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August 20, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Ongoing concerns about the Delta variant and its potential impact on growth, as well as geopolitical tensions following the rapid collapse of the Afghan government led to weakness in equity and commodity markets this week. While credit spreads were mixed, lower US Treasury yields led to positive total returns in most fixed-income market sectors. Oil prices declined to 3-month lows. In the US, the minutes of the Federal Open Market Committee (FOMC) meeting indicated that the Federal Reserve is preparing for a possible taper announcement in November, with the first reduction before year-end. Though "most participants" appear on board with starting to reduce the pace of asset purchases this year, according to the minutes, there is less consensus on other elements, including how quickly purchases ramp down and the link between the taper and the eventual interest rate increases. Emerging Markets (EM) external sovereign debt, led by investment grade bonds, and US investment grade corporate debt, outperformed US high yield bonds, on average. The US dollar index (DXY) strengthened, and EM currencies declined, on average.

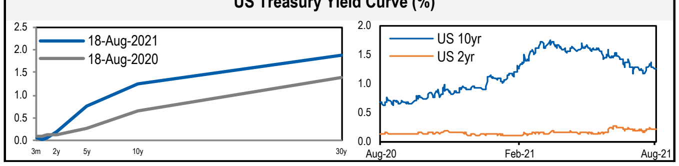
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	353		3	3.53%
EMBI GD IG	149		3	0.04%
EMBI GD HY	585		5	7.81%
Africa	546		4	12.70%
Asia	225		1	0.36%
Europe	284		0	5.46%
LATAM	369		4	1.30%
Middle East	345		6	2.83%
CEMBI BD	259		0	6.08%
CEMBI BD IG	152		1	3.24%
CEMBI BD HY	452		0	10.06%
GBIEM GD (%)	5.03		2	2.67%
EM Blend (%)	4.76		-2	4.13%
EMBI ESG	334		4	2.50%
CEMBI ESG	264		-1	6.12%
GBI ESG (%)	4.86		2	2.11%
		-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		0	10.15%
US HY BB	222		0	8.30%
US HY B	352		-1	8.83%
US HY CCC	532		1	19.23%
Pan Euro HY	296		1	8.72%
LSTA 100 (%)	3.87		-3	8.55%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.19		-5	-2.79%
1M LIBOR (%)	0.09		-1	0.13%
US Agg	37		2	-0.28%
US IG Corp	90		1	2.13%
Global Agg	35		1	0.64%
		-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	1.17	-1.84%	Gold	1,784	-12.74%	S&P500	4,400	29.81%
USDJPY	109.77	-3.97%	VIX	22	0.28%	MSCI World	9,250	30.14%
EM FX		1.91%	Brent	68	50.09%	MSCI EM	3,030	16.75%
		Aug-20 Feb-21 Aug-21			Aug-20 Feb-21 Aug-21			Aug-20 Feb-21 Aug-21

As of: August 18, 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Initial jobless claims drifted lower for the third consecutive week, from 387k to 375k, while continuing claims slipped from 2,980k to 2,866k but both remain elevated and well above pre-pandemic levels. The University of Michigan Consumer Sentiment fell 11 pts during the month—its sharpest decline since the start of the pandemic. Retail sales also disappointed and fell more than expected, down 1.1% m/m, as the confluence of the Delta variant and stimulus roll off likely contributed to the decline. In efforts to combat the declining efficacy of vaccines, the US is preparing to offer booster shots beginning on 20 September. Individuals inoculated with the Pfizer or Moderna vaccines will be eligible to receive their booster shot eight months after their second dose. Health officials are in the process of reviewing data regarding booster shots for individuals who received the single-dose J&J vaccine. As with the original vaccine roll out, the elderly, vulnerable and frontline health care workers will be prioritized.

Europe

Despite tapering of the government furlough scheme, the UK labor market recovery continued for another month as the economy added 95k jobs for the 3m/3m period ending in June. Job vacancies edged higher, from 866k in June to 953k in July, which are now well above pre-pandemic levels. Unemployed workers fell another 37k to 1.6 million in June, while redundancies declined for the seventh consecutive month, from 104k to 99k in June. The unemployment rate's trend lower remains intact and fell 0.1% to 4.7% for the 3m/3m period ending in June. Following the initial boon in May/June, when restrictions were lifted, the decrease in jobless claims are beginning to plateau as claims fell 7.8k in July. On the political front, the latest Forsa poll shows the Social Democrats gained more momentum, rising 2% to 21% this week, to surpass the Green Party and narrow in on Merkel's CDU/CSU, which remains unchanged at 23%. The SPD's Scholz remains the favorite as 29% of respondents said they would back him directly, which is in contrast to 12% for the CDU/CSU's Laschet. The German Federal election is scheduled for Sunday, 26 September.

