Stone Harbor INVESTMENT PARTNERS

September 24, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Risk assets came under pressure early this week on persistent concerns around the Chinese property sector, but market sentiment later turned more positive as fears of financial contagion stemming from China receded. Credit markets were also focused on the US FOMC meeting and an update on tapering and rate hikes. The yield on the 10-year Treasury note declined after the Federal Reserve (Fed) released its policy statement and Summary of Economic Projections, which implied reducing the pace of asset purchases over the next couple of meetings (see details under Economist Corner on page 2). Following Monday's sell-off, equities markets and most commodities, including iron ore and crude oil, also rose. Credit spreads widened and total returns were generally negative across major sectors. US investment grade credits outperformed Emerging Markets (EM) sovereign debt and US high yield bonds, on average. The US dollar index (DXY) advanced, and EM currencies declined, on average.

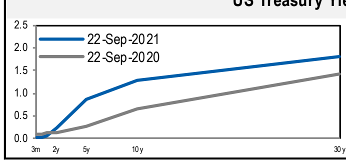
Emerging Markets

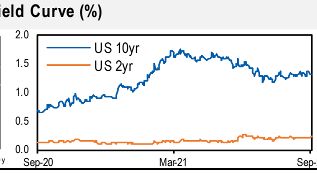
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	352		10	5.53%
EMBI GD IG	149		3	1.62%
EMBI GD HY	584		20	10.34%
Africa	550		23	15.14%
Asia	224		7	1.52%
Europe	281		7	6.58%
LATAM	371		13	3.94%
Middle East	336		2	5.18%
CEMBI BD	259		6	6.28%
CEMBI BD IG	149		3	3.44%
CEMBI BD HY	454		10	10.28%
GBIEM GD (%)	5.15		4	3.17%
EM Blend (%)	4.79		7	5.02%
EMBI ESG	334		9	4.42%
CEMBI ESG	264		6	6.31%
GBI ESG (%)	4.98		4	2.62%
		-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	324		1	11.93%
US HY BB	225		1	10.01%
US HY B	374		-2	10.46%
US HY CCC	660		9	23.39%
Pan Euro HY	283		5	9.07%
LSTA 100 (%)	3.73		0	7.77%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.23		2	-3.18%
1M LIBOR (%)	0.08		0	0.12%
US Agg	36		1	0.03%
US IG Corp	86		0	2.79%
Global Agg	34		1	0.26%
		-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	1.17	-0.18%		Gold	1,779	-8.00%		S&P500	4,396	32.58%
USDJPY	109.78	-4.44%		VIX	21	-22.30%		MSCI World	9,250	33.08%
EM FX		2.37%		Brent	76	82.62%		MSCI EM	3,040	19.30%
		Sep-20 Mar-21 Sep-21				Sep-20 Mar-21 Sep-21				Sep-20 Mar-21 Sep-21

As of: September 22 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The White House announced it will ease travel restrictions and allow fully vaccinated foreigners into the US. Prior to the announcement, the US instituted a ban on travellers from areas such as Europe, UK, India and China—regardless of vaccination status. Unvaccinated foreigners will not be allowed to enter the country. The CDC is working on finalizing the list of approved vaccines and restrictions are expected to be lifted in early November. After several consecutive weeks of declines, the Citi US Economic Surprise Index, which measures the degree economic data beats/misses relative to market expectations, retraced as the incoming data generally improved. Retail sales were expected to decline 0.7% in August but surprised to the upside and rose 0.7% m/m. Similarly, housing starts and permits rose more than expected in August. The Philly Fed Business Outlook rose for the first time in five months in September, while initial jobless claims edged higher this week, from 322k to 332k, and continuing claims fell 187k to 2,665k.

Europe

Rising energy prices were of concern across Europe this week as low stockpiles, and limited supply, sent benchmark gas contracts to record highs. Italy is expected to spend approximately €3.5 billion to protect its consumers from the surge in prices, while France will provide nearly €600 million in financial aid to lower income families. Spain will propose a windfall tax for power utilities in exchange for a ceiling on consumers' bills. In the UK, calmer weather has reduced output from wind turbines leading to an increase in demand for natural gas with energy producers turning back towards coal to fill in the shortfall. Prime Minister Boris Johnson addressed the recent surge in natural gas prices and attempted to reassure the public ahead of the colder autumn/winter season that the rise in prices is largely attributed to a temporary, post-pandemic, surge in demand. On the political front, the latest YouGov polls show Merkel's CDU/CSU (Christian Democratic Union) is narrowing in on the SPD (German Social Democrats) as the coalition gained 1 pt to 21%. Support for the SPD remains unchanged at 25%. Elections will take place this Sunday, 26th September.

