Stone Harbor
INVESTMENT PARTNERS

December 3, 2021

WEEKLY COMMENTS ON CREDIT

Listen

Archive

Global Market Summary

Global credit spreads widened and equity prices dropped as uncertainties around the Omicron coronavirus variant and the hawkish pivot by the US Federal Reserve (Fed) weighed on market sentiment. In particular, markets focused on Chairman Jerome Powell's Congressional testimony suggesting that the Fed could accelerate the tapering program and remove the "transitory" reference to the inflation outlook. After declining earlier in the week, US Treasury yields rose after Powell's remarks. Likewise, oil prices came under renewed pressure on Omicron concerns and following the decision of OPEC and its allies to proceed with planned production increases, albeit with a plan to revisit the decision at any moment if demand falters. Credit spreads widened and total returns were broadly negative across major sectors with the exception of US investment grade credits. Excess returns were less negative for US high yield debt than for EM sovereign debt, on average, though both sectors posted flat total returns. Investment grade bonds generally outperformed sub-investment grade debt within each sector. The US dollar index (DXY) declined, and EM currencies advanced, on average.

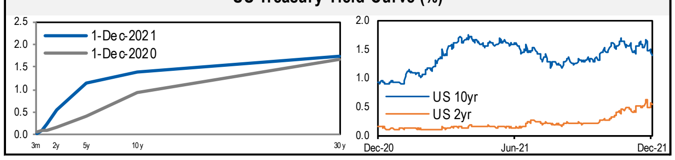
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	386		19	-1.07%
EMBI GD IG	159		13	-1.85%
EMBI GD HY	662		29	0.08%
Africa	655		33	-1.31%
Asia	237		22	-0.20%
Europe	323		23	-1.57%
LATAM	402		14	-2.40%
Middle East	341		13	1.11%
CEMBI BD	292		25	1.87%
CEMBI BD IG	159		14	0.75%
CEMBI BD HY	511		31	3.47%
GBIEM GD (%)	5.70		-10	-7.28%
EM Blend (%)	5.26		-2	-2.20%
EMBI ESG	363		17	-1.60%
CEMBI ESG	301		26	1.71%
GBI ESG (%)	5.60		-9	-8.07%
		-100 0 100 200		Dec-20 Jun-21 Dec-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	379		26	5.45%
US HY BB	277		25	4.00%
US HY B	429		23	4.67%
US HY CCC	724		26	12.72%
Pan Euro HY	339		18	3.45%
LSTA 100 (%)	4.05		10	5.87%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.37		-22	-2.22%
1M LIBOR (%)	0.10		1	0.11%
US Agg	40		4	-0.71%
US IG Corp	101		7	-0.06%
Global Agg	39		2	-0.42%
		-100 0 100 200		Dec-20 Jun-21 Dec-21

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.13	-6.22%	Gold	1,784	-2.74%	S&P500	4,513	23.22%
USDJPY	112.78	-7.50%	VIX	31	49.83%	MSCI World	9,315	20.03%
EM FX		-7.96%	Brent	69	45.23%	MSCI EM	2,962	2.64%
		Dec-20 Jun-21 Dec-21			Dec-20 Jun-21 Dec-21			Dec-20 Jun-21 Dec-21

As of: December 1 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Fed Chair Jerome Powell was nominated to another term providing a sense continuity. During his testimony before the Senate banking Committee, Powell acknowledged that inflation was perhaps more persistent and, when questioned about tapering, said that it is, "appropriate to consider wrapping up a few months sooner."

Congressional Democrats and Republicans have yet to reach an agreement on a stopgap bill, aimed at extending current funding for US agencies, which increases the risks of a temporary government shutdown.

Europe

Infections across Germany continue to accelerate with the latest 7-day average case count nearing 60k. Incoming Chancellor Olaf Scholz supported the notion of a vaccine mandate and is calling for a parliamentary vote on the mandate in December. Both Scholz and outgoing Chancellor Angela Merkel have met with regional leaders and there is a growing consensus of support for the initiative.

