Stone Harbor INVESTMENT PARTNERS

September 10, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Global credit markets awaited further economic data in a US holiday-shortened week. The S&P 500 Index declined after last Friday's disappointing nonfarm payroll report that showed 235k jobs added in August, versus a forecast of 720k jobs; while US Treasury yields fell, following the JOLTS jobs opening data, which showed a large month-on-month gain of 0.4 percentage point in July, marking the highest rate on record. The European Central Bank (ECB) set a moderately lower pace for its Pandemic Emergency Purchase Program, easing fears of a larger retrenchment. Credit spreads tightened and total returns were mixed across major sectors. US high yield outperformed Emerging Markets (EM) sovereign debt on average. The US dollar index (DXY) advanced, and EM currencies declined, on average.

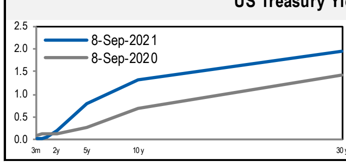
Emerging Markets

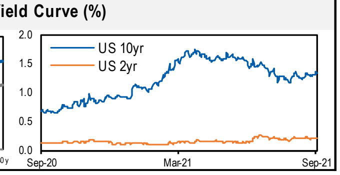
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	339		-2	3.93%
EMBI GD IG	143		-2	0.54%
EMBI GD HY	562		-1	7.92%
Africa	522		2	13.39%
Asia	212		-6	0.69%
Europe	273		-1	5.58%
LATAM	354		0	1.83%
Middle East	337		-3	3.13%
CEMBI BD	249		-3	6.02%
CEMBI BD IG	145		-3	3.26%
CEMBI BD HY	439		-2	9.86%
GBIEM GD (%)	5.09		8	4.01%
EM Blend (%)	4.73		3	4.69%
EMBI ESG	322		-1	2.82%
CEMBI ESG	254		-4	6.09%
GBI ESG (%)	4.92		8	3.43%
		-300 -150 0 150		Sep-20 Mar-21 Sep-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	282		-5	10.73%
US HY BB	197		-3	9.12%
US HY B	319		-5	9.54%
US HY CCC	518		-13	18.62%
Pan Euro HY	288		-4	8.08%
LSTA 100 (%)	3.76		-5	7.84%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.24		3	-3.20%
1M LIBOR (%)	0.08		0	0.12%
US Agg	35		-1	-0.31%
US IG Corp	88		0	2.21%
Global Agg	34		0	0.29%
		-100 0 100 200		Sep-20 Mar-21 Sep-21

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.18	0.32%	Gold	1,794	-8.85%	S&P500	4,514	35.48%
USDJPY	110.25	-3.84%	VIX	18	-42.91%	MSCI World	9,466	35.60%
EM FX		2.82%	Brent	73	82.50%	MSCI EM	3,159	23.54%

As of: September 8 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The Citi US Economic Surprise Index, which measures the degree economic data beats or misses relative to market expectations, fell deeper into negative territory, and reached a new 1-year low. After a pause in the prior week, initial jobless claims resumed its downtrend, falling from 354k to 340k, while continuing claims slipped from 2,908k to 2,748k. Despite economies reopening, claims data remains elevated and well above pre-pandemic levels. Similarly, employment growth disappointed as non-farm payrolls rose just 235k in August, following the gain of 1,053k in July, and undershooting estimates for 730k.

Europe

The September ZEW survey for both Germany and the Eurozone fell for their fourth consecutive month with Germany's index falling from 40.4 to 26.5, while the Eurozone's index fell from 42.7 to 31.1. Although sentiment towards the current situation improved m/m, the rate of change decelerated in both Germany and the overall Eurozone. In addition to rising infections, the ongoing supply chain constraints—and the potential decline in consumption due to the inflationary pass-through effects—were cited as primary detractors. Despite the Conservative Party's pledge against tax hikes, Prime Minister Johnson unveiled plans for a 1.25% increase to taxes on and dividends. The increase in levies are expected to generate approximately £36 billion over the next three years with the proceeds used to fund social care reform and the growing budget deficit the National Health Service accumulated throughout the pandemic. The new taxation plan won, in a 319 to 248 vote, in the Commons and is now on track to begin in April 2022.

