October 29, 2021

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Central bank actions denominated headlines this week as inflation expectations and the timeline of interest rate hikes continue to weigh on investor sentiment. While the US Federal Reserve (Fed) remained in quiet mode during its blackout period ahead of the 3 November FOMC meeting, the Bank of Canada announced the end of its quantitative easing program and pulled forward the general rate hike timeline. Large moves in developed market bond yields resulted from the uncertainties linked to market reaction to interest rate hikes globally, leading to yield-curve flattening as short-term rates increased. In US economic data, the first estimate of the 3Q US GDP data showed a meaningful deceleration to 2% in growth from the vaccine-led rebound of 5.7% in 2Q. Credit spreads widened and total returns were mostly positive across major sectors. Emerging markets debt (EMD) outperformed lower-quality US high yield debt. The US dollar index (DXY) advanced, and EM currencies depreciated, on average.

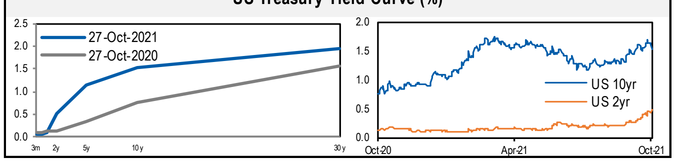
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	358		3	3.82%
EMBI GD IG	150		6	-0.62%
EMBI GD HY	600		2	9.39%
Africa	584		0	10.36%
Asia	223		-4	2.18%
Europe	282		8	4.50%
LATAM	375		5	1.94%
Middle East	336		7	3.84%
CEMBI BD	266		6	4.91%
CEMBI BD IG	152		4	2.06%
CEMBI BD HY	467		8	8.93%
GBIEM GD (%)	5.61		8	0.07%
EM Blend (%)	5.10		-2	2.95%
EMBI ESG	337		4	2.79%
CEMBI ESG	275		7	4.84%
GBI ESG (%)	5.46		8	-0.80%
		-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	330		4	9.99%
US HY BB	233		3	7.84%
US HY B	380		4	8.70%
US HY CCC	662		5	22.02%
Pan Euro HY	317		1	7.26%
LSTA 100 (%)	3.77		1	8.03%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.48		-9	-4.21%
1M LIBOR (%)	0.09		0	0.11%
US Agg	32		0	-0.71%
US IG Corp	85		0	1.64%
Global Agg	33		0	-0.76%
		-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	1.16	-1.64%	Gold	1,799	-7.23%	S&P500	4,552	34.24%
USDJPY	113.83	-8.25%	VIX	17	-49.09%	MSCI World	9,496	34.23%
EM FX		0.65%	Brent	85	105.29%	MSCI EM	3,095	15.82%

As of: October 27 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

US and China relations were in focus again this week. According to the Chinese government, a scheduled call between Vice Premier Liu He and US Treasury Secretary Janet Yellen was "pragmatic, candid and constructive." Perhaps offsetting some of that progress, the US Federal Communications Commission (FCC) voted unanimously to rescind permission for a Chinese telecommunications entity to operate in the US. During an interview, General Milley, chairman of the Joint Chiefs of Staff, acknowledged reports of China's military conducting hypersonic weapons tests and said that it's not, "quite a Sputnik moment, but I think it's very close to that. " The preliminary October PMIs were mixed but, on balance, reflects improvement in activity. The services PMI broke a 4-month deceleration and rose from 54.9 to 58.2. Manufacturing PMI slowed for the third consecutive month but remains elevated at 59.2. The composite reading benefited from the notable rebound in services and rose from 55.0 to 57.3.

Europe

The UK Treasury announced plans to inject £5.9 billion into the National Health Service to reduce the backlog accumulated throughout the pandemic. Later in the week, Chancellor of the Exchequer Sunak presented his new budget to Parliament. The plan includes a temporary tax reduction for the hospitality sector, freeze on a planned increase to fuel duties and reforms to Universal Credit. A portion of the budget will also be allocated to improving infrastructure, reskilling workers, and education. The latest German Ifo readings reflect further deterioration in sentiment. German business confidence fell for the fourth consecutive month to a new 6-month low of 97.7 in October. According to the ifo president, "sand in the wheels of the Germany economy is hampering recovery." Ongoing supply chain constraints, which caused capacity utilization to fall 2.1% to 84.7, were cited as the primary driver of the weakness. Companies' current assessment improved, however, their outlook is more pessimistic.

