October 22, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Global credit markets were broadly positive on the week as expectations of near-term interest rate hikes in the US subsided. Strong corporate earnings reports counterbalanced inflation concerns and China's property sector outlook and helped support equity prices. The S&P 500 registered a sixth straight session of gains by Wednesday's close. US 10-year Treasury yields reached 1.67%, its highest point since mid-May as investor sentiment brightened on strong earnings and hopes of a continued economic recovery. Oil prices extended recent gains, reaching above US$85 per barrel (Brent) as coal, electricity, and natural gas shortages pushed up demand for oil. Credit spreads generally tightened and total returns were mostly positive across major sectors. US high yield bonds outperformed emerging markets debt (EMD), while US investment grade credits lagged. The US dollar index (DXY) declined, and EM currencies appreciated, on average.

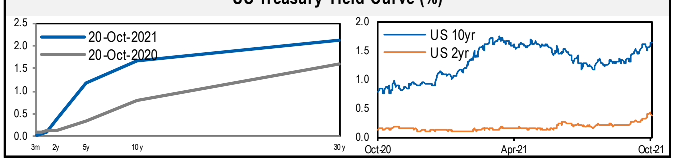
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	355		-8	2.73%
EMBI GD IG	144		-9	-1.79%
EMBI GD HY	598		-5	8.41%
Africa	584		0	9.74%
Asia	227		-16	0.34%
Europe	274		-8	4.03%
LATAM	371		-6	0.85%
Middle East	329		-9	2.64%
CEMBI BD	261		-10	4.76%
CEMBI BD IG	148		-4	1.75%
CEMBI BD HY	459		-17	8.97%
GBIEM GD (%)	5.53		8	1.23%
EM Blend (%)	5.12		2	2.94%
EMBI ESG	333		-7	1.57%
CEMBI ESG	268		-10	4.73%
GBI ESG (%)	5.38		8	0.42%
		-300 -150 0 150		Oct-20 Apr-21 Oct-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	326		-17	9.67%
US HY BB	230		-15	7.52%
US HY B	376		-18	8.43%
US HY CCC	657		-16	21.66%
Pan Euro HY	315		-12	7.22%
LSTA 100 (%)	3.76		2	7.89%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.57		10	-4.81%
1M LIBOR (%)	0.09		0	0.12%
US Agg	32		-1	-1.17%
US IG Corp	85		-1	0.88%
Global Agg	33		0	-1.16%
		-100 0 100 200		Oct-20 Apr-21 Oct-21

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.17	-1.45%	Gold	1,785	-8.07%	S&P500	4,536	31.75%
USDJPY	114.31	-7.72%	VIX	15	-47.22%	MSCI World	9,482	31.77%
EM FX		0.87%	Brent	86	98.84%	MSCI EM	3,139	17.47%
		Oct-20 Apr-21 Oct-21			Oct-20 Apr-21 Oct-21			Oct-20 Apr-21 Oct-21

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

Global Backdrop

United States

The latest round of economic data, on balance, points to further improvement in the US. Initial jobless claims resumed its downtrend and fell, from 329k to 293k, while continuing claims also fell, from 2,727k to 2,593k—both to a greater extent than expected. Retail sales were expected to fall 0.2% in September but actually rose 0.7% m/m following broad-based demand. In contrast, industrial production surprised to the downside and fell 1.3% m/m but the deceleration is likely temporary and attributable to the ongoing outages resulting from Hurricane Ida.

Although an agreement seemed imminent, there remains some residual infighting within the Democratic Party as several Senators are seeking last minute amendments to both the spending and funding elements of the infrastructure bill. Leaders will need to reconcile their differences and agree on measures to fund President Biden's economic agenda without increasing the country's deficit. An outline of a deal is expected by the end of the week.

Europe

Post-Brexit tensions eased this week after the EU offered to scale back customs checks, by 50% on goods and up to 80% on food, arriving in Northern Ireland. In response, Brexit Minister David Frost said he would work constructively with the EU, and Prime Minister Boris Johnson promised to reach a resolution to the Northern Ireland Protocol.