The UK, along with other countries, announced a temporary ban for flights arriving from South Africa in an attempt to slow the spread of the Omicron variant.

Japan/Asia

The expansionary PMI impulse observed in October carried over as the latest services and manufacturing PMIs indicate further growth in November. Japan's preliminary composite PMI rose from 50.7 to a new multi-year high of 52.5.

In efforts to contain the spread of the Omicron variant, the Japanese government asked airlines to suspend new inbound bookings for the month of December, but then retracted the request. As of 1 December, Japan recorded its second case of the new Omicron variant.

Economist Corner

Seamus Smyth, PhD, Developed Markets

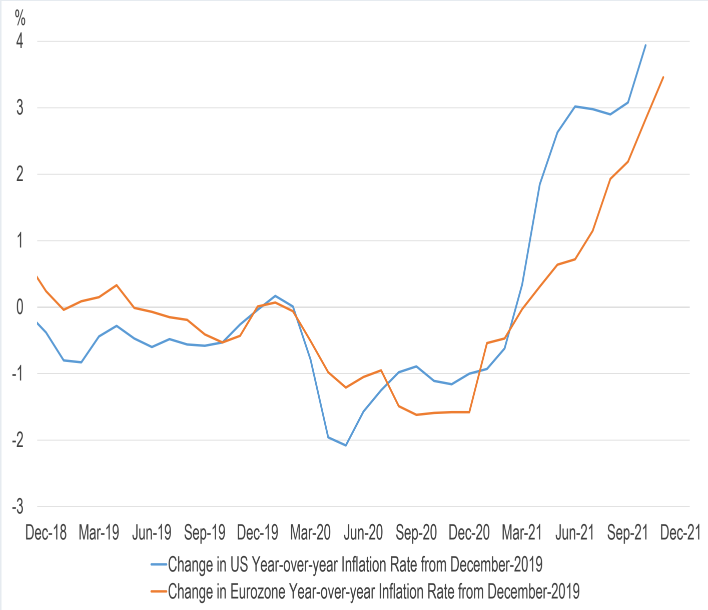
Steffen Reichold, PhD, Emerging Markets

Eurozone headline inflation had substantially lagged the US through the middle of 2021, but has followed the US higher over the last several months. Compared to the pace in December 2019, before any pandemic effects, US inflation had moved higher by about 3 percentage points (pp) by midyear, but Eurozone inflation only increased by about 1 pp. Since then, the US rate increased further, to just under a 4 pp jump in October. But inflation in the Eurozone had, by November, closed a large chunk of the gap: it's now up by over 3 pp relative to December 2019.

To be clear, the Eurozone inflation rate still trails the US. We have the November flash data shown for the Eurozone, while the US data shown is only through October. The November data in the US is likely to reflect another substantial advance due to energy prices pushing it higher. And the December 2019 rate in the US was about 1 pp higher, so the overall inflation rate is higher by that amount.

That said, this similar pattern also cautions against leaning too heavily on explanations unique to the US, such as the stimulus packages or monetary policy, as the sole reason for the increase in US inflation. Instead, a substantial fraction appears to come from the reopening of the economy. The Eurozone trailed the US in reopening, and while the gap in reopening was wide, the inflation difference was too. But over the summer and fall the Eurozone moved closer to the US in terms of reopening, and the inflation experience moved closer, as well. As a result, we'll be watching closely for any change in tone out of the ECB over coming months, similar to that from the Fed over the last several weeks. But we'll also be watching the US data to see if with the economy closer to normal, there is any easing of supply chain pressures (subject to Omicron) that translate into easing prices, or on the other hand, if the current robust gains continue.