Japan/Asia

The latest round of Chinese economic data generally disappointed for July. Industrial production (IP) and retail sales slowed for the fourth consecutive month as IP decelerated, from an annual rate of 8.3% to 6.4%, while retail sales also slowed from an annual pace of 12.1% to 8.5%. The Japanese economy grew more than expected as GDP rose 0.3% in Q2, beating estimates of 0.1%, and advanced 1.3% on an annualized basis. The stronger economic growth was largely attributed to a rebound in consumer spending—particularly in services—as well as private and government spending. Although private consumption was one of the primary catalyst for Q2, it seems that it may have contributed to the rise in infections, which could ultimately weigh on activity in Q3. Current restrictions were meant to be lifted at the end of August, but will instead be extended and broadened for an additional two weeks, minimum, as cases continue to rise across major prefectures, such as Tokyo, Osaka and Kyoto.

Economist Corner

Seamus Smyth, PhD, Developed Markets

Steffen Reichold, PhD, Emerging Markets

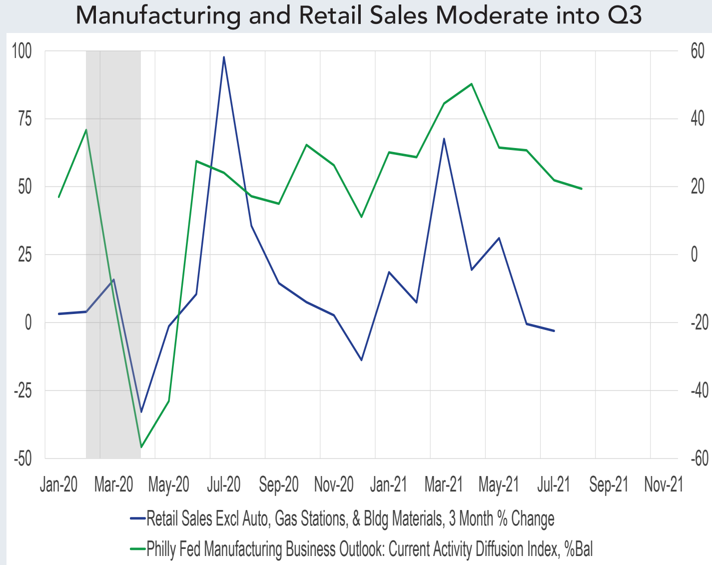
Data over the last week added to the evidence that points at slower US growth in Q3 than Q2. Though growth looks slower, it's not actually slow. The pace still looks well above trend at around 5%, which is only an incremental slowing from the 6½% currently reported for Q2 (and revisions to the data point toward Q2 potentially being marked higher on the next round of estimates). To this point, the slowing looks roughly inline with our expectations.

The softer data started with retail sales, where overall sales declined by 1.1% and control—ex autos, building materials and gasoline—were down by 1.0%. Though retail sales are still elevated compared to the pre-covid trend, the flat-lining of the 3-month annualized pace shown in the accompanying figure still implies a bit less consumption growth in Q3. Q2 implications were actually modestly positive as June sales were revised a bit higher, indicating potential Q2 upward revisions.

Sluggish data continued with incremental decelerations in manufacturing and housing. The Philly Fed's manufacturing index dropped down to 1.4 from 21.9, the continuation of a string of declines over the last several months from a high of 50.2 back in April. Housing starts also fell, though these can be volatile; and single family permits, which have more signal, have continued to move down. The National Association of Homebuilders survey also fell further in August from its peak last November, consistent with the softer single-family permits.

What's the cause of the slower growth? We see three main potential explanations: 1) the reopening burst fading; 2) fiscal stimulus petering out and 3) spread of the Delta variant curtailing economic activity. Of these, only the Delta variant option is really concerning. The first two explanations were known and should not impede ongoing recovery, but if the Delta variant is significantly changing behavior, it is more problematic and warrants close attention going forward. So far, we see the economic effects as modest.