Japan/Asia

After one year of service, and just weeks before a general election, Prime Minister Suga announced his resignation on Friday. Suga's approval ratings have deteriorated as his administration struggles to contain the latest wave of infections. Japanese equities gained on the news as market participants begin pricing in the potential for further economic stimulus by the incoming Prime Minister, who is still unknown. The Reserve Bank of Australia kept its cash rate unchanged at 0.10% and proceeded to reduce the pace of its asset purchases from A$5 billion to A$4 billion per week. The bond-buying program, which was originally due for review in mid-November, was extended for an additional 3 months out to mid-February. On aggregate, the dovish taper and extension results in the central bank purchasing more than originally anticipated back in July. Japanese industrial production slowed, but to a lesser degree than expected, as IP fell 1.5% m/m in July led by declines in autos and electronic equipment. Inventories and stockpiles fell, which suggests consistent demand and indicates that the weakness is likely driven by supply-chain constraints.

Economist Corner

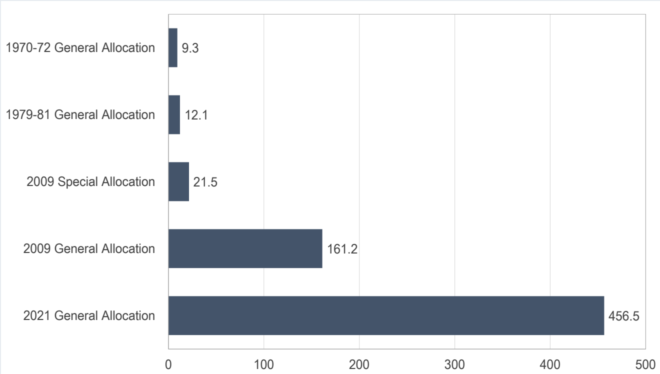
Seamus Smyth, PhD, Developed Markets

Steffen Reichold, PhD, Emerging Markets

The general allocation of Special Drawing Rights (SDRs) equivalent to about US$650 billion that became effective on August 23, 2021, giving all IMF member countries access to additional FX reserves. This had been under much discussion for the past year as the IMF and its major shareholders were looking for ways to help support EMs and low-income countries during the pandemic. In order to avoid more delays, the size of the allocation was ultimately determined as the largest amount that would not require US congressional approval. This move more than doubled the outstanding amount of SDRs (Figure 1). Each country's share in that new allocation is determined by its IMF quota which in turn is broadly related to its economic size. But while SDRs are often viewed as a reserve currency, they are actually not a currency. So what exactly is an SDR? We thought it is useful to provide a quick overview of what exactly SDRs are and how they work in practice.

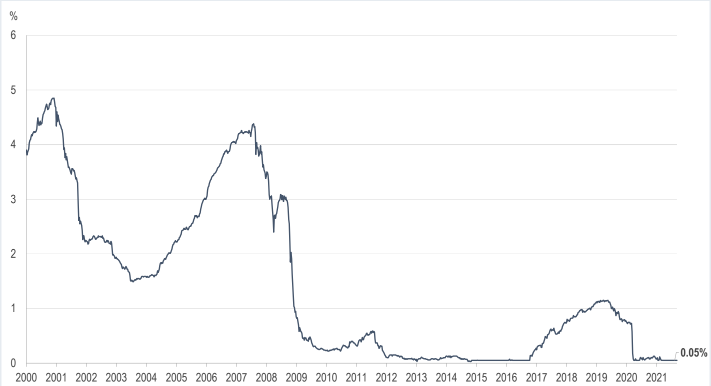
Technically, the SDR is an accounting unit whose value is determined as a basket of the world's five leading currencies – the US dollar, euro, yuan, yen and the UK pound. When the IMF allocates SDRs they effectively add them to each country's SDR account at the IMF. Since SDR's are not a currency and cannot be held by private entities or individuals they cannot be directly used in financial transaction. However, countries can exchange their SDRs for any of the five "freely usable" currencies in the SDR basket. Countries whose currencies are in the SDR basket have agreed to accept any other country's SDRs in exchange for their own (reserve) currency. So if, for example, a country wants to use their SDRs and exchange them for US dollars the US then provides the dollars and in turn increases their SDR holdings. Those dollars can then be used for any purpose. However, the country that received the dollars now has to pay the SDR interest rate on that amount to the US. So in effect, SDRs serve as a perpetual line of credit on any of the five reserve currencies. What makes this line of credit very attractive for EMs and low income countries is the very low interest rate that has to be paid, currently only 0.05% p.a. While the rate is currently close to zero this was not always the case. The rate is determined as a weighted average of the short-term rates of the SDR basket currencies. As seen in Figure 2, the interest rate used to be much higher when global policy rates were higher prior to 2009 and they could rise again at some time in the future. But for the foreseeable future the SDR rate will likely stay low and certainly lower than market borrowing costs for EMs and low income countries, thus providing incentives to make use of the new SDR allocation.

