Stone Harbor INVESTMENT PARTNERS

September 17, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Global credit markets remained largely resilient despite negative news flow from China that suggests slower growth moving forward. Market participants weighed China's weaker economic activity data and heightened concerns around the property sector against the likelihood of continued policy support in developed markets. US Treasury yields declined following lower-than-expected CPI figure, with headline CPI registering 0.3% vs 0.4% expected. Core CPI, which excludes food and energy prices, rose 0.1% m/m in August, down from its prior 0.3% m/m rate. Oil prices increased to a six-week high earlier this week as restoration of production from hurricane disruptions in the US is taking longer than expected. Credit spreads were mixed and total returns were positive across major sectors. US investment grade credits outperformed Emerging Markets (EM) sovereign debt and US high yield, on average. The US dollar index (DXY) declined, and EM currencies were unchanged, on average.

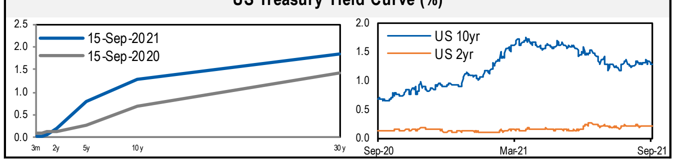
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	342		2	4.33%
EMBI GD IG	146		3	0.89%
EMBI GD HY	564		3	8.41%
Africa	528		5	13.43%
Asia	217		5	1.06%
Europe	274		1	5.81%
LATAM	358		3	2.25%
Middle East	334		-3	3.94%
CEMBI BD	253		4	6.03%
CEMBI BD IG	147		2	3.39%
CEMBI BD HY	443		4	9.71%
GBIEM GD (%)	5.10		2	2.53%
EM Blend (%)	4.72		-1	4.33%
EMBI ESG	325		3	3.18%
CEMBI ESG	258		4	6.02%
GBI ESG (%)	4.94		2	2.03%
		-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	323		-8	11.10%
US HY BB	224		-7	9.18%
US HY B	376		-9	9.48%
US HY CCC	651		-12	22.63%
Pan Euro HY	278		-10	8.21%
LSTA 100 (%)	3.73		-3	7.44%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.21		-3	-2.99%
1M LIBOR (%)	0.08		0	0.12%
US Agg	35		0	0.02%
US IG Corp	86		-2	2.66%
Global Agg	33		-1	0.37%
		-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	-0.25%	Gold	1,795	-9.94%	S&P500	4,481	31.74%
USDJPY	109.38	-3.60%	VIX	18	-28.96%	MSCI World	9,410	31.77%
EM FX		1.89%	Brent	75	86.18%	MSCI EM	3,101	18.52%
		Sep-20 Mar-21 Sep-21			Sep-20 Mar-21 Sep-21			Sep-20 Mar-21 Sep-21

As of: September 15 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

In efforts to increase the vaccination rate in the US, President Biden announced plans for a vaccine mandate that could affect two-thirds of the country's labor force. The Labor Department's Occupational Safety and Health Administration is in the process of developing, and implementing under emergency authorization, a standard requiring all employers with 100+ employees ensure their workers are either vaccinated or tested weekly. In terms of economic data this week, initial jobless claims continue to drift lower, from 345k to 310k, while continuing claims fell 22k but remain elevated at 2,783k. The August inflation reading came in slightly softer-than-expected as headline CPI rose 0.3% m/m, shy of estimates for 0.4%, bringing the y/y rate of inflation down from 5.4% to 5.3%. Used car prices, one of the catalyst behind the post-pandemic boon, moderated and fell 1.5% in August.

Europe

The European Central Bank (ECB) kept its policy rates unchanged and maintained the €20 billion/month pace of net purchases under its Asset Purchase Programme (APP), which is distinct from the Pandemic Emergency Purchase Programme (PEPP). Given the improvement in the economic and inflation outlook, the ECB deemed favorable financing conditions can be maintained with a moderately lower pace of net asset purchases than in the last two quarters, which were running at about €80 billion/month. The UK labor market recovery remains intact as employment growth accelerated, from 95k to 183k, for the 3m/3m period ending in July. Jobless claims, unemployed workers, and redundancies all fell during the month, while the unemployment rate edged lower for the third consecutive month to 4.6%.

