October 1, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Risk sentiment improved in the latter part of the week following some weakness associated with growth and inflation concerns set against the US Federal Reserve's (Fed) most recent communication on the timing of taper and rate increases. Despite a wide range of US economic data releases this week, including manufacturing, trade, housing, and initial jobless claims, markets were focused on developments relating to policy direction – i.e., the infrastructure package vote in the US and the European Central Bank's policy conference in Germany. The yield on the 10-year Treasury increased to above 1.50%, marking the highest level since June. Oil prices remained supported by expectations of a continued supply deficit, notwithstanding the latest report on higher US crude oil inventories. Credit spreads and total returns were mixed across major sectors. Lower quality US high yield bonds outperformed Emerging Markets (EM) sovereign debt, on average. The US dollar index (DXY) strengthened, and EM currencies declined, on average.

Emerging Markets

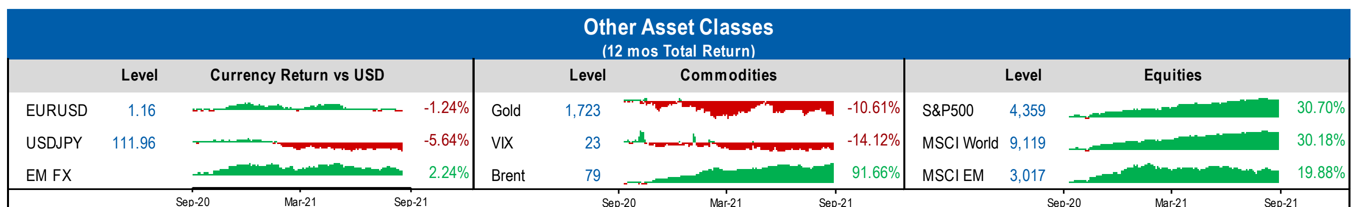
Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	353	1	4.54%
EMBI GD IG	145	-4	0.11%
EMBI GD HY	590	6	10.06%
Africa	555	5	13.90%
Asia	224	0	0.93%
Europe	286	5	5.61%
LATAM	372	1	2.53%
Middle East	332	-4	4.65%
CEMBI BD	258	-1	6.02%
CEMBI BD IG	145	-4	2.85%
CEMBI BD HY	454	1	10.50%
GBIEM GD (%)	5.26	11	3.27%
EM Blend (%)	4.96	17	4.65%
EMBI ESG	335	1	3.40%
CEMBI ESG	262	-2	6.03%
GBI ESG (%)	5.10	12	2.49%

12 mos Change Spread or Yield (bps or %): -300 -150 0 150. 12 mos Total Return: Sep-20 Mar-21 Sep-21

Developed Markets

Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	326	2	11.85%
US HY BB	229	4	9.71%
US HY B	377	3	10.46%
US HY CCC	645	-15	24.18%
Pan Euro HY	298	15	9.18%
LSTA 100 (%)	3.71	-2	8.32%
US Treasury 7-10 (%)	1.44	21	-4.99%
1M LIBOR (%)	0.08	0	0.12%
US Agg	33	-3	-1.06%
US IG Corp	83	-3	1.64%
Global Agg	33	-1	-0.62%

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



Other Asset Classes
(12 mos Total Return)

Currency	Level	Currency Return vs USD
EURUSD	1.16	-1.24%
USDJPY	111.96	-5.64%
EM FX		2.24%

Commodities	Level	12 mos Total Return
Gold	1,723	-10.61%
VIX	23	-14.12%
Brent	79	91.66%

Equities	Level	12 mos Total Return
S&P500	4,359	30.70%
MSCI World	9,119	30.18%
MSCI EM	3,017	19.88%

Sep-20 Mar-21 Sep-21

As of: September 29 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

The latest US PMI data reflect further broad-based deceleration in September, albeit from elevated levels. Manufacturing PMI posted its second monthly decline to 60.5, while services fell for the fourth consecutive month, from 55.1 to 54.4 in September. The overall composite PMI tracked the services index and fell for the fourth consecutive month, from 55.4 to 54.5 in September. Initial jobless claims unexpectedly rose, from 335k to 351k, while continuing claims also picked up 130k to 2,845k. Although one week's data does not make a trend, it will be important to monitor the incoming claims data.

Following controversy about their trading activity after the release of their 2020 financial disclosures, Rosengren and Kaplan—Presidents of the Boston and Dallas Feds respectively—resigned. The disclosures raised concerns around conflict of interests as some of their trading took place in assets materially affected by Fed policy. Both of the outgoing officials have recently been relatively hawkish, so their resignations could, depending on their replacements, impact the balance on the FOMC.