Manufacturing and Retail Sales Moderate into Q3



As of: August 2021
Source: Federal Reserve Bank of Philadelphia, CENSUS, Haver Analytics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 3 bps and the JP Morgan EMBI Global Diversified returned 0.4%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Zambia (+13.1%), El Salvador (+5.7%) and Turkey (+1.0%). The bottom performers included Sri Lanka (-1.8%), Lebanon (-1.0%), and Argentina (-0.9%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.1%. EM currencies returned -0.2% in aggregate. The top performers included the Colombian peso (+2.3%), Turikish lira (+2.1%), and Uruguayan peso (+1.0%). The bottom performers included Chile (-1.8%), Brazil (-1.8%), and South Africa (-1.7%).

The yield of the JP Morgan GBI EM Global Diversified increased 2 bps to 5.03%. The biggest outperformer was Turkey, where yields declined by 21 bps, followed by Poland (-9 bps) and Russia (-8 bps). Brazil underpermed, with bond yields rising 77 bps, followed by Peru (+12 bps) and Uruguay (+6 bps).

In central bank actions, key rates were kept unchanged in Indonesia (3.50%) and Namibia (3.75%), and China left the 1-year medium term lending facility rate unchanged at 2.95%. In a surprise move, Sri Lanka hiked its policy rate by 50 bps to 6.00%, and the Reserve Bank of New Zealand left the key rate unchanged at 0.25% against market expectations of a 25 bps hike.

EM Corporate Debt

The CEMBI Broad Diversified generated strong performance this week as Asia rebounded, once again led by China and Indonesia. The Central and Eastern Europe, Middle East and Africa (CEEMEA) region underperformed. High grade and high yield both performed in-line with the index, with spreads essentially flat on the week. All major industry sectors were positive for the week, with the exception of real estate as the bonds of Chinese homebuilder Evergrande remained under pressure. Argentina outperformed in Latin America as YPF reported better-than-expected quarterly results, with improved cash flow generation. Brazilian corporates also logged a strong return despite political noise in the country. China corporates also outperformed on the back of positive headlines around a plan for a consortium of SOE's to inject fresh capital into Huarong Asset Management.

Flows/Issuance

No EM country issued debt this week. In EM corporate debt, new issuance volume remained light with Chinese corporates and one Indian company accounting for all the primary market activity in US dollar-denominated bonds.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$335 million for the week through 17 August. Outflows from hard currency funds more than offset inflows 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

Brazil

The Brazil Central Bank's weekly Focus survey of 140 banks showed that expectations for the SELIC rate, Brazil's policy interest rate, have increased, while GDP expectations remained steady for this year and edged lower for 2022. According to the survey, the SELIC rate will increase to 7.5% in 2021 from 5.25% currently. Inflation expectations increased to 7.1% in 2021 from 6.9% last week and to 3.9% in 2022, up from 3.8% a week ago. GDP expectations remained at 5.3% for 2021 and declined to 2% for 2022.

In an interview this week, the Minister of Economy Paulo Guedes defended the tax reform bill, which aims to increase tax on dividends and cut the corporate income tax rate. According to Guedes, the reform should have neutral impact on tax collection and is in line with the global trend of reducing corporate taxes over the past decades. Regional governments that oppose the tax reform, argue that the reform would reduce tax collection, and thereby decrease the financial resources transferred to them. Given the lack of agreement between federal and regional governments, the vote on the bill that was scheduled for last week was postponed.

China

China's Huarong Asset Management Company (Huarong AMC) pre-announced an Rmb 102.9 billion (~US$15.9 billion) profit warning and a Rmb 50 billion (~US$7.7 billion) recapitalization plan led by CITIC Group. The other members of the rescue team are China Insurance Investment, China Life Asset Management, China Cinda and Sino-Ocean Capital Holdings. The company said that it would meet regulatory capital requirements if the recapitalization plan proceeded as planned. The company blamed the deterioration in the company's results on the strategy of aggressive balance sheet growth under former Chairman Lai Xiaomin and on deteriorating market conditions. Separately, Huarong AMC stated it has no plans to restructure debt and that it had maintained liquidity while successfully paying all bonds as they matured. The statements indicate that Huarong AMC and the Chinese government are focused on recognizing impairment at the company and minimizing the necessary external support, positive signals for Huarong bonds, in our view. In addition, the company announced this week that it will hold a board meeting on 28 August to discuss 2020 financial results, which have been delayed since April.