Eurozone Headline Inflation Follows the US Higher



As of 30 September 2021
Sources: ECB. BLS, Haver Analytics, Stone Harbor Investment Partners LP

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 19 bps and the JP Morgan EMBI Global Diversified returned -0.01%. Non-investment grade bonds underperformed investment grade securities, on average. The top performers included Suriname (+3.4%), Peru (+1.5%), and Russia (+1.2%). The bottom performers included Sri Lanka (-4.4%), El Salvador (-3.7%), and Venezuela (-3.5%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.8%. EM currencies returned 0.3%, in aggregate. The Hungarian forint outperformed with spot FX return of 2.9%, followed by the Polish zloty (2.7%) and the Russian ruble (1.7%). Underperformers included Turkey (-6.8%), Chile (-2.2%), and Peru (-1.1%).

The yield of the JP Morgan GBI EM Global Diversified declined 10 bps to 5.70%. Turkey bonds underperformed with yields 30 bps higher, followed by Uruguay and Philippines bonds, which increased in yield by 27 bps and 24 bps, respectively. Brazil outperformed with yields 25 bps lower, followed by Mexico (-24 bps). Yields declined 22 bps in Colombia, Poland, and Russia.

In central bank actions, Hungary raised interest rates for the fourth time in two weeks, increasing the one-week deposit rate by 20 bps to 3.10%, while key rate was kept unchanged in Kenya at 7.00%. Sri Lanka surprised the market and left rates unchanged at 6.00% and Dominican Republic hiked 50 bps to 3.50%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified generated a return of -0.21%, underperforming both EM hard currency sovereign debt and US high yield bonds. The divergence between investment grade and high yield performance reflected lower US Treasury rates and volatility in global asset markets. Lower oil prices put pressure on the independent E&P companies, as well as on some of the larger, state-owned producers. Consequently, returns in Colombia, Ghana and Argentina were negative. The Ukraine also posted significant negative performance as fears over military threats from Russia continued to loom over the country. Asia was the best performing region, outperforming both Central and Eastern Europe, Middle East and Africa (CEEMEA) and Latin America, as negative returns in China were offset by positive returns in investment grade credits, such as Hong Kong, South Korea, and Taiwan.

Flows/Issuance

Uruguay issued the only sovereign hard currency debt, denominated in Japanese yen; and new issuance was also limited in EM corporate debt.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$1.1 billion, primarily from local currency funds. 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

Chile

A poll on voter intentions for the upcoming presidential runoff election published on Sunday favored leftist candidate Gabriel Boric, who received 39% of voter intention. The conservative candidate Jose Antonio Kast gained 33% compared to 39% previously. 28% of respondents remained undecided, according to the poll. These results follow the first round vote, in which Kast gained 28% of the vote and Boric received 26%, highlighting the uncertainty of the final runoff vote on 19 December. Boric has proposed higher taxes, better public services and more equality, while Kast has pushed for lower levies, a stronger role for the private sector and law and order. One of the unknowns at this point is how much of the support for the liberal candidate Franco Parisi will shift to either Boric or Kast; latest polls suggest that Parisi's voters will likely lean toward Boric.

China

China's manufacturing purchasing manager data, including the NBS and Caixin PMIs, showed easing production constraint from recent supply shocks, as the output component from both readings revealed strong gains in November. In addition, both data sets indicated significant declines in input prices, suggesting an easing of input cost pressure from supply shocks. A notable increase in suppliers' delivery time component of the PMIs further indicates that suppliers' delivery time has shortened along with the easing of supply bottlenecks. The headline readings for both measures were mixed. The November Caixin/Markit Manufacturing PMI fell 0.7% to 49.9 following a 0.6% increase in October. The NBS manufacturing PMI increased by 0.9% to 50.1, the highest reading in three months.