Japan/Asia

Australia abandoned its Future Submarine Program with France and entered into a trilateral security partnership with the US and UK. Australia will purchase nuclear-powered submarines under the new agreement known as "AUKUS." Shortly after the new agreement, Australia and the US announced the expansion of military cooperation, which includes rotational deployments of US military to Australia. France and China denounced Australia's decision. As expected, the BoJ kept its policy rate settings unchanged leaving the short-term rate at -0.10% and its 10-year JGB yield target at around 0.00%. The BoJ also announced details around its new climate change scheme, which aims to support green initiatives via green loans and bonds. Operations are set to begin in December 2021 with loans initially offered at 0.0% interest with the potential to increase up to 0.20%. Eligible entities can roll the one year loans, which are expected to be offered twice a year, through 2031.

Economist Corner

Seamus Smyth, PhD, Developed Markets

A lot happened at the September FOMC meeting. Indeed, it was one of the most interesting and informative meetings in some time.

To start with, the FOMC gave quite explicit guidance that they will soon reduce the pace of their asset purchases. They key line from the statement was **"If progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted."**

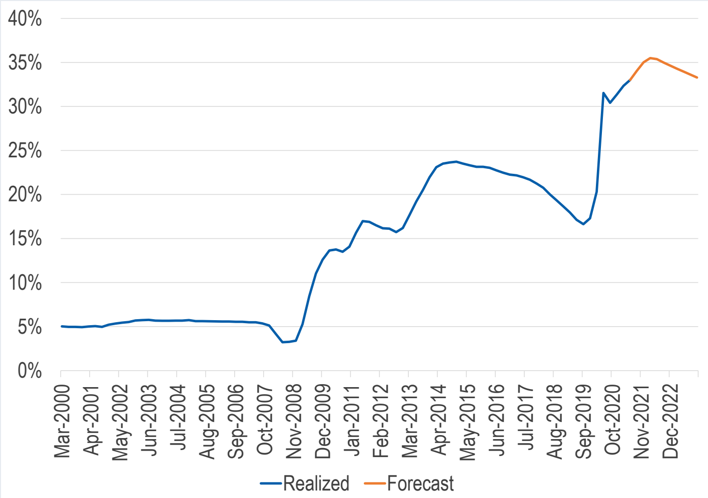
For the Fed, that's an extremely clear steer that they intend to, if the data cooperates, announce a reduction in the pace of asset purchases at the next meeting. And in his press conference, Powell underscored that message and went further in referencing the middle of 2022 as when the taper is likely to conclude. Combined, this is quite strong guidance; it would take a significant data deterioration to not get a taper by the end of this year, in our view. That implies a likely path of the Fed's balance sheet that peaks as a share of GDP early next year, as shown in the accompanying graph.

We also got an update on the members' view on the likely path of rates in the dot plot. The median now sees rates ending 2023 at 1.0%, up from 0.6% last meeting -- a notable increase. And the extension of the forecast into 2024 sees further increases, up to 1.8%. What is also interesting is that if we look beyond the medians, there is no consensus within the FOMC on the path of rates. In 2024, the spread on the rates forecast is 200 bps—that's very wide! The dispersion is partly driven, it appears, by differing views on the outlook for the economy, so it's likely that we get that narrowed down as we see how the economy evolves coming out of the pandemic.

Steffen Reichold, PhD, Emerging Markets

Other parts of the Summary of Economic Projections allow making some tentative inferences about the Fed going forward. In 2022, the median forecast of core PCE inflation is 2.1% and in 2023, 2.2%, before falling back to 2.1% in 2024. With those inflation forecasts the median forecast for the fed funds rate starts to rise in 2023 and further in 2024. This suggests that the amount of inflation overshoot they are comfortable with in their new flexible average inflation targeting framework is around 2¼%. The Fed has been strategically ambiguous about this, so the fact that the comfort level looks to be around 2¼% rather than 2½% is important new information.