Japan/Asia

The South Korean economy slowed for the second consecutive quarter as GDP decelerated from 6.0% to 4.0% y/y. Export demand and government spending remains resilient but were weighed down by weaker fixed investment and private consumption. Nonetheless, the Bank of Korea is seemingly poised to look through the weaker GDP print and expects the economic recovery to remain intact. Australian headline CPI rose 0.8% in Q3, as expected, but the trimmed mean reading came in stronger than expected at 0.7% q/q versus estimates for 0.5%. Given the Reserve Bank of Australia's emphasis on the trimmed mean for policy setting, market participants further repriced the potential for a sooner-than-expected lift-off in Australian rates. China is dealing with another Covid-19 outbreak and announced that it expects infections to increase over the next few days.

Economist Corner

Seamus Smyth, PhD, Developed Markets

Steffen Reichold, PhD, Emerging Markets

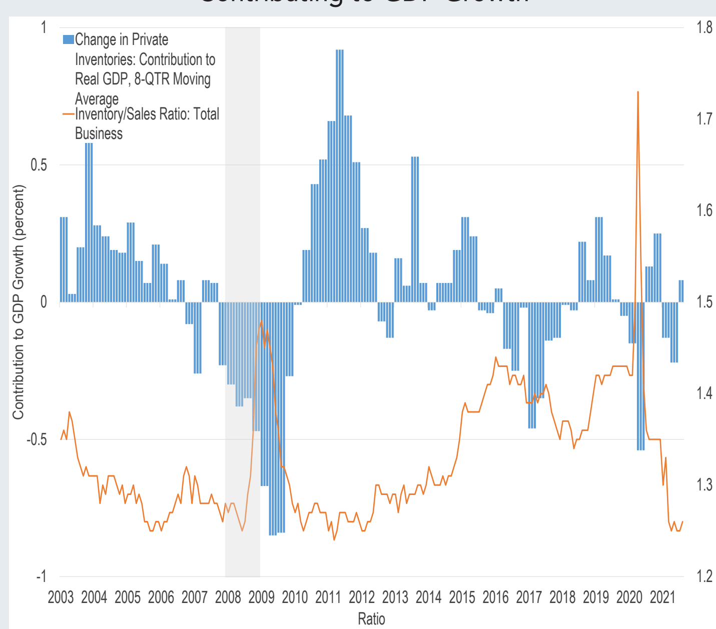
Q3 GDP grew at just 2.0%, a rate that was a disappointingly rapid slowdown from the more robust 6.7% pace in Q2. A number of factors contributed to that slower growth: a substantial drag from net exports, slower consumption growth and auto-related disruptions, which pulled down durable goods consumption growth. One area that was strong, however, was inventory investment. Indeed, inventory accumulation added 2.1pp to GDP growth; in other words, inventories accounted for essentially all the observed growth in Q3.

Inventories may not seem particularly relevant, but they are substantial factors in driving what happens through the business cycle. As illustrated in the accompanying graph, the 8-quarter average contribution of inventories to GDP growth swings massively. (The 8-quarter time period is used to allow comparison to pre-covid.) During contractions, firms draw down their existing inventories instead of new production, which translates into an average drag of up to ¾ percentage points. Then, during the recovery phase, these depleted inventories are rebuilt.

With the big boost from inventories in Q2, should we then expect less contribution from inventories going forward? Probably not. In fact, we are likely in the early stages of the inventory rebuild. Compared to pre-Covid, inventories are essentially unchanged—they have added very little to growth over the past eight quarters. Previous recoveries have seen inventories swing to a substantial contribution to growth over the following several years.

Another way to see this is that the total business—manufacturers, wholesalers and retailers—inventory/sales ratio remains very low. It has moved down substantially over the last two years, which implies that firms hold less inventory than they would like to, and there is probably further restocking to come, which will boost output. This is particularly relevant when it comes to the auto sector. Supply chain issues and demand have pushed down production and driven inventories very low. Currently, for the auto sector, the inventory/sales ratio sits at just 1.24 when, for most of the 2010s, it hovered around 2. It's likely to revert back higher over the next several quarters, boosting output.