Prime Minister Boris Johnson reshuffled his cabinet following a notable decrease in his Conservatory party's approval ratings. As part of the overhaul, Foreign Secretary Dominic Raab was demoted after he was criticized for the mishandling of the Afghanistan withdrawal. Trade Secretary Liz Truss was named as his successor. Johnson also outlined the country's plan to tackle a potential resurgence of infections this autumn/winter. The country will begin offering vaccines to adolescents and booster shots to the vulnerable and individuals over 50.

Japan/Asia

Chinese retail sales and industrial production both fell more than consensus estimates in August. On a year-on-year basis, retail sales dropped, from 8.5% in July to 2.5% in August, while IP slowed from 6.4% to 5.3%. The sharp decline in retail sales is not too surprising given the government's fairly severe restrictions, which limited retail spending and travel amid the peak summer holiday season.

The Reserve Bank of Australia's Philip Lowe pushed back against current market expectations for an imminent rate increase following last week's dovish taper announcement. The central bank chief reaffirmed the committee's view that they do not expect to increase the cash rate until 2024, at the earliest, as wage growth is not projected to be sufficient to sustain inflation within their 2-3% goal. This is in contrast to New Zealand where its central bank has indicated an interest rate increase as soon as next month.

Economist Corner

Seamus Smyth, PhD, Developed Markets

After a string of extremely high core inflation readings over the early summer—3 months in a row where core CPI increased by over 0.7% each month—the last two readings have been much lower. In July, core CPI advanced 0.33% and August only 0.10%. The lower readings, and the composition of the lower readings, provide important support for our view that most of the spike was "transitory," though with some caveats we detail below.

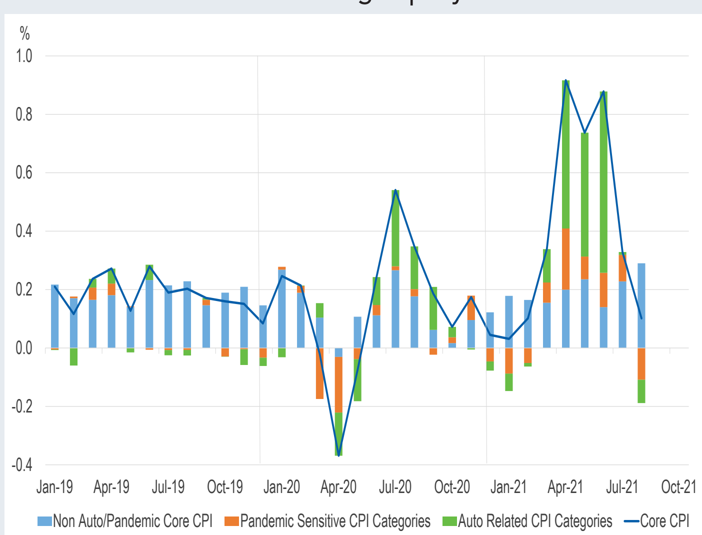
As we've previously noted, the biggest swing factor has been auto-related prices as shown in the accompanying chart. Used car prices have been especially important, driving a significant chunk of the summer upside. In August, they dropped modestly, helping to pull down core CPI—an important shift. However, just as we wanted to mostly look through the influence of used car prices on the way up, we want to mostly look through them on the way down: the moderation in used car prices doesn't make underlying inflation low.

The other big swing in the last two month's moderation was in price categories that display high pandemic sensitivity: hotels and motels, airfares, and live event admissions, among others. These had rebounded to almost the pre-pandemic level through July, but with the spread of the Delta variant dropped back down, also subtracting from core CPI. Looking forward, there is room to move moderately higher, especially on airfare, but they are no longer far below pre-pandemic levels as was the case in March, when the surge started. On net, these should add less going forward.

Steffen Reichold, PhD, Emerging Markets

These factors argue for the "transitory" view being correct. But it's important to note that the last several months have seen the non-transitory areas of core move higher. The pace is nowhere near as crazy as the moves in the transitory areas, but it does bear close attention going forward as important areas such as rent and owner's equivalent rent are likely to remain firm. What we can say is that it doesn't look like we're in the 2009-2010 scenario where core inflation in the recession's aftermath was very low.