Federal Reserve Asset Holdings



As of: 16 September 2021
Source: Bureau of Labor Statistics, Federal Reserve Board, Haver Analytics, Stone Harbor Investment Partners LP Calculations

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 10 bps and the JP Morgan EMBI Global Diversified returned -0.72%. Investment grade securities outperformed non-investment grade bonds, on average. The top country performers included Lebanon (+5.7%), Venezuela (+3.8%), and Papua New Guinea (+0.4%). The bottom performers included Argenintina (-7.4%), El Salvador (-5.2%), and Ecuador (-3.0%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -1.1%. EM currencies returned -0.9% in aggregate. Hungarian forint and Turkish lira underperformed, returning -2.4%, while Polish zloty and South African rand declined 2.1% and 2.0%, respectively. Dominican peso outperformed, gaining 0.3%, while Indonesian rupiah remained unchanged. The yield of the JP Morgan GBI EM Global Diversified increased 4 bps to 5.15%. Turkish bonds underperformed with yields 25 bps higher on the week, while Colombia and Dominican Republic yields moved 22 bps higher. Brazil bonds outperformed, rallying by 25 bps, followed by Peru, where yields were 20 bps lower. In central bank actions, Indonesia and Philippines left rates unchanged at 3.50% and 2.00% respectively, as expected. Hungary surprised the market with a smaller-than-expected rate hike of 15 bps; the market had been expecting a full 25 bps hike to 1.75%. Turkey meanwhile, confounded the market's expectations for a hold with a surprise rate cut of 100 bps, taking the policy rate to 18.00%. Finally, in Latin America Brazil increased the quantum of hikes to 100 bps, taking the policy rate to 6.25% and Paraguay hiked 50 bps to 1.50%.

EM Corporate Debt

EM corporate debt benchmarks outperformed EM sovereign debt and unperformed US High Yield bonds. JP Morgan's CEMBI Broad Diversified returned -0.26% this week. Country-level returns on EM corporate credit were mostly negative, though China and Argentina dominated headlines. In Argentina, corporate bonds returns declined after significantly outperforming for the first two weeks of September. Friction between Argentina's President Alberto Fernandez and Vice President Cristina Fernandez Kirchner following their party's defeat in primary elections drove the downturn. The potential collapse of the Chinese homebuilder Evergrande became the focus of global investors during the week, as concerns over the impact on the overall Chinese economy increased. Bond prices for other Chinese homebuilders were negatively impacted over worries that an eventual restructuring of Evergrande could negatively impact the entire sector.

Flows/Issuance

EM sovereign debt issuance included offerings from Hungary, Serbia, and Nigeria. Hungary issued euro-denominated bonds due 2028, totalling approximately US$1.17 billion; Serbia issued euro-denominated bonds due 2028 and 2036, totalling US$2 billion; and Nigeria issued US dollar-denominated bonds due 2028, 2033, and 2051, totalling US$4.0 billion. Only four corporate bonds priced, amounting to a US dollar equivalent of US$2.3 billion in proceeds.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$288 million, primarily out of hard currency funds for the week through 21 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

President Alberto Fernandez announced a Cabinet reshuffle in response to political tensions following primary elections in which the ruling Frente de Todos (FdT) coalition experienced heavy defeat. Six new ministers were sworn in early this week after ministers who had been closely aligned with Vice President Cristina Fernandez Kirchner resigned. The new appointments appear to have support from Kirchner, which suggests governability. Economy Minister Martin Guzman maintained his position providing continuity for a timely IMF program, in our view. Nevertheless, progress made with fiscal consolidation in 1H 2021 could potentially be reversed, given accelerated social spending in areas such as subsidies and social security ahead of the November elections. Furthermore, the Ministry of the Treasury issued a decree over the weekend allowing the use of the Special Drawing Rights allocation for two purposes: 1) to pay the IMF and 2) to increase the allowable monetary financing from the central bank to the treasury through a debt accounting mechanism. Monetary financing needs are likely to remain elevated, and the extent of the fiscal deterioration will largely be driven by measures to be announced over the next several weeks.

Bahamas

Philip "Brave" Davis of the Progressive Liberal Party defeated the incumbent Hubert Minnis of the Free National Movement (FNM) in last Thursday's election. The country's financing plan for the current fiscal year, which runs through June 2022, will be a priority for the incoming Prime Minister. The current budget sets the deficit at ~US$950 million (-7.8% of GDP), and the FNM government had planned to issue US$700 million in external debt to finance it. They had also set an objective of reducing the deficit to 0.5% of GDP by 2024. As part of his campaign, Davis promised to cut the VAT to 10% from 12% at an estimated cost of US$200 million. With debt to GDP around 90%, a plan to issue external debt may be the only non-IMF financing option for the new administration.

