Stone Harbor INVESTMENT PARTNERS

August 6, 2021

WEEKLY COMMENTS ON CREDIT

Listen

Archive

Global Market Summary

Credit markets broadly ended on a positive note this week, after digesting a wide range of economic data. Preliminary Euro area GDP readings generally reflected stronger-than-expected growth in the second quarter as restrictions eased and businesses reopened, and the Eurozone PMI was also slightly better-than-expected, at 62.8. In the US, markets focused on the ADP employment report and the US Services ISM, which reported mixed results: ADP added only 330,000 jobs in July, below expections of 683,000 jobs; however, the ISM services index jumped to an all time high of 64.1 from 60.5. The ISM manufacturing index declined, but still indicated solid growth. In other developments, the International Monetary Fund (IMF) approved the largest Special Drawing Rights (SDRs) allocation in its history in the amount of US$650 billion to support global liquidity. The 10-year US Treasury yields dipped to 1.12%, and commodity prices reached their highest levels in a decade. Credit spreads were generally tighter and total returns were mostly positive across major sectors. Emerging Markets high yield debt outperformed US high yield debt. The US dollar index (DXY) declined, and EM currencies advanced.

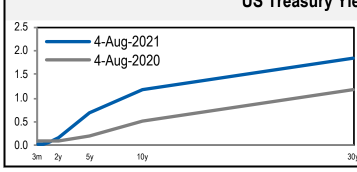
Emerging Markets

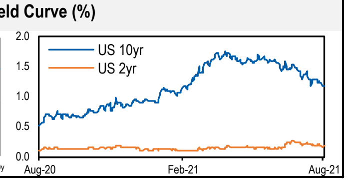
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	354		-3	3.97%
EMBI GD IG	154		-7	-0.60%
EMBI GD HY	581		-26	9.67%
Africa	546		2	15.53%
Asia	225		-3	0.70%
Europe	291		5	5.79%
LATAM	370		-1	1.43%
Middle East	348		-11	2.61%
CEMBI BD	269		3	6.27%
CEMBI BD IG	159		-1	3.31%
CEMBI BD HY	463		-11	10.46%
GBIEM GD (%)	4.92		-1	3.73%
EM Blend (%)	4.70		-5	4.69%
EMBI ESG	336		-2	2.71%
CEMBI ESG	274		5	6.32%
GBI ESG (%)	4.74		-2	3.35%
		-300 -150 0 150		Aug-20 Feb-21 Aug-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	309		15	10.20%
US HY BB	225		9	8.10%
US HY B	351		20	9.00%
US HY CCC	530		31	19.83%
Pan Euro HY	299		-8	9.66%
LSTA 100 (%)	3.91		2	9.33%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.09		-4	-3.11%
1M LIBOR (%)	0.09		0	0.13%
US Agg	36		2	-0.60%
US IG Corp	88		3	1.46%
Global Agg	35		1	0.32%
		-100 0 100 200		Aug-20 Feb-21 Aug-21

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.18	0.29%	Gold	1,815	-11.97%	S&P500	4,403	33.15%
USDJPY	109.48	-3.44%	VIX	18	-24.37%	MSCI World	9,265	33.95%
EM FX		2.38%	Brent	70	58.41%	MSCI EM	3,127	22.29%
		Aug-20 Feb-21 Aug-21			Aug-20 Feb-21 Aug-21			Aug-20 Feb-21 Aug-21

As of August 4, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Economic data remains mixed, but broadly points toward a somewhat slower pace of growth as we move from Q2 into Q3. Preliminary Q2 GDP came in at 6.5%, well below estimates for a gain of 8.4%; weaknesses in structures investment, government spending and inventories pushed growth lower. The latest ADP employment change report also disappointed as the report suggests only 330k jobs were added in July—undershooting estimates of a gain of 683k. As the ADP numbers can be volatile, Friday's BLS numbers should provide more clarity on the employment situation. On the more positive side, ISM readings on both manufacturing and services were solid—notably so, the services side where a rebound from June's decline took the survey to an all-time high. The US$550 billion infrastructure plan is now under debate in the Senate; highlights of the plan include US$110 billion earmarked for new spending on roads and bridges, US$73 billion for upgrades to the US electric grid and US$65 billion for broadband expansion.

Europe

The UK will begin offering the first dose of the Pfizer-BioNTech vaccine to 16 and 17 year olds in efforts to increase the percentage of individuals vaccinated and reduce virus transmission. The Joint Committee on Vaccination and Immunisation (JCVI) will provide guidance on the second dose at a later time.