Core CPI Reverts Back Down As Used Car Prices Stop Increasing Rapidly



As of: 16 September 2021
Source: Bureau of Labor Statistics, Stone Harbor Investment Partners LP Calculations

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 2 bps and the JP Morgan EMBI Global Diversified returned 0.28%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Lebanon (+18.9%), Belize (+2.0%), and Venezuela (+2.0%). The bottom performers included El Salvador (-3.8%), Sri Lanka (-2.9%), and Costa Rica (-1.2%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.05%. EM currencies returned 0.02% in aggregate. The top performers included the Chilean peso (+1.2%), Russian ruble (+1.2%), and Philippine peso (+0.6%). The bottom performers included South Africa (-1.1%), Poland (-1.0%), and Colombia (-0.4%).

The yield of the JP Morgan GBI EM Global Diversified increased 2 bps to 5.10%. Dominican Republic led again this week and yields declined by 35 bps, followed by Turkey (-27 bps). Colombia and Czech Republic underperformed with yields 11 bps higher, followed by Serbia (+9 bps).

In central bank actions, key rates were left unchanged in Egypt (8.25%) and Georgia (10.00%), while Russia and Kazakhstan hiked by 25 bps to 6.75% and 9.50%, respectively.

EM Corporate Debt

The CEMBI Broad Diversified posted a small gain of 0.07%, with both Central and Eastern Europe, Middle East and Africa (CEEMEA) and Latin America regions outperforming the index. Despite the positive return, EM Corporates lagged both EM Sovereigns and US High Yield. In Asia, markets focused on China as homebuilder Evergrande continued to move toward a debt default and restructuring. Chinese authorities announced their intention to tighten supervisory regulations of gaming operators in Macau. Bonds of the gamers declined. Outside of China, most of the major EM corporate country level-returns were positive led by Argentina, Israel, and Ukraine.

Flows/Issuance

EM sovereign debt issuance this week included offerings from Chile, Hungary, Indonesia, and Turkey. Chile issued US dollar-denominated and euro-denominated bonds due 2071 and 2029, totalling US$2 billion; Hungary issued US dollar-denominated and euro-denominated bonds due 2028, 2031, and 2051, totallying US$5.3 billion; Indonesia issued US dollar-denominated and euro-denominated bonds due 2031, 2034, and 2061, totaling US$1.8 billion; and Turkey issued US dollar-denominated bonds due 2028 and 2033, totaling US$2.3 billion. In EM corporate debt, the pace has quickened since the US Labor Day holiday, with the majority of the new corporate issues being relatively high quality and from existing issuers.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$1.4 billion, primarily into hard currency funds for the week through 14 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

Angola

Moody's Investor Service (Moody's) upgraded Angola's sovereign credit rating to B3 from Caa1 with a stable outlook, citing positive impact of rising oil prices, as well as stronger governance, particularly in the quality of the country's executive and legislative institutions. According to Moody's, Angola's fiscal and debt metrics are poised to improve significantly, aided by higher oil prices. Assuming oil prices remain around US$65/barrel this year and next and around US$45-65/barrel in the medium term, Moody's estimates the government debt-to-GDP ratio to decline to 95% this year and below 80% in 2023, from roughly 125% in 2020. In addition, Angola's external position is expected to strengthen, supported by the stable exchange rate. Moody's expects the current account surplus to exceed 5% of GDP in 2021 and to remain in surplus in the coming years. While we do not typically report on rating agency actions, this upgrade does reflect our view of the credit, for which the oil sector remains key.

Argentina

Argentina's main opposition coalition candidates defeated their ruling party Frente de Todos (FdT) counterparts in most provinces in preliminary elections on 14 September. The candidates now face elections in November. Notably, in the Buenos Aires Province – a key battleground region where the Kichnerist-Peronist bloc have historically held a stronghold -- Juntos bloc is ahead by nearly 5 percentage points over the FDT ballot. At the national level, Juntos bloc is leading with 40.2%, while the government coalition FdT received 30.9% of the votes, with 94.2% of the votes counted. These results suggest that the political momentum leans toward the opposition; and by extension, a defeat for the government coalition FdT in the November mid-term elections is possible. In this scenario, the FdT would lose the Senate simple majority, retaining only 35 senators, and also lose the first minority in the Deputies Chamber to the Juntos bloc. The resounding message from the voters encompass the need to lower inflation and for FX stability, and job creation within an investment-friendly environment, all of which will likely need to be incorporated in the policy framework moving forward.