Europe

The SPD's Scholz won 25.7% of the votes in a narrow defeat over the CDU/CSU bloc's Laschet, but it remains unclear who will lead Germany's next government. Both Scholz and Laschet have vowed to head the country but that will be contingent on coalition talks between other political parties—namely the Greens and Free Democrats. Work and discussions on establishing coalitions have already begun.

The fuel shortage in the UK worsened this week, as supply remains constrained, and was further exacerbated by panic-buying at petrol stations. According to the UK Petrol Retailers Association, nearly half of the service stations it represents were out of fuel over the weekend. The Prime Minister issued 5,000 short-term visa for foreign truck drivers and put the Army on standby to assist with transporting fuel.

The Norges Bank maintained its hawkish stance and raised its interest rate, from 0.00% to 0.25%, to become the first G10 central bank to hike post-pandemic. The Bank of England voted unanimously to keep its policy rate unchanged at 0.10% but there was less of an absolute consensus regarding asset purchases. The BOE acknowledged the recent slowdown in activity and lowered its Q3 GDP estimate by 1%. Focus remains on how the labor market responds to the end of the furlough scheme, set to expire after September.

Japan/Asia

Former Foreign Minister Fumio Kishida garnered enough support from his Liberal Democratic Party (LDP) and looks set to succeed Yoshihide Suga as Japan's Prime Minster. Shortly after his victory, Kishida pledged to spend multi-trillion Yen aimed at supporting the economy, with an emphasis on the middle class, and said he would narrow the wealth gap. Kishida is expected to be appointed as leader of the LDP next week and faces a general election in mid-November. Separately, after several months of restrictions, Japan is set to lift the state of emergency across all prefectures at the end of September as infections moderated.

Economist Corner

Seamus Smyth, PhD, Developed Markets

Steffen Reichold, PhD, Emerging Markets

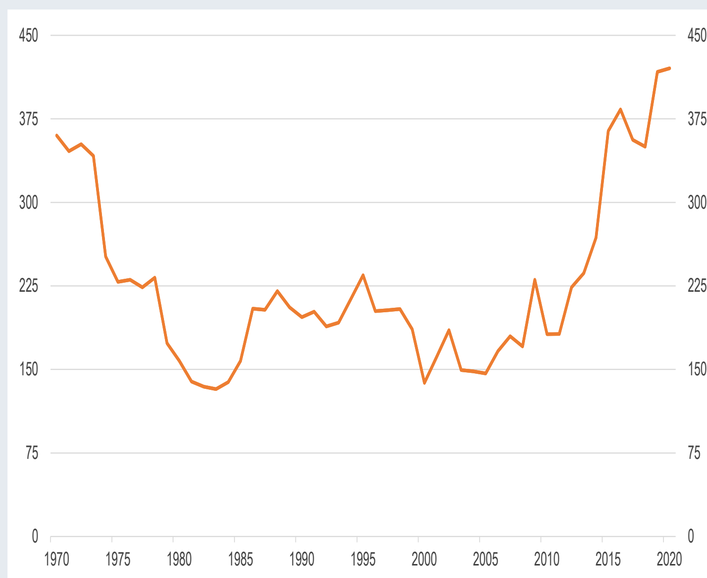
Oil prices have continued to climb over the last several weeks, and are now trading in the mid-$70s per barrel, the highest since prices fell sharply in 2014. The price increase has been combined with shortages in the UK, though for now that appears due to idiosyncratic issues rather than anything more global.

For the US economy, higher gasoline prices have mixed effects. Importantly, the overall response of the economy has changed significantly over the past several decades. As the accompanying chart shows, during the 1980-2010 period the value added from oil and gas extraction in the US was quite low, having moved down significantly over the 1970s. During that 1980-2010 period, the main economic effect of higher oil prices was slower growth: a drag on consumption, similar to a tax, which came out of household budgets and reduced their ability to spend.

The advent of fracking, powered by technological innovation, changed that relationship for the overall economy. Oil prices rose sharply starting in 2011, and were elevated through 2014, moving up and down but generally centered a bit below $100 per barrel. Though many consumers were negatively impacted, the overall economy saw important offsets. US domestic oil and gas production rose sharply over those years, also shown in the accompanying graph. The activity—investment in wells, workers hired and so on—helped to offset, for the aggregate economy, the consumption drag though there were differences in the effects across regions and individuals.