Brazil

Brazil increased the tax on financial transactions (also known as "IOF") to help fund the federal government's income transfer program. The new social program, which went into effect this week, is expected to raise revenue by approximately US$400 million this year. The increase is set to expire at the end of the year. According to local sources, the IOF would be raised to 2.04% a year from 1.5% for companies, and to 4.08% from 3% for individuals. President Bolsonaro's latest social program augments the cash transfer program instituted last year, and is occurring against the backdrop of high inflation, double-digit unemployment and Covid management issues – all of which have damaged the president's popularity. In addition, state-run bank Caixa Economica Federal announced earlier this week that it will lower interest rates on mortgages despite rising rates.

Chile

President Piñera sent to Congress a bill to increase the basic solidarity component of pensions by 8%, together with the extension of coverage to about 80% of the population from the current

60%. The bill would have a fiscal cost of 0.3-0.4% of GDP and it would be financed through a capital gains tax on trading, and the removal of VAT exemptions on the construction industry and other sectors. The bill seeks to prevent the approval of another round of pension withdrawals, scheduled to be voted in the Lower House on 22 September. Likewise, a proposal sponsored by the presidential candidate Gabriel Boric to tax the withdrawals could also jeopardize the odds of the bill. Despite these efforts to stop the pension withdrawals, the result of the vote remains uncertain.

China

The potential for highly leveraged property developer Evergrande to default on its international debt led to a sharp drop in bond prices for Evergrande and high yield China corporate debt this week. As of Thursday morning, prices of US dollar-denominated Evergrande bonds had increased from low $20's to high $20's following rumors in local media of possible state support, but traded without accrued interest, implying that traders expected imminent default. The form of potential default remains unclear. An uncontrolled unwinding of the company may have unintended consequences on social stability, the property sector, suppliers and, by extension, the broader Chinese financial institutions. Therefore markets have speculated that the government will intervene to contain any broader contagion risk. Given the importance of the property sector in China and its linkages to the financial system, authorities will likely at least partially intervene to reassure homeowners as well as suppliers. Evergrande necessitates a restructuring of its liabilities, but the sector will not collapse, in our view.

Colombia

Colombia's economic activity increased by 14.3% y/y in July, exceeding market consensus of 13.1%. On a seasonally adjusted basis, activity grew 3.2% m/m, marking the best monthly expansion since August 2020 and broadly surpassing pre-pandemic levels. Services-related activity, which makes up 68% of the economy, increased the most at 16.8% y/y and expanded by 2.4% m/m. This result reflects better performance from commerce, transport, and hotel sectors as they are operating at generally pre-pandemic capacity. Factors that support sustained economic growth are relatively low Covid-19 contagions and regional efforts allowing new activities to continue expanding capacity. July imports remained close to their highest levels since the pandemic began and consistent with the previous month, suggesting strong investment-related imports, particularly demand for raw materials and capital goods.

Ecuador

During his visit to New York this week, President Guillermo Lasso stated he will submit a major, fast-track economic reform bill upon return to Ecuador. The reform would cover a range of issues, including capital markets, labor, taxes, oil, and mining. While acknowledging the significant opposition he faces in the legislature, Lasso pointed out that the bill could become law as submitted if lawmakers fail to discuss it within 30 days. If lawmakers of the National Assembly modify the bill, and Lasso vetoes it, they would need 90 out of 137 votes to override the president's veto. In addition to the reform bill, Lasso announced Ecuador will start the process to join the Trans-Pacific Partnership agreement as part of a broad free trade agreement with the world's largest economies. Ecuador currently does not have plans to issue debt in light of the updated IMF agreement, which will provide sufficient funding support.

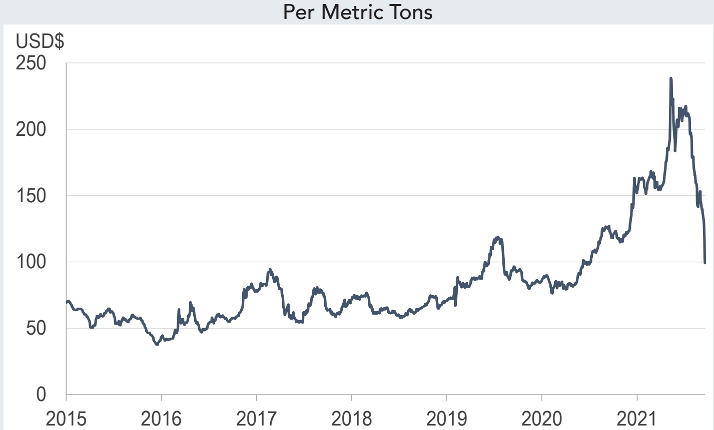
El Salvador

Markets hoped that President Bukele would clarify the government policy direction in his bicentennial address to congress, including information about his views on potential constitutional reforms, tax changes to finance public investment, security spending and economic development and negotiations with the IMF about a lending program. Bukele addressed none of these topics. Instead, the President delivered a defiant speech and promised to spend more. While Bukele announced no new radical policies, he suggested that pension reform as a way to disassemble the "neoliberal" system. Eurobond prices dropped in response.