Inventory/Sales Ratio Implies Inventories Likely to Continue Contributing to GDP Growth



As of 31 August 2021
Sources: Bureau of Economic Analysis, Census Bureau, Haver Analytics,

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 3 bps and the JP Morgan EMBI Global Diversified returned 0.6%. Investment grade securities outperformed non-investment grade bonds, on average. The top performers included Suriname (+7.0%), Sri Lanka (+6.9%), and Ghana (+5.5%). The bottom performers included Lebanon (-2.6%), Venezuela (-2.6%), and Ecuador (-1.6%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.9%. EM currencies returned -0.6%, in aggregate. The South African rand underperformed with a spot FX return of -3.9%, followed by the Turkish lira (-2.9) and the Peruvian sol (-1.2%). Outperformers included Uruguay (+0.5%), Chile (+0.4%), and Thailand (+0.4%).

The yield of the JP Morgan GBI EM Global Diversified increased 8 bps to 5.61%. Brazil bonds underperformed with yields 66 bps higher, followed by Russia and Dominican Republic bonds, which increased in yield by 46 bps and 32 bps, respectively. Chile outperformed with yields 17 bps lower, followed by Thailand (-5 bps) and Turkey (-4 bps).

In central bank actions, Brazil raised the Selic rate by 150 bps to 7.75%, in line with consensus expectation and marking the sixth consecutive increase in the current hiking cycle. Russia and Kazakhstan surprised with larger-than-expected hikes. Russia's central bank increased its policy rate by 75 bps increase to 7.50%. Kazakhstan hiked 25 bps to 9.75%. Georgia kept its key rate unchanged at 10.00%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified posted a modest gain of 0.06% as lower US Treasury yields supported investment grade bonds, while select high yield Latin American markets were negatively impacted by local politics. Despite ongoing turmoil in the Chinese property sector and its impact on select Chinese corporates, total returns of the rest of the Asian markets, which are dominated by long-duration investment grade issues, were generally stronger reflecting the decline in 10-year and longer US Treasury yields. The Latin American region posted a negative return, driven by underperformance in Brazil and Chile. The announcement by the Brazilian government that it was increasing social spending led to 0.87% average decline in returns of Brazilian corporates. In Chile, the Senate approved a bill that would allow for a fourth early withdrawal from the pension system; corporate debt returns declined in sympathy with the broader negative market reaction to this development.

Flows/Issuance

In EM corporate debt, new issuance was highlighted by US$2.0 billion issuance from Ecopetrol in two tranches, and issuance from the Industrial and Commercial Bank of China. In EM sovereign debt, Peru announced the issuance of 12-year and 50-year sustainable bonds and a retap of an existing traditional bond maturing in 2051.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$392 million primarily into hard currency funds for the week through 26 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

Following the resignations of four top Economy Ministry officials late last week amid rising tensions around President Jair Bolsonaro's plans for increased fiscal spending, and subsequent to speculation on the potential exit of Finance Minister Paulo Guedes, markets calmed on news that Mr. Guedes will remain in his role for now. While the Brazil real remains nearly 7% weaker relative to the US dollar year-to-date, and pulled back following the central bank's larger-than-expected rate hike, the currency appreciated this week.

Separately, Brazil's state-run oil company Petrobras announced late last week that it will raise diesel and gasoline prices by 9% and 7%, respectively. The price hikes follow the recent uptrend in oil prices and depreciation of Brazil's currency. The company pointed to the heightened demand from fuel distributors for November as one reason behind the price adjustment, even as the country faces a double-digit annual inflation rate.

Chile

Chile's Senate Constitution Committee voted earlier than expected to approve a bill allowing citizens to withdraw pension funds, the fourth measure of its kind. While individual articles within the law can still be debated and modified, the proposal was approved, in general, with three votes in favor and two votes against. The bill will next be sent to the Senate floor, and requires a two-thirds majority for final approval. A floor session could be held as soon as next week to begin debating the matter, but there are still some uncertainties around the proposal due to hesitancy from moderates and the potential impeachment trial against President Piñera – which could begin on 5 November.

In other news, President Sabastian Piñera reappointed Mario Marcel as Governor of the Central Bank to a new 5-year term, a position he has held since December 2016, when he was appointed by Chile's former left-leaning President Michelle Bachelet. The appointment does not require consultation with the Senate. The decision to extend Mr. Marcel's mandate was generally received in a positive light by the market, especially in a context of the importance of the Central Bank's independence.