So, for the US, if oil prices remain elevated, domestic production is likely to increase further and provide some offset to any consumer drag. Other developed markets are likely to see less offset though, as most European countries and Japan produce significantly less oil and gas.

Value Added: Oil and Gas Extraction



As of 30 September 2021
Sources: Bureau of Economic Analysis, Haver Analytics

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 1 bp and the JP Morgan EMBI Global Diversified returned -1.6%. Investment grade securities underperformed non-investment grade bonds, on average. The top country performers included Zambia (+1.7%), Argentina (+0.6%), and Rwanda (+0.3%). The bottom performers included Egypt (-3.4%), Colombia (-3.0%), and Tunisia (-2.7%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -1.7%. EM currencies returned -1.2% in aggregate. Dominican peso and Malaysian ringgit outperformed, both gaining 0.2%, followed by Colombian peso with 0.1%. while Indonesian rupiah remained unchanged. Underperformers included South African rand (-3.0%), Turish lira (-2.7%), and Brazil real (-2.6%).

The yield of the JP Morgan GBI EM Global Diversified increased 11 bps to 5.26%. Turkish bonds underperformed with yields 84 bps higher on the week, while Chile and Brazil yields moved 48 bps and 34 bps higher, respectively. Uruguay bonds outperformed, rallying by 5 bps, followed by China, where yields were unchanged.

In central bank actions, Ghana and Thailand left rates unchanged at 13.5% and 0.5% respectively. The central bank of the Czech Republic surprised with a 75 bps hike to 1.5%. Markets had anticipated a hike of 50 bps. Colombia and Mexico hiked their policy rates each by 25 bps, as expected, to 2% and 4.75%, respectively. Guatemala left its leading interest rate unchanged at 1.75%.

EM Corporate Debt

The CEMBI Broad Diversified performance was not immune to the general risk-off sentiment that impacted most global asset markets this week. All of the major Emerging Markets declined on the week, with very few exceptions. Latin American corporates saw the largest loss at -0.80%, with Asia suffering the smallest at -0.48%. While both high grade and high yield had negative returns, high grade bonds underperformed as they were also impacted by the increase in US Treasury rates. Not surprisingly, all major industry sectors were also negative on the week, led by the Pulp & Paper sector.

Flows/Issuance

In EM sovereign debt issuance this week, Egypt issued US dollar-denominated bonds due 2027, 2033, and 2051, totalling approximately US$3.0 billion. In EM corporate debt, new issuance volume amounted to less than US$1 billion as one Brazilian company and four companies from China priced new bonds.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$3 billion from both hard currency funds and local currency funds in near equal amounts for the week through 28 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

Brazil

Brazil's partially state-owned oil company, Petrobras, held a press conference on Monday to affirm maintenance of the company's current fuel pricing policy. Petrobras management held talks with representatives of the Brazil Ministry of Mines and Energy and congressional leaders to discuss ways to lessen the burden on consumers without changing the company's pricing policy. In our view, maintaining the current policy signals a willingness to keep fiscal costs under control, but also highlights the political pressure faced by the Bolsonaro administration to respond to rising energy-related inflation.

In other news, Brazil's fiscal indicators continued to improve in August due to strong revenue recovery and contained spending. The consolidated public sector posted a primary surplus of BRL 16.7 billion in August, which was better than market consensus of BRL 14.0 billion deficit. This is in line with the 2022 budget bill presented to Congress on 31 August, which confirmed expectations of a much lower deficit estimated for next year, at BRL 49.6 billion (0.5% of GDP), well below the official 2022 target of BRL 170.5 billion (1.9% of GDP) included in the guidelines bill approved in July. The improvement in expectations is based on significant upward revision to net revenues by BRL 146 billion, mostly from higher-than-anticipated growth in nominal GDP, a combination of a faster cyclical recovery with higher inflation. The working assumption is that the spending cap will be adhered to, thus translating any positive surprises in revenues into a smaller deficit.

Chile

Chile's Lower House approved the fourth pension fund withdrawal bill with 94 votes, one more than the 93 required. The bill, which would allow withdrawal of up to 10% of the pension savings funds, could be debated and voted as early as next week in the Senate. Notably, 18 deputies of the ruling Chile Vamos coalition voted in favor of the bill, despite opposition from the government and presidential candidate Sebastian Sichel. In contrast, presidential candidate Yasna Provoste expressed strong support for the bill last week. The Senate vote to approve the bill, therefore, would provide support for her candidacy. While the passage of the bill appears unlikely, in our view, rejecting the initiative could potentially push the government to expand fiscal aid amid rising Covid-related risks, or on the other hand, cause a resurgence of social unrest. If the pension withdrawal bill is approved, the central bank could potentially hike aggressively again in the October meeting, following the 75 bps hike in August. The bill requires a 3/5 majority in the Senate, or 26 out of 43 votes. In total, Chileans have withdrawn approximately US$50 billion from their pension funds since the first law was passed.