Covid-19 infections and deaths across Germany recorded a notable increase this week. Regional German premiers are asking the federal government to extend the state of emergency measures, which were set to end on 25th November. Residual indoor measures such as proof of negative Covid test, vaccination and/or face masks are likely to remain in place.

After ten years of service, German central bank president Jens Weidmann will be stepping down at the end of this year due to personal reasons and amid differing views regarding interest rate policies.

Japan/Asia

Generally weaker data is coming out of China with GDP slowing, from 1.2% in Q2 down to 0.2% in Q3, as the Delta variant outbreak and regulatory tightening were exacerbated by the ongoing energy shortage. Industrial production, fixed assets and property investment also slowed in September to reach new YTD lows. Retail sales were the bright spot as y/y sale grew, from 2.5% in August to 4.4% in September, ending the downward trend from the start of the year.

Economist Corner

Seamus Smyth, PhD, Developed Markets

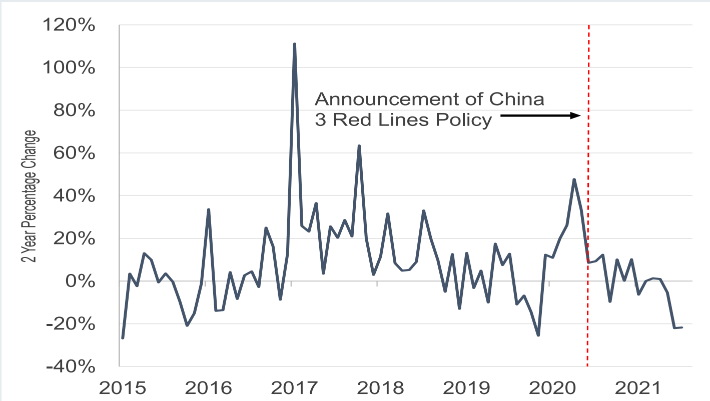
Steffen Reichold, PhD, Emerging Markets

China's real estate sector is at a critical juncture. Last month, home price indices declined for the first time in years. The introduction of the three red lines policy last year, which aimed to reduce leverage of real estate developers had serious consequences. Initially, it only slowed loan growth to developers (Fig 1) who responded by relying more on prepayments by apartment buyers (Fig 2) to fund themselves. However, this source also dried up as sales volumes slowed sharply over the summer and reports of financial problems at real estate developers—most prominently Evergrande—became more frequent. Banks, in turn, responded by substantially reducing loans.

At this time, funding access to developers needs to be restored in order to avoid either 1) substantial asset sales—which would lead to price drops and could destabilize the market along with confidence of households—or 2) a sharp decline in construction activity. Most likely, it would be combination of both which would trigger a serious deceleration of China's economy.

It appears that Chinese policy makers have understood the seriousness of the issue. In particular, policy makers have now indicated that banks had been asked to accelerate mortgage approval and keep credit to the real estate sector stable and orderly. Moreover, they also mentioned work with local governments to safeguard stable housing markets. Whether or not these plans will be successful depends critically on restoring funding sources for real estate developers, in our view. Monitoring loan flows to developers will be key over the next months. Historically, Chinese policy makers have been mostly successful in directing bank lending. But financial incentives suggest that banks might be slow to follow the policy guidance.

China Domestic Loans to Real Estate



China Real Estate Advanced Payments

As of 30 September 2021
Sources: Haver Analytics, China National Bureau of Statistics, Stone Harbor Investment Partners LP

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 8 bps and the JP Morgan EMBI Global Diversified returned 0.2%. Investment grade securities outperformed non-investment grade bonds, on average. The top performers included Sri Lanka (+3.2%), Suriname (+2.8%), and Indonesia (+1.4%). The bottom performers included Tunisia (-5.6%), Ghana (-5.5%), and Belize (-3.9%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.4%. EM currencies returned 0.7%, in aggregate. The South African rand outperformed with a spot FX return of 2.6%, followed by Mexican peso (+2.5%) and Peruvian sol (+2.3%). Underperformers included Turkey (-1.9%), Colombia (-1.5%), and Thailand (-0.6%).