During an interview, European Central Bank (ECB) governing counsel Martins Kazaks said that it is still premature to discuss changes to the current pace of the Pandemic Emergency Purchase Programme (PEPP) during September's meeting. The possible resurgence of infections, and any subsequent restrictions, keeps the economic outlook uncertain. With September essentially ruled out, market participants are looking towards the October ECB meeting for any additional colour. The preliminary GDP readings reflect stronger-than-expected growth in the second quarter as restrictions eased and businesses reopened across Europe. The French economy grew 0.9% q/q, while Italy and Spain saw their economies grow 2.7% and 2.8% q/q, respectively. Germany was the outlier as its economy grew 1.5% q/q, missing estimates for a gain of 2%. The July German manufacturing PMI release suggests stronger growth led by robust new orders.

Asia/Japan

The Reserve Bank of Australia (RBA) maintained its cash rate and 3-year government bond yield target at 0.10%, as expected. Despite the recent lockdown measures, the RBA remains on course to begin scaling back its bond purchases from the current A$5 billion/week pace, which is set to end after August, down to A$4 billion/week until at least November. As restrictions are lifted, and the economy reopens, the central bank expects a sharp recovery and is projecting economic growth to reach 4% in 2022. The central bank reemphasized that they do not expect to increase the cash rate until 2024, at the earliest, as wage growth is not anticipated to be sufficient to sustain inflation within their 2-3% target.

The Chinese government suspended flights, cultural events and shut tourist attractions across the country after the Delta variant was identified in nearly half of China's providences. Beijing, which has several confirmed cases, will no longer allow tourists in the capital and is taking efforts to test all its residents. While the lack of tourism will weigh on consumer spending and retail sales, the drag on the economy may be limited as cases have not been identified in industrial and export-driven providences, so far.

Economist Corner

Seamus Smyth, PhD, Developed Markets

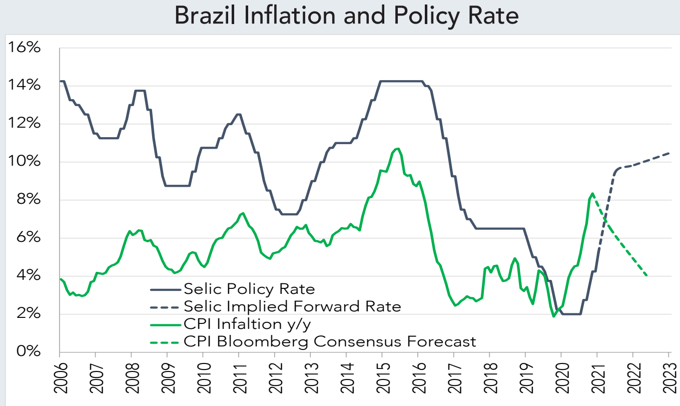
Steffen Reichold, PhD, Emerging Markets

Brazil's central bank continued the monetary tightening cycle with a 100 bps hike in the policy rate, the "Selic," to 5.25%. They are reacting to price spikes that have pushed up the annual inflation rate to 8.4% already. Much of that spike has been driven by commodity prices. The food component of inflation is above 13% and the transport component at 15%. The central bank is clearly concerned and trying to keep inflation expectations anchored by communicating a hawkish stance. They already indicated their intensions of raising the Selic beyond the neutral level. Another 100 bps at the next meeting looks increasingly likely now.

At 5.25%, the Selic still seems low compared to 8.4% inflation over the past year. However, that balance looks very different on a forward-looking basis. Markets are now pricing the Selic rate rising above 10% next year. Meanwhile, the Bloomberg consensus forecast sees inflation falling back 4% by the end of next year. As a result, the forward-looking real policy rate is expected to rise to 6%. This would be a very tight monetary policy stance, especially in comparison to firmly negative real policy rates across developed markets. In the past, Brazil's economy has required high real policy rates to control inflation, but 6% would be very high even by Brazil's standard. Moreover, substantial structural changes have likely reduced the structural neutral interest rate, in particular the sharp drop in subsidized lending from public banks.

From that perspective, the current market pricing seems too high. We believe two factors are driving this. First, given the magnitude of the inflation spike, markets are skeptical that inflation will fall back as quickly as the consensus forecast suggests. And second, we see markets already demanding a risk premium for next year's general elections. With Bolsonaro's approval ratings low and polls favoring former President Lula, the prospect of potential policy changes is rising. Nonetheless, we believe that any signs later this year that inflation is actually moderating in line with forecasts could trigger a significant repricing of Brazil's rates market.