Colombia

A new central coalition was formed for the presidential election, and at least six candidates signed an agreement to hold a primary election among themselves in March. The coalition, named "Centro Esperanza," implies that one of the candidates will ultimately be on the presidential ticket with the others backing the single candidate. The coalition can still include other members in the future. For now, the current members have planned to debate each other five times before the primary and will plan joint campaigning trips and events. One implication of this development is that it may reduce the odds of success for left-wing candidate Gustavo Petro, the former mayor of Bogota, who has led the polls against a fractured leftist coalition and against the far right, but who may poll less well against a unified center-left.

Ecuador

The original version of President Guillermo Lasso's tax reform will be approved by decree as stipulated by Ecuador's constitution, which allows 30 days for Congress to act on an executive proposal. The reform will raise nearly 1% of GDP over each of the next two years (US$1.9 billion in 2022-23). According to a local media outlet, the Assembly must still formally certify its inaction for the legislation to become law, but the government anticipates that the tax reform is now essentially approved. The reform, once official, would provide support for a successful December review of the country's Extended Fund Facility with the IMF and a US$700 million disbursement from the program. Nonetheless, the resistance and controversy over the tax reform may suggest a difficult path for Lasso's pending economic reforms in 2022, namely to the investment regime and the labor market.

Ghana

Parliament declared the opposition's rejection of the 2022 budget unconstitutional on Wednesday 2 December. Under pressure from opposition lawmakers, many of whom boycotted the budget vote, the government remains in talks with telecommunications companies to reduce a proposed tax on electronic transactions, according to Minister of Finance Ken Ofori-Atta. The government will also adhere to the minority's request to fine tune plans to issue collateralized gold royalties in a public offering. Markets remain concerned that the consolidated fiscal deficit will remain high at around 11.5% of GDP in FY2021 and 10% in FY2022. Nevertheless, approval of the budget removes uncertainty, in our view.

Honduras

Xiomara Castro, the opposition candidate and wife of deposed former President Manuel Zelaya, claimed victory after preliminary results suggested a landslide win over ruling party candidate Nasry "Tito" Asfura, who conceded on Tuesday, easing fears of a contested vote and protests. Although Castro's ties to leftist movements and her husband's to Venezuela's Hugo Chavez had raised investor concerns, market reaction has been muted thus far. Castro's campaign has focused on job development, improvements in healthcare amidst a pledge of no new taxes—very similar to Asfura's proposals. In addition, Castro has focused on anti-corruption. We think the main risk that Hondurans and investors face will be the fiscal risks posed by the public power company ENEE. Failure to pass legislation to split ENEE into three sub companies, which will be difficult under any president given a fragmented congress, may also delay an IMF staff level agreement on the final review of the country's Stand-by Arrangement.

Mexico

President Andres Manuel Lopez Obrador (AMLO) proposed Victoria Rodriguez Ceja, a deputy finance minister, to replace Alejandro Díaz de León as Central Bank Governor for the next six years, starting on 1 January. Rodriguez is an economist who has experience in the management of public finances and debt management and has worked closely with AMLO and his economic team since the president was mayor of Mexico City. An early read of the nomination suggests that the new governor may focus on changing regulations to bring the government closer to the central bank, and perhaps loosen the gridlock involving the central bank's delivery of the extraordinary revenues from the IMF (i.e., the SDR allocation earlier this year), which the President had noted previously may be used to pay the debt of state-owned oil company PEMEX.

Turkey

The Turkish lira declined to new record low on Tuesday as President Recep Tayyip Erdogan insisted on keeping his unorthodox views toward interest rates and as the US Fed introduced the possibility of an earlier tightening of monetary policy. The lira was already losing value against the US dollar prior to these events following a local media report that claimed the head of the central bank's markets department was no longer in his role. According to the latest data, the central bank's gross reserves fell by US$2.3 billion to US$126.1 billion in the week to 26 November, and net foreign assets were down by US$3.9 billion to US$10.4 billion. On Wednesday this week, the government intervened to support the lira for the first time since 2014. Turkey's central bank noted that it took the action due to "unhealthy price formations" and as Erdogan continued to defend the intervention before the press in Ankara, noting that further interventions were possible.