China

China's economy slowed in August as a result of virus outbreaks and associated restrictions. Retail sales growth slowed sharply to 2.5% y/y as private consumption and spending dropped. Fixed asset investment also decelerated, led by infrastructure and real estate investment, following earlier government measures to control financial risk. Industrial production also moderated to 5.3% y/y. Widespread floods in parts of China likely contributed to the weakness. While this set of data has worsened the growth outlook, we do not expect a major shift in the moderately accommodative policy stance.

Colombia

Colombia's President Ivan Duque signed into law a much-awaited fiscal reform following last week's congressional approval. The reform sets out a path to stabilize public finances, raising additional revenue from the corporate sector and from reduced fiscal spending and a reduction of tax evasion. In addition, Congress approved changes to the fiscal rule to be implemented in 2026 which establishes a debt ceiling of 71% debt/GDP and a long term goal of 55% debt/GDP. The rule further stipulates that the net primary fiscal balance for the Central Government shouldn't be less than -4.7% of GDP in 2022, -1.4% of GDP in 2023, -0.2% of GDP in 2024, and +0.5% of GDP in 2025, regardless of the current debt level. In 2021 the fiscal rule will remain suspended, which means a deficit of -8.6% of GDP for the Central Government, according to the latest budget. Another change in the fiscal rule included the creation of an autonomous committee to oversee maintenance of the rule.

Indonesia

Indonesia recorded a record high monthly trade surplus of US$4.7 billion in August from US$2.6 billion in July, mainly due to export growth, which were +21% higher vs July. Imports were higher by 10% m/m, led by an increase in oil import growth. The increase in exports was driven largely by palm oil and coal amid a rising trend in their respective prices. Metal exports also continued to rise but to a lesser extent compared to palm oil and coal. We expect the trade surplus to remain robust (>US$2.5 billion) in the next few months. Indonesia's current account balance for 3Q will likely turn to a surplus, from a deficit of 0.8% of GDP in 2Q. Citi's CToT index shows Indonesia's terms of trade improved going into September. The expected strong trade surpluses in late 3Q and possibly early 4Q will help mitigate net dollar demand from onshore corporates, thus could be supportive for IDR in the near term.

Lebanon

After more than a year of political gridlock, Lebanon's caretaker administration has been replaced with a new government tasked with addressing the deep economic crisis and building a path towards recovery. Among the new administration's priorities are resumed talks with the IMF to unlock aid and the start of Eurobond restructuring negotiations. The IMF's main conditions for a funded program will be: 1) adjusting public debt to a sustainable level, 2) restructuring the broad banking sector and 3) the design and implementation of a medium-term structural reform plan. The government has announced that the full audit of the central bank -- which was the main obstacle in designing the recovery plan last year -- will commense soon, and the IMF discussions are currently expected to take place in October. While uncertainty around the timing of upcoming parliamentary elections weigh on reform momentum, the formation of government suggests near-term focus on economic stability.

Philippines

Overseas cash remittances rose 2.5% y/y or US$2.85 billion in July in stark contrast to economists' expectations of a 2.7% decline. For the year-to-date period, remittances increased 5.8% y/y to US$17.77 billion vs US$16.80 billion reported for the same period in 2020. According to the Bangko Sentral ng Philipinas, the strong July data was primarily due to remittances sent by land-based workers with work contracts of one year or more, while remittances by sea-based workers also increased. Dollar remittances remain an important source of economic support that can further strengthen the country's current account balance.

Ukraine

The European Commission endorsed a euro 600 million (US$710 million) disbursement to Ukraine as part of a larger package agreed on last year. Ukraine's government also expects the IMF to unfreeze its current US$5 billion lending program and disburse up to US$2.9 billion in remaining funds year as a result of fulfilling all the conditions outlined by the IMF, including strengthening anti-corruption measures and ensuring the independence of the central bank. IMF staff will begin a virtual mission to review the current Standby Arrangement on 21-23 September, according to IMF representatives.