China

China's top legislative body, the National People's Congress Standing Committee, announced that it has authorized the State Council to introduce pilot programs for property tax, in a move that marks a shift in China's real estate policies. Historically, property tax has had little support based on concerns that it would suppress property demand, home prices, and future real estate projects. The revitalization of the idea comes as the property sector is under significant stress and as the government aims to curb property speculation. The State Council will design the overall guidance and local government can make their own trials based on those guidance. The new tax would apply to residential and nonresidential property, with the exemptions of rural property.

The pilot schemes would last five years, but further details around what regions are yet to be determined by the State Council. Analysts expect pilot programs to start in wealthier and economically more diversified regions in eastern and southern China, e.g., provinces of Zhejiang and Guangdong.

Mexico

Developments this week highlighted the government's strong support for Petroleos Mexicanos (PEMEX), the state-owned oil and gas company. PEMEX CEO, Octavio Romero Oropeza, announced to the country's General Congress on Wednesday that President Andres Manuel Lopez Obrador (AMLO) has instructed the company not to issue any more bonds and that the government will take over the administrative function of making the company's debt payments. In doing so, AMLO reaffirmed his long-standing policy of state control and support of PEMEX. Romero further stated that the federal government will continue to provide cash infusions to cover PEMEX debt amortization payments in 2022-2024. Separately, the company reported 3Q21 adjusted Ebitda of US$6.3 billion, down 2% q/q but up 109% y/y. Pemex bonds rallied this week.

Peru

An opposition-led Congress postponed the confirmation vote for Prime Minister Mirtha Vasquez's new cabinet, which was previously scheduled for Monday. The main point of contention involves the new Minister of the Interior, Luis Barranzuela, who was removed from the police service on the basis of disciplinary action and more recently worked as an attorney defending Mr. Vladimir Cerrón, the leader of ruling party Peru Libre, among others, whom Mr. Barranzuela would now be in charge of detaining if instructed by the courts. This presents a conflict of interest in the view of Congress and complicates the issue. While many Peruvians and market participants view Ms. Vásquez as an improvement over her predecessor, Barranzuela's appointment has incited strong resistance. Protests by supporters of President Pedro Castillo erupted as a result. Peruvian assets posted mixed results this week: the new sol depreciated while external bond spreads tightened.

Philippines

Davao City Mayor and daughter of President Rodrigo Duterte, Sara Duterte, said she discussed with Ferdinand "Bongbong" Marcos how her regional party could help his presidential bid and denied plans to run for the presidency herself. President Duterte has also rejected the prospect of a vice-presidential bid and said he plans to retire to Davao City after his term and prepare a defense against the International Criminal Court, which is investigating whether his war on drugs amounts to a crime against humanity. The question of Ms. Duterte's candidacy is especially pertinent in this context as her presidency would effectively shield her father from the investigation. The Presidential election is scheduled for 9 May 2022.

Romania

Prime Minister-Designate Nicolae Ciuca from the center-right National Liberal Party has not yet been successful in gaining support ahead of Sunday's deadline for submitting his proposed cabinet to parliament for a confidence vote. This follows the collapse of the Liberal-led coalition including market-friendly former PM Florin Citu that drove Romania's currency to a record low in recent weeks amid a worsening Covid situation. Further underscoring the fractured state of politics and lack of a coalition, the opposition Social Democrats indicated that they would only consider the request if certain conditions, including higher state spending, are met. At the same time, the Liberal Party's former partners – the anti-corruption USR Plus party – said they would prefer to restore the previous coalition, further deepening Romania's protracted political crisis. Romania's currency depreciated relative to the US dollar and the Euro this week.