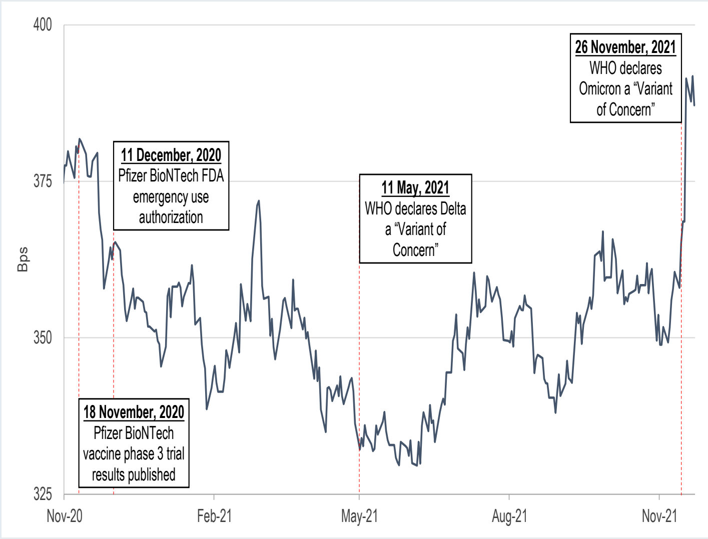
Thailand

Thailand's manufacturing production index (MPI) rose 2.9% y/y in October, beating consensus expectations of 2.0% y/y. On a sequential basis, the index expanded 2.6% m/m, seasonally adjusted (sa). The primary driver of the headline strength was auto (13.5% m/m, sa), while electronics and machinery & equipment fell 2.6% m/m, sa and 1.9% m/m, sa, respectively. MPI in September was also revised up from 5.6%m/m, sa to 9.0%m/m, sa. Although the current trajectory of manufacturing expansion may improve the near-term growth outlook, the risks around the new Omicron variant poses potential temporary setback for Thailand's tourism recovery.

Chart of the Week

The news about the emergence and spread of the potentially dangerous Omicron Covid-19 variant had a substantial impact on EM debt markets. Clearly, this was bad news and markets are now pricing in a meaningful probability that Omicron will hurt economies across the globe. However, we think it's useful to take a step back and look at the current situation in context of key Covid-19 developments over the past year. EM sovereign debt spreads are now higher than in mid-November 2020, before the highly positive results from Pfizer's phase 3 vaccine trial were first published. While vaccinations started about a month later in December 2020 significant doubts remained about the ability to ramp up vaccinations across much of the developing world. Yet, EM debt spreads of a year ago were significantly below the current level. Earlier in 2021, when the highly contagious Delta variant emerged, and in most EM countries less than 10% of the population was vaccinated, EM debt spreads were even lower, about 50-60 bps less than current levels. We believe that despite the emergence of Omicron, the current outlook for EMs ability to manage the Covid-19 pandemic has improved. Vaccination rates for a large number of EMs are on par with developed countries. Pfizer expects to have an updated vaccine within a few months. Vaccine production capacity has expanded. If latest market selloff can be attributed to Omicron, it is likely overdone, in our view.

J.P. Morgan EMBI GD Spread and Key Covid-19 Dates



As of 1 December 2021
Sources: Bloomberg, Stone Harbor Investment Partners LP

Global High Yield

US High Yield

The US high yield market experienced a volatile holiday-shortened week as equities, rates, and commodity prices collapsed on concerns surrounding the effects of the Omicron variant and comments from the Fed on a potentially earlier end to bond tapering. The swings in the market, coupled with month-end positioning, hampered liquidity, driving divergent returns among sectors in the risk-off environment. The index declined 0.03% with CCC's losing 0.20% and BB's +.06% which outperformed on the lower move in rates. Spreads widened 26 bps to 379 bps and the yield-to-worst closed at 4.77%, close to a 12-month high. Sectors most exposed to global slowdown underperformed by a large margin and included Drillers, E&P, Refiners, Leisure, and Airlines. Sectors with higher rated-credits -- Food/Utilities/Packaging/Healthcare/Cable, outperformed.