The yield of the JP Morgan GBI EM Global Diversified increased 8 bps to 5.53%. Chile outperformed with yields 29 bps lower, followed by Indonesia (-8 bps) and South Africa (-2 bps). Brazil bonds underperformed with yields 97 bps higher, followed by Turkish and Czech Republic bonds, which increased in yield by 30 bps and 22 bps, respectively.

In central bank actions, Turkey surprised with a larger-than-expected cut of 200 bps to 16.0%, compared to market expectations of a 100 bps cut; rates were left unchanged in Indonesia (3.50%) and China (1-year and 5-year loan prime rate at 3.85% and 4.65%, respectively), and Ukraine (8.50%); Hungary, on the other hand hiked 15 bps to 1.80%, as expected.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified posted a positive return, reversing a string of negative performances over the last few weeks. China was the largest contributor the benchmark return. Supportive comments by the Chinese government of homebuilders enhanced market confidence that the government would continue to support the industry. Gains on Chinese bonds boosted returns in other Asian markets, including Macau and Indonesia. Brazil materially underperformed after President Jair Bolsonaro put forward a spending plan that investors feared may violate Brazil's fiscal law. Higher oil prices further supported the performances of independent exploration and production companies; bonds of Colombia's Gran Tierra and Geopark and Ghana's Tullow Oil moved higher

Flows/Issuance

EM sovereign debt issuance this week included offerings from Colombia and China. Colombia issued US$1 billion in US dollar-denominated bonds due 2049; and China issued US dollar-denominated bonds due 2024, 2026, 2031, 2049, and 2051, totaling approximately US$4.0 billion. In EM corporate debt, headlines in both China and Brazil limited investor interest; however, several notable new issues included bonds from Colbun (due 2032), Lukoil (due 2027 and 2031), Norilsk Nickel (due 2026), and Indofoods (and 2052).

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$664 million primarily from local currency funds for the week through 19 October. 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 domestic markets came under pressure this week on reports that the government will need to breach the spending cap rule to finance the new social aid program called Auxilio Brasil, which will hand out 400 reais, or approximately US$72, per individual. The increased amount translates to roughly 30 billion reais of additional expenses that will exceed Brazil's spending cap rule this year and has been proposed as a temporary measure while the government finds a permanent source of funding. Brazil's President Jair Bolsonaro later announced that the new plan won't breach the spending cap, but gave no details. The Economy Minister's original plan was to replace the existing pandemic emergency payments with the new aid program, paying the same amount per worker, but that path is dependent on the approval of two bills in congress – one that sets yearly limits to court-ordered payments ("precatorios"), and the income tax reform, which would provide long-term financing for a more structural solution. Brazil's local bond yields rose and the currency declined.

Chile

A poll conducted by Plaza Publica Cadem over the weekend showed the Republican Party candidate Jose Antonio Kast ahead of Gabriel Boric by 1% in the presidential race. The poll has a margin of error of plus or minus 3.7 percentage points. Another poll conducted by Pulso Ciudadano also showed Kast gaining traction as Boric's popularity has declined over the recent months. Boric's coalition is critical of the free-market policies that have helped Chile attract more foreign investment as a percent of gross domestic product than other Latin American countries. The percentage of undecided voters remains high, at around 30%, and the results of these polls suggest that no candidate is likely to gain 50% of the votes required on 21 November. If no candidate receives a majority, the top two will face each other in a runoff election on 19 December. Meanwhile, the traditional coalition headed by President Sebastian Pinera is struggling to gain support. The Chilean peso appreciated.

China

China's economic growth decelerated to a two-year annualized growth rate of 4.9% y/y in Q3 from 5.5% in Q2. Exports and retail sales improved, while industrial production and fixed-asset investment slowed, largely due to power shortages and production curbs. In the property sector, sales volume dropped 3.5% after declining 2.0% in August, and construction starts also declined 7.9% after falling 7.7% in the prior month. Liquidity pressure on China's property developers will likely continue and exert downward pressure on growth. However, the central bank noted late last week that certain banks have excessively limited their lending to developers. This stance could support developers and improve home-buyer confidence. We note that the September data does not fully reflect the consequences of the Evergrande unwinding, which did not come into effect until the latter part of the month.