SDR Allocations



As of: 31 July 2021
Source: IMF Finance Department, Stone Harbor Investment Partners LP

IMF SDR Interest Rate



As of: 9 September 2021
Source: Bloomberg, IMF, Stone Harbor Investment Partners LP

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 2 bps and the JP Morgan EMBI Global Diversified returned -0.04%. Non-investment grade securities outperformed investment grade bonds, on average. The top country performers included Belize (+23.1%), Lebanon (+4.1%), and Sri Lanka (+1.8%). The bottom performers included El Salvador (-5.0%), Ecuador (-1.6%), and Romania (-1.5%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.9%. EM currencies returned -0.6% in aggregate. The top performers included the South African rand (+0.8%), Dominican peso (+0.5%), and Indonisian rupiah (+0.2%). The bottom performers included Chile (-3.0%), Brazil (-2.4%), and Turkey (-2.0%).

The yield of the JP Morgan GBI EM Global Diversified decline 8 bps to 5.09%. Dominican Republic was the only bond market that rallied and yields declined by 38 bps. Brazil underperformed with yields 39 bps higher, followed by Chile (+27 bps) and Romania (+18 bps).

In central bank actions, key rates were left unchanged in Malaysia (1.75%), Poland (0.10%), and Serbia (8.50%); while Ukraine hiked by 50 bps to 8.50%, as expected.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified spread tightened -3 bps, with little difference in the performance of high yield and investment grade debt, on average. Bonds from African-domiciled companies outperformed, tightening - 9 bps, led by corporate debt from Ghana, Nigeria and Zambia.

Flows/Issuance

EM sovereign debt issuance included US-dollar denominated issues from Maldives and Abu Dhabi, and a euro-denominated issue from Slovenia. Maldives issued a 5-year bond totaling approximately US$196 million; Abu Dhabi issued 10-year and 30-year bonds totaling roughly US$3 billion in total; and Slovenia issued a 10-year bond equivalent to US$294 million. In EM corporate debt, new issue market included US$5 billion in offerings, with a notable number of new offerings from Chile. Year-to- date new issuance of corporate debt stands at US$393 billion with 63% of the issuance from investment grade-rated companies. Asian corporate bonds represented the the majority of issuance at US$251 billion.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds recorded net inflows of approximately US$2.3 billion into hard currency and local currency funds for the week through 7 September. 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

Argentina

Argentina will hold primaries on Sunday, 12 September for the upcoming legislative elections scheduled for November. In the upper house Senate, 24 of the 72 seats will be renewed, with eight provinces (Catamarca, Chubut, Cordoba, Corrientes, La Pampa, Mendoza, Santa Fe, and Tucuman) electing three senators each. In the lower house Chamber of Deputies, 127 of the 257 seats are up for renewal, representing 24 provinces. Investors will be watching the process closely, particularly in connection with the delayed International Monetary Fund (IMF) deal, which will likely be reached once the elections are complete. Argentina global bonds are amongst the lower priced/higher yielding performing assets in EM trading in the US$35/41 price range and 18.42%/14.3% yield range. Any meaningful surprises, especially to the downside for the incumbent president's Frente de Todos party, could further support Argentina bond returns.

Brazil

Supporters of President Jair Bolsonaro carried out concentrated demonstrations in the capital Brasilia and Sao Paulo earlier this week, where, according to local press, Bolsonaro used the opportunity to denounce the judiciary and Congress. Bolsonaro apparently criticized the Supreme Court for authorizing investigations of him and his allies, and Congress for its recent decision against the president's demand for paper voting receipts and lack of election security, pre-empting what his critics describe as his efforts to sow doubt regarding the election results of the upcoming presidential race in October 2022. While the turnout was sizable, comprising a radicalized core constituency, the demonstrations were overall peaceful. Nevertheless, the Brazil real depreciated this week but recovered part of the losses after Bolsonaro denied attacking the various branches of government and sought a truce with the Supreme Court.