Chart of the Week

Global demand for goods is booming. In the wake of the pandemic, demand has shifted away from services and towards goods, while purchasing power has been supported by record levels of policy stimulus. In connection with some pandemic-related logistics challenges, this dynamic has contributed to supply chain disruptions that are limiting supply in specific goods and are leading to an increase in container shipping rates, which have spiked to unprecedented levels. Average shipping rates are currently more than five times pre-pandemic levels. Accordingly, price pressures among a broader set of goods have increased. However, price spikes of this magnitude are unlikely to persist very long. Shipping capacity will ultimately adjust. Current orders amount to around 20% of existing shipping capacity, much of which will not become operational before 2023. We expect that the more meaningful contribution towards a normalization of shipping rates will be the gradual reversal of pandemic-related demand shifts. As vaccination rates pick up and pandemic-related behavioral changes subside, the demand for services should recover, leaving less purchasing power for goods. We expect this key dynamic will help contain inflation pressures later this year as the Delta wave subsides.

Freight Cost per Container[1]

As of 16 September 2021
Source: Bloomberg, Stone Harbor Investment Partners LP
[1]Drewry World Container Index. Spot container freight rate for major East West trade routes. Index reported in USD per 40 foot container.

Global High Yield

US High Yield

The US high yield market returned 31 bps, evenly skewed among ratings categories, with accounts having to add to existing names after the new issue calendar failed to meet expectations and with market technicals remaining the same causing the market to grind higher. Index spreads tightened 8 bps to +323 and yields are now 3.83%. Spreads on CCC's tightened 12 bps from continued compression. Drillers, wirelines, and midstreams outperformed, while refining, retail food/drug, and other transportation underperformed. Energy-related names have been helped by better sentiment following a more optimistic OPEC outlook for the market, as well as the IEA raising its 2022 oil-demand forecasts. Endo International settled its three consolidated opioid cases pending in Suffolk County NY for a total payment of US$50 million. This settlement was below expectations and bonds traded 1-3 points higher on the news.

Leveraged Loans

The leveraged loan market carried a strong tone this week despite lighter trading volumes and a heavy slate of new issuance. The S&P/LSTA Leveraged Loan Index returned 0.21%, the average bid price increased 19 bps to $98.54, and the spread-to-maturity tightened 4 bps to L+399. On a dollar price basis, the index now sits at levels last seen in October 2018. The lower quality CCC portion of the market continued to outperform the BB and B portions of the market as corporate earnings remained solid, and investors continue to reach for yield. From an industry perspective, wirelines, leisure, and airlines outperformed, while the satellite, media/other, and refining sectors lagged. Notably, within the leisure sector, theatre names saw strong demand as Walt Disney Co. announced they will release their remaining 2021 movies exclusively in theatres before releasing them on streaming sites, which drove secondary prices higher. Lastly, there were no defaults in the index last week.

European High Yield

Overall European high yield market gained 0.26% due to the positive macro environment, strong earnings, and supportive technical backdrop. The slower monthly start to the primary calendar benefitted bond prices as accounts have been forced to focus on existing issues. The positive sentiment continued to favour higher beta credits as accounts searched for yield and bid up CCC issues that reported better-than-expected earnings. CCC rated issues outperformed for the week with gains of 0.75% compared to gains of 0.21% for BB credits. Index spreads tightened 10 bps for the week, with CCC spreads tightening 48 bps. Industry outperformers included airlines, E&P, and gaming. Bonds of International Airlines Group rallied on reports that the company could raise additional equity from shareholders to repay debt. Deutsche Lufthansa bonds rose after the company confirmed that they have picked JPMorgan to advise on the disposal of their Technik unit stake, which could value their claim at €3.5 billion - €5 billion. Proceeds are expected to be used to pay down the €9 billion of state aid the airline received during Covid. Gaming performance benefited from strong earnings from Cirsa Enterprises and E&P rallied with commodities. Automotive, home builders, and metals/mining underperformed.

Flows/Issuance

In US high yield, the primary calendar fell short of expectations set earlier in the month of US$45-60 billion, with only US$12.65 billion having priced. The low new issue inventory and high cash balances have pushed final pricing much tighter, orders have been higher than usual and bonds have traded up on the break. Flows were negative on the week led outflows from ETFs and retail accounts.

