August 13, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Positive US employment and inflation data supported the overall improving sentiment in credit markets this week. Headline employment gains rose to nearly one million, and the gain reported for June was revised up substantially from 850,000 to 938,000. Monday's JOLTS data showed job openings reaching their fourth straight record highs in June, with both opening-hires and quits-layoffs ratios remaining elevated for the month. Core CPI report also showed improvement, moderating from the elevated levels of the last several months at a gain of 0.33% month-on-month. While the annual inflation remains high at 5.4% amid supply-chain disruptions linked to a rapid economic rebound, the latest data supports the Federal Reserve's (Fed's) argument that the inflation spike is mostly transitory. Credit spreads tightened, while an increase in US Treasury yields led to negative total returns across major sectors. Emerging Markets (EM) high yield corporate debt outperformed. The US dollar index (DXY) advanced, and EM currencies declined, on average.

Emerging Markets

Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	349	-5	2.27%
EMBI GD IG	145	-9	-1.85%
EMBI GD HY	580	-1	7.38%
Africa	542	-4	13.00%
Asia	223	-1	-0.98%
Europe	284	-7	4.21%
LATAM	365	-5	-0.41%
Middle East	340	-9	1.53%
CEMBI BD	259	-10	5.61%
CEMBI BD IG	151	-8	2.62%
CEMBI BD HY	452	-12	9.81%
GBIEM GD (%)	5.01	9	2.79%
EM Blend (%)	4.78	9	3.58%
EMBI ESG	330	-6	1.13%
CEMBI ESG	265	-9	5.73%
GBI ESG (%)	4.84	10	2.37%

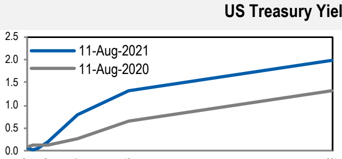
12 mos Change Spread or Yield (bps or %): -300 -150 0 150; 12 mos Total Return: Aug-20 Feb-21 Aug-21

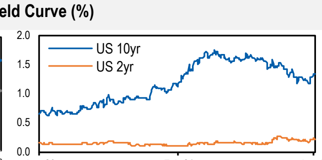
Developed Markets

Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	309	0	9.41%
US HY BB	222	-3	7.31%
US HY B	353	2	8.38%
US HY CCC	531	1	18.87%
Pan Euro HY	295	-3	8.84%
LSTA 100 (%)	3.90	-1	8.84%
US Treasury 7-10 (%)	1.24	15	-3.30%
1M LIBOR (%)	0.10	1	0.13%
US Agg	35	-1	-0.95%
US IG Corp	89	1	0.60%
Global Agg	34	-1	0.21%

12 mos Change Spread or Yield (bps or %): -200 -100 0 100 200; -100 0 100 200; 12 mos Total Return: Aug-20 Feb-21 Aug-21

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD
EURUSD	1.17	-0.01%
USDJPY	110.43	-3.57%
EM FX		2.95%

	Level	Commodities
Gold	1,753	-11.71%
VIX	16	-33.17%
Brent	71	60.54%

	Level	Equities
S&P500	4,448	33.42%
MSCI World	9,340	33.70%
MSCI EM	3,114	21.52%

Aug-20 Feb-21 Aug-21

As of: August 11, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The US Senate voted 69-30 in favor of the US$550 billion infrastructure plan. While the House will shorten its recess and return on 23rd August to consider the budget resolution, hurdles remain as House Speaker Nancy Pelosi said that she will not allow a vote on the bipartisan infrastructure package until the Senate has passed the broader, multitrillion-dollar, economic plan. After several weeks of disappointing jobless claims, the latest nonfarm payrolls came in stronger than anticipated as the economy added 943,000 jobs in July versus expectations for a gain of 870,000. The reacceleration in July also follows an upward revision to June's report. The velocity of new jobs offset a rise in labor force participation, putting downward pressure on the unemployment rate, which fell from 5.9% in June to 5.4% in July. On the Covid front, according to data from the Center for Disease Control (CDC), hospitalizations have been gradually rising with the rolling 7-day average nearing 10,000/day.