Separately, in terms of China's monetary policy update, the PBoC rejected an imminent cut of the required reserve ratio (RRR) for banks at a quarterly press conference despite pressure to further cut rates against the weakening economic backdrop. The policy makers are likely to deploy targeted instruments and a combination of other facilities -- e.g., medium-term lending facility and open market operations etc. -- to ensure liquidity remains sufficient, which reflects a pragmatic policy approach, in our view.

Lebanon

Prime Minister Najib Mikati met with IMF Executive Director Mahmoud Mohieldin earlier this week to discuss funding to help manage through the deep financial and economic crises. The Minister outlined a plan for economic recovery that includes basic structural reforms, particularly in the electricity sector, that are aimed at providing financial support. According to the IMF, the consultations are ongoing and technical discussions are progressing. An important aspect of engaging with the IMF at an early stage is that the debt restructuring process will be in part based on the IMF's debt sustainability analysis (DSA). The IMF can only lend on the basis that the borrower's debt is on a sustainable path, as determined by its DSA, and this will have an important bearing on the terms that the sovereign is able to offer creditors in the restructuring. Early engagement with the IMF is an important pre-requisite for discussions with creditors and an eventual resolution of the default.

Tunisia

The IMF and Tunisian authorities have restarted dialogue to discuss fund assistance, which could in turn potentially unlock further bilateral aid from major lenders. This development follows the appointment of a new cabinet last week. According to the IMF director Jihad Azour, a virtual meeting is scheduled for next week to discuss plans of the new government, particularly as they relate to the reform agenda and the government's intentions in regard to its relationship with the fund. A credible economic reform that reduces subsidies and the public sector wage bill would be a significant step toward controlling the rising fiscal deficit and debt levels. Tunisia's external sovereign debt stabilized and credit spreads tightened.

Turkey

The central bank delivered a surprise 200 bps cut in the policy interest rate to 16%, compared to a market expectation of a 100 bps cut. Last month, the benchmark interest rate was cut by 100 bps to 18% despite rising inflation that rose to more than 19%. According to the central bank, "The Committee assesses that, until the end of the year, supply-side transitory factors leave limited room for the downward adjustment to the policy rate," which suggests a slower pace of policy easing for the remainder of this year. The rate decision follows indirect criticism of President Recep Erdogan's economic policy only days before by the Turkish Industry and Business Association ("Tusiad"), which represents 4,500 companies and its members generate 85% of Turkey's total foreign trade. The organization published a report calling for fundamental reform of economic policymaking, emphasizing the need for central bank independence and cautious monetary and fiscal policy to ensure the country's long-term growth trajectory. A similar concern around political interference with the central bank was raised by Turkey's main opposition leader Kemal Kilicdaroglu, who openly called Erdogan to respect the central bank's institutional identity. The Turkish lira declined and local bond yields increased.

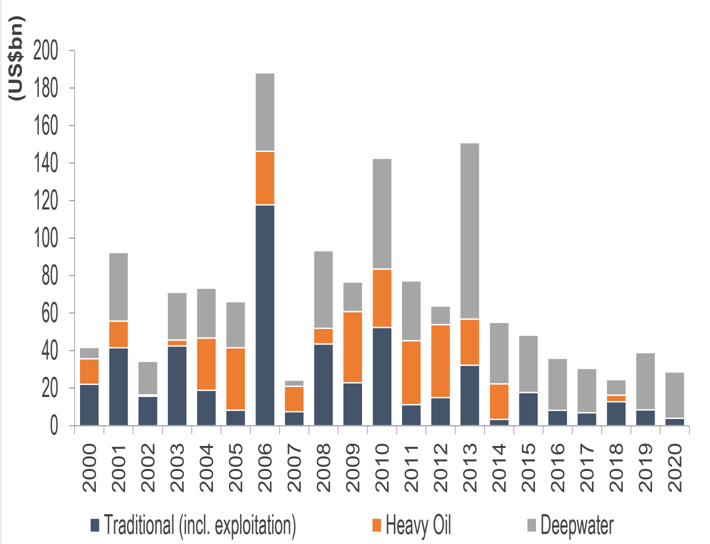
Ukraine

As expected, the IMF staff agreed to a six-month extension of the existing US$5 billion lending program with Ukraine that was originally set to expire in December 2021. The program remains focused on medium-term fiscal sustainability, central bank independence, banking sector stability, and anti-corruption efforts. Completion of the first review, which entails the passage of the outstanding program-related legislation and IMF Executive Board approval, would allow disbursement of approximately US$700 million, bringing the total amount disbursed to US$2.8 billion. This development is unfolding against the backdrop of Ukraine's improving economic conditions. The positive news on the IMF program was offset by the negative headlines around a possible replacement of the National Bank of Ukraine's Governor Kyrylo Schevchenko. The dismissal, if it were to materialize, would require approval from parliament and would likely reflect broader management issues rather than monetary or FX policy shifts.