In the loan market, supply/demand remained reasonably in balance this week. Arrangers have launched a robust slate of deals nearing US$30 billion so far this month. Given the timing of launches allocations for the majority of deals have yet to be received driving secondary levels higher. However, as investors begin to receive allocations, trading volume should increase and will be more balanced. Away from new issuance, the asset class continues to see strong demand from retail loan mutual funds and Exchange Traded Funds (ETFs), as well as structured credit buyers. Inflows from loan mutual funds and ETFs remain consistently positive, with inflows of US$717 as reported by Lipper. Collateralized Loan Obligation formation is down from the record setting August, but demand is still evident with approximately US$3.6 billion pricing this past week, bringing the year-to-date total to US$116 billion.

For European high yield, EPFR data showed an inflow of US$363 million, increasing the September amount to US$4451 million and the quarter-to-date total to over US$1 billion. Although less than expected, the primary market resumed this week with US$2.3 billion euros of new issuance pricing.

Source: Lipper, EPFR

Industry Insights

Autos: The ongoing semi-conductor shortage continues to plague the automotive industry as original equipment manufacturer (OEM) new car production cannot keep pace with consumer demand. Domestic seasonally adjusted annual rate (SAAR) slowed this summer to the range of 13-14 million units down from spring peak levels, however, dealer inventories are now at all-time lows and incentive spending is at local lows. These factors point to continuing strong end consumer demand, which could be further bolstered post the damage from the recent string of tropical storms that will cause temporary spike in demand from junked cars. Another growing challenge is elevated commodity prices that are posing transitory issues for automotive suppliers as they work to pass on higher raw material prices through to their OEM and retail customers.

Restaurants: Restaurant operators have experienced a strong recovery as consumer spending has been robust driven by re-opening trends, pent-up demand, and federal stimulus benefits. During the most recent quarter, restaurant operators saw strong top-line trends, which helped offset a surging cost environment that is expected to continue for the balance of the year. As restaurant operators navigate the Delta variant with potential closings, they're working to incentivize employees to return to work while also confronting rising food costs and other constraints throughout the supply chain. With an uncertain traffic outlook given potential closings and an inflationary cost environment, we will be monitoring trends closely.

Services: Mergers and Acquisitions have picked up in the information services industries during 2021. These deals often price at very high EBITDA multiples, often over 15x forward EBITDA. As we have seen consolidation in the information services industry, the competition between established publicly traded information services companies and newer buyers (e.g., private equity buyers or SPAC's), for prices paid have increased. Established information services companies often can reduce purchase multiples with synergies that amount to as much as 5 to 10 multiple points of EBITDA. Alarm monitoring companies are the largest industry in the services sector. We are monitoring the reported monthly churn numbers for these companies as households move more often now driven by the receding pandemic concerns and the extremely hot single family home market.

Investment Grade

Governments

US Treasuries oscillated within a similar range to prior weeks but saw better demand over the last few days amid softer economic data, downward revisions to economic growth forecasts and lingering Delta concerns. Volatility, as measured by the ICE BofAML MOVE Index, further subsided and reached a new 3-month low of 51.7 before ending the period at 54. The US Treasury curve bull flattened, as longer dated bonds saw better demand, with 2s10s falling 3 bps to 109bps, while 5s30s fell 8 bps to 106 bps. Following the softer-than-expected CPI print, 10-year real yields, which excludes the expected impact of inflation, slipped 1 bps to -1.05%, while Breakevens, a proxy for inflation expectations, fell 3 bps to 2.35%.

In contrast, core European rates ended the period weaker as the yield on 10-year Bunds and Gilts rose 2 bps and 3 bps to -0.31% and 0.78%, respectively, as incoming economic data stabilized. Following the overall positive employment data, the probability of a rate increase in the UK by Q2 of 2022 rose, but the real test will be what happens after the furlough scheme ends later this month. If we see a notable rise in unemployment, coupled with softening of wages, then the BoE will likely delay any interest rate hikes. Peripheral spreads tightened this week as the spread on 10-year Spanish and Italian bonds fell 2 bps and 5 bps to 0.34% and 0.70%, respectively.