Brazil Inflation and Policy Rate



As of August 5, 2021
Sources: Bloomberg, Haver Analyitics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 3 bps and the JP Morgan EMBI Global Diversified returned 0.6%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Zambia (+5.4%), Sri Lanka (+3.9%) and Colombia (+1.6%). The bottom performers included El Salvador (-2.2%), Tunisia (-0.8%), and Ghana (-0.7%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.7%. EM currencies returned 0.6% in aggregate. The top performers included the South African rand (+3.4%), the Hungarin forint (+2.2%) and the Polish zloty (1.6%). The bottom performers included Peru (-3.4%), Chile (-1.8%), and Brazil (-1.0%).

The yield of the JP Morgan GBI EM Global Diversified declined 1 bp to 4.92%. The biggest outperformer was Turkey, where yields declined by 39 bps, followed by Dominican Republic (-19 bps) and Indonesia (-10 bps). Peru underpermed, with bond yields rising 48 bps, followed by Brazil (+30 bps) and Poland (+8 bps).

In central bank actions, key rates were kept unchanged in Colombia (1.75%), Egypt (8.25%), and Thailand (0.50%); while Brazil raised the benchmark Selic rate 100 bps to 5.25%, and Czech Republic raised key rates 25 bps to 0.75%.

EM Corporate Debt

The CEMBI Broad Diversified rebounded with a positive performance during the week after last week's negative performance. Returns for Latin America, Asia, as well as Central and Eastern Europe, Middle East and Africa (CEEMEA) were generally uniform, while relatively stable US Treasury rates allowed investment grade to log a positive return, as well. Chinese corporate debt performance was mixed. Bond prices of Huarong Asset Management were supported by the company's prior announcement that it would call one of its outstanding perpetual bonds. Conversely, prices of homebuilder Evergrande bonds declined amid ongoing liquidity and leverage concerns. Indonesian corporate debt rallied against a background of improving Covid-19 case data, which raised market optimism for a removal of mobility restrictions. In Peru, corporate credit performance was generally weak and in line with sovereign debt, which remained under pressure following the recent election of a populist and left-leaning candidtate as president.

Flows/Issuance

EM sovereign debt issuance activity included only one issue this week from Rwanda, which priced US$620 million of a new 10 year maturity and tendered to purchase bonds due in 2023. In EM corporate debt, new issuance was also muted in all regions.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$265 million for the week through 3 August, driven almost equally by outflows from hard currency and 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

Brazil

According to the Special Secretary for the Ministry of Economy Bruno Funchal, the government has an additional BRL25-30 billion under court-mandated limits to increase discretionary spending under its social welfare program, the so-called "Bolsa Familia." If approved by congress, the monthly payments to eligible recipients would increase from the current BRL200 to an average of BRL300/month and a maximum of BRL400/month. The increased expenses will be funded with collection of a new tax that is currently being reviewed by Congress.

Cameroon

The IMF Executive Board approved 3-year, US$689.5 million arrangements under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) for Cameroon. An immediate disbursement of US$177 million will provide budget support. The IMF highlighted the country's better-than-anticipated economic activity despite significant development challenges induced by the pandemic, as well as a narrowing of the current account deficit to 3.7% of GDP due to lower imports and increased non-oil exports. Cameroon also managed to contain the fiscal deficit to 3.6% of GDP and keep inflation below 3%. Based on the IMF's assessment, a gradual recovery could increase GDP growth to 3.6% in 2021 and 4.6% in 2022, while total public and external debt are on a downward trajectory after this year. Beyond the near term, growth prospects remain positive, supported by the implementation of National Development Strategy for 2020-2030, large infrastructure project, and a recovery in trading partner economies.

Chile

The central bank's minutes from last week's monetary policy committee meeting showed a positive reading on economic activity driven by consumption and fiscal support, as well as approved pension fund withdrawals. However, the central bank cautioned against persistent sources of uncertainty, including Chile's upcoming presidential election in November and the ongoing Constitutional Assembly process to re-write the constitution. Following the central bank's policy rate increase of 25 bps to 0.75% on 14 July, markets are gauging the Board's conviction to maintain an accelerated normalization process. The next monetary policy meeting is scheduled for 31 August.