Europe

The Bank of England (BoE) voted unanimously to keep rates unchanged at 0.10%, maintained its 2021 growth forecast of 7.25% but upgraded its forecast by 0.25% to 6% for 2022. One of the primary changes to the MPC's strategy is their intention to begin winding down their balance sheet, by discontinuing reinvestments, when the policy rate reaches 0.50%--which is substantially lower than the initial 1.5% threshold from their previous guidance back in 2018. The committee will also consider actively selling assets when the bank rate reaches 1%.This is all contingent on the economic recovery. Of the many unknowns, the response of the labor market to the end of the current furlough scheme, which is set to end after September, will be pivotal. The latest European sentiment indicators disappointed starting with the Sentix investor confidence index, which fell from 29.8 to 22.2 in August, marking the first m/m decline in over 6 months. The current assessment signalled further m/m improvement although the rate of rising sentiment has seemingly plateaued. According, the Sentix Managing Director, Patrick Hussy, "the Eurozone economy is booming but the pace is slowing noticeably." Sentiment for the next 6 months fell, at an accelerating rate, for the 3rd consecutive month to reach a new 12-month low as there are concerns that a re-emergence of cases could lead to further restrictions in the autumn. Similarly, the ZEW survey of expectations for both Germany and the Eurozone fell, at an accelerating rate, for the 3rd consecutive month.

Japan/Asia

Regional lockdown measures taken across Australia have failed to curtail the spread of infections. Despite several weeks of restrictions, New South Wales recorded its highest daily case count with Sydney accounting for a majority of the infections. In efforts to reign in the spread of infections, the state government is expected to extend restrictions, which were originally set to end on 28th August, out through September. South Korea is also grappling with rising infectionsas the daily case count exceeded 2,200 for the first time since the start of the pandemic. Although the government has implemented tighter social distancing rules, which included a curfew and limits on gatherings, holiday travellers are seemingly behind the rise in cases.

Economist Corner

Seamus Smyth, PhD, Developed Markets

Steffen Reichold, PhD, Emerging Markets

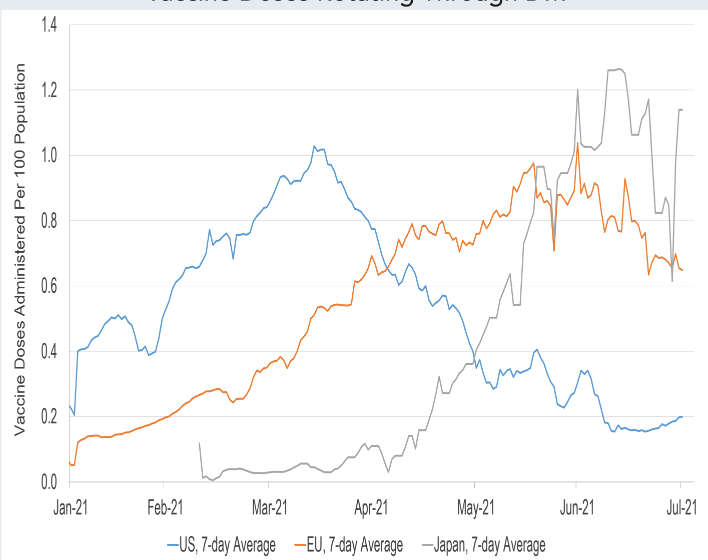
Vaccines continue to rotate through DM economies. As a result, and despite the delta variant, we expect the activity rebound in the US to continue flowing into Europe, and then into Japan and the rest of Asian developed markets. That rotation will keep overall DM growth strong over the rest of the year, in our view.

The US is currently awash in vaccines, with anyone who wants one able to get one relatively easily. In the accompanying chart, the number of doses being administered per day is only about ¼ the peak, but has shown a small upward trend over the past month. With vaccination came the strong rebound in the economy: activity grew strongly in H1 with real GDP growth of over 6%. Though growth was somewhat less than our expectations in Q2, employment picked up in the last two reports. Despite concerns around the delta variant, we expect robust growth to continue over the rest of the year, though at a somewhat slower pace as many of the easiest gains have been made.

European vaccinations initially lagged the US, but peaked at a rate similar to the US in late June. The pace of new vaccinations administered has declined since then, but the rate of decline was somewhat lower and continues at a quite rapid clip. Indeed, as a share of the population, Europe now appears to have more fully vaccinated residents than the US. This was reflected in a very good Q2 growth pace of 8.4%; growth for H1 as a whole was slower as output contracted in Q1. Like the US, we expect growth to continue in H2, and think the Eurozone will likely grows more rapidly than the US.