Chart of the Week

Iron ore prices have fallen sharply, from above $200 per metric ton to just $100 in only two months, following the sharp run-up over the previous twelve months. As usual in this market, the key driver has been Chinese steel demand and production. The rapid global economic recovery following the Covid shock in H1 2020 and the shift in demand from services towards physical goods increased steel demand. More important has been China's construction cycle which was on the upswing until earlier this year. Since then three other developments in China have contributed to the drop in iron ore prices. The drive to limit carbon emissions and become neutral by 2060 has prompted officials to impose various local and regional production limits. Steel production is one of the main sources of China's carbon emissions, as well as air pollution. A gradual turn in the construction cycle, which in turn was driven significantly by last year's "3 red lines" policy to limit leverage of real estate developers, has compounded these effects. Finally, the looming debt restructuring of developer Evergrande has raised concerns of a deeper housing downturn if the process is mismanaged. Interestingly, copper prices have not followed this pattern. While some fundamental drivers should work in parallel for iron ore and copper there is also a key difference: copper disproportionately benefits from green investments while steel production needs to be contained to limit carbon emissions. We also observe that the absolute level of current prices of iron ore remain above the historical norm over the last six years. As most emerging markets (EM) iron ore producers, as well as integrated steel manufacturers, benefit from comparatively low unit costs, the current level of prices should not have a material negative impact on EM corporate financial metrics.

Iron Ore Spot Price
Per Metric Tons



As of 23 September 2021
Source: Bloomberg, Stone Harbor Investment Partners LP
Iron ore spot price index 62% import fine ore CFR Qingdao USD

Global High Yield

US High Yield

Volatility in equity, commodity, and treasury markets led to negative returns this week. The US high yield index lost 10 bps finishing with a yield to worst of 3.89%. BB's underperformed losing 13 bps, while CCCs only lost 5 bps. The market shrugged off Monday's big loss and has been rallying both pre and post Fed comments on tapering. Higher rates have muted high quality long duration interest and more accounts have focused on buying single B names leading to 2 bps of spread tightening over other ratings classes widening. Silgan Holdings Inc., a leading supplier of sustainable rigid packaging solutions for consumer goods products, has acquired Gateway Plastics for US$485 million. Laredo Petroleum Inc. has purchased 20,000 net acres in Western Glasscock County from Pioneer Natural Resources Co. for US$230 million. The new acreage will increase its oil weighted inventory by 50% and extends inventory life to 7 years at current activity levels.

Leveraged Loans

Despite broader market volatility during the week, the loan market was resilient and posted positive returns. For the week, the S&P/LSTA Leveraged Loan Index returned .09%, the average bid price increased 2 bps to US$98.56, and the spread-to-maturity remained unchanged at L+399. As concerns surrounding contagion and slowing Chinese growth rolled through the markets investors were focused on the higher quality portion of the market driving BB rated loan issuers to outperform the riskier B and CCC portion of the market. Returns across industry sectors were fairly consistent this week with the Electric, Drillers/Services, and Metals/Mining/Steel sectors outperforming, while Wirelines, Paper/Forest Products, and Restaurants lagged. Within the Electric sector, loans backing power producer Talen Energy Supply LLC bounced as they announced a capital raise with proceeds going towards the buildout of its renewable energy and digital infrastructure growth platform. Lastly, there were no defaults in the index last week.

European High Yield

Overall European high yield benchmark gained only 0.02% for the week due to volatility associated with Evergrande's distress. CCC rated issues outperformed for the week with gains of 0.10% compared to gains of 0.03% for BB credits. Index spreads widened 5 bps for the week, with CCC spreads widening 5 bps. Industry outperformers included Airlines, which gained on Lufthansa's equity raise and with the opening of additional routes to vaccinated passengers. Underperformers included Food, Home Builders, Metals/Mining, and Retail Food/Drug. Food underperformed due to concerns about the availability of carbon dioxide due to extremely elevated natural gas prices. Telecommunications provider, Iliad S.A., announced the 100% acquisition of Liberty Global's UPC Poland by Iliad's PLAY. The US$1.8 billion deal values UPC Poland at 9x 2021E EBITDA. The deal will see the entities become the second largest telecom unit in Polish market with combined revenues of €1.96 billion and a combined EBITDA of €697 million.