Corporates

Spreads in investment grade corporates held firm this week with the OAS on the Bloomberg/Barclay's corporate index tighter by 2 bps at +86 bps. Focus was and remains on the new issue calendar where the pace has slowed from last week but still printing deals at the high end of street estimates. Trading volumes seem more balanced as there was less pent up investor demand for the primary, but deals still managed to get done with only minor concessions to the secondary. However, the market does feel weighed down in spots from the recent supply and unlike last week, secondary flows definitely show more customer selling to pay for new issue. There was a large exchange offer from Broadcom this week, offering to take out US$5 billion worth of 2025-30 maturities and extend into newly issued 2035 and 2036 maturities. This follows Verizon's US$3.5 billion exchange offer from earlier in the month, which targeted 2024-2026 maturities for a newly issued 2032 maturity. Performance during the week was led by energy-related credits, while the gaming sector largely underperformed as casino-related credits were negatively impacted by the uncertainty surrounding Macau and China's policy to tighten oversight of casinos

Securitized

Securitized spreads were little changed over the past week. Agency pass-through mortgage-backed securities (MBS) were 1 basis point wider as they could not keep pace with the 10-year Treasury, which moved 4 bps lower to 1.30%. Meanwhile spreads asset-backed securities (ABS) and CMBS spreads were unchanged for the week.

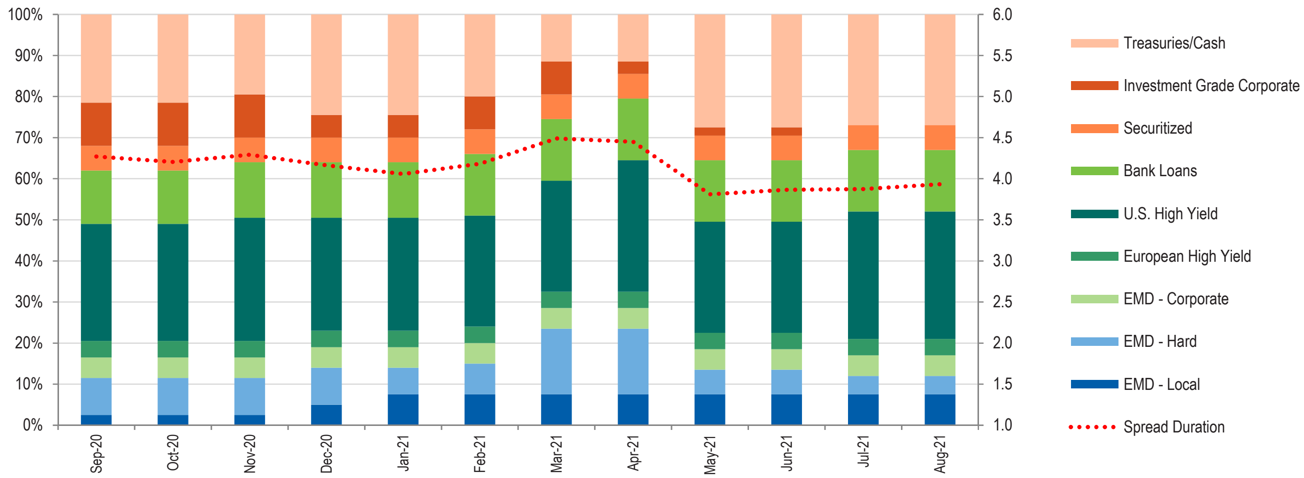
Flows/Issuance

In investment grade corporates primary market, roughly US$40 billion priced this week, leaving September at just under US$120 billion. High grade fund flows slowed this week, following a holiday-shortened week, but still saw inflows of US$3.5 billion, according to EPFR. Aggregate funds were responsible for 88% of the inflow, which favored short and intermediate maturities. Total return fund inflows were light at only US$188 million, while corporate only funds had larger inflows in the long end while short maturities saw an outflow.

ABS issuance was strong with US$15.3 billion coming to market making it the busiest week of 2021. The large issuance was met with equally large demand from investors eager to reduce cash levels. Blackstone issued the second largest single borrower deal of the year on Wednesday. It was US$3.2 billion in size and backed by ten data center properties with a loan to value of 56.1%. Interest in the deal was strong as data centers are considered a stable asset and Blackstone a strong owner.