China

The Chinese government is encouraging state-owned enterprises (SOEs) as well as some privately owned property developers to purchase some of Evergrande Group's assets as the company moves closer to a default. For one, Guangzhou City Construction Investment Group is close to acquiring Evergrande's Guangzhou FC Soccer stadium and surrounding residential projects for approximately US$1.9 billion, according to a source with direct knowledge of the matter. Last Friday, Evergrande announced the

sale of a stake in Shengjing Bank for RMB 10 billion to Shenyang Shengjing Finance Investment Group with proceeds understood to settle its liabilities to the bank. In our view, a broader Chinese directive to SOEs to acquire assets of Evergrande may provide support for the broader property market, but not for Evergrande debt.

Peru

Head of Cabinet Guido Belido and the Minister of Mining and Oil & Gas Ivan Merino submitted a formal request to Pluspetrol, the Argentine operator of the Camisea gas fields to renegotiate the company's contract with the state. Camisea is the most important gas project in Peru and contributes more than 40% of the energy for the country. The Pluspetrol consortium includes energy companies Repsol (Spain) and Hunt Oil (US), among others. The request included an expedited date for negotiations to begin on 6 October. Local media reported that Belido had suggested over the weekend that the government might expropriate the gas fields if Pluspetro failed to renegotiate its contract. Bellido's statements contrast with those of President Pedro Castillo, who had stated last week at the United Nations that there would be no expropriations under his regime. The Peruvian sol declined sharply versus the US dollar following Bellido's comments.

Romania

Romania's Constitutional Court has allowed for a no-confidence vote to proceed against Prime Minister Florin Citu on 5 October. If Citu is ousted next week, the president would need to nominate a new prime minister – which could be Citu again -- and form new alliances or seek a minority government. Citu has claimed that under the Constitution, new ministers can be approved without a vote of confidence on the Government. As a result of the heightened political uncertainties and given the fractured parliament, reforms initiatives to address the large budget and current account deficits and recovery plans from the pandemic are likely to get delayed. The Romanian leu declined against the euro.

Separately, Romania's resilience and recovery fund was approved by the European Commission and the country will likely get the first disbursement from the allotted US$34 billion by early December.

Tunisia

President Kais Saied named Najla Bouden Romdhane, a former academic who once worked at the World Bank, as prime minister. The significance of Romdhane's appointment, beyond the distinction of being named the first female premier, is that it will likely support Saied's agenda to consolidate power. Last week, President Saied suspended most of the constitution and announced he would rule by decree with no end date. While these developments do not bring Tunisia closer to an IMF agreement, which is critical in meeting external financing needs, the rapid appointment of a credible technocrat may support market sentiment in the near term. Tunisia's external sovereign bond prices rose on Wednesday, following the appointment.

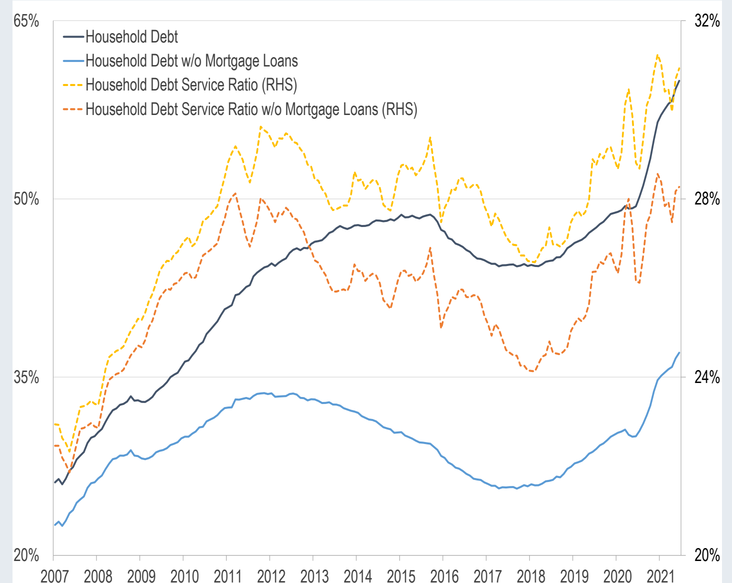
Zambia

Zambia hosted an IMF staff visit this week with the goal of providing an update on most recent economic developments, key policies and reform measure, and outlook for the remainder of the year. The visit follows the cabinet's approval of the Budget Policy Concept Paper on the 2022-2024 Medium Term Expenditure Framework and the 2022 National Budget Framework. Zambia is seeking to borrow US$1.3 billion from the IMF under an extended credit facility.