Flows/Issuance

Flows in US high yield rebounded back this week adding close to US$ 900 million, which was equally split among institutional accounts and ETFs. As expected, the primary calendar picked up pace pricing 16 deals for US$ 9.7 billion. US$22 billion has priced so far this month, a far cry from the US$45-60 billion estimates. Pent-up demand for new issue is enabling companies to price deals tighter than usual with interest still multiple times over deal size.

In the loan market, arrangers have launched approximately US$28 billion of issuance this month, weighted towards M&A and LBO activity; notably, the US$7 billion cross-border term loan facility for the LBO of Medline Industries Inc by a private equity consortium including The Blackstone Group, The Carlyle Group, and Hellman & Friedman. Total debt financing for the LBO is US$14.77 billion and ranks Medline as the largest LBO in the post Global Financial Crisis (GFC) era. Loan funds posted US$363 million in inflows, as reported by Lipper. Additionally, we continue to see strong demand from Collateralized Loan Obligations (CLOs), as evidenced by another US$2.3 billion of issuance this week, bringing the YTD total to US$118 billion.

For European high yield, EPFR data showed an outflow of US$323 million, lowering the September inflow to US$128 million and the quarter-to-date total to US$677 million. Primary activity remained relatively quiet with only 4 deals for 1.7 billion euros pricing during the week. Most deals tightened pricing due to the less-than-expected supply that had cash raised in anticipation of greater supply, strong demand led most deals to upsize and tightening pricing.

Industry Insights

Chemicals: Axalta became the latest coatings company to withdraw 2021 guidance and lower 3Q21 expectations. Axalta cited lower volumes due to the semiconductor chip shortage impacting auto original equipment manufacturers, as well as continued raw material inflation and supply chain and logistics constraints impacting the coatings industry. Axalta has a positive outlook for 2022 due to strong underlying demand and below normal inventories. Rising raw material costs caused CF Industries to halt operations at its two UK manufacturing complexes on 15 September due to high natural gas prices. The company quickly reached a deal with the UK government on 21 September to restart the Ammonia plant at its Billingham complex and produce Carbon Dioxide (Co2) for the UK market. The UK government said it would provide financial support to help cover the plant's operating costs for 3 weeks, giving the CO2 market time to adapt to higher global gas prices. Additionally, on 22 September, Huntsman announced it was implementing a natural gas surcharge on all sales of MDI in Europe, Africa, the Middle East and India "in response to the unfortunate and unprecedented natural gas price increases in the region."

Food and Beverage: Inflation pressure continues to weigh on the sector, with wholesale food inflation the highest since 1980. There is tight supply across all input costs including labor, raw materials such as corn, oils and proteins, and packaging and freight. Weather-related issues including wildfires, hurricanes, drought/water shortages and a heatwave have further exasperated the constraints brought on by the restart of the economy. An increase in the Supplemental Nutrition Assistance Program (SNAP) benefits starting in October, should help ameliorate some pressure for the consumer.

Gaming: Gaming has been topical over the past week with Macau-related names making headlines after the Chinese government announced the potential for tighter oversight of the sector as a part of their ongoing gaming concession renewal process. Additionally, while not High Yield names, DraftKings announced a proposal to acquire their European peer Entain, who is a 50/50 JV partner with MGM on BetMGM and who MGM tried to acquire fully earlier this year. This has led to speculation that MGM may try to counter this offer to make sure they can retain control over BetMGM. Lastly, Scientific Games, announced a Consent Solicitation for creditors that will facilitate its rumored IPO of their Lotto business, which will be a key step in their promised path to deleveraging in 2022.

Investment Grade

Governments

US Treasures were in a, "wait and see," mode ahead of this week's FOMC. Following the slightly more hawkish release, the US Treasury curve bear flattened, as longer maturity bonds saw better demand, with the 5s30s curve falling 11 bps to a year-to-date low of 96. Treasury volatility, as measured by the ICE BofAML MOVE Index, nudged 2 points higher to 56 and the yield on 10-year Treasuries ended the period unchanged at 1.30%. There was a divergence this week as 10-year real yields, which excludes the expected impact of inflation, rose 8 bps, while Breakevens fell 7 bps, reflecting some moderation in inflation expectations.