Chart of the Week

Annual energy capital expenditures have been declining since 2013, and are likely to remain historically low, at least for the near future. Our chart of the week comprises data from 460 of the world's largest oil producers. An important factor in decisions among major oil and gas companies to reduce capex, we believe, has been the decline in returns from investment, a function of lower prices of energy in recent years. Analysts on Wall Street are predicting a modest increase in capex in the energy sector this year and in 2022 as energy prices have increased. Another constraint has been the efforts of many of these companies, particularly those in developed countries, to reach net zero emissions targets by decarbonizing their operations and value chains. The combination of constraints from investors demanding more attention to environmental concerns as well as nearly a decade of low investment returns has weighed on the willingness of energy companies to invest in new oil and gas fields. Lower investment in the near term, along with the cautious approach of OPEC+ and the current deficit in oil and gas supply, are likely to continue to pressure oil prices higher. This problem is likely only to be resolved after equity investors in the energy sector earn sustained positive returns. In our view, the current environment remains favorable for many oil producers, particularly those from emerging markets.

Capital Commitments to New Oil Projects



As of 21 October 2021
Source: Goldman Sachs Global Investment Research

Global High Yield

US High Yield

The US high yield market added 36 bps of total return buoyed by near record equity markets, higher commodity prices, and robust earnings overshadowing concerns surrounding elevated inflation and global supply chain risks. Managers have been more selective among lower rated credits with CCCs only returning 25 bps, while B and BB returned 40 bps and 35 bps, respectively. Index yields and spreads tightened to 4.15% and +326 from +4.29% and +343 a week ago. Leisure, Drillers, Retail Food/Drug, Refining, Energy, and Midstreams outperformed, while Containers, Media, and Satellites underperformed relative to the index. Corporate earnings have eased worries that cost pressures could slow pandemic recovery as shown by 84% of S&P 500 companies posting results that have topped expectations.

Leveraged Loans

The Loan market remained steady this past week and generated positive returns driven by interest carry as investors were focused on corporate earnings and new issuance. For the week, the S&P/LSTA Leveraged Loan Index returned .05%, the average bid price declined 2 bps to US$98.61, and the spread-to-maturity widened 1 bp to L+399. Returns across ratings cohorts were mostly in line with the exception of CCC's, which underperformed as a result of idiosyncratic credit stories. From an industry perspective, we saw strength in commodity-related sectors on the back of energy prices, as well as airlines as travel restrictions continue to ease. Underperforming sectors include Media Other, Drillers & Services, and Paper/Packaging, which are largely being impacted by select distressed credits. Lastly, there were no defaults in the Index last week.

European High Yield

Overall European high yield benchmark gained 0.30% for the week with rising equity and commodity markets and better-than-expected earnings reports driving the rally. Index spreads tightened 17 bps for the week, with CCC spreads tightening 34 bps compared to only 9 bps for BBs. Industry outperformers included Chemicals, Consumer Products, and E&P. E&P continued to be the beneficiary of soaring oil and natural gas prices, while Chemicals and Consumer Products recovered some of their recent losses related to inflation and supply constraints. Retail Food & Drug was the most significant underperformer as Britain's third largest grocer, Asda, terminated the sale of its petrol forecourt business for $1 billion. Instead, the company will repay a 675 million pound bridge facility with 250 million pounds cash and new long-term debt of 500 million pounds. As a result, Moody's downgraded the corporate rating from Ba2 to Ba3.