Japan lagged the US by even more, but the recent pace of vaccinations has been very strong. Over the most recent 7 days, Japan administered doses at a faster pace than either the US or Europe managed at their peak. In Q1, like Europe, Japanese output dipped and we don't have particularly high expectations for Q2, which has not yet been released. The acceleration should start, however, in Q3 and we currently expect robust growth from Japan over H2.

Vaccine Doses Rotating Through DM



As of: 30 June 2021
Source: Bloomberg, Stone Harbor Investment Partners LP Calculations

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 5 bps and the JP Morgan EMBI Global Diversified returned 0.7%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Tunisia (+4.4%), Suriname (+3.3%) and Argentina (+1.0%). The bottom performers included Sri Lanka (-4.8%), El Salvador (-5.4%), and Ecuador (-1.7%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -1.1%. EM currencies returned -0.7% in aggregate. All but three currencies generated negative returns. The top performers included pesos from Chile (+0.9%) and Dominican Republic (+0.2%), and the Brazilian real (+0.1%). The bottom performers included South Africa (-2.3%), Turkey (-2.1%), and Poland (-1.6%).

The yield of the JP Morgan GBI EM Global Diversified increased 9 bps to 5.01%. The biggest outperformer was Dominican Republic, where yields declined by 43 bps, followed by Philippines (-2 bps) and Thailand, where yields remained unchanged. Peru underpermed, with bond yields rising 43 bps, followed by Brazil (+33 bps) and Turkey (+34 bps).

In central bank actions, key rates were kept unchanged in Philippines (2%) and Turkey (19%); while Peru surprised with a 25 bps hike to 0.5% and Uruguay surprised with a 50 bps hike to 5%. Mexico raised the benchmark rate by 25 bps to 4.5%, as expected.

EM Corporate Debt

The CEMBI Broad Diversified generated a small negative total return in a quiet trading week. US Treasury rates were again a big driver of returns as higher yields overwhelmed an 8 bps tightening in CEMBI high grade corporates. High yield corporates registered a small positive return. Asian corporates were down (-0.20%) for the week with US Treasuries impacting the high grade countries, namely Hong Kong, Singapore, and South Korea. China was flat on the week as bonds of Huarong and Evergrande - the two biggest corporate stories -- began to trend in divergent directions. Argentina and Jamaica outperformed for the week and are two of the largest outperformers in the index for the year. While most industry sectors posted negative returns this week, Metals & Mining outperformed with a positive return.

Flows/Issuance

No EM country issued debt this week. Chinese and Indian companies placed a total of US$1.3 billion of new debt in the primary markets.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$31 million for the week through 10 August, driven entirely by inflows into local currency that offset outflows from hard currency funds. We note that EPFR data provides a partial picture of portfolio flows as it accounts for a segment of the total market.

Source: EPFR

Sovereign Soundbites

Belarus

The US administration imposed new sanctions Monday targeting a Belarusian state-owned potash producer, the country's Olympic committee, and business leaders and companies with ties to President Alexander Lukashenko. The US penalties target Belaruskali OAO, one of Belarus's largest state-owned enterprises, and fifteen companies with ties to Lukashenko. The penalties come in addition to sanctions imposed earlier this year against Belarus after the forced landing of a Ryanair flight to arrest Raman Pratasevich, a journalist who covered protests over Lukashenko's election. With the new sanction from the US, the Belarus government announced that it had reached out for new loans from the Eurasian Development Bank, of which the Russian Federation is the founding member.

Mexico

President Andres Manuel Lopez Obrador (AMLO) announced at a press conference this week that the government is considering using its share of the recently approved US$650 billion IMF Special Drawing Rights (SDR) to prepay the country's debt, citing Mexico's strong current reserves. AMLO has refrained from borrowing money to increase spending and has argued that a lower debt load will help Mexico's recovery in the aftermath of the pandemic. While the IMF SDRs are intended for health and pandemic-related responses, officials also have acknowledged that many nations will use them to repay debt, including loans from the Fund. The IMF expects the reserves to be allocated on 23 August, with Mexico slated to receive approximately US$12 billion. Though there are some questions around whether the funds can be used to repay debt under Mexican law, the announcement had a positive impact on Mexico's sovereign debt spreads, which tightened this week.