Colombia

According to the central bank, Colombia's headline inflation is expected to reach 4.1% by the end of 2021, exceeding the central bank's previous estimate of 3.1% and falling outside the target range of 2% to 4%. At the end of 2022, the headline inflation is currently expected to return to levels close 3.0%. Core inflation is seen at 2.6% in 2021 and 3.2% in 2022. This change in inflation projection comes as Colombia appears poised to reaching pre-pandemic economy levels by the end of 2021, earlier than previously expected. The central bank has revised growth estimate to 7.5% this year, from 6.5% previously, and 3.1% in 2022. While the policy rate was kept unchanged at 1.75% at the central bank's 30 July meeting, an improved growth outlook and rising external imbalances led the board to signal that the start of the monetary policy normalization is on the short-term horizon.

Indonesia

Indonesia reported Q2 2021 GDP growth this week of 7.07% y/y, boosted by the comparison with low quarterly GDP in 2Q 2020 at the start of the pandemic, and compared to a decline of 0.71% y/y in Q1 2021. Domestic demand increased amid continued activity normalization, but remained lower than during recent periods pre-pandemic. Exports are already nearly 7% higher than in Q4 2019. Sectors including base metals, chemicals and pharmaceuticals, and telecommunications are growing at double digit rates above pre-pandemic levels. We are optimistic for the trajectory of growth in Indonesia, assuming mobility recovers later this month as restrictions are eventually eased. Active cases of Covid-19 in Java have declined from their peak as the government's efforts to vaccinate the population continue to improve.

Peru

President Pedro Castillo named former World Bank economist Pedro Francke as Economy Minister. While uncertainty will likely linger on the government's political agenda, Franke has had a moderating role since the presidential runoff election and has assured investors that the government will respect private property rights and maintain the autonomy of the Central Reserve Bank of Peru. Peru's external bond spreads widened this week.

South Africa

South Africa's President Cyril Ramaphosa named Enoch Godnogwana as Finance Minister, replacing Tito Mboweni. The move comes as part of a larger government reshuffle. We understand that Mboweni has long expressed interest in leaving his government post. Godongwana had served in a key policy role as Chairman of the African National Congress's subcommittee on economic transformation and most recently has served as the Chairman of the Development Bank of Southern Africa. He also held the positions of South Africa's Deputy Minister of Public Enterprises and as Deputy Minister of Economic Development and is a current board member of the Platinum Group Metals, Ltd and Mondi PLC. The rand depreciated ~2.5% vs the US dollar in reaction to the headline and then settled to approximately 0.5% weaker as of this writing.

Tunisia

While uncertainty prevails in Tunisia as President Kais Saied consolidates power, signs of progress emerged this week. Local media reported that the Central Bank Governor Marouane Abassi accepted the role of Prime Minister, replacing outgoing PM Mechichi. Abassi had earlier noted to the press that he saw no alternative to the country accepting a program with the IMF. As of this writing, we have no official confirmation of the appointment. So far, Saied has made several changes at the head of key ministries, including the Finance Ministry, the embassy in Washington DC and the Governor of the Sfax region. Also according to local press, the newly appointed Finance Minister Sihem Boughdiri held a meeting in which she defined her priorities: 1) prepare the 2021 supplementary budget, 2) define the macro-framework for the 2022 budget law, and 3) restore trust with international financial institutions and foreign investors. Boughdiri is a former Director General in charge of fiscal legislation, and a long-serving bureaucrat, which should in principle allow for a smooth and quick transition given her familiarity with the subject matter and experience inside the Ministry and in dealing with the IMF and other donors, unlike her predecessor.

Zambia

The IMF Board of Governors approved a US$650 billion general allocation of Special Drawing Rights (SDRs) early this week to support global liquidity. Of the new allocation amount, approximately US275 billion will go to emerging markets and developing countries. Zambia, whose US dollar-denominated sovereign bonds delivered the highest return among countries in the JP Morgan EMBI Global Diversified this week, will be one of the largest beneficiaries of the SDR allocation, which becomes effective 23 August. Zambia's foreign reserves will more than double from the SDR allocation.