Flows/Issuance

For the US high yield market, EPFR is reporting a positive inflow after two weeks of outflows. ETFs led by adding more than US$1.9 billion, while institutional and retail funds saw small negative flows. The primary calendar picked up pace to price 14 deals for more than US$12 billion led by billion plus deals from Weatherford International, Sonic Automotive Inc., Lamb Weston Holdings Inc., and Carnival Corp. The uses of proceeds were a mix of refinancing debt and to fund acquisitions.

In the loan market, supply remained solid this past week. Approximately 32 deals have launched totaling US$17.8 billion, and month-to-date arrangers have brought 58 deals totaling US$39 billion. New issuance continues to be heavily skewed toward M&A/LBO activity, which has been the theme for several months. We continue to see strong demand from structured credit investors as evidenced by 21 Collateralized Loan Obligations (CLOs) pricing month-to-date for approximately US$10.2 billion. Additionally, we continue to see steady inflows from retail loan mutual funds and Exchanged Traded Funds (ETFs), which posted US$927 million in inflows for the week.

For European high yield, EPFR data showed an outflow of US$175 million, bringing flows for October to negative US$559 million. Primary activity increased with 4.7 billion euros pricing during the week

Source: Lipper, EPFR

Industry Insights

Consumer Products: Despite a strong consumer, investors in the Consumer Products sector are focused on upcoming commentary surrounding global supply chain disruptions and inflationary headwinds that could pressure sales and margins heading into year-end. With input costs such as materials, freight, transportation and labor all rising rapidly, there are questions concerning whether or not companies are able to pass through pricing in a timely manner to mitigate headwinds and maintain profitability, and whether the consumer is responsive given declining stimulus measures, lower savings as well as higher food and energy prices. Consumer Products bellwethers including Danone, Nestle, and Proctor & Gamble all reported earnings this week highlighting mounting costs and further price increases to the consumer.

Midstream: Recovering oil, natural gas and natural gas liquids prices have benefited volumes across midstream assets in 2021. For 2022, the Energy Information Administration is estimating US volume growth for oil and gas at 5% and 3.5%, respectively. We expect midstream capex in 2022 to be 15% below an already low 2021 capex program, with a shift towards using free cash flow to increase equity distributions vs 2021's focus on balance sheet improvement. Consolidation is expected as the sector matures and regulatory hurdles continue for new build projects, so growth is projected to be gained by mergers & acquisitions as companies shun capex spend.

Technology: PC market growth forecast will slow in the final quarter of this year; we expect only 1-3% y/y growth. Most sell side estimates have PC markets declining between 2-7% in 2022 compared to 2021. DRAM spot markets have shown price declines of 4% m/m and 25% over the last 3 months. PC weakness will be less meaningful for the high yield market as Dell Technologies moves to the investment grade market. Dell Technologies confirmed the spinoff of VMware (VMW) stock will take place on 1 November and earlier said the that the size of the special dividend paid to Dell Technologies from VMW will be approximately US$11.5 billion. NAND chip spot prices increased m/m, driven by strong 5G handset sales and strong demand for consumer products. Increased shipping cost are hurting margins at technology companies particularly in the Telecom and Data Center Infrastructure markets. Auto-related semiconductor supply is slowly improving, but pandemic-related closings in South East Asia are hurting availability.

Investment Grade

Governments

Government bonds were under pressure against a backdrop of heightened volatility as the ICE BofAML MOVE Index jumped to a six-month high of 70.77 before settling in at 65. The weakness in duration was led by Gilts after BoE Governor Andrew Bailey said the central bank has, “signalled, and this is another signal, that we will have to act,” in response to the current inflationary pressures stemming from higher energy costs and ongoing supply chain constraints. The front end of the Gilt curve saw more pressure leading to the UK 2s10s bear flattening 5 bps to 46 bps. Given the divergence in central bank policy, where the ECB has reaffirmed its stance on maintaining interest rates, the yield on 10-year Bunds were unchanged at -0.13%. The sentiment carried over to the US where rates ended the period higher across the curve. The yield on the benchmark 10-year Treasury rose to 1.67% and the front-end of the curve bear steepened with US 2s10s rising 9 bps to 127 bps. Market participants further repriced the implications of higher energy prices on inflation and, after nearly two weeks of divergence, both 10-year real yields and Breakevens rose 5 bps and 7 bps, respectively. There is a growing dissonance between the RBA and market participants. The RBA reaffirmed that conditions for a rate hike would not be met before 2024, however, markets are now pricing in an earlier- than-expected lift-off with rate rises now expected by mid-2022. The RBA’s 3-year yield target of 0.10% was breached this week after selling pressure sent the yield on the ACGB 2024s above 18 bps intraday.