European rates ended the period mixed, perhaps a reflection of diverging central bank policies, as the yield on 10-year Gilts rose 2 bps to 0.80%, while Bunds fell 2 bps to -0.32%. Although the ECB has expressed its commitment to keeping supportive policies, the BoE will provide an update on its expectations later this week. Peripherals generally performed well as the spread on 10-year Spanish and Italian bonds tightened 4 bps over Bunds.

Corporates

Spreads on Investment grade corporates entered the week on a cautious note with all eyes on the FOMC; while at the same time, spreads widened on concerns that China's Evergrande Group would miss a few bond payments that were due during the week causing wide-spread fear and triggering a spike in volatility. Most of the major weakness in investment grade corporates was limited to higher beta sectors like Metals and Energy, while the most effected issuers were those that had direct exposures to China end markets but generally cash markets were wider by 1-2 bps. Markets managed to recover strongly mid-week, following news that Evergrande would most likely avoid a worst case scenario with regulators in Beijing instructing Evergrande to take all measures possible to avoid a near-term default. Also aiding in the recovery was the confidence investors felt, despite a more hawkish tone at the FOMC, that the pullback in Fed stimulus wouldn't end up in a taper tantrum like 2013. After all was said and done, spreads ended the week unchanged at +86 bps, according to the Bloomberg/Barclay's Corporate OAS, with Metals and Energy credits recovering most if not all of what they lost. In the derivatives markets, the IG CDX indices rolled to the new series (IG series 37) as they do every 6 months. Changes between the new and old index consisted of two constituent changes plus the 6 month extension in maturity.

Securitized

As part of President Joe Biden's housing affordability initiative, the Federal Housing Finance Agency (FHFA) issued several proposals. Regulatory capital changes for the GSEs has prompted FNMA to announce the resumption of credit risk transfers issuance in October, their first since early 2020. The FHFA will suspend the 7% cap on investor loans which will decrease private label issuance of agency investor collateral. The FHA will also suspend the multi-family caps for the GSEs but no impact on issuance is expected as supply has been lower than the caps.

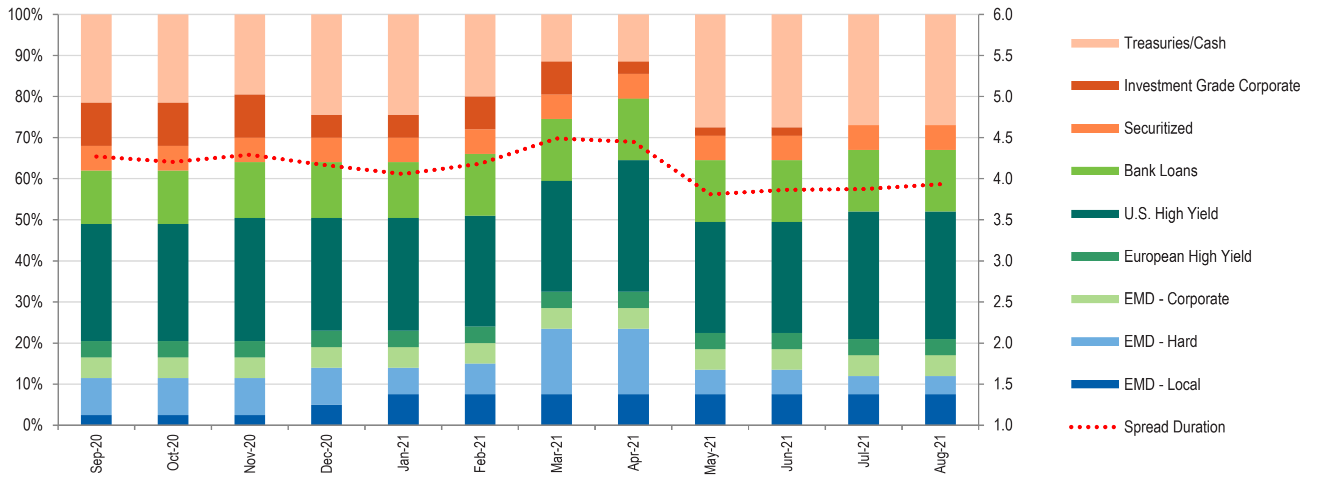
Flows/Issuance

In investment grade corporates primary market, supply was on the lighter end of estimates with only roughly US$14 billion coming to market. Many issuers stood down earlier in the week given the unsettled markets and no deals came the day of the FOMC meeting. Supply for September is now at US$135 billion, while YTD supply is US$1.147 trillion. High grade fund flows were modestly positive this week taking in US$3.7 billion, according to EPFR. Corporate only funds saw inflows of only US$117 million, with large inflows in the short end offset by a large outflow in the long end. Aggregate funds saw the bulk of the inflows with US$2.866 billion, mostly from intermediate maturities and total return funds saw positive inflows of US$1.072 billion.