China

In further sign of China's export sector resilience, trade activity surprised on the upside in August, following the moderate disappointment in July. Exports, in US$ terms, grew 25.6% from a year earlier in August compared to consensus growth expectation of 17.3%, following a 19.3% gain reported in July. In sequential terms, exports increased by 3.8% seasonally- adjusted in August, following the decline of 1.2% in July. Shipments increased to developed markets, including to the US (+2.9% m/m), EU (+5.0% m/m), and Japan (+4.9% m/m). Strong global demand for medical supplies and personal protective equipment, as well as for tech products, further supported China's exports. Imports also exceeded expectations and registered 33.1% year-on-year growth compared to a 28.1% gain in July, reflecting month-over-month gains of 4.4% in August, following a decline of 3.0% m/m in July. A notable increase in imports of energy products and key industrial metals, such as iron ore, suggest a potential uptick in infrastructure investment as policy support takes effect. China's overall trade surplus widened to US$58.34 billion in August, compared with US$56.58 billion in July.

Colombia

Colombia reported higher-than-expected inflation for the second month in a row in August. The month-over-month increase took headline inflation to 4.44% year-on-year, above the target range for the first time since December 2017. Rising food prices and core CPI contributed to the upside surprise. CPI ex-food and energy accelerated from very low levels for the second month in a row. Given the latest data and considering an orthodox central bank board following the recent appointment of ex-Finance Minister Carrasquilla, we anticipate another hike in the policy rate at the next meeting of the central bank on 30 Septermber.

Emerging Markets Debt continued

Separately, Colombia plans to sell green bonds in the local market in a debut offering this month, according to a finance ministry official. The sale in pesos will allow the government to reduce its currency risk, as well as help pave the way for other issuers to tap the local market with green offerings. On completion of the debt offering, Colombia will be the first government in Latin America to sell domestic green bonds.

Ecuador

Ecuador's finance minister announced this week that the government had reached a technical agreement with the IMF, from which Ecuador expects to receive US$1.5 billion this year. According to Ecuador's finance minister, the new deal with the IMF includes fiscal and social protection targets and ensures multilateral support for the government's economic plan. Simultaneously, Ecuador will submit to congress economic reforms as a fast-track bill that targets economic growth, employment, and investment.

El Salvador

El Salvador's highest court issued a ruling that allows President Nayib Bukele to run for re-election in 2024. The court reinterpreted Article 88 of the Constitution, eradicating the requirement that a president has to wait for two terms or 10 years before running for re-election. The ruling has created backlash from Bukele's opposition and the press. The interim US Ambassador in El Salvador, Jean Manes, stated that this action subverts the balance of powers and is negative for the geopolitical relations between El Salvador and the US. As of this writing, there has been no confirmation that President Bukele will run again in 2024. At the same time, Vice President Felix Ulloa is planning to submit a Constitutional Reform to Congress, which proposes allowing presidential re-election every 6 years. The court's decision strains diplomatic relations with the US and complicates a possible deal with the IMF. El Salvador's external sovereign debt spreads widened this week.

Indonesia

Indonesia announced a reduction in the income tax rate on bond interest to a record-low 10% for domestic investors. The policy is aimed at reducing distortions in bond prices between local and global investors and further encouraging the development and deepening of the bond market. The new rate applies to Shariah-compliance and conventional bonds sold by the government and companies. Indonesia had cut the rate for foreign bond investors to 10% from 20% in early August as part of a broader plan to attract more investment into the country.