Peru

Peru's central bank President Julio Verlarde has agreed to stay on for another term, following recent delays in the naming of the new President Pedro Castillo's cabinet members. Velarde has been Chairman since 2006 and during his tenure has overseen relatively strong growth and low inflation. Six other board members remain to be named in the coming weeks; the government will name three additional members, and Congress will name the other three. Verlarde's continued role at the central bank suggests stability that helps to counter balance the market volatility brought on by uncertainties tied to President Pedro Castillo's policies. The Peruvian sol declined to record lows against the US dollar before recovering following the news.

Philippines

The IMF Executive Board concluded its 2021 Article IV consultation and released a staff report highlighting key policy recommendations. Noting the pandemic-induced economic slowdown and inflation outlook, Directors agreed that the monetary policy stance should remain accommodative and data-driven to ultimately support financial stability. The report also noted that the Philippines has fiscal space to respond if downside risks associated with a protracted pandemic and uncertainty around the vaccine program were to emerge.

The central bank of Philippines left policy rate unchanged at 2.0%, as expected, maintaining its accommodative stance to boost domestic demand and market confidence. Risks around the inflation outlook appear to be broadly balanced with demand recovery potentially offset in part by further delay in the reopening of the economy due to new Covid-19 variants and re-imposition of mobility restrictions.

Poland

Poland's prime minister Mateusz Morawiecki dismissed his deputy Jaroslaw Gowin for failing to back the government's stimuluis program and tax reform, according to a government spokesman. We understand that this action may also be related to Gowin's objection to a bill in Congress that would ban firms from outside the European Economic Area from controlling Polish broadcasters, with a specific focus on news channel TVN24, which is owned by US-based media group Discovery Inc and is critical of Poland's conservative nationalist government. Gowin's departure threatens to leave the ruling Law & Justice party and its remaining coalition partner without a majority in parliament, the first time for a Polish government since 2007. While the zloty depreciated relative to the US dollar, we believe weakness in the Euro was the main driver this week.

Saudi Arabia

The Saudi Ministry of Finance released the budget results for Q2 2021 this week, which showed an improving fiscal trend. Revenues increased 21% qoq, driven by higher oil prices and a sharp increase in non-oil economic activity as the Saudi economy reopens. Expenditures increased by 19.1% qoq in Q2, mainly due to a rise in spending on goods and services (+64% qoq) and on social benefits (+140% qoq). The revenue increase offset the rise in spending, resulting in a further narrowing of the budget deficit, to 0.6% of GDP in Q2, compared with 1.1% in the previous quarter, and almost 20% of GDP a year earlier.

Turkey

Turkey's central bank kept its policy rate unchanged at 19%, in line with consensus expectations. Notably, much of communication regarding policy direction remains consistent with prior comments, with emphasis on watching for signs of significant and a permantant fall in inflation to determine the policy rate moving forward. The July Inflation Report indicated a higher inflation trajectory, although this was not mentioned in the press release. Prior to the MPC meeting, President Recep Erdogan's call for lower interest rates to support growth raised the familiar concerns around the independence of the central bank and elevated the importance of the rate decision. The Turkish lira recovered some of its losses following Thursday's rate decision.

Venezuela

Officials from the Venezuelan government and opposition are expected to meet this Friday in Mexico to begin negotiations aimed at ending a political standoff ahead of regional elections in November. President Nicolas Maduro has said that the meeting agenda must focus on lifting US sanctions that were put in place two years ago; while opposition leader Juan Guaido has said his goal is to ensure free and fair elections. Previous attemps to address these concerns have not been constructive, and we watch for any developments.

Chart of the Week

As the importance of ESG factors in global fixed income catch up to equities, EM bond issuance has historically lagged the growth in developed market (DM) issuance. That is no longer the case. The sale of labeled bonds from EM in the year-to-date 31 July period jumped to US$164 billion, nearly the same as 2020 and 2019, combined. In fact, last month was the busiest July on record, with Chile raising US$11 billion through a Euro-denominated social bond issue, a local currency social bond, as well as a tap of two existing USD-denominated social bonds. Mexico, Uzbekistan, Malaysia and Indonesia have also recently issued sovereign green and sustainability bonds. According to ICMA guidelines, proceeds from green, social, sustainability and sustainability-linked bonds must be used for projects that undergo a process for selection and evaluation, management of proceeds, and impact reporting requirements.