Last week's asset-backed securities issuance was the highest since July 2018 and pressured spreads a few basis points wider. JP Morgan announced a managed commercial real-estate CLO index comprised of 21 deals totaling US$10 billion.

Source: EPFR, JP Morgan

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 22, 2021		Spread or Yield Change (bps or %)						Total Return (%)				
		Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	352	10	10	13	2	(75)	(0.7)	(0.4)	1.0	0.3	5.5
	CEMBI Broad Diversified	259	6	6	9	(11)	(104)	(0.3)	(0.1)	0.8	2.1	6.3
	GBI EM Global Diversified Yield	5.15	0.04	0.16	0.16	0.93	0.67	(1.1)	(1.8)	(1.5)	(4.8)	3.2
EM Sovereign Debt	EMBI Global Diversified	352	10	10	13	2	(75)	(0.7)	(0.4)	1.0	0.3	5.5
	EMBI GD Investment Grade	149	3	5	4	1	(46)	(0.2)	(0.0)	1.3	(1.2)	1.6
	EMBI GD High Yield	584	20	19	2	(24)	(151)	(1.2)	(0.9)	0.7	2.1	10.3
EM Sovereign Debt Regions	Africa	550	23	26	30	(5)	(181)	(1.4)	(1.3)	0.3	1.9	15.1
	Asia	224	7	8	16	(8)	(28)	(0.5)	(0.3)	0.9	1.2	1.5
	Europe	281	7	7	8	16	(80)	(0.4)	(0.2)	1.4	0.4	6.6
	LATAM	371	13	15	20	17	(58)	(1.1)	(0.9)	0.6	(1.7)	3.9
	Middle East	336	2	(5)	(6)	(32)	(86)	(0.1)	0.7	1.6	1.8	5.2
EM Corporates	CEMBI Broad Diversified	259	6	6	9	(11)	(104)	(0.3)	(0.1)	0.8	2.1	6.3
	CEMBI BD Investment Grade	149	3	1	(0)	(20)	(68)	(0.2)	0.1	1.1	0.9	3.4
	CEMBI BD High Yield	454	10	11	8	(32)	(175)	(0.4)	(0.3)	0.5	3.7	10.3
US High Yield	US High Yield	324	1	(12)	4	(68)	(227)	(0.1)	0.4	1.3	5.1	11.9
	US High Yield BB	225	1	(10)	(9)	(56)	(180)	(0.1)	0.4	1.7	4.2	10.0
	US High Yield B	374	(2)	(14)	5	(51)	(207)	(0.1)	0.4	0.9	4.3	10.5
	US High Yield CCC	660	9	(13)	65	(142)	(514)	(0.0)	0.4	0.8	10.2	23.4
European High Yield	Barclays PanEur HY	283	5	(9)	(5)	(73)	(176)	0.0	0.4	1.1	4.1	9.1
	2% Ex Financials Yield	3.13	0.02	(0.05)	0.10	(0.32)	(1.66)	0.00	0.0	0.0	0.0	-
Bank Loans	LSTA Price	98.6	0.0	0.3	0.2	2.4	4.9	0.1	0.5	1.0	4.3	7.8
	LSTA 100 Yield	3.73	0.00	(0.09)	0.03	(0.25)	(0.98)	0.1	0.5	1.0	4.3	7.8
Investment Grade	US Treasury 7-10 Yield	1.23	0.02	0.02	(0.14)	0.45	0.68	(0.1)	0.0	1.6	(1.8)	(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	36	1	1	4	(6)	(24)	0.0	0.3	1.2	(0.4)	0.0
	US Investment Grade Corporates	86	0	(1)	6	(10)	(44)	0.2	0.6	1.7	0.4	2.8
	Global Aggregate	34	1	0	1	(3)	(15)	(0.0)	(0.0)	1.0	(0.5)	0.3
	Barclays 1-5 Year Credit	37	(1)	(1)	2	(4)	(24)	(0.1)	(0.1)	0.2	0.3	1.1
FX	DXY (US dollar)	93.46						1.0	0.9	1.1	3.9	(0.6)
	GBI EM FX							(0.9)	(1.3)	(1.8)	(3.4)	2.0

1W reflects data from September 15 close through September 22 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