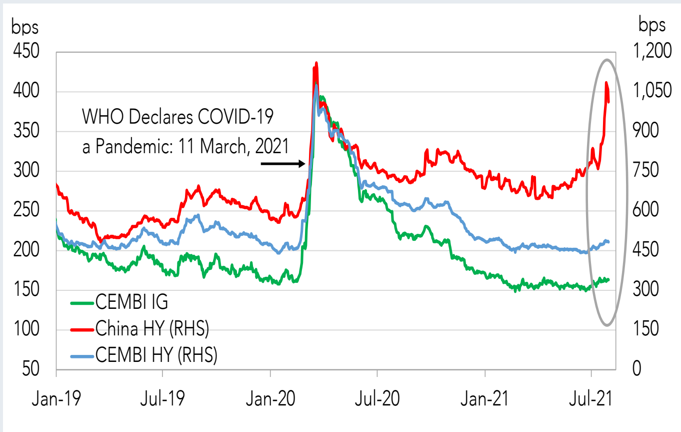
Chart of the Week

China's fixed income market consolidated this week after its sharp recent sell off. A decline in the last few weeks occurred in response to a crackdown by regulators across a number of "new economy" industry sectors including the internet, financial technology, education and healthcare. The competitive tone of recent meetings between Chinese government officials and the new Biden team in the White House and State Department further exacerbated the negative sentiment. Major areas of confrontation include technology, human rights, national security and recent threats to democracy in Hong Kong.

Other idiosyncratic issues impacting the fixed income sector in China included a prior wave of new issuance that has taken the market time to digest, a negative credit backdrop around Huarong Asset Management after the company delayed the release of its 2020 financials in April 2021, and the two-notch rating downgrades of Evergrande to CCC+ by Fitch and to B- by S&P as the rating agencies become more concerned about the liquidity risks of the highly-levered property developer.

While the average spread on China high yield US dollar-denominated corporate bonds tightened this week, the spread remains historically wide. We believe the current credit tightening cycle that started with the publication of three red-line rules for extending credit to the real estate sector in Q4 2020 will continue in the near term, potentially adding to the market's worries over highly- indebted companies like Evergrande.

Elevated China High Yield Corporate Spreads



As of August 4, 2021
Sources: J.P. Morgan, Stone Harbor Investment Partners LP
Information above contains forecasts. For illustrative purposes only.

Global High Yield

US High Yield

US high yield bond spreads widened 15 bps on the week. BB-rated names outperformed with spreads widening 10 bps and returning +1 bp versus -8 bps in total returns for the high yield index. Interest in higher quality credits was helped by tightening rates, concerns around the Delta variant, lower oil prices, and continued inflation concerns. CCC underperformed on continued decompression with spreads widening 37 bp and posting -24 bps in total return. Reopening sectors were under pressure, with the weakest being drillers, refiners, leisure, airlines, and energy. Several M&A transactions were announced, led by two large transactions: Vici Properties Inc. will acquire MGM Growth Properties LLC for a total consideration of US$17.2 billion making Vici the largest experiential net lease REIT with a US$45 billion enterprise value; and Square Inc. agreed to acquire Afterpay Ltd. in an all-stock deal worth roughly US$29 billion.

Leveraged Loans

Amidst a summer slowdown and a heavy corporate earnings calendar, the Loan market had a softer tone this past week, and the S&P/LSTA Leveraged Loan Index returned -0.02%. the average bid price decreased 10 bps to $97.98, and the spread-to-maturity widened 2 bps to L+408. With secondary trading volumes moderating, we saw greater investor demand for the higher quality portion of the market as evidenced by BB rated loans outperforming lower quality CCC names. From an industry perspective, Metals/Mining/Steel, E&P, and Lodging sectors outperformed, while reopening-themed sectors, including Airlines and Leisure underperformed, along with Satellites. Away from concerns surrounding the Delta variant, most industry sector performance is being driven, both positively and negatively, by idiosyncratic credit events. Technicals, which had supported the market for much of the year, appear to be modestly softening. Lastly, there were no defaults in the Index last week.

European High Yield

Overall European high yield gained 0.3% week on week due to strong corporate earnings, muted primary activity, and a recovery associated with the reopening as certain travel restrictions eased. All ratings segments posted strong performance, with BBs slightly outperforming and index spreads tightening 8 bps on the week. Outperforming industries included Aerospace, Airlines, Automotive, and Financials, reflecting gains from strong earnings reports and the continued recovery in recent underperforming higher beta bonds. Underperforming industries included Drillers and Publishing as earnings misses negatively impacted bonds. Technicals were supportive as flows again turned positive and the primary issuance remained quiet. Industries most connected to the ongoing reopening of global economies received a boost as the UK eased quarantine rules, opening up travel with France. Additionally, the UK also eased rules for several other countries, moving some from the highest-risk to medium-risk and others to the lowest-risk list.