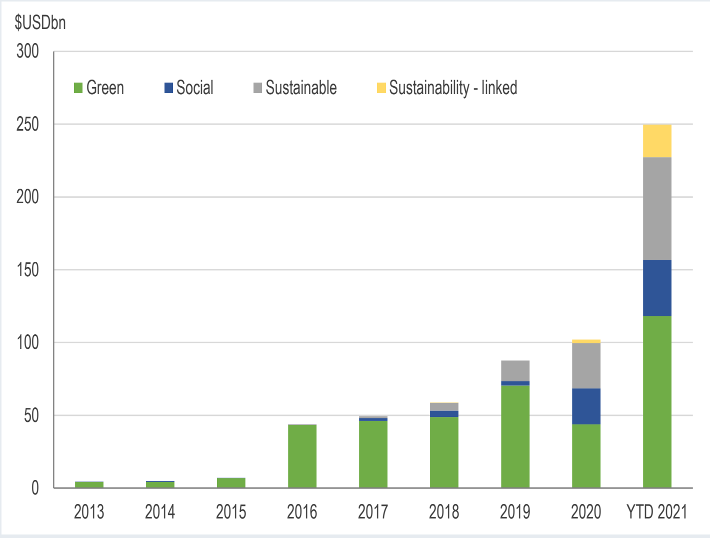
Turkey

President Tayyip Erdogan dropped his earlier demand for ten Western ambassadors to be expelled from the country, de-escalating a diplomatic row that pushed the Turkish lira to record lows against the US dollar on Monday after a 6% drop in the previous week as the Central Bank cut the key interest rate by 200 bps. The ten ambassadors had called for the release of Osman Kavala, a human rights activist who has been jailed since 2017 despite not being convicted of a crime. The president's critics have said this move was an attempt to divert attention from Turkey's economic crisis. The lira recovered losses on signs of crisis being avoided.

Chart of the Week

As the UN Climate Change Conference, also known as COP26, kicks off in Glasgow next week, much attention is focused again on the massive investment that is needed to achieve net-zero carbon emissions by the middle of the century and keep the 1.5°C warming goal within reach. According to the International Energy Agency (IEA), this requires a surge in annual investment in clean energy projects and infrastructure to nearly US$4 trillion by 2030, of which US$1 trillion is needed in emerging market and developing economies. In this context, it is encouraging to see the rapid rise in the issuance of ESG bonds in EM. Year-to-date issuance of green, social, and sustainable bonds by EM issuers is already 2.5x larger than in the whole year of 2020. We have also seen record issuance within each category. So far the issuance has been well-received and based on our discussions with EM issuers, we expect significant further growth in this market in the future.

EM ESG Bond Issuance



As of 26 October 2021
Source: Goldman Sachs, Stone Harbor Investment Partners LP

Global High Yield

US High Yield

The overall US high yield market lost .03% for the week with the help of better corporate earnings neutralizing concerns surrounding slower growth stemming from supply-chain issues and elevated inflation risk. BB's gained .03% from better buying of rate-sensitive paper helped by tightening in US Treasuries. B and CCC paper underperformed the index returning -0.12% and -0.09%. Index spread widened by 4 bps to 330 bps and yields widened by .04% to 4.19%. Underperforming sectors included Drillers, Building Products, Cable, Leisure, and Lodging. Sectors that outperformed were Airlines, Autos, Food/Beverage, Refiners, and Wirelines. Scientific Games Corp sold its global lotteries business to Brookfield Asset Management for US$5.8 billion as part of a plan to reign in debt and focus on becoming a leading cross-platform global gaming company. Crestwood Equity Partners LP is merging with Oasis Midstream Partners. The total transaction value is US$1.8 billion and an 8x transaction multiple and be leverage neutral.

Leveraged Loans

Loan market performance remained steady this past week and the S&P/LSTA Leveraged Loan Index returned .04%, the average bid price decreased 5 bps to $98.56, and the spread-to-maturity widened 1 bps to L+400. From a ratings perspective, while we saw all cohorts delivering positive returns, we saw lower quality CCC's materially outperform higher quality BB's, while B's were in line with index returns. From an industry perspective, we saw certain commodity-related sectors outperform on the week as well as Airlines, which was the result of favorable corporate earnings. Laggards on the week included Wirelines, which was the result of a large issuer rumored to be exploring strategic M&A, and Restaurants, which were down on earnings-related commentary surrounding inflationary trends. Lastly, there no defaults in the index last week.

European High Yield

Overall, the European high yield benchmark gained 0.05% for the week as the move lower in bond yields offset concerns surrounding profit margins and growth. Investors remain cautious ahead of 3Q earnings and focused mainly on the primary market. Index spreads widened 1 bp for the week, with BB spreads flat compared to 13 bps of widening for CCC spreads. Media outperformed during the week as S&P upgraded Netflix from BB+ to BBB due to the company's improved risk profile and management's statement that they would no longer need to access the debt markets to fund operations. The timing and the two notch upgrade were positive surprises and enable Netflix to move into some investment grade indices in November. Airlines and Restaurants underperformed due to investors' reduced risk appetite for cyclicals and reopening trades.