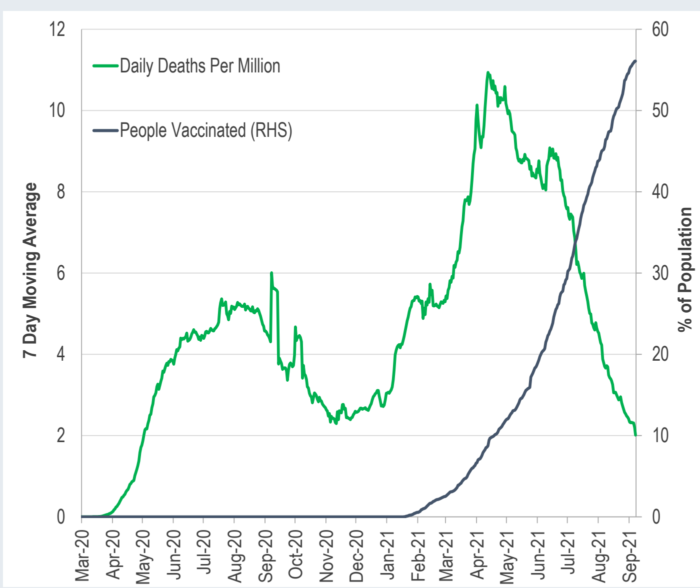
Mexico

President Andres Manuel Lopez Obrador (AMLO) stated early this week that his government has begun the process of refinancing the debt of state-owned oil company Petroleos Mexicanos (Pemex) and suggested he may use the recent allocation of US$12 billion equivalent in special drawing rights (SDRs) from the IMF to do so. While Mexico's central bank Banxico has argued that the SDRs are part of its international reserves, AMLO expects to use the recent injection to repay debt, in keeping with the IMF Articles of Agreement. Pemex bond prices increased this week following the announcement.

Chart of the Week

South America has made a lot of progress fighting the Covid pandemic over the past few months. The spread of the virus is finally subsiding after having experienced some of the world's worst outbreaks over the spring and summer. Reported daily Covid deaths in South America have now fallen back to levels not seen since late April 2020 during the initial stage of the pandemic. While specific infection rates vary, we see this trend broadly across most countries in South America. Contributing to this dynamic is the sharp increase in vaccination rates. More than 55% of the population have already received at least one dose. Vaccination rates already exceed those of the US in several countries including Brazil, Argentina, and Chile, though the share of fully vaccinated is still lagging. We believe these Covid developments put the region in a good position to continue the economic recovery and reap the benefits of strong commodity prices and improved external current account positions.

South America Vaccinations vs Covid Deaths



As of 7 September 2021
Source: Our World in Data, Stone Harbor Investment Partners LP

Global High Yield

US High Yield

The US high yield market returned 0.1% and spreads tightened 5 bps to 282 bps. The Energy, Drilling, and Midstream sectors outperformed in a choppy post hurricane oil week. Refining underperformed due to the correction in prices from a large move in PBF Holding Co after a positive mid-August announcement by the EPA. Spectrum Brands Holdings Inc., a leading global branded consumer products and home essentials company, announced the sale of its hardware and home improvement segment for US$4.3 billion to ASSA ABLOY, which represents a 14x multiple of the segments expected FY21 adjusted EBITDA. TopBuild Corp. is acquiring Distribution International, a leading North American distributor and custom fabricator of mechanical insulation, from private equity firm Advent International for US$1 billion.

Leveraged Loans

The Leveraged Loan Index returned 0.2%, the average bid price increased 8 bps to US$98.35, and the spread-to-maturity tightened 2 bps to L+403. Once again, the lower quality CCC rated portion of the market outperformed higher quality B and BB rated issuers as investors continued to search for yield. All industry sector returns were positive, and were led by Wirelines, Airlines, and Leisure; while Retail Food/Drug, Satellite, and Food/Beverage/Tobacco lagged. Performance was driven by idiosyncratic credit events from names trading at a significant discount to par such as GTT Communications Inc, a provider of cloud networking services to multinational enterprises, carriers and government customers, reached a restructuring support agreement to reduce debt with stakeholders which drove a significant increase in secondary trading levels. Lastly, there were no defaults in the index last week.

European High Yield

Overall European high yield market gained 0.1% week-on-week, with another week of outperformance from higher beta credits. Higher yielding credits that have exceeded estimates have been rewarded with tighter bond spreads. CCC rated issues outperformed for the week with gains of 0.44% compared to gains of only 0.03% for BB credits. Index spreads tightened 4 bps on the month, with CCC spreads 26 bps tighter. Outperformers included Gaming, Media, Metals, and Retail. Underperformers included Airlines and Automotive. Automotive underperformed due to additional announcements of production delays and expectations that the semiconductor chip shortage negatively impacting the industry will not be resolved for several more quarters. Airlines underperformed on expectations that travel will take longer to recover from the pandemic.