Chart of the Week

Brazil's consumption growth faces a challenging period ahead. Household indebtedness reached record high levels in May, now at a ratio to income of 59.2%, according to Brazil's central bank. In addition, the household debt service ratio, which measures the percentage of household income paid to service debt, has increased to 30.5%, near the highest level in the past 15 years. The debt service ratio has been increasing at a slower pace compared to overall indebtedness this year, a product of improved employment and earnings as the economy reopens as well as low interest rates on some debt. But as inflation has increased and the central bank hikes interest rates, this advantage may not last for long. Brazil household consumption, therefore, appears vulnerable, which may explain the government's current efforts to push through a new welfare program called "Auxilio Brasil" to help offset the potential drag on household income. By law, no new social transfer programs can be created in 2022, an election year, hence the government's rush to figure how to fund a new program this year. Complicating the issue is finding a solution for the large maturities of court-ordered debt maturities ("precatorios") next year. Our take on the rising challenge to Brazil consumer and household consumption is that banks may become more cautious as default risk rises, placing further strain on the financial sector. However, we see little or no impact on commodity producers given their lack of exposure to the domestic consumer.

Brazilian Household Debt



As of 30 June, 2021
Source: BCB, Haver Analytics, Stone Harbor Investment Partners LP
Debt Service Ratio = monthly debt payment/monthly disposable income
Household Debt Ratio = Total household debt held by financial institutions/ disposable income accumulated over past 12 months

Global High Yield

US High Yield

The US high yield market was softer this week mainly after experiencing the biggest one day loss since May in the equity market, and against rising commodity prices and interest rates. This caused pressure on BB's, especially longer duration notes, while the market gravitated toward higher yielding bonds. This compression led to a 51 bps loss in BB paper and a 24 bps gain in CCC. The high yield index lost 33 bps and spreads widened 2 bps with CCC spreads tightening 15 bps. Sectors with better rated companies underperformed led by utilities, food/beverage, homebuilders, cable, restaurants, wirelines, and metals/mining. Leisure, refining, drillers, satellites, and oil & gas names had positive returns. Asbury Automotive Group Inc. has agreed to purchase Larry H. Miller Dealerships, the eighth largest dealer group in the US, and Total Care Auto, in a deal valued at US$ 3.2 billion, including about US$740 million in real estate. Krayton Corp., a leading global sustainable producer of specialty chemical polymers and high value bio-based products, has been acquired by DL Chemical Co. Ltd. for a total enterprise value of about US$2.5 billion.

Leveraged Loans

The loan market remains resilient and posted positive returns amidst a volatile market backdrop. The S&P/LSTA Leveraged Loan Index returned 0.13%, the average bid price increased 5 bps to US$98.61, and the spread-to-maturity remained at L+399. As investors were focused on rising 10 year US Treasury yields, loans outperformed similar fixed income asset classes given their floating rate nature. From a ratings perspective, we continued to see outperformance from the lower quality CCC portion of the market, mostly driven by idiosyncratic credit events, while B rated issuers were in line with the Index and BB's modestly lagged. From an industry perspective, the Leisure, Metals/Mining/Steel, and Wireline sector outperformed, while the Paper/Forest, Satellite, and Restaurant sectors lagged. Lastly, there were no defaults in the index last week.

European High Yield

Overall European high yield benchmark declined 0.35% for the week due to the move higher in US Treasury yields after comments from the Fed and from increasing concerns about inflation as raw material supply remains constrained. CCC rated issues outperformed for the week with a return of -0.25% compared to returns of -0.38% for BB credits. Index spreads widened 15 bps for the week, with CCC spreads widening 19 bps compared to only 6 bps of spread widening for BBs. Along with the macro volatility, an increase in the primary calendar caused a buyers strike as investors waited for greater clarity. Industry outperformers included Aerospace, Airlines, and Leisure, which benefited from positive reopening trends in travel and leisure. Aerospace outperformed as Rolls Royce confirmed the sale of its ITP Aero division for 1.7 billion euros. Underperformers included Automotive due to continued concerns about the impact on automotive supply from semiconductor chip shortages and E&P due to the increased macro volatility

Flows/Issuance

US high yield flows were positive again adding close to US$432 million split equally among ETFs and institutional accounts. The pace of new issuance ramped up, as expected, bringing 18 deals for US$11 billion to the market making it the second busiest September on record. Pent up demand for new paper pushed final prices tighter and traded at higher levels in the secondary. A higher number of M&A led deals (6) were brought to fund acquisitions, either by or for the companies themselves.