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 15, 2021			Spread or Yield Change (bps or %)						Total Return (%)				
			Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	EMBI G D		2	0	3	(9)	(58)	0.3	0.3	1.7	1.0	4.3
	CEMBI Broad Diversified	CEMBI B D		4	(0)	3	(17)	(97)	0.1	0.2	1.1	2.4	6.0
	GBI EM Global Diversified Yield	GBI EM GD		0.02	0.12	0.12	0.89	0.69	0.0	(0.7)	(0.4)	(3.8)	2.5
EM Sovereign Debt	EMBI Global Diversified	EMBI G D		2	0	3	(9)	(58)	0.3	0.3	1.7	1.0	4.3
	EMBI GD Investment Grade	EMBI IG		3	1	0	(2)	(37)	0.3	0.2	1.5	(1.0)	0.9
	EMBI GD High Yield	EMBI HY		3	(1)	(18)	(44)	(119)	0.2	0.4	1.9	3.3	8.4
EM Sovereign Debt Regions	Africa	Africa		5	3	7	(28)	(154)	0.0	0.1	1.7	3.4	13.4
	Asia	Asia		5	1	9	(15)	(20)	0.0	0.2	1.4	1.7	1.1
	Europe	Europe		1	(1)	1	9	(67)	0.3	0.3	1.9	0.8	5.8
	LATAM	LATAM		3	2	8	4	(38)	0.3	0.2	1.7	(0.6)	2.2
	Middle East	Middle East		(3)	(7)	(8)	(33)	(68)	0.6	0.8	1.8	1.9	3.9
EM Corporates	CEMBI Broad Diversified	CEMBI B D		4	(0)	3	(17)	(97)	0.1	0.2	1.1	2.4	6.0
	CEMBI BD Investment Grade	CEMBI IG		2	(2)	(3)	(22)	(65)	0.2	0.2	1.2	1.1	3.4
	CEMBI BD High Yield	CEMBI HY		4	1	(3)	(42)	(161)	(0.0)	0.1	0.9	4.1	9.7
US High Yield	US High Yield	US HY	323	(8)	(13)	3	(69)	(198)	0.3	0.5	1.4	5.2	11.1
	US High Yield BB	US HY BB	224	(7)	(11)	(10)	(57)	(151)	0.3	0.5	1.8	4.3	9.2
	US High Yield B	US HY B	376	(9)	(12)	7	(49)	(168)	0.3	0.5	1.0	4.4	9.5
	US High Yield CCC	US HY CCC	651	(12)	(22)	56	(151)	(499)	0.3	0.5	0.8	10.2	22.6
European High Yield	Barclays PanEur HY	BAR PanEur HY		(10)	(14)	(10)	(78)	(153)	0.3	0.4	1.1	4.1	8.2
	2% Ex Financials Yield	2% ExFin Yield		(0.06)	(0.07)	0.08	(0.34)	(1.47)	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price		0.2	0.3	0.2	2.4	4.6	0.2	0.4	0.9	4.2	7.4
	LSTA 100 Yield	LSTA 100 Yield		(0.03)	(0.09)	0.03	(0.25)	(0.85)	0.2	0.4	0.9	4.2	7.4
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld		(0.03)	0.00	(0.16)	0.43	0.64	0.3	0.1	1.7	(1.8)	(3.0)
	1M LIBOR	1M LIBOR		(0.00)	0.00	(0.02)	(0.06)	(0.07)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	US AGG		0	0	3	(7)	(24)	0.4	0.3	1.2	(0.4)	0.0
	US Investment Grade Corporates	US IG Corp		(2)	(1)	6	(10)	(43)	0.7	0.5	1.6	0.3	2.7
	Global Aggregate	Global AGG		0	0	1	(3)	(16)	0.2	(0.0)	1.0	(0.5)	0.4
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit		(1)	0	3	(3)	(22)	0.1	0.0	0.3	0.4	1.2
FX	DXY (US dollar)	DXY		0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)	0.1	2.9	(0.5)
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.3)	(0.9)	(2.4)	1.4

1W reflects data from September 8 close through September 15 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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