Corporates

Spreads on investment grade corporates finished the week tighter by 1 bp, according to the Bloomberg corporate index leaving the OAS at +85 bps. Markets saw good demand for longer dated paper out of Asia, while domestic buyers saw an opportunity to buy 20-year corporates fairly cheap to 30-years given a fairly flat corporate curve and even flatter treasury curve. Demand remained fairly even over the week, helped by favorable earnings and a steady calendar. Bank spreads lagged as they typically do after earnings given their propensity to issue in the primary markets as we saw three of the six major banks take the opportunity to do so. The market seems to be on firmer footing after having been mixed over the last few weeks, although concerns about high inflation and earnings growth will continue to hang over the markets.

Securitized

The mortgage current coupon tightened 5 bps this week. Mortgage refinancings are -7.1% for the week and -22% year-over-year. Except for one week in July, this is the lowest level since January 2020. Purchase applications fell 4.6% on the week and fell 12.4% year-over-year. Bank of America announced they are committing US$500 million of their balance sheet to promote secondary trading of ESG securitized products and have started sending out market runs to support the sector.

Flows/Issuance

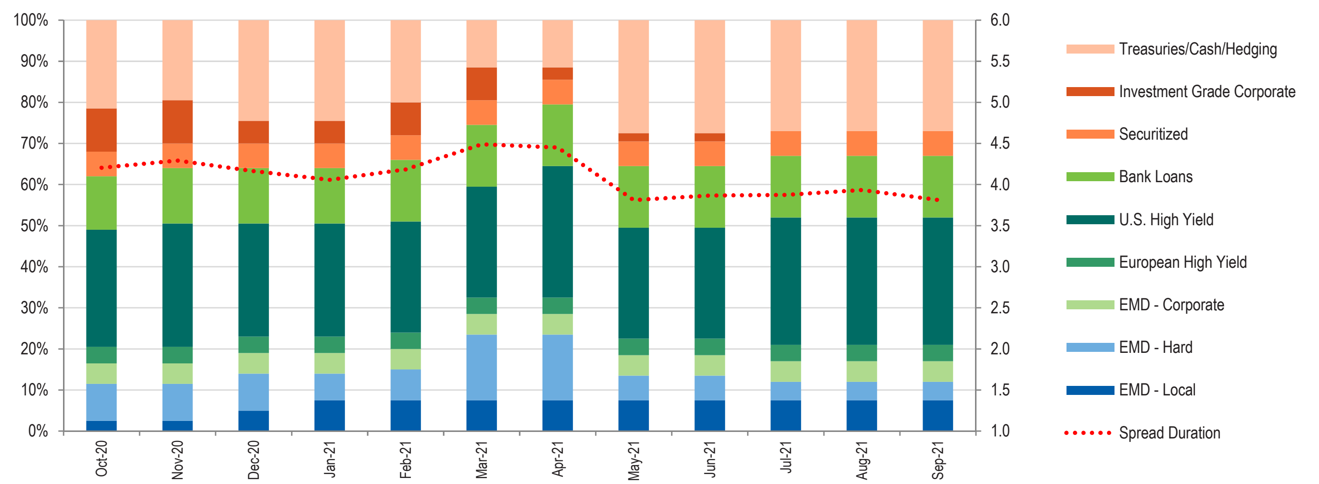
In investment grade corporate debt, roughly US$54 billion priced this week, approximately double the low end of expectations with almost half the issuance from Aercap, which issued US$21 billion to pay for their recent purchase of GE Capital Aviation Services. The deal had a pre-order book of US$20 billion and finished with over US$72 billion in orders. Earlier during the week and towards the end of last week Morgan Stanley, Bank America, and Goldman Sachs all came to market following their earnings releases, which were largely favorable. Larger deals from GM, Micron Technology, ThermoFisher, Taiwan Semiconductor also priced this week and saw robust demand for paper. Supply for October, which tends to be a lighter month, is at or close to US$100 billion thus far and is on track to be at least the 4th largest October on record. Year-to-date supply is just under US$1.25 trillion.

