.2
	US High Yield B	331	1	37	37	(48)	(191)	0.1	0.0	0.0	3.4	10.1
	US High Yield CCC	499	0	37	37	(159)	(551)	0.0	(0.3)	(0.3)	6.8	21.1
European High Yield	Barclays PanEur HY	307	3	18	18	(50)	(188)	0.1	0.3	0.3	3.2	9.3
	2% Ex Financials Yield	3.36	0.09	0.32	0.32	(0.09)	(2.08)	-	-	-	-	-
Bank Loans	LSTA Price	98.1	(0.1)	(0.3)	(0.3)	1.9	6.4	(0.1)	(0.0)	(0.0)	3.3	9.5
	LSTA 100 Yield	3.89	0.05	0.19	0.19	(0.09)	(1.16)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.13	(0.07)	(0.24)	(0.24)	0.35	0.63	0.5	2.0	2.0	(1.4)	(3.0)
	1M LIBOR	0.09	0.01	(0.01)	(0.01)	(0.05)	(0.07)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	34	(2)	2	2	(8)	(27)	0.4	1.1	1.1	(0.5)	(0.5)
	US Investment Grade Corporates	85	(2)	5	5	(11)	(47)	0.6	1.4	1.4	0.1	1.7
	Global Aggregate	34	0	2	2	(2)	(18)	0.3	1.2	1.2	(0.3)	0.3
	Barclays 1-5 Year Credit	37	(1)	2	2	(4)	(30)	0.1	0.3	0.3	0.4	1.6
FX	DXY (US dollar)	92.32						(0.5)	(0.1)	(0.1)	2.7	(1.5)
	GBI EM FX							0.1	(1.8)	(1.8)	(3.3)	0.6

1W reflects data from July 21 close through July 28 close. Source: Stone Harbor; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Important Information

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

Investments may not be made directly in an index. The J.P. Morgan CEMBI Broad Diversified (CEMBI Broad Diversified) tracks total returns of U.S. dollar-denominated debt instruments issued by corporate entities in emerging market countries and consists of an investable universe of corporate bonds. The minimum amount outstanding required is $350 mm for the CEMBI Broad Diversified. The CEMBI Broad Diversified limits the weights of those index countries with larger corporate debt stocks by only including a specified portion of these countries' eligible current face amounts of debt outstanding. The J.P. Morgan EMBI Global Diversified (EMBI Global Diversified) limits the weights of those index countries with larger debt stocks by only including specified portions of these countries' eligible current face amounts outstanding. The countries covered in the EMBI Global Diversified are identical to those covered by the EMBI Global. The J.P. Morgan GBI-EM Global Diversified (GBI EM Global Diversified) consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. The weightings among the countries are more evenly distributed within this index. The ICE BofAML European Currency Non-Financial High Yield 2% Constrained Index contains all non-Financial securities in The ICE BofAML European Currency High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. The Bloomberg Barclays Treasury Index tracks the obligations of the U.S. Treasury with a remaining maturity of one year or more. The Bloomberg Barclays Pan-European High Yield Index measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The ICE BofAML U.S. High Yield Constrained Index (HUC0) contains all securities in ICE BofAML U.S. High Yield Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issues in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. The S&P/LSTA Leveraged Loan Index is a partnership between Standard & Poor's and the Loan Syndications and Trading Association, tracking returns in the leveraged loan market and capturing a broad cross-section of the U.S. leveraged loan market - including dollar-denominated, U.S.-syndicated loans to overseas issuers. The Bloomberg Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and assetbacked securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. The Bloomberg Barclays U.S. Corporate Investment Grade Index is a sub-index of the U.S. Aggregate Index. It measures the investment grade, fixed rate, taxable corporate bond market and includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers. The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multicurrency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging market issuers. The Bloomberg Barclays 1-5 Year Credit Index tracks publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity of between one and five years, liquidity, and quality requirements. Qualifying bonds must be SEC-registered.

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Stone Harbor
INVESTMENT PARTNERS

CONTACT

Main Office - New York

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

London Office

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

Singapore Office

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

ClientService@shiplp.com www.shiplp.com