Flows/Issuance

According to EPFR, the US high market saw a US$929 million inflow over the past week as investors seemed to view the recent spread widening as an opportunity to put cash to work. Flows were led by more than US$1 billion into ETFS, while retail funds saw a small outflow. The primary calendar slowed from the previous week's US$12 billion only pricing six deals for US$4.9 billion. September is expected to have priced US$30 billion, underperforming earlier estimates that were closer to US$40 billion.

Loan market technicals remained stable this week. Arrangers continued their steady pace of launches and announced approximately 15 deals for US$8 billion this week, bringing the month-to-date total to 71 deals for US$47 billion. Demand for loan assets remained steady as evidenced by an additional US$2.26 billion of Collateralized Loan Obligation (CLO) issuance over the week, along with steady inflows into retail loan mutual funds and Exchange Traded Funds (ETFs), which posted inflows of US$706 million for the week ended 27 October, according to Lipper.

For European high yield, EPFR data showed an end to the outflows of prior weeks with a small inflow of US$45 million, reducing outflows for October to US$513 million. The primary market remained active with another 4.5 billion euros pricing during the week.

Source: Lipper, EPFR

Industry Insights

Containers: This week was a heavy earnings week for publicly traded high yield packaging companies with Crown Holdings (CCK), O-I Glass (OI), Silgan Holdings (SLGN), Ardagh Group (ARD) and Ardagh Metal Packaging (AMBP) all reporting results. Broadly speaking, results were better than feared with raw material headwinds being less impactful than anticipated and volumes generally being stronger than feared, especially against tough comps last year and specific headwinds, such as declines in categories like Hard Seltzer.

Energy: Iran's Deputy Foreign Minister Ali Bagheri Kani signaled that Iranian oil may be returning to the market when he tweeted on Wednesday that Iran has agreed to restart nuclear talks before the end of November. This is the first step forward since negotiations stalled after Iran's elections in June of this year. The US also stated that they will discuss Iran with its European allies at the G20 meetings in Rome this weekend. The IEA has estimated that Iran could sell about 59 MMBbl of crude and condensate stored on tankers and another 78 MMBbl of stocks on land if a nuclear deal is revived and sanctions are lifted. They also stimate that the nation could ramp up oil production in 2-6 months by 500-1000mbpd to 3.8 MMBbl/d. Brent pricing fell over 2% in response.

Gaming: The Nevada Gaming Authority released September gaming data, which showed a nice rebound in strip gross gaming revenue (GGR) at ~$640 million for the month, up from a slight dip in August. It is also important to note that September strip GGR was above any month in the entirety of 2019. This strong performance is likely evidence of the slow rebound in midweek group travel to Las Vegas which began in earnest during the month. In addition, Vici released their Q3 results and updated the market on their financing plans around both the acquisition of the Venetian and MGM Growth Properties and stated they hope they will receive an upgrade to investment grade when they launch their debt financing for the MGP transaction, which is sooner than most industry participants have expected.

Investment Grade

Governments

It was another eventful week for Treasuries against a backdrop of elevated volatility as the ICE BofAML MOVE Index reached another new 6-month high of 72 before ending the period at 70. Weakness was isolated to the front end of the curve where 2-year Treasuries rose 12 bps to 0.50%. The 10-year fell 12 bps to 1.54% and 30-year Treasuries fell 18 bps to 1.95%. Given the divergence, the Treasury curve saw a sizeable flattening with US 2s10s falling 23 bps, while 5s30s fell 17 bps. There was also a notable divergence as 10-year real yields, which strips out the expected impact of inflation, fell 19 bps, while breakevens rose 8 bps as markets continue to reprice deviating growth and inflation expectations.

Similar to the US, the yield on 10-year European rates also ended the week lower. The yield on 10-year Bunds fell 5 bps to -0.18%, while Gilts closed 16 bps lower at 0.99%. Movement across the German and UK curves varied but ultimately flattened as Gilt and Bund 2s10s contracted 4 bps and 7 bps, respectively. The UK saw demand across the curve, but the Bund curve was more akin to Treasuries with weakness in the front-end while longer dated maturities were purchased.