In the loan market, arrangers launched 20 deals for US$11 billion worth of deals bringing the month-to-date total to US$62 billion. Notably, the highly anticipated US$6 billion Medline Industries Inc. (Medline) was in the marketing period and was very well received by investors as evidenced by the commitment deadline accelerating, pricing settling at the tight-end of initial talk, and the order book being close to 2.5x oversubscribed. From a demand perspective, we continue to see robust demand for floating rate assets. Collateralized Loan Obligation (CLO) formation was very strong with past week with an additional US$8.2 billion of deals pricing, bringing the month-to-date total to US$16.1 billion, which follows August's record setting US$19.2 billion worth of issuance. Additionally, we continue to see consistent inflows from retail loan mutual funds and Exchange Traded Funds (ETFs), and anticipate another week of positive flows.

For European high yield, EPFR data showed an outflow of US$211 million, turning September flows negative by US$83 million and reducing the quarter-to-date total to US$466 million. Primary activity increased with US$4.4 billion euros pricing during the week, increasing the September total to US$8.3 billion euros.

Source: Lipper, EPFR

Industry Insights

Exploration and Production: With commodity prices strong and capex plans guiding towards a low 3-5% increase for 2022, E&P companies remain cautious about investing in the drill bit and view the strength in commodities as a path to accelerate shareholder returns. After spending the past year reducing debt, they're now dedicating more dollars to ESG requirements and returning cash to shareholder rather than expanding their drilling programs. As highlighted by OPEC's World Oil Outlook published this week, the risk remains underinvestment in the sector. We expect consolidation in the sector should accelerate as ESG requirements ramp up and benefits from scale and G&A cuts are the easiest way to create value. US land rigs have exceeded the high end of our estimates of 500 rigs, reaching 521 rigs as of last Friday but remain well below 2019 average of 950 rigs, limiting pricing power for the oil service providers. Reserve replacement challenges remain, despite energy transition.

Leisure: Leisure outperformed for the week after a positive 3Q21 update from Carnival Corporation. The company's 3Q voyages representing 17% of capacity had 54% occupancy and were cash flow positive. Carnival remains on track to increase capacity to 61% by the end of November. Demand remains strong with booking volumes for all future cruises during the third quarter higher than first quarter volumes, although below second quarter activity as booking activity slowed in August as US consumer confidence dropped with the increased uncertainty of the Delta variant. Total bookings for the second half of 2022 are ahead of 2019. Carnival ended the third quarter with liquidity of US$7.8 billion, which the company believes is enough to return to full cruise operations.

Media Cable: Altice USA has been very topical for the last week after presenting at Goldman Sachs annual Communicopia Equity conference. During their presentation, CEO Dexter Goei pre-released disappointing broadband subscriber trends and made comments about longer term taking the company private if the equity market continues to undervalue the company. These headlines raised concerns in the credit markets given controlling shareholder Patrick Drahi's historical propensity to rely on high levels of leverage to fund transactions of this nature. In our view, the market has overestimated the probability of a near term leveraged buyout, as we believe management is more focused on pursuing organic growth via M&A and its edge out strategies versus creating equity value via levering up to go private.

Investment Grade

Governments

Following a fairly muted week leading up to the FOMC, US Treasuries repriced meaningfully after the Fed signalled a more hawkish stance. Treasury yields were on a gradual ascent this week with the sell-off exacerbated by Chairman Powell's comments that tapering can, "come as soon as the next meeting." In addition to nominal rates rising, volatility—as measured by the ICE BofAML MOVE Index—also broke out of its recent range and ended the week 5 pts higher at 61. The US Treasury curve bear steepened, as longer dated bonds experienced more intense selling, with 2s10s rising 16 bps to 122 bps, while 5s30s rose 11 bps to 10 7bps. After a brief divergence, 10-year real yields, which excludes the expected impact of inflation, rose 12 bps to -0.86% while Breakevens, a proxy for inflation expectations, also rose 10 bps to 2.38%.