Flows/Issuance

US HY new issuance announcements have picked up pace after the holiday weekend. Only one deal priced over the last week but there are six deals scheduled to price in the coming days. Announcements are expected to pick up next week in anticipation of the US$45 to US$60 billion monthly primary estimates reported from banks. US high yield flows were positive US$1.275 billion mainly coming from institutional and retail accounts. ETFs saw a small outflow.

The loan market continued to see strong demand from structured credit buyers as well as retail loan mutual funds and Exchange Traded Funds (ETFs), which was met with significant new issue launches following the holiday weekend. Inflows from retail loan mutual funds and ETFs remained consistent following last week's largest inflow in twelve weeks. Collateralized Loan Obligation (CLO) formation totaled US$3.6 billion during the week, which is a solid start following the record-setting August. Approximately 15 deals have launched month-to-date for over US$20 billion, and the pace of launches is expected to continue.

For European high yield, EPFR data showed an inflow of of US$88 million, increasing the quarter-to-date total to US$649 million.

Source: Lipper, EPFR

Industry Insights

Chemicals: Power outages related to Hurricane Ida have caused several chemical companies to issue force majeure declarations across a range of commodity chemicals. Overall, 16% of US ethylene production and 18% of propylene production remain offline in Louisiana. On the demand side, several propylene derivative units representing 12% of the domestic demand shut down ahead of the storm. OxyChem has declared force majeure on the supply of chlorine and caustic soda. These disruptions are likely to lead to additional price increases and provide another boost to producers of commodity chemicals and additional cost pressures for their customers. Paint company PPG removed 3Q21 and 2021 guidance. While global demand remains robust with low inventories, raw materials again will be above their earlier expectations and they will attempt to pass along higher prices. Additionally, 3Q volumes will be lower than expected due to disruptions in the commodity supply chain, semiconductor chip shortages, and logistical and transportation challenges.

Energy: It's been a slow return to normal production in the Gulf of Mexico and the prolific Permian basin with power outages still being reported in the Gulf states post-Hurricane Ida. The Bureau of Safety and Environmental Enforcement shows that 70% of the evacuated platforms have been re-crewed, but output remains shut-in, with 1.44mbpd (thousand brls per day) of oil and 1.74mcfd (thousand cubic feet per day) of gas still shut in, representing approximately 79% the Gulfs oil and gas production. Delayed restarts are slightly higher than previous hurricane production delays as power outages and onshore facility damage is hindering the recovery process. At the Barclays CEO Energy Conference, improved commodity prices and balance sheets have led E&P companies to begin to discuss timing of returning cash to shareholders and consolidation opportunities, with an emphasis on retaining low leverage and cash flow sustainability.

Refining: Texas power market reform efforts in response to the Winter Storm Uri continue to make progress and will likely represent upside for power companies. The PUCT (Public Utility Commission of Texas) remains focused on cost-effective improvements to grid reliability, with likely support for gas/coal resources to mitigate price volatility created by intermittent renewable resources. Overall, the reform efforts are favorable to incumbent generators given the priorities of improved price stability and support of baseload and peaker generation. Additionally, retail operations should benefit from more predictable power prices. A further boost to the outlook for power generators has been the rise in natural gas forwards (especially into 2022 as well as 2023) along with the continued recovery of commercial and industrial demand that has pushed power prices and spark spreads higher over the last few months.

Investment Grade

Governments

With Jackson Hole now behind us, the US Treasury market oscillated within a similar range to prior weeks, and volatility, as measured by the ICE BofAML MOVE Index, eased to a 2-month low intra-week and ended the period at 57. We saw a small retracement of the post-Powell fall in yields across most maturities. 10-year Treasuries traded inside a 10 bps range, from 1.28% to 1.38%, and ended the period in the middle at 1.34%. In terms of the Treasury curve, US 5s30s were unchanged on the week at 114 bps but 2s10s, which captures the front end of the curve, steepened 4 bps to 112 bps. 10-year real yields, which excludes the expected impact of inflation, rose 1 bps to -1.04% while Breakevens, a proxy for inflation expectations, rose 4 bps to 2.38%.

Similarly, core European government bonds also weakened this week with the yield on 10-year Bunds and Gilts closing 5 bps higher to -0.32% and 0.74%, respectively. A small divergence in peripherals, reflecting supply dynamics and local Covid-19 infection rates, with the spread on 10-year Spanish bonds, over Bunds, tightened 2 bps to 0.69%, while Italian BTPs widened 1 bps to 1.07%.