The market continues to lean on the RBA's 3-year yield target of 0.10% and further selling pressure, after the stronger-than-expected trimmed-mean CPI, sent the yield on the ACGB 2024s above 20 bps intraday. The RBA decided against intervening, which suggests there may be an imminent change to the central bank's yield curve control policy.

Corporates

There was not a lot of movement in spreads this week considering the volatility in Treasury rates. The Bloomberg corporate index was unchanged at +85 bps week-over-week, while spreads have been range bound between +84 bps and +87 bps during most of October. Positive earnings during the quarter, modest supply, and some liability management exercises have held spreads mostly firm this week, although we did see some give back/profit taking towards the end of the week in a few outperformers.

Securitized

The mortgage current coupon tightened 1 bp this week and sits at the tightest level since June. Production of the 3% coupon has increased but it's still uncertain whether the coupon will be added to the Fed's November purchase schedule. ABS and CMBS SASB new issuance remains heavy while CMBS conduit new issuance has eased. In a push into the electric vehicle market, Hertz struck partnerships with Tesla to supply 100,000 cars to be rented to Uber and disposed through Carvana. Warehouse securitizations widened 20 bps after Moodys announced they are examining wet loan exposure and expect senior bonds to be downgraded by 1-3 notches. Wet loans are loans that are purchased before collateral documents are received. The first Sallie Mae ABS has extended beyond its legal final maturity but is expected to continue to pay principal. Although Navient had been successful in extending the final maturity on some Sallie Mae deals and also has optionally repurchased US$1 billion bonds, there remain deals that face upcoming legal final maturities. Consumer demand and supply chain constraints continue to support prices and dampen losses in the securitized sectors, particularly in housing, autos, equipment and containers.

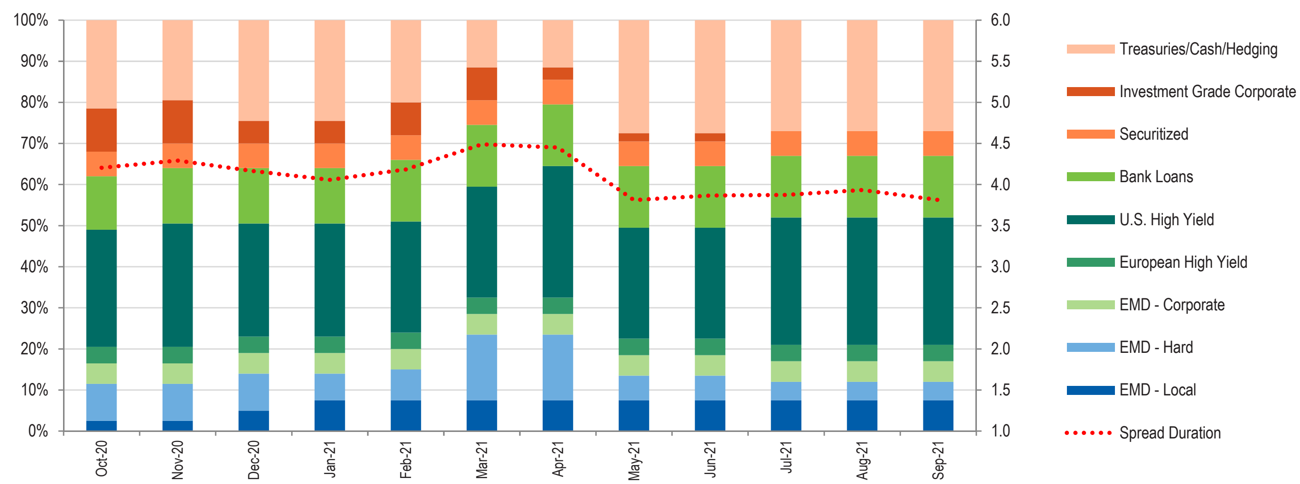
Flows/Issuance

In the investment grade corporate debt primary markets, supply was more in line with expectations at around US$20 billion. Financial Institutions; Synchrony Financial, Ally financial, and Capital One Financial, all placed deals as well as Citigroup and US Bancorp. Supply for October should come in close to US$115 billion which would make it the second largest October on record following October 2017.

High grade fund flows showed decent inflows of US$2.965 billion according to EPFR. Inflows were driven by short to intermediate aggregate funds and long corporate only funds, while total return funds had a modestly positive inflow.