Furthermore, this accelerating trend in EM labeled bond issuance is projected to continue, given regulatory initiatives, the global move to net-zero emissions (see this week's UN Climate Change report 'code red' warning), EM sovereign green fiscal stimulus efforts, and record low interest rates in developed markets. Of the approximate US$3 trillion in total outstanding global ESG debt, EM now represents roughly 15% (US$432 billion). Current market projections call for global ESG debt to reach USD$11 trillion by 2025. At today's levels, we can project EM total outstanding labeled bond issuance could reach US$1.7 trillion. For context, currently EM labeled bonds represent roughly 1% of all EM tradable debt stock.

Due to a more stringent regulatory environment in DM (primarily in the EU), ESG fund inflows have historically been much stronger to global corporates and supranationals. But we are now also seeing encouraging signs in terms of flows. In the past 2 years, flows into EMD ESG increased approximately 160% and now stands at total AUM of US$38 billion, most of it allocated to Blended strategies and domiciled in Europe. In the first half of 2021, ESG inflows represented 17% of all EMD flows (US$5 billion of US$30 billion).

EM Labeled Bond Issuance

US$423 Billion Oustanding

As of: 3 August 2021
Source: Bloomberg, BofA, EPFR, Goldman Sachs, Stone Harbor Investment Partners

Global High Yield

US High Yield

The US high yield market posted -0.21% for the week due to continued concerns over the Delta variant and rising interest rates. BB credits underperformed with the rise in US Treasury yields as investors reduced holdings in long duration bonds. Technicals were mixed with a return to retail inflows more than offset by large new issue calendar, which after 7 business days was already the fourth largest August on record. Chesapeake Energy Corp. announced the acquisition of Vine Energy Inc. for US$2.2 billion consolidating the Haynesville Louisiana region to create scale to become a dominant natural gas supplier. Penn National gaming will acquire Toronto based Score Media and Gaming, which runs sports betting platform theScore, for US$2 billion. Diamond Sports Group LLC bonds slid after its parent company, Sinclair Broadcasting Group Inc., said it has failed to renew a carrier deal with Dish Networks Corp. 112 of Sinclair's broadcast TV station affiliates would no longer be carried by Dish when the current contract expires on 16 August 2021.

Leveraged Loans

The Loan market returned to its upward trajectory this past week, outperforming similar risk assets. For the week, the S&P/LSTA Leveraged Loan Index returned .08%, the average bid price declined 1 bp to $97.97, and the spread-to-maturity widened 1 bp to L+409. With an improved tone in the market, we saw B rated loans outperform the index, while higher quality BB and lower quality CCC returns were similar. From an industry perspective, the Publishing/Printing, Healthcare and Refining sectors outperformed, while we continued to see weakness in reopening-themed sectors and energy sectors, including Leisure, Airlines, and Drillers/Services. Lastly, there were no defaults in the Index last week.

European High Yield

Overall European high yield returned 0.04%, with higher beta bonds outperforming as higher global equities improved sentiment. B rated issues gained 0.11% compared to an unchanged week for BB credits. Index spreads tightened by 3 bps, with CCC spreads outperforming and 9 bps tighter. In addition to improving risk appetite, the market benefitted from strong earnings and favourable technical. Aerospace outperformed due to strong results from Rolls Royce, and Restaurants benefited as Stonegate Pub rallied with higher beta credits. Underperforming industries included Automotive, E&P, and Wireless. Bonds of auto supplier Faurecia declined during the week due to reports that the company was one of at least three bidders competing in the final round to acquire a majority stake in German automotive supplier Hella GmbH for as much as 8 billion euros. Technicals were favourable on the week with continued inflows and no new issues.

Flows/Issuance

Positive US high yield retail flows of almost US$500 million came equally from ETFs and institutional accounts. Activity in the primary market, with August typically being a slow month, has seen 33 companies sell US$25 billion in just eight sessions. Fears that the Federal Reserve may begin tapering sooner, concerns that the delta variant may derail economic growth, and the summer lull expected by the middle of next week fed the rush of issuers coming to market.