In Asia-Pac, the yield on 10-year New Zealand government bonds rose another 10 bps, from 1.92% to 2.02%, as the country is set to ease restrictions and market participants continue to price in an imminent rate hike as soon as next month. The yield on 10-year Japanese and Australian government bonds followed the global trend and ended the period 1 bps and 5 bps higher, respectively.

Corporates

After finishing the last two weeks of August with very little primary calendar to speak of, the flood gates opened this week and we saw a record number 23 deals priced the day after Labor Day, and another 28 deals price before the close of the week for a rough total of US$75 billion in new issue supply. The heavy calendar was not totally unexpected as prior street forecasts were calling for US$40-50 billion of supply this week, so the street as well as investors were somewhat set up for the onslaught despite the elevated numbers. In fact, demand for new issue was so strong that oversubscription rates were above 3x on average, with deals basically offering little to no concession vs the secondary market, where trading was surprisingly light and balanced instead of the typical skew towards better customer selling to pay for the new deal flow. Spreads in the cash markets held up well during the week and were mostly unchanged to a few basis points wider, while the Bloomberg/Barclay's corporate OAS was unchanged at +88 bps.

Securitized

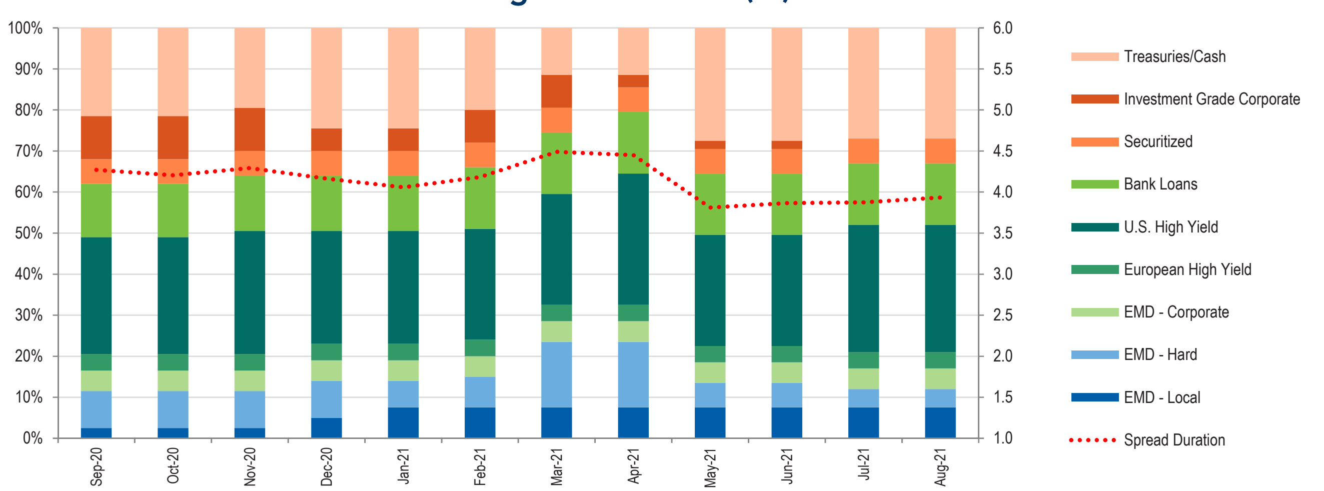
The Labor Day holiday resulted in very light new issuance and secondary trading in the securitized market over the past week. However, a decline in volatility helped agency mortgage-backed securities spreads tighten two basis points, resulting in modest month-to-date excess return. Going forward, new securitized issuance is expected to surge with auto asset-backed securities from BMW, CarMax, GLS, GM, Hyundai, Santander, Tesla, and World Omni. Commercial mortgage-backed securities (CMBS) activity will be strong with forecasts of at least US$15 billion in new issue conduit CMBS and US$8-10 billion in new CRE CLOs over the next couple of months.

Flows/Issuance

High grade fund flows took in US$5.9 billion for the latest period. As has been the trend, aggregate funds had the highest inflows at US$2.876 billion with both total return and corporate only funds showing inflows of a little over US$1.5 billion a piece. Inflows favor the short and intermediate buckets vs. long duration where there was a small outflow in long duration corporate-only funds.