Colombia

Colombia's economic activity continued to show a solid recovery, as indicated by data released this week. Colombia's GDP grew 17.6% y/y in Q2, while the economy contracted 2.4% q/q, driven largely by anti-government protests and associated road blocks that hindered exports during much of Aril and May. Despite this setback, June data showed a strong rebound, with growth of 14.5% y/y and 7.4% m/m. The strong June result was driven by commerce-related activities (+37.4% y/y), industry (23% y/y), and services-related sectors (+12.9% y/y). Consensus expectations for economic growth this year is 6.8%, while the central bank's technical team has increased its full-year GDP forecast to 7.5% from 6%. Like many countries, the Colombian economy appears to be adjusting to operating within the limits of the pandemic, while benefitting from an acceleration in re-openings of more sectors.

Ecuador

The outcome of the first protest against President Guillermo Lasso's government by the Confederation of Indigenous Nationalities of Ecuador, commonly referred to locally as CONAIE, suggests that destabilizing risks from social unrest appear low in the context of the new administration's economic reform agenda. President Lasso's high popularity, mainly as a result of a successful vaccination plan, coupled with growing public awareness of structural fiscal deficit and associated inefficiencies could potentially pave the way for the government to build coalition and support around economic reforms. Moving forward, the success of President Lasso's reform agenda will likely depend on continued progress on reaching a legislative coalition, in our view. At the same time, the two reform bills presented to congress thus far, including the Law of Higher Education and the Law of Freedom of Expression, suggest a political strategy aimed at broader societal support.

Pakistan

Since last Thursday through Wednesday morning this week, total returns on Pakistan sovereign bond returns ranged from-0.3% to -1.0%, compared to the market's return of +0.4% amid the dramatic fall of the neighboring Afghanistan government. The Taliban's return to power raises several issues for Pakistan, including heightened level of terrorist threats by groups emboldened by the Taliban takeover, weakening of counter-extremism policies, potential economic damage from a slowdown in trade and foreign investments in the region, and possible influx of refugees. So far, the Afghan events have not had a significant impact on the market's evaluation of the credit. Nevertheless, Pakistan's government has supported the return of the Taliban to Afghanistan as part of a strategy to counter India. In the longer run, we remain concerned that a Jihadi Islamic Emirate run by the Afghani Taliban could inspire the Pakistan Taliban, elevating concerns over Pakistan's internal security.

Sri Lanka

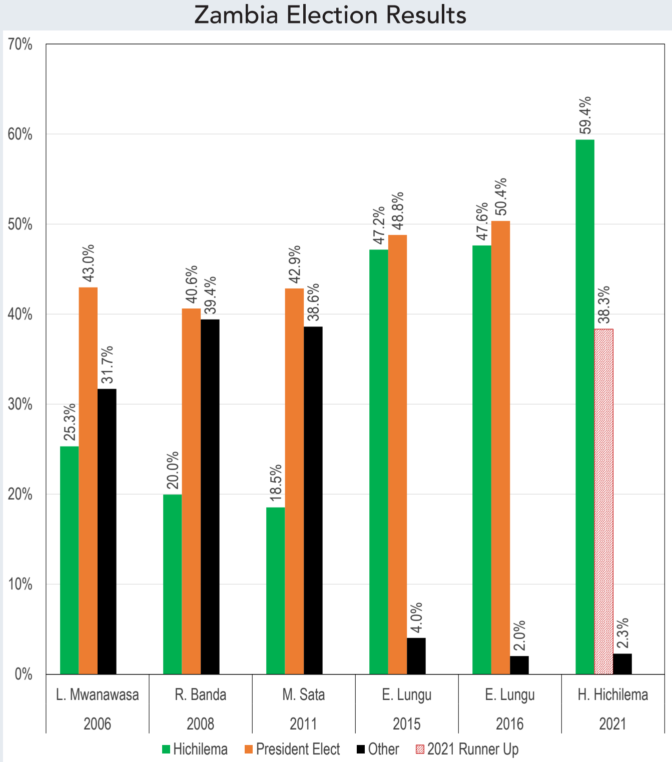
Sri Lanka signed a deal for a US$309 million term loan facility with China Development Bank as part of a US$1.2 billion loan agreed previously. The funds will support Covid-19 response spending, and aid the country's economic recovery and financial stability. This loan follows two 10-year US$500 billion loans Sri Lanka received from China Development Bank in March 2020 and April of this year. The latest round of funding underscores the significant bilateral support Sri Lanka continues to garner in the face of Covid-19 and fiscal challenges. Nevertheless Sri Lanka's sovereign debt came under pressure this week, returning -1.8% on average.