European rates also repriced in tandem with the yield on 10-year Bunds ending the period 11 bps higher to -0.21%, levels not seen since Q2, while 10-year Gilt yields rose 19 bps to 0.99%. Peripherals traded with the overall sentiment and ended the period wider. The spread on 10-year Spanish and Italian bonds widened 2 bps and 5 bps, respectively, over comparable Bunds. Japanese government bonds, which have been somewhat pinned, ended the period 4 bps higher to 0.08%.

Corporates

This week saw a gap in the corporate option-adjusted spreads from +86 bps to +83 bps, according to the Bloomberg/Barclay's corporate index. A lot of this spread rally was related to the move up in treasury rates after the more hawkish FOMC meeting, but in general the market feels caught between buying at higher yields versus hesitancy to buy given tight valuations. Fortunately, market technicals remain constructive with continued inflows into the asset class, while an uptick in tenders and a pay down in last year's precautionary debt borrowings has left net supply of new issue rather trifling.

As we approach month end, excess returns for September are positive by +42 bps, while total returns took a step back and are negative by 94 bps. BBB's remain compressed to A rated bonds but continue to hold favor given the extra yield carry, while bonds with maturities greater than 10 years have outperformed on excess returns so far this month but have given up roughly 1.6% in total return with 10 year treasuries hovering around 1.5%.

Securitized

Agency mortgages tightened 2 bps into the rate selloff with production moving out of the 2.0% coupon and into the 2.5% coupon. Navient is exiting the federal student loan program. They are one of the larger servicers, and this occurs a few months after the Pennsylvania Higher Education Assistance Agency also announced they are exiting the same space. The loan servicers have been under Congressional and consumer group pressure to change how they work out delinquencies and collections. Americold lowered their outlook because labor disruptions are limiting the usage of cold storage, some of which has been securitized. Blackstone announced the sale of the Cosmopolitan Hotel in Las Vegas. This property is in a CMBS scheduled to pay off in November but will likely extend with the property sale expected to close in early 2022.

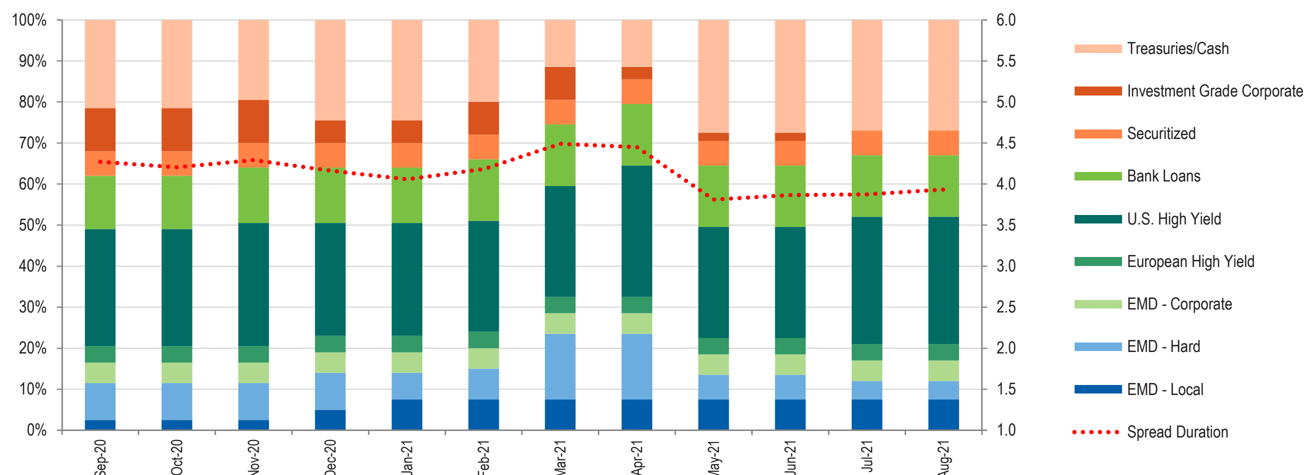
Flows/Issuance

In investment grade corporate debt primary market, supply for the week will be somewhere just under US$25 billion, which leaves September near the US$160 billion mark or very close to the record issuance seen in the last two years. Year-to-date, gross supply is just above US$1.170 trillion which is down 27% versus this time last year but more in line with prior years. High grade fund flows saw positive inflows of US$4 billion according to EPFR. JPM reports that 80% or US$3.2 billion of the inflow was contributed by ETF flows. Corporate only flows were positive by US$1.1 billion with inflows coming from the short and intermediate buckets, while the long end had a small outflow. Aggregate funds took in the bulk of the flow at US$3.4 billion, while total return funds saw outflows of US$537 million.