Source: EPFR

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 August 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 September 8, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	339	(2)	(2)	1	(11)	(77)	(0.0)	0.0	1.4	0.8	3.9
	CEMBI Broad Diversified	249	(3)	(4)	(0)	(21)	(99)	0.1	0.1	1.0	2.3	6.0
	GBI EM Global Diversified Yield	5.09	0.08	0.10	0.10	0.87	0.64	(0.9)	(0.8)	(0.4)	(3.8)	4.0
EM Sovereign Debt	EMBI Global Diversified	339	(2)	(2)	1	(11)	(77)	(0.0)	0.0	1.4	0.8	3.9
	EMBI GD Investment Grade	143	(2)	(1)	(2)	(5)	(38)	(0.1)	(0.1)	1.2	(1.3)	0.5
	EMBI GD High Yield	562	(1)	(3)	(21)	(46)	(179)	(0.0)	0.2	1.7	3.1	7.9
EM Sovereign Debt Regions	Africa	522	2	(2)	2	(33)	(157)	(0.2)	0.1	1.7	3.4	13.4
	Asia	212	(6)	(4)	4	(20)	(18)	0.3	0.2	1.4	1.6	0.7
	Europe	273	(1)	(1)	0	8	(65)	(0.1)	(0.0)	1.6	0.6	5.6
	LATAM	354	(0)	(1)	4	0	(91)	(0.2)	(0.1)	1.5	(0.9)	1.8
	Middle East	337	(3)	(4)	(5)	(30)	(63)	0.1	0.2	1.2	1.3	3.1
EM Corporates	CEMBI Broad Diversified	249	(3)	(4)	(0)	(21)	(99)	0.1	0.1	1.0	2.3	6.0
	CEMBI BD Investment Grade	145	(3)	(3)	(4)	(24)	(66)	0.1	0.1	1.1	0.9	3.3
	CEMBI BD High Yield	439	(2)	(3)	(7)	(46)	(162)	0.1	0.1	0.9	4.2	9.9
US High Yield	US High Yield	282	(5)	(6)	14	(78)	(217)	0.1	0.2	1.1	4.7	10.7
	US High Yield BB	197	(3)	(6)	(3)	(67)	(158)	0.1	0.2	1.5	4.3	9.1
	US High Yield B	319	(5)	(8)	25	(60)	(195)	0.2	0.2	0.7	4.1	9.5
	US High Yield CCC	518	(13)	(2)	56	(140)	(458)	0.2	(0.0)	0.2	7.4	18.6
European High Yield	Barclays PanEur HY	288	(4)	(4)	(1)	(69)	(155)	0.1	0.1	0.8	3.8	8.1
	2% Ex Financials Yield	3.17	(0.01)	(0.01)	0.14	(0.27)	(1.55)	-	-	-	-	-
Bank Loans	LSTA Price	98.4	0.1	0.1	(0.0)	2.2	4.9	0.2	0.2	0.7	4.0	7.8
	LSTA 100 Yield	3.76	(0.05)	(0.06)	0.06	(0.22)	(0.95)	-	-	-	-	-
Investment Grade	US Treasury 7-10 Yield	1.24	0.03	0.03	(0.13)	0.46	0.66	(0.3)	(0.2)	1.4	(2.0)	(3.2)
	1M LIBOR	0.08	0.00	0.00	(0.02)	(0.06)	(0.07)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	35	(1)	0	3	(7)	(22)	(0.1)	(0.1)	0.8	(0.8)	(0.3)
	US Investment Grade Corporates	88	0	1	8	(8)	(43)	(0.3)	(0.2)	0.8	(0.5)	2.2
	Global Aggregate	34	(1)	0	1	(3)	(15)	(0.2)	(0.2)	0.9	(0.7)	0.3
	Barclays 1-5 Year Credit	39	0	1	4	(2)	(22)	(0.0)	(0.0)	0.3	0.3	1.2
FX	DXY (US dollar)	92.65						0.2	0.0	0.2	3.0	(0.8)
	GBI EM FX							(0.6)	(0.4)	(0.9)	(2.5)	2.6

1W reflects data from September 1 close through September 8 close. Source: Stone Harbor; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Important Information

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

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

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Stone Harbor
INVESTMENT PARTNERS

CONTACT

Main Office - New York

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

London Office

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

Singapore Office

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

ClientService@shiplp.com www.shiplp.com