Venezuela

Venezuela's government officials and opposition leaders met in Mexico for the first time in two years and signed a memorandum of understanding, outlining the schedule for the upcoming elections. President Nicolas Maduro said his government will request direct talks with the US as part of the negotiations scheduled for next month. Maduro also suggested that the talks cover the return of Monomeros – a Venezuelan fertilizer company in Colombia currently under opposition control – to state-owned oil company PDVSA.

Chart of the Week

Zambia Election Results



As of: 18 August 2021
Source: Electoral Commission of Zambia, Stone Harbor Investment Partners LP

The Electoral Commission of Zambia declared Hakainde Hichilema (HH) the winner of Zambia's presidential elections this week. HH received 2.81 million votes, surpassing the 1.81 million votes for outgoing President Edgar Lungu, who held the presidency since 2015. The margin of victory was the highest in Zambia's electoral history since multi-party elections started in 1991 and likely bodes well for a smooth transition and reform implementation.

As shown in our chart of the week, HH has long sought the presidential office, having run for the presidency in 2006 elections as a candidate of the United Democratic Alliance, and in 2008, 2011, 2015, 2016 and 2021 as a candidate of the United Party for National Development (UPND). According UPND literature, HH's appeal is based on his "visionary leadership and economic management skills for economic development." HH's campaign focused on lowering the fiscal deficit, restoring market confidence, boosting growth and ensuring debt sustainability.

Before entering a full-time career in politics, HH served as the CEO of Coopers Lybrand Zambia (1994-1998) and Grant Thornton Zambia (1998-2006). Given his strong economic background in the private sector and his stated goals for his coming administration, markets cheered HH's win after his prior five attempts on the view that he will be able to secure for Zambia a lending program with the International Monetary Fund and engage with creditors. This week Zambia's external sovereign bond total returns ranged from +12.4% to +13.1%.

Global High Yield

US High Yield

The US high yield market gained 0.10% for the week, with BB issues once again outperforming as the market digested strong earnings results along with continued concerns about slower growth due to the Delta variant. Technicals were mixed with a large inflow of US$736 million into retail funds offset by a strong primary market of US$33 billion, making it the second busiest August after 2020. Leisure, Metals/Mining, and Refining declined on reopening and growth concerns. Utilities underperformed on PG&E's continued struggle to control the Dixie Fire. Aerospace, Restaurants, and Supermarkets outperformed on strong earnings.

Leveraged Loans

The upward trajectory of the Loan market continued this past week and returns outperformed similar risk assets. For the week, the S&P/LSTA Leveraged Loan Index returned 0.13%, the average bid price increased 13 bps to US$98.10, and the spread-to-maturity tightened 1 bp to L+408. As we approach the Labor Day holiday, we saw a slowdown of new issue announcements, firming up secondary trading levels as well as continued strong corporate earnings. Notably, we saw significant outperformance from the lower quality CCC portion of the market as a result of unexpected M&A, which was the case for Apple Leisure Group, which was acquired by Hyatt Hotels Corp., and better-than-expected earnings from healthcare services company, Envision Healthcare Corporation. From an industry sector perspective, return dispersion was limited and driven by idiosyncratic credit events. For the week, outperforming sectors included the Satellite, Media Other, and Leisure sectors, while the Paper/Forest Products, Utility, and Retail Food/Drug sectors lagged. Lastly, there were no defaults in the index last week.

European High Yield

Overall European high yield returned 0.01% week on week, as macro volatility and expectations of a strong September calendar offset strong earnings. B rated issues outperformed for the week with gains of 0.05%. Index spreads widened by 1 bp. Metals/Mining and Supermarkets outperformed on strong earnings, while Airlines and E&P underperformed due to concerns that increased restrictions could lead to slower growth. Auto supplier Faurecia announced an agreement to acquire German auto supplier Hella for EUR 6.7 billion. The bonds ended higher on the week as the significant boost to scale, greater product diversity, and higher technology content offset higher leverage. Fitch and S&P affirmed the company's ratings at BB+ and BB with a positive outlook, respectively. Bonds of Ceramtec moved higher after reports that Canada Pension Plan Investment Board is close to a deal to acquire the company for EUR 3.8 billion.