In loans, technicals modestly improved this week following arrangers launching several new deals in the first week of the month. This past week, launches slowed and investors began to receive allocations brining some balance to the market. Month-to-date, approximately 36 deals have launched for US$17.8 billion, ten deals launched this week totaling US$17.8 billion. On the demand front, Collateralized Loan Obligation (CLO) formation picked up pace from July's lull, and US$5.6 billion worth of deals have been priced month-to-date, bringing the year-to-date figure to US$97.5 billion. Further, we continued to see more consistent flows from retail loan mutual funds and Exchange Traded Funds (ETFs), with loan funds posting US$423 million in inflows, bringing year-to-date inflow to US$22.1 billion.

For European high yield flows, EPFR data showed an inflow of US$279 million, bringing the August total to US$428 million and the quarter to date amount to US$776 million.

Source: Lipper, EPFR

Industry Insights

Airlines: Southwest Airlines (an Investment grade credit) released an 8-K report addressing the slowdown in customer ticket buying in early August. The company indicated that they have recently experienced a deceleration in close-in bookings and an increase in close-in trip cancellations in August 2021, which they attributed to the recent rise in COVID-19 cases associated with the Delta variant. If these trends continue into September, Southwest's revenue guidance for the third quarter would be reduced by three to four points. Additionally, the company believes the recent negative effects of the pandemic on August and September revenue trends will make it difficult for the company to be profitable in the third quarter 2021. We think this change in behavior by the mainly domestic US travelers will hurt all the Airlines both investment grade and high yield issuers in the September quarter. If this behavior continues into 2022, it could also negatively impact the aircraft leasing companies.

Exploration & Production M&A continued in the sector with Chesapeake Energy's (CHK) all equity acquisition of Vine Energy (VEI), allowing CHK to consolidate its position in the Haynesville shale and accelerate shareholder returns and at a no premium price. With US$109 billion E&P M&A deals announced or completed in the last 12 months, E&P companies continue to focus on returning cash to shareholders and growth through acquisitions with little to no premiums rather than increased capex. We expect further consolidation using equity to excelerate cash flow and aid in meeting escalating ESG requirements. With Private Equity investments close to $0, stock for stock mergers avoid the key impediments to acquisitions – fresh money.

Media: Local broadcasters were topical this week with both Tegna and Univision reporting strong Q2 earnings. Both companies demonstrated the continued strength in the advertising recovery, with core advertising revenues almost back to 2019 levels. In other news, Sinclair again made headlines announcing on Monday that they expected DISH to drop coverage of their local broadcast stations effective 16 August as the two sides have been unable to reach an agreement to renew their existing retransmission agreement. This ongoing negotiation is significant for the industry as it will test Sinclair's ability to couple Regional Sports renewals with its local broadcast renewals, while also potentially setting a future precedent around the importance of local broadcast stations in the broader bundle.

Investment Grade

Governments

After trending lower for several weeks, Treasury yields retraced and were on a gradual move higher this week as the incoming employment data in the US improved. The yield on 10-year Treasuries ended the period 15 bps higher at 1.33%. The Treasury curve bear steepened as US 5s30s rose 3 bps to 119 bps, however, it was the front end of the curve that exhibited a more pronounced move as US 2s10s rose 11 bps to 111 bps. Volatility, as measured by the ICE BofAML MOVE Index, remains elevated but ended the period 2 pts lower and is back towards the bottom of its one-month range at 61. After reaching a multi-year low last week, 10-year real yields, which strips out the expected impact of inflation, reversed and ended the period 9 bps higher at -1.08%, while Breakevens, a proxy of inflation expectations, rose 6 bps to 2.40%.

Core European rates also ended the period higher as the yield on 10-year Bunds and Gilts rose 4 bps and 6 bps to -0.46% and 0.57%, respectively. After nearly two weeks of divergence, the spread on peripherals tightened in tandem this week as infections in Spain continue to decline, while Italy stabilizes. The spread on 10-year Italian BTPs, over Bunds, tightened 2 bps to 1.03%, while 10-year Spanish Bonds tightened 3 bps to 0.70%. Similarly, the yield on Japanese and Australian government bonds followed the trend and ended the period 3 bps and 8 bps higher to 0.04% and 1.22%, respectively.