The CMBS SASB sector is seeing heavy new issuance with some retail and hotel properties starting to re-enter the market.

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 29, 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	353	1	11	14	3	(84)	(1.6)	(2.0)	(0.6)	(1.3)	4.5
	CEMBI Broad Diversified	CEMBI B D	258	(1)	4	8	(12)	(116)	(0.6)	(0.7)	0.2	1.5	6.0
	GBI EM Global Diversified Yield	GBI EM GD	5.26	0.11	0.27	0.28	1.04	0.75	(1.7)	(3.5)	(3.1)	(6.4)	3.3
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	353	1	11	14	3	(84)	(1.6)	(2.0)	(0.6)	(1.3)	4.5
	EMBI GD Investment Grade	EMBI IG	145	(4)	0	(1)	(3)	(53)	(1.6)	(1.6)	(0.4)	(2.8)	0.1
	EMBI GD High Yield	EMBI HY	590	6	25	8	(18)	(169)	(1.5)	(2.3)	(0.8)	0.6	10.1
EM Sovereign Debt Regions	Africa	Africa	555	5	30	35	(1)	(187)	(1.5)	(2.9)	(1.3)	0.3	13.9
	Asia	Asia	224	0	8	16	(8)	(41)	(1.4)	(1.7)	(0.5)	(0.2)	0.9
	Europe	Europe	286	5	11	12	20	(86)	(1.4)	(1.6)	(0.0)	(1.0)	5.6
	LATAM	LATAM	372	1	17	22	18	(66)	(2.0)	(2.9)	(1.4)	(3.7)	2.5
	Middle East	Middle East	332	(4)	(10)	(10)	(36)	(101)	(1.1)	(0.4)	0.6	0.7	4.6
EM Corporates	CEMBI Broad Diversified	CEMBI B D	258	(1)	4	8	(12)	(116)	(0.6)	(0.7)	0.2	1.5	6.0
	CEMBI BD Investment Grade	CEMBI IG	145	(4)	(4)	(5)	(24)	(78)	(0.7)	(0.7)	0.3	0.2	2.8
	CEMBI BD High Yield	CEMBI HY	454	1	12	8	(31)	(193)	(0.4)	(0.7)	0.1	3.3	10.5
US High Yield	US High Yield	US HY	326	2	(10)	6	(66)	(232)	(0.3)	0.1	1.0	4.7	11.8
	US High Yield BB	US HY BB	229	4	(6)	(5)	(52)	(181)	(0.5)	(0.1)	1.1	3.6	9.7
	US High Yield B	US HY B	377	3	(11)	8	(48)	(215)	(0.2)	0.2	0.7	4.1	10.5
	US High Yield CCC	US HY CCC	645	(15)	(28)	50	(157)	(530)	0.2	0.7	1.0	10.4	24.2
European High Yield	Barclays PanEur HY	BAR PanEur HY	298	15	6	10	(59)	(179)	(0.3)	0.1	0.7	3.7	9.2
	2% Ex Financials Yield	2% ExFin Yield	3.27	0.14	0.09	0.23	(0.18)	(1.69)	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	98.6	0.0	0.4	0.2	2.4	5.4	0.1	0.6	1.1	4.4	8.3
	LSTA 100 Yield	LSTA 100 Yield	3.71	(0.02)	(0.11)	0.01	(0.27)	(1.18)	0.1	0.6	1.1	4.4	8.3
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.44	0.21	0.23	0.07	0.66	0.91	(1.7)	(1.7)	(0.1)	(3.5)	(5.0)
	1M LIBOR	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	US AGG	33	(3)	(2)	1	(9)	(28)	(1.1)	(0.9)	0.0	(1.6)	(1.1)
	US Investment Grade Corporates	US IG Corp	83	(3)	(4)	3	(13)	(54)	(1.6)	(0.9)	0.1	(1.2)	1.6
	Global Aggregate	Global AGG	33	(1)	(1)	0	(4)	(17)	(0.9)	(0.9)	0.2	(1.4)	(0.6)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	36	(1)	(2)	1	(5)	(30)	(0.2)	(0.2)	0.1	0.1	1.1
FX	DXY (US dollar)	DXY	94.34	0.0	0.0	0.0	0.0	0.0	0.9	1.8	2.1	4.9	0.5
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	(1.2)	(2.4)	(3.0)	(4.5)	2.4

1W reflects data from September 22 close through September 29 close. Source: Stone Harbor; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Important Information

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

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

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

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