Leveraged Loans

The loan market, similar to other risk assets, had a difficult week given broad market volatility as well as the holiday-shortened week. The S&P/LSTA Leveraged Loan Index returned -0.28%, the average bid price decreased 31 bps to $98.16, and the spread-to-maturity widened 6 bps to L+411. Risk sentiment faded as a result of comments from Federal Reserve Chair Jerome Powell, the emergence of the Omicron variant, and declining oil prices. Combined, these factors drove down the lowest rated portion of the market the most, while B and BB rated loans were down similar to the overall Index. From an industry sector perspective, re-opening related sectors, such as Airlines, Leisure and Lodging declined the most, while commodity-related sectors were also under pressure. All sectors were negative on the week, and the outperforming sectors were non-inflationary, smaller weighted sectors of the market. Lastly, there were no defaults in the index last week.

European High Yield

The overall European high yield benchmark declined 0.41% for the week as the Omicron variant sparked concerns about its impact on global growth. This increased macro volatility caused investors to position more defensively, resulting in underperformance of higher beta and travel and leisure credits. Index spreads widened 18 bps, with CCC spreads underperforming with 44 bps of spread widening. Airlines, Gaming, Leisure, and Lodging underperformed as governments began to implement new travel restrictions and lockdowns. Food and Wireless outperformed due to their defensive nature and higher quality.

Flows/Issuance

EPFR reported that the US high yield market lost US$3.39 billion over the last week predominately attributed to institutional accounts that withdrew US$2.8 billion. This outflow hampered liquidity in which price swings were driven by hedge funds and ETFs. Dealers have also been sellers trying to pare down their inventory which also added to underperformance in certain names/sectors. These technicals slowed new issuance with only one deal for US$400 million pricing. December primary estimates are for US$15 billion, which is about half of the previous two months.

In the loan market, new issuance slowed given the holiday-shortened week and heightened market volatility. However, November's approximate issuance figure of US$50 billion was solid and showed that demand for floating rate assets remains robust. The market continued to see strong M&A activity, and capped a three month stretch where US$109 billion of M&A related loans were placed. Absorbing this robust supply continued to be Collateralized Loan Obligation (CLO) Investors. Notably, November's monthly issuance figure was US$26.4 billion, which was the second consecutive month and the third in the last four, in which the CLO market reached a new all-time monthly high. Year-to-date, CLO issuance is US$176 billion from over 122 managers, which is also a record. There were moderate outflows from retail loan mutual funds and Exchange Traded Funds (ETFs) with an expected second negative weekly flow in the past 46 weeks.

For European high yield, EPFR data showed a significant impact from recent market volatility with reported outflows of US$660 million, reducing November flows to an outflow of US$254 million. There were no new issues priced during the week.

Source: Lipper, EPFR

Industry Insights

Airlines: Airline bonds underperformed as rising Covid-19 cases across Europe and the discovery of a new variant increased uncertainty and added to concerns that there would be a new round of global lockdowns. Passengers are waiting longer to purchase tickets due to the changing dynamics, making it harder for Airlines to accurately assess near-term demand and the impact of recent travel restrictions. International flying has been most negatively impacted by Omicron so far, while the impact on domestic travel remains uncertain

Oil: Oil fell -3.4% after Thursday's OPEC meeting and is now down 20% since Thanksgiving and -23% since 1 November. The market was expecting OPEC+ to pause its 400mbpd planned hike due to the new Omicron variant and USA's announced coordinated Strategic Petroleum Reserve release; however, OPEC+ remained on its previously outlined path. The market is pricing in a 7mbpd hit to global demand, back to the 1Q21 or pre-vaccine levels, which we view as excessive. The oil curve has flattened week/week but is still in backwardation as traders try to reposition in a low risk appetite environment as they close the year. US oil E&Ps enter 2022 lightly hedged, with approximately 24% volume hedged at an average price of just below US$50/barrel but, with the oil curve currently still above US$60/barrel in 2022, producers are likely increasing their hedged position.