Corporates

Investment grade spreads were slightly wider in cash as the focus was on the deluge of new issue that came to market this week. Customers were mostly sellers in the secondary markets to pay for the calendar but liquidity lacked the depth and bids backed up commensurably. Spreads on the BB/Barclay's corporate index widened 1 bp to +89 bps leaving them 3 bps wider on the month, but still 7 bps better on the year. With the rising US Treasury rate, total returns on corporates are solidly back in negative territory for the year after a brief period in the plus column. Year-to-date total returns are -1.02%, while year-to-date excess returns have declined to +136 bps from as high as +200 bps at the end of June. On a positive note, companies have reported record earnings in Q2 and are flush with cash. We have also seen regulators developing new road blocks towards future M&A, which should help keep leverage in check for those companies that are acquisitive.

Securitized

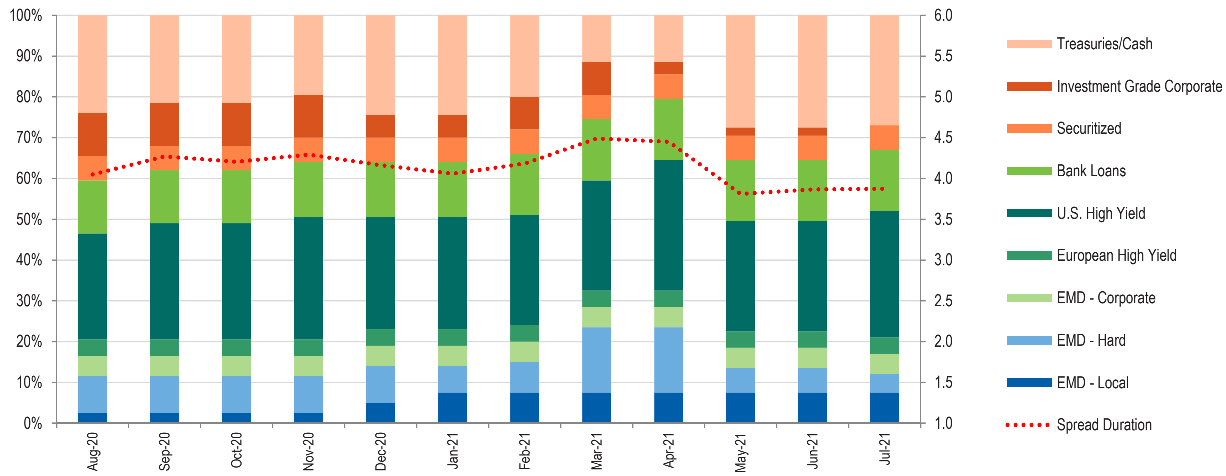
Securitized spreads were stable this week. In welcome support for their ABS, Nissan and Ford amended triggers on their dealer floorplan deals to forestall early amortization. The deals had been accumulating cash because receivables are in short supply with the current auto inventory crunch. The Manheim Used Vehicle Value Index fell for the second straight month, -2.6% in July and +23.5% year-on-year, and prices appear to be plateauing. Mortgage prepayments fell 10% on some burnout and lower daycount. Lastly, Biden extended the pause on federal student loans, which is now set to expire in January.

Flows/Issuance

In investment grade corporates primary markets, 40 deals priced for roughly US$40 billion this week, reaching the upper end of street estimates that ranged between US$25 - US$40 billion. The deal count at 40 was the second largest in terms of number of deals in 2021, according to Citibank . Deals saw fairly robust demand during the beginning of the week but the market tired out by middle of the week as investors became more price-sensitive and issuers had to offer better incentives in the way of concessions to get deals done. Lower yields and tight spreads could bring some supply forward in August, which is typically a slower month for new issue. However, the next two weeks should see a slowdown as the summer winds down. High grade fund flows continued to be solid over the latest period with inflows of US$5.7 billion, according to EPFR. Aggregate funds took in 91.8% of the inflow from the short and intermediate buckets, while the long end saw a small outflow. Corporate only funds had a small outflow, but saw positive flows into the short bucket as investors were loath to buy duration at current low yields.