Flows/Issuance

US high yield flows were slightly positive this week but the ETF withdrawal of US$1 billion had a greater impact on market prices as they looked to shed holdings in lower quality and reopening sectors. New issue activity continued to ramp ahead of an expected slowdown later this month. 17 deals for US$16.75 billion came to the market led by several large transactions from Sirius XM, Centene Corp, Venture Global Calcasieu, Charter Communications, and Altice. BB rated credits accounted for the majority of issuance, with only two deals being CCC rated due to the lack of account interest in lower quality companies, which further added to the decompression theme seen in the index returns.

In loans, July closed with the highest new issuance figure since March. Notably, M&A/LBO transactions accounted for nearly sixty percent of the activity, delivering a meaningful supply overhang to the market. On the demand front, weekly Collateralized Loan Obligation (CLO) formation brought the July monthly figure to US$9.3 billion, which was the second lightest month of issuance during the year. Additionally, while inflows from retail loan mutual funds and Exchange Traded Funds (ETFs) were positive for the week and the month, they were below averages we've seen, and July's inflow number was the smallest year-to-date. We anticipate the rate of CLO issuance to pickup and will be monitoring new issuance trends and flows from retail investors.

For European high yield flows, EPFR data showed an inflow of US$133 million after an inflow in July of almost US$350 million.

Source: Lipper, EPFR, JP Morgan

Industry Insights

Technology: ON Semiconductor reported strong earnings and issued positive guidance earlier this week. The CEO said in the release "We continue to see accelerating demand for our products in our strategic automotive and industrial end-markets. As we continue to drive operational efficiencies in our manufacturing sites, we expect to see incremental supply and revenue growth in the second half of 2021." The phrase "incremental supply" has been repeated by many other semiconductor companies on June quarter earning calls, which suggests an improvement in the auto supply chains and is leading to auto original equipment manufacturer's (OEM's) forecasting more normal output of new cars and trucks by the fourth quarter of 2021, in time for the important new model selling season.

Gaming: MGM, CZR, PENN and WYNN all reported Q2 results, which were better-than-expected and continue to show that recovery in US Gaming remains on track. However, the M&A landscape far overshadowed the strong fundamental earnings backdrop for the sector. On Wednesday, VICI announced that it had agreed to acquire MGM Growth Properties in a US$17 billion deal that creates the largest Gaming and Leisure REIT and likely puts the pro forma company on a path to investment grade ratings over time. PENN announced the following day that they had agreed to acquire Score Media, a Canadian sports media and betting company, for US$2 billion with a combination of cash and stock. This deal further solidifies PENN's commitment to the sports betting segment and will give the company a toehold in the newly legalized Canadian market, while also enabling the company to insource its technology stack.

Telecommunications: Wirelines made headlines this week when Lumen announced it had agreed to sell it Local Exchange Carrier (LEC) business in 20 states to Apollo in a ~$7.5b deal. This transaction capped off a multi-year strategic review of Lumen's residential assets. Interestingly, in Apollo's release announcing the transaction they referred to these LEC assets, largely concentrated in the Midwest and Southeast, as a "platform", which would seem to indicate that Apollo plans to roll-up other residential assets and deploy capital extending the fiber footprints of these legacy copper providers. Notably during it is bankruptcy proceedings, Frontier made it clear they would be open to disposing of certain non-core assets (beyond the previously closed Northwest Fiber divestiture), particularly in the Midwest, to help fund their own aggressive fiber buildout plans.

Governments

Following some stabilization towards the end of July, the Treasury market oscillated within a wider range this week. Treasury yields started the week with a gradual descent but the move was catalysed by the disappointing ADP employment numbers, leading to a temporarily repricing of rate hike expectations out to June 2023. Markets reversed after Fed Vice Chair Clarida said that he believes the central bank remains on course to announce the scaling back of its asset purchases, later this year, and to raise interest rates in 2023. The yield on 10-year Treasuries ended the period 5 bps lower at 1.18%. US real yields, which excludes the expected impact of inflation, remains at a multi-year low of -1.17%. In terms of the Treasury curve, US 5s30s were unchanged on the week at 116 bps, while the 2s10s, which captures the front end of the curve, flattened 3 bps to 100 bps. Core European rates also ended the period lower with the yield on 10-year Bunds and Gilts 5 bps and 6 bps lower to -0.50% and 0.51%, respectively. We continue to see a divergence in peripherals this week as the spread on 10-year Spanish bonds, over Bunds, rose 1 bps, while the spread on comparable Italian BTPs tightened 1 bpss. The yield on both 10-year Australian and Japanese government bonds ended the period 1 bps lower to 1.15% and 0.01%, respectively.