Flows/Issuance

In US high yield, positive retail flows of US$736 million shifted the August flows to a positive US$163 million. The primary market gained another US$8 billion on the week with refinancings again the main use of proceeds. While investors remain largely receptive to the new issuance, two companies struggled to bring new deals. Cooke, Inc., a vertically-integrated producer of farm-raised fish and fish-based animal and human nutrition products, withdrew its proposed offering of US$580 million. The Caa1/CCC+ bonds struggled to gain traction at the initial high 5%-6% original price guidance and the company balked at paying the 8% demaded by the market. Additionally, Sylvamo Corp, a spin-off from International Paper, reduced its bond deal from US$500 million to US$450 million and increased pricing from high 5% area to 6.75%-7% in an effort to complete the offering.

In loans, five deals launched for approximately US$1.4 billion, bringing month-to-date issuance to US$22 billion. As the new issue calendar slowed, we saw further Collateralized Loan Obligation (CLO) formation with US$7.2 billion worth of deals pricing month-to-date, putting August on track to exceed July issuance. Additionally, we've seen steady inflows from retail loan mutual funds and Exchange Traded Funds (ETFs), which should yield another weekly inflow.

For European high yield flows, EPFR data showed an outflow of US$94 million, lowering the August total to US$334 million and the quarter-to-date amount to US$689 million.

Source: Lipper, EPFR

Industry Insights

Chemicals: Commodity and diversified chemical producers reported strong second quarter earnings, driven by robust demand and tight supply. Many companies raised guidance as the rollout of vaccines and further reopening have led to strong global demand, with low inventories supporting prices and margins. Nitrogen fertilizer prices have climbed due to strong demand, tight supply, and rising costs. Producers expect the strong market conditions to last into 2023 due to elevated commodity prices and limited new supply.

Oil: Mounting Delta variant outbreaks, a strengthening US dollar due to the Fed signaling that it may be time to taper asset purchases, and disappointing economic data from China weighed on oil prices this week, causing oil to drop 8% w/w as of Thursday. Chinese retails sales disappointed, their industrial output slowed and teapot refineries cut runs in response to import quota restraints, feedstock shortage, and floods in the Henan Province. China's oil refining slumped to the lowest level in 14 months, -6% to 14 million barrels per day as private processors scaled back operations to their lowest level since May 2020. Travel restrictions due to Covid outbreaks will hit demand and refinery runs in August and September, when OPEC+ is still expected to add 400,000 barrels per day each month.

Utilities: California utility company, PG&E, continues to struggle to control the Dixie Fire that started on 13 July. The fire has now burned more than 660,000 acres, with new rounds of evacuation orders issued in Northern California as the fire spreads to additional communities. The Dixie Fire is now the largest single wildfire in state history and the only one to burn across the Sierra Nevada. The federal judge overseeing the company's criminal probation is demanding more details about how PG&E initially responded to the fire. Additionally, California's utility regulator is considering whether to place PG&E into a higher level of enhanced oversight.

Investment Grade

Governments

The Treasury market oscillated within a wider band this week with sentiment catalysed by weaker economic data such as the latest US consumer sentiment index, which fell at its fastest rate since the start of the pandemic. Geopolitical concerns also weighed on sentiment and shifted the market towards a risk-off bias. The yield on 10-year Treasuries traded inside a 16 bps range this week, from 1.38% to 1.22%, before ending the period 7 bps lower at 1.26%. The US Treasury curve bull flattened, as longer dated bonds saw better demand, with 2s10s falling 7 bps to 104 bps, while 5s30s fell 6 bps to 113 bps. 10-year real yields, which excludes the expected impact of inflation, rose 2 bps to -1.06%, while Breakevens, a proxy for inflation expectations, fell 8 bps to 2.32%. Volatility, as measured by the ICE BofAML MOVE Index, drifted another 2 pts lower towards the bottom of its one month range at 58. A more subdued week in Europe as rates ended the week modestly lower with the yield on 10-year Gilts and Bunds falling 1 bp and 2 bps to 0.57% and -0.48%, respectively. After gradually tightening, peripherals stabilized this week with the spread on 10-year Spanish and Italian bonds, over Bunds, unchanged at 0.70% and 1.03%, respectively. Local infection rates in Spain continue to trend lower, while cases in Italy are beginning to flatten. In Asia-Pac, 10-year Japanese government bonds ended the period 2 bps lower to 0.04%, while Australian government bonds closed 8 bps lower to 1.14% as the country extended and broadened restrictions to limit the spread of infections. New Zealand government bond yields also fell 6% after markets scaled back rate hike expectations following the recently announced three-day lockdown amid cases of the Delta variant.