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 11, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	349	(5)	(5)	11	(1)	(61)	(0.7)	(0.3)	0.1	(0.5)	2.3
	CEMBI Broad Diversified	259	(10)	(10)	10	(11)	(98)	(0.1)	0.1	0.3	1.6	5.6
	GBI EM Global Diversified Yield	5.01	0.09	0.10	0.03	0.80	0.62	(1.1)	(1.1)	(1.5)	(4.9)	2.8
EM Sovereign Debt	EMBI Global Diversified	349	(5)	(5)	11	(1)	(61)	(0.7)	(0.3)	0.1	(0.5)	2.3
	EMBI GD Investment Grade	145	(9)	(9)	(0)	(3)	(23)	(0.6)	(0.1)	0.4	(2.1)	(1.8)
	EMBI GD High Yield	580	(1)	1	(3)	(28)	(175)	(0.7)	(0.5)	(0.1)	1.3	7.4
EM Sovereign Debt Regions	Africa	542	(4)	(2)	22	(14)	(156)	(0.6)	(0.4)	(0.2)	1.5	13.0
	Asia	223	(1)	(5)	15	(9)	(3)	(0.9)	(0.3)	0.1	0.4	(1.0)
	Europe	284	(7)	(7)	10	18	(42)	(0.4)	(0.1)	0.5	(0.5)	4.2
	LATAM	365	(5)	(4)	15	11	(69)	(0.9)	(0.5)	(0.1)	(2.4)	(0.4)
	Middle East	340	(9)	(8)	(3)	(28)	(52)	(0.4)	(0.1)	0.3	0.5	1.5
EM Corporates	CEMBI Broad Diversified	259	(10)	(10)	10	(11)	(98)	(0.1)	0.1	0.3	1.6	5.6
	CEMBI BD Investment Grade	151	(8)	(7)	1	(18)	(58)	(0.3)	(0.1)	0.4	0.3	2.6
	CEMBI BD High Yield	452	(12)	(15)	6	(34)	(168)	0.1	0.3	0.1	3.3	9.8
US High Yield	US High Yield	309	0	15	41	(51)	(166)	(0.2)	(0.4)	(0.0)	3.6	9.4
	US High Yield BB	222	(3)	8	22	(42)	(107)	(0.3)	(0.4)	0.3	3.1	7.3
	US High Yield B	353	2	18	59	(26)	(140)	(0.2)	(0.4)	(0.4)	3.0	8.4
	US High Yield CCC	531	1	29	69	(127)	(471)	(0.2)	(0.5)	(0.7)	6.4	18.9
European High Yield	Barclays PanEur HY	295	(3)	(7)	7	(61)	(171)	0.0	0.3	0.6	3.6	8.8
	2% Ex Financials Yield	3.22	0.02	(0.03)	0.19	(0.22)	(1.83)	-	-	-	-	-
Bank Loans	LSTA Price	98.0	(0.0)	(0.1)	(0.4)	1.8	5.7	0.1	0.1	0.1	3.3	8.8
	LSTA 100 Yield	3.90	(0.01)	0.00	0.20	(0.08)	(1.04)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.24	0.15	0.10	(0.13)	0.46	0.67	(1.2)	(0.8)	1.2	(2.2)	(3.3)
	1M LIBOR	0.10	0.01	0.01	(0.00)	(0.05)	(0.07)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	35	(1)	0	3	(7)	(20)	(0.9)	(0.6)	0.5	(1.1)	(1.0)
	US Investment Grade Corporates	89	1	3	9	(7)	(35)	(1.4)	(1.1)	0.2	(1.0)	0.6
	Global Aggregate	34	(1)	0	1	(3)	(14)	(0.5)	(0.3)	1.0	(0.5)	0.2
	Barclays 1-5 Year Credit	40	1	2	5	(1)	(21)	(0.3)	(0.2)	0.1	0.1	1.2
FX	DXY (US dollar)	92.92						0.7	0.8	0.5	3.3	(0.8)
	GBI EM FX							(0.7)	(0.7)	(1.9)	(3.4)	1.5

1W reflects data from August 4 close through August 11 close. Source: Stone Harbor; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Important Information

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

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

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

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