High grade fund flows slowed further this week, according to EPFR with only US$215 million of inflows, the lowest since the brief outflow from March 2021, according to JP Morgan. Aggregate funds saw outflows of US$492 million, driven by the short end, while total return and corporate only funds had modest inflows of US$616 million and US$212 million, respectively. Lipper reported an inflow of US$881.9 million into high grade funds.

New issue in asset-backed securities and commercial mortgage-backed securities remains heavy, particularly in the SASB sector, where large US$1 billion+ are becoming common and where Blackstone dominates as an issuer.

Source: EPFR, JP Morgan

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 30 September 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 October 20, 2021			Spread or Yield Change (bps or %)						Total Ret
			Level	1W*	MTD	QTD	YTD	LTM	1W
EM	EMBI Global Diversified	EMBI G D	355	(8)	(0)	(0)	5	(55)	0.2
	CEMBI Broad Diversified	CEMBI B D	261	(10)	2	2	(9)	(90)	0.2
	GBI EM Global Diversified Yield	GBI EM GD	5.53	0.08	0.23	0.23	1.31	1.10	0.4
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	355	(8)	(0)	(0)	5	(55)	0.2
	EMBI GD Investment Grade	EMBI IG	144	(9)	(3)	(3)	(4)	(24)	0.3
	EMBI GD High Yield	EMBI HY	598	(5)	4	4	(10)	(140)	0.0
EM Sovereign Debt Regions	Africa	Africa	584	(0)	23	23	29	(125)	(0.3)
	Asia	Asia	227	(16)	1	1	(5)	(24)	0.7
	Europe	Europe	274	(8)	(4)	(4)	9	(69)	0.1
	LATAM	LATAM	371	(6)	(6)	(6)	17	(40)	(0.0)
	Middle East	Middle East	329	(9)	(2)	(2)	(39)	(67)	0.2
EM Corporates	CEMBI Broad Diversified	CEMBI B D	261	(10)	2	2	(9)	(90)	0.2
	CEMBI BD Investment Grade	CEMBI IG	148	(4)	1	1	(21)	(55)	(0.1)
	CEMBI BD High Yield	CEMBI HY	459	(17)	4	4	(26)	(160)	0.6
US High Yield	US High Yield	US HY	326	(17)	(7)	(7)	(66)	(169)	0.4
	US High Yield BB	US HY BB	230	(15)	(5)	(5)	(51)	(131)	0.3
	US High Yield B	US HY B	376	(18)	(8)	(8)	(49)	(144)	0.4
	US High Yield CCC	US HY CCC	657	(16)	(6)	(6)	(145)	(419)	0.2
European High Yield	Barclays PanEur HY	BAR PanEur HY	315	(12)	17	17	(41)	(138)	0.3
	2% Ex Financials Yield	2% ExFin Yield	3.54	(0.06)	0.33	0.33	0.09	(1.05)	0.00
Bank Loans	LSTA Price	LSTA Price	98.6	(0.0)	(0.0)	(0.0)	2.4	4.9	0.0
	LSTA 100 Yield	LSTA 100 Yield	3.76	0.02	0.05	0.05	(0.22)	(1.10)	0.0
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.57	0.10	0.14	0.14	0.79	0.89	(0.8)
	1M LIBOR	1M LIBOR	0.09	(0.00)	0.01	0.01	(0.06)	(0.06)	0.0
	US Aggregate	US AGG	32	(1)	(1)	(1)	(10)	(24)	(0.4)
	US Investment Grade Corporates	US IG Corp	85	(1)	1	1	(11)	(39)	(0.6)
	Global Aggregate	Global AGG	33	(1)	0	0	(4)	(14)	(0.3)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	39	1	2	2	(2)	(18)	(0.1)
FX	DXY (US dollar)	DXY	93.56	0.0	0.0	0.0	0.0	0.0	(0.6)
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.7

1W reflects data from October 13 close through October 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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