Corporates

Investment grade corporate spreads met the dog days of summer as many participants took the time off from the markets and are on holiday. Spreads faded slightly during the week on a combination of investor apathy towards already tight valuations, and dealer inventories which were slightly swollen from last week's customer sales. Trading volumes were light and flows were mixed, leaving spreads wider by 1bp according to the Bloomberg/Barclays corporate OAS, which settled into +90 bps. In the derivatives markets, CDX series IG36's widened by a little over 2 bps, breaching a spread of +50 bps where it was back in mid-June. The Fed meeting seemed to have little effect on corporates, however, the markets were put on notice that a taper announcement was on its way. More specific to corporates, the Fed, which started unwinding the Secondary Market Corporate Credit Facility (SMCCF) on 7 June of this year has so far sold US$8.808 billion in corporate securities which is roughly 2/3rds of the programs total size with little to no market impact.

Securitized

Mortgages widened 3 bps this week in light summer trading on the Treasury rally. Mortgage spreads now stand at the widest level in five months. Some read the FOMC minutes as dovish, or at least not hawkish, for the timing of a mortgage taper. July remittance reports showed some deterioration in malls held in CMBX.6 and the BBB- portion of that index suffered a 100 bps widening.

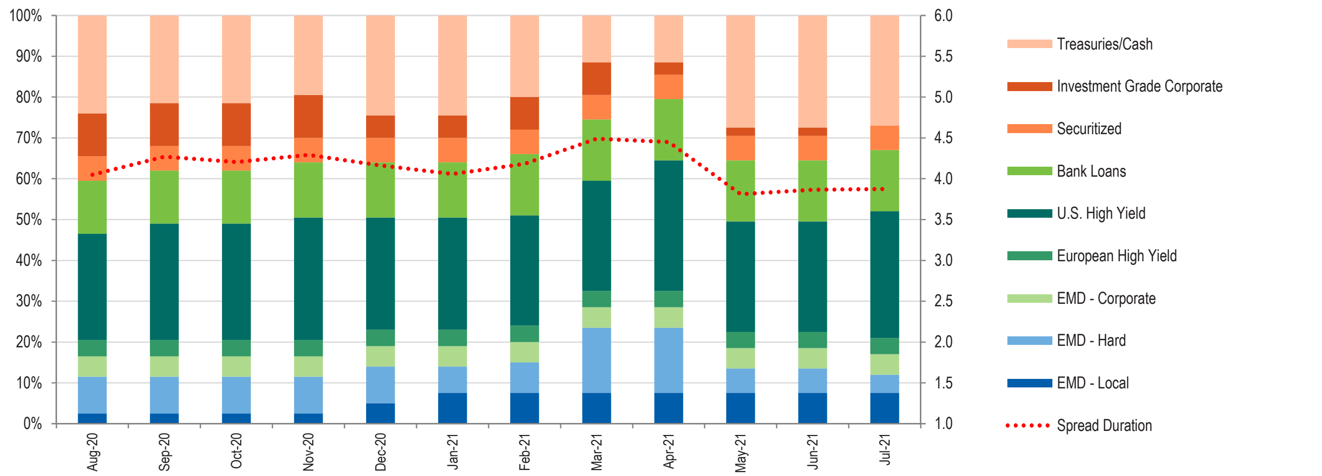
Flows/Issuance

In investment grade corporates, high grade fund flows were down fairly significantly from last week but still showed inflows of US$3.14 billion, according to EPFR. Lipper showed inflows of just under US$4 billion. The decline in EPFR flows was driven by declining flows into aggregate- oriented funds, and a small outflow in the total return funds. Corporate only funds saw inflows of US$2.465 billion but they were entirely fueled by inflows into long ETF's (LQD) and without that, inflows would have been negative. JPM noted that the declining flows could be the result of the significant amount of secondary selling that took place last week to pay for the large new issue calendar. In the primary markets, new issue supply was insignificant with the possibility that some deal flow was pulled forward in anticipation of lighter trading volumes. Roughly 14 deals priced this week for just under US$10 billion, but despite the thinner markets, concessions still held firm. Investors are gearing up for a busy September as next week's calendar should also be underwhelming.