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 27, 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	358	3	3	3	8	(61)	0.6	0.2	0.2	(1.2)	3.8
	CEMBI Broad Diversified	CEMBI B D	266	6	8	8	(4)	(89)	0.1	(0.4)	(0.4)	1.2	4.9
	GBI EM Global Diversified Yield	GBI EM GD	5.61	0.08	0.31	0.31	1.39	1.16	(0.9)	(0.8)	(0.8)	(7.1)	0.1
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	358	3	3	3	8	(61)	0.6	0.2	0.2	(1.2)	3.8
	EMBI GD Investment Grade	EMBI IG	150	6	4	4	2	(26)	0.7	0.3	0.3	(2.6)	(0.6)
	EMBI GD High Yield	EMBI HY	600	2	5	5	(8)	(149)	0.5	(0.0)	(0.0)	0.5	9.4
EM Sovereign Debt Regions	Africa	Africa	584	(0)	22	22	28	(127)	0.7	(1.1)	(1.1)	(0.9)	10.4
	Asia	Asia	223	(4)	(4)	(4)	(9)	(43)	1.0	0.5	0.5	0.4	2.2
	Europe	Europe	282	8	4	4	16	(70)	0.1	(0.0)	(0.0)	(1.1)	4.5
	LATAM	LATAM	375	5	(1)	(1)	21	(43)	0.7	0.8	0.8	(3.2)	1.9
	Middle East	Middle East	336	7	5	5	(32)	(75)	0.3	(0.1)	(0.1)	0.6	3.8
EM Corporates	CEMBI Broad Diversified	CEMBI B D	266	6	8	8	(4)	(89)	0.1	(0.4)	(0.4)	1.2	4.9
	CEMBI BD Investment Grade	CEMBI IG	152	4	5	5	(17)	(56)	0.2	(0.3)	(0.3)	(0.1)	2.1
	CEMBI BD High Yield	CEMBI HY	467	8	12	12	(18)	(156)	(0.1)	(0.5)	(0.5)	2.8	8.9
US High Yield	US High Yield	US HY	330	4	(3)	(3)	(62)	(182)	(0.0)	(0.2)	(0.2)	4.5	10.0
	US High Yield BB	US HY BB	233	3	(2)	(2)	(48)	(140)	0.0	(0.2)	(0.2)	3.4	7.8
	US High Yield B	US HY B	380	4	(4)	(4)	(45)	(163)	(0.1)	(0.1)	(0.1)	4.0	8.7
	US High Yield CCC	US HY CCC	662	5	(1)	(1)	(140)	(438)	(0.1)	(0.3)	(0.3)	10.1	22.0
European High Yield	Barclays PanEur HY	BAR PanEur HY	317	1	19	19	(40)	(144)	0.0	(0.5)	(0.5)	3.2	7.3
	2% Ex Financials Yield	2% ExFin Yield	3.57	0.03	0.36	0.36	0.12	(1.07)	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	98.6	(0.0)	(0.1)	(0.1)	2.4	5.0	0.0	0.2	0.2	4.7	8.0
	LSTA 100 Yield	LSTA 100 Yield	3.77	0.01	0.06	0.06	(0.21)	(0.85)	0.0	0.2	0.2	4.7	8.0
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.48	(0.09)	0.05	0.05	0.70	0.82	0.8	(0.2)	(0.2)	(3.6)	(4.2)
	1M LIBOR	1M LIBOR	0.09	0.00	0.01	0.01	(0.06)	(0.06)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	US AGG	32	0	(1)	(1)	(10)	(23)	0.7	0.1	0.1	(1.4)	(0.7)
	US Investment Grade Corporates	US IG Corp	85	0	1	1	(11)	(38)	1.1	0.5	0.5	(0.8)	1.6
	Global Aggregate	Global AGG	33	0	0	0	(4)	(14)	0.5	0.0	0.0	(1.4)	(0.8)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	39	0	2	2	(2)	(17)	(0.1)	(0.4)	(0.4)	(0.3)	0.4
FX	DXY (US dollar)	DXY	93.80	0.0	0.0	0.0	0.0	0.0	0.3	(0.5)	(0.5)	4.3	0.9
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	(0.6)	0.5	0.5	(4.0)	1.2

1W reflects data from October 20 close through October 27 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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