Corporates

Spreads on investment grade corporates faded last week with spreads wider by 3 bps, leaving the Bloomberg/Barclay's corporate OAS at +88 bps. Trading volumes were light and skewed towards better customer selling as rate volatility kept some buyers on the sidelines waiting for a better entry point. Investor focus was mostly on the new issue calendar and earnings, both of which have been healthy. Looking back at the month of July spreads widened by 6bp, finishing the month with an OAS of +86 bps. Excess returns were negative by -37 bps for the month, while total returns were positive by +1.37%, driven by the downward move in US Treasury rates. Sectors within Financials were the best performers, followed closely by Utilities, while Industrials underperformed. The best performing sectors were REITS, Packaging, and Finance companies, where excess returns were modestly positive. The worst performers were Oil Field services, Wireless, and Cable Satellite. All ratings and maturity buckets posted negative excess returns for the month with lower quality outperforming, while the short end of the curve fared much better then bonds dated longer than 25 years.

Securitized

The mortgage current coupon widened 3 bps on the rate rally this week. Higher coupons are outperforming lower coupons. President Biden, through the CDC, extended the moratorium on evictions for another two months, but will likely face legal constitutional challenges. The Alternative Reference Rates Committtee (ARCC) formally endorsed the CME SOFR term rates, furthering efforts to transition from LIBOR. In positive news for the retail sector, Simon Property Group reported sales have returned to pre-pandemic levels. Invitation Homes issued a US$650 million corporate bond and will use the proceeds to pay off some tranches of its securitized rental home deals. For July, excess cash levels in the Nissan, Ford and Hyundai dealer floorplan levels have surpassed trigger levels. In response, Nissan amended the trust trigger to six consecutive months from three consecutive months.

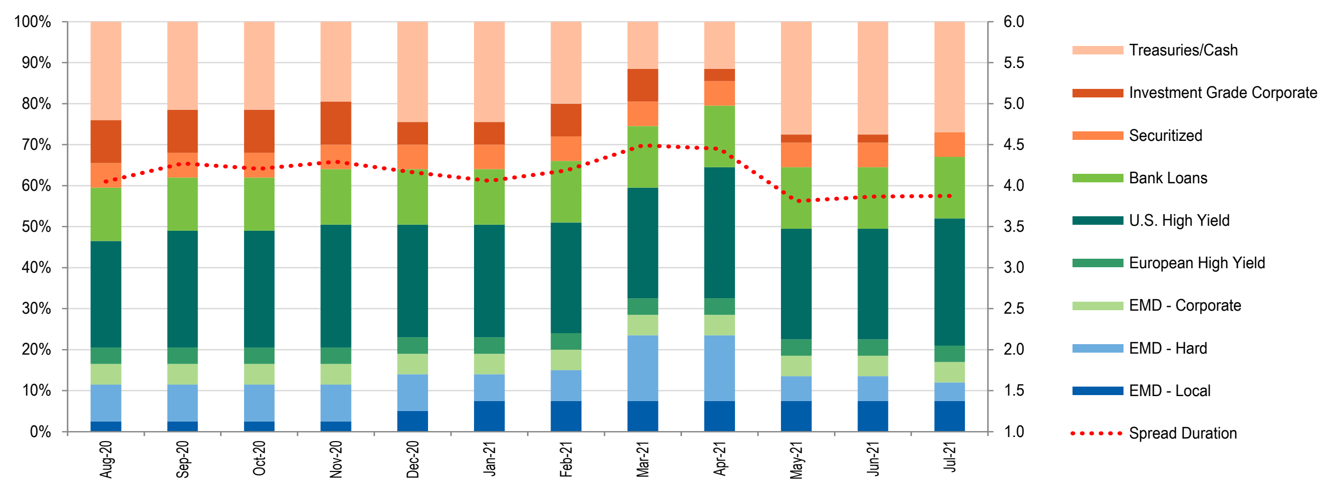
Flows/Issuance

In the investment grade corporates primary markets, roughly US$32 billion priced this week, which is slightly above expectations as investors are taking advantage of the lower yields. Demand for new issue has not wavered, leaving very little in new issue concessions. Supply for July was in line with expectations at US$90.38 billion. Issuance during the month was skewed towards Financials and BBB rated bonds. High grade fund flows were up significantly this week after last week's decline Inflows were US$6.024 billion, but according to JPM, the inflow was ETF driven with US$4.4 billion coming into short aggregate ETF's. Corporate only funds saw inflows of US$502 million even though intermediate corporate only funds had outflows of US$422 million.