Asset-backed securities issuance has picked up again and is expected to be heavy ahead of Labor Day. Commercial mortgage-backed securities issuance will likewise be active with 13 deals in the pipeline through September.

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 18, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	353	3	(1)	14	2	(67)	0.4	0.1	0.5	(0.2)	3.5
	CEMBI Broad Diversified	259	(0)	(10)	9	(11)	(101)	0.3	0.4	0.6	1.9	6.1
	GBI EM Global Diversified Yield	5.03	0.02	0.12	0.05	0.82	0.59	(0.1)	(1.2)	(1.7)	(5.0)	2.7
EM Sovereign Debt	EMBI Global Diversified	353	3	(1)	14	2	(67)	0.4	0.1	0.5	(0.2)	3.5
	EMBI GD Investment Grade	149	3	(6)	3	0	(31)	0.5	0.4	0.9	(1.6)	0.0
	EMBI GD High Yield	585	5	6	2	(23)	(174)	0.2	(0.3)	0.1	1.5	7.8
EM Sovereign Debt Regions	Africa	546	4	2	26	(10)	(144)	0.3	(0.1)	0.1	1.8	12.7
	Asia	225	1	(3)	17	(7)	(13)	0.4	0.1	0.5	0.8	0.4
	Europe	284	0	(7)	11	19	(52)	0.4	0.4	1.0	(0.1)	5.5
	LATAM	369	4	0	19	15	(78)	0.4	(0.1)	0.3	(2.0)	1.3
	Middle East	345	6	(2)	3	(22)	(60)	0.2	0.1	0.5	0.6	2.8
EM Corporates	CEMBI Broad Diversified	259	(0)	(10)	9	(11)	(101)	0.3	0.4	0.6	1.9	6.1
	CEMBI BD Investment Grade	152	1	(6)	2	(17)	(61)	0.3	0.2	0.8	0.6	3.2
	CEMBI BD High Yield	452	0	(14)	6	(33)	(169)	0.2	0.6	0.3	3.5	10.1
US High Yield	US High Yield	309	0	15	41	(51)	(192)	0.1	(0.3)	0.1	3.7	10.1
	US High Yield BB	222	0	8	22	(42)	(135)	0.1	(0.3)	0.5	3.2	8.3
	US High Yield B	352	(1)	17	58	(27)	(158)	0.0	(0.4)	(0.3)	3.0	8.8
	US High Yield CCC	532	1	30	70	(126)	(484)	0.0	(0.4)	(0.7)	6.4	19.2
European High Yield	Barclays PanEur HY	296	1	(6)	8	(61)	(168)	0.0	0.3	0.6	3.6	8.7
	2% Ex Financials Yield	3.22	(0.01)	(0.04)	0.18	(0.23)	(1.78)	-	-	-	-	-
Bank Loans	LSTA Price	98.1	0.1	0.1	(0.3)	1.9	5.5	0.1	0.2	0.2	3.5	8.5
	LSTA 100 Yield	3.87	(0.03)	(0.03)	0.17	(0.11)	(1.00)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.19	(0.05)	0.05	(0.18)	0.41	0.62	0.6	(0.2)	1.8	(1.7)	(2.8)
	1M LIBOR	0.09	(0.01)	(0.00)	(0.01)	(0.06)	(0.07)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	37	2	2	5	(5)	(21)	0.4	(0.3)	0.9	(0.8)	(0.3)
	US Investment Grade Corporates	90	1	4	10	(6)	(41)	0.7	(0.5)	0.9	(0.4)	2.1
	Global Aggregate	35	1	0	2	(2)	(14)	0.3	(0.0)	1.2	(0.3)	0.6
	Barclays 1-5 Year Credit	40	0	2	5	(1)	(23)	0.1	(0.2)	0.2	0.2	1.2
FX	DXY (US dollar)	93.14						0.2	1.0	0.8	3.6	0.9
	GBI EM FX							(0.2)	(0.9)	(2.1)	(3.6)	1.2

1W reflects data from August 11 close through August 18 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.

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**