The new issue market for securitized assets has been slow this week, but is expected to increase next week.

Source: EPFR

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 July 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 August 4, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	354	**(3)**	0	16	4	(80)	**0.6**	0.4	0.8	0.1	4.0
	CEMBI Broad Diversified	269	**3**	0	19	(1)	(105)	**0.2**	0.2	0.4	1.7	6.3
	GBI EM Global Diversified Yield	4.92	**(0.01)**	0.00	(0.06)	0.70	0.57	**0.7**	(0.0)	(0.4)	(3.8)	3.7
EM Sovereign Debt	EMBI Global Diversified	354	**(3)**	0	16	4	(80)	**0.6**	0.4	0.8	0.1	4.0
	EMBI GD Investment Grade	154	**(7)**	(0)	9	6	(34)	**0.7**	0.6	1.0	(1.4)	(0.6)
	EMBI GD High Yield	581	**(26)**	2	(1)	(27)	(207)	**0.5**	0.2	0.6	2.0	9.7
EM Sovereign Debt Regions	Africa	546	**2**	2	25	(10)	(187)	**0.4**	0.2	0.4	2.1	15.5
	Asia	225	**(3)**	(3)	17	(7)	(25)	**0.9**	0.6	1.0	1.3	0.7
	Europe	291	**5**	(0)	17	26	(65)	**0.4**	0.3	0.9	(0.1)	5.8
	LATAM	370	**(1)**	1	19	16	(86)	**0.8**	0.5	0.9	(1.5)	1.4
	Middle East	348	**(11)**	1	6	(19)	(64)	**0.5**	0.3	0.7	0.9	2.6
EM Corporates	CEMBI Broad Diversified	269	**3**	0	19	(1)	(105)	**0.2**	0.2	0.4	1.7	6.3
	CEMBI BD Investment Grade	159	**(1)**	1	10	(10)	(67)	**0.3**	0.2	0.7	0.6	3.3
	CEMBI BD High Yield	463	**(11)**	(3)	18	(22)	(170)	**0.2**	0.2	(0.0)	3.2	10.5
US High Yield	US High Yield	309	**15**	15	41	(51)	(172)	**(0.1)**	(0.2)	0.2	3.8	10.2
	US High Yield BB	225	**9**	11	25	(39)	(109)	**0.0**	(0.1)	0.6	3.4	8.1
	US High Yield B	351	**20**	16	57	(28)	(147)	**(0.2)**	(0.3)	(0.2)	3.2	9.0
	US High Yield CCC	530	**31**	28	68	(128)	(474)	**(0.2)**	(0.3)	(0.6)	6.6	19.8
European High Yield	Barclays PanEur HY	299	**(8)**	(3)	11	(58)	(191)	**0.3**	0.2	0.6	3.6	9.7
	2% Ex Financials Yield	3.21	**(0.15)**	(0.04)	0.18	(0.24)	(2.01)	**-**	-	-	-	-
Bank Loans	LSTA Price	98.0	**(0.1)**	(0.1)	(0.4)	1.8	6.2	**(0.0)**	(0.0)	(0.0)	3.3	9.3
	LSTA 100 Yield	3.91	**0.02**	0.01	0.21	(0.07)	(1.14)	**-**	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.09	**(0.04)**	(0.05)	(0.28)	0.31	0.65	**0.4**	0.4	2.4	(1.0)	(3.1)
	1M LIBOR	0.09	**(0.00)**	(0.00)	(0.01)	(0.05)	(0.06)	**0.0**	0.0	0.0	0.1	0.1
	US Aggregate	36	**2**	1	4	(6)	(22)	**0.2**	0.2	1.4	(0.3)	(0.6)
	US Investment Grade Corporates	88	**3**	2	8	(8)	(43)	**0.3**	0.3	1.7	0.4	1.5
	Global Aggregate	35	**1**	1	3	(2)	(16)	**0.3**	0.2	1.5	(0.1)	0.3
	Barclays 1-5 Year Credit	39	**2**	1	4	(2)	(26)	**0.1**	0.0	0.4	0.4	1.4
FX	DXY (US dollar)	92.27						**(0.1)**	0.1	(0.2)	2.6	(1.2)
	GBI EM FX							**0.6**	(0.0)	(1.2)	(2.8)	2.2

1W reflects data from July 28 close through August 4 close. Sources: Bloomberg, Stone Harbor Investment Partners LP. 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.

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