Wireless: With Federal Communications Commission (FCC) Spectrum Auction 110 now in the Assignment Phase, we have begun to get a sense for the level of interest from high yield wireless players. Over the past month, both DISH and TMUS have tapped the debt markets with the intention of raising capital to help fund spectrum purchases in the current FCC auction. This week, TMUS raised US$3 billion of debt, which implies they plan to participate in the auction in magnitude that enables the company to maintain its spectrum leadership position as compared to ATT and Verizon. While DISH's capital raise of US$5.25 billion was significantly larger than TMUS', the company's intentions are more opaque. Given the various other network construction costs DISH has to fund, it remains unclear how materially DISH plans to participate in the auction versus using the proceeds to fund other network-related expenditures. Based on the FCC timeline for the current auction, the winning bidders could be announced sometime during the first quarter of 2022.

Investment Grade

Governments

The government bond market oscillated with the news flow and remains in a state of elevated volatility. Treasury volatility, as measured by the ICE BofAML MOVE Index, reached a high of 89.5 before ending the week at 83. Treasuries initially weakened, following Fed Chair Powell's reappointment, but rallied after the Omicron headlines emerged. Given the risk-off sentiment, the yield on 10-year Treasuries fell 23 bps to 1.41%. The Treasury curve bull flattened, as longer-dated bonds saw stronger demand, with 2s10s falling 14 bps to 85 bps. 10-year breakevens, a proxy of inflation expectations, fell 19 bps to 2.43%.

The yield on 10-year Bunds and Gilts ended the week 12 bps and 18 bps lower to -0.34% and 0.82%, respectively. The overall weaker risk sentiment also weighed on peripherals albeit modestly. The spread on 10-year Spanish and Italian bonds widened 2 bps and 5 bps over comparable Bunds to 0.77% and 1.35%, respectively.

Corporates

It was a tough week for corporate bonds spreads, particularly the Friday after Thanksgiving given the lack of sponsorship and concerns regarding the new Covid-19 variant. Liquidity had begun to struggle earlier in the week on a combination of supply worries and high dealer inventories. Customers were mostly sellers going into the holiday in anticipation of the upcoming calendar and dealers were caught a little off sides particularly in the portfolio trading platforms where larger trades tend to occur. Spreads were wider by 7 bps week-over-week leaving the Bloomberg Corporate OAS at 101 bps. Spreads are now 5 bps behind where we started the year. During the month of November, spreads widened by 12 bps, and posted positive total returns of only 0.06%. Excess returns were negative by 89 bps with lower rated BBB's and bonds longer than 10 years underperforming. The best performing sectors were Healthcare REITS, Other REITS, and Office REITS, while the worst performing sectors were Railroads, Integrated Energy, and Midstream. For the year, excess returns remain positive by 89 bps, while total returns are -0.86%.

Securitized

The mortgage current coupon widened 4 bps this week on rate volatility induced by the Omicron variant and suggestions of a faster Fed taper. The MBA refinancing index dropped 14.8% on the week and is down 41% year-over-year. The average mortgage rate was 3.31%, up 7 bps from 3.24%. The FHFA announced higher loan limits for 2022 based on rising home prices. Conforming loan limits will be US$647,200, an increase of 18%, the largest year-over-year increase. High-cost areas will have a US$970,800 conforming loan limit. Trading and supply in ABS and CMBS, which was lighter ahead of the Thanksgiving holiday, is beginning to pick up again. Moody's revised their CMBS methodology by lowering cap rates to reflect the low level of rates and placed 60 SASB and 20 conduit deals on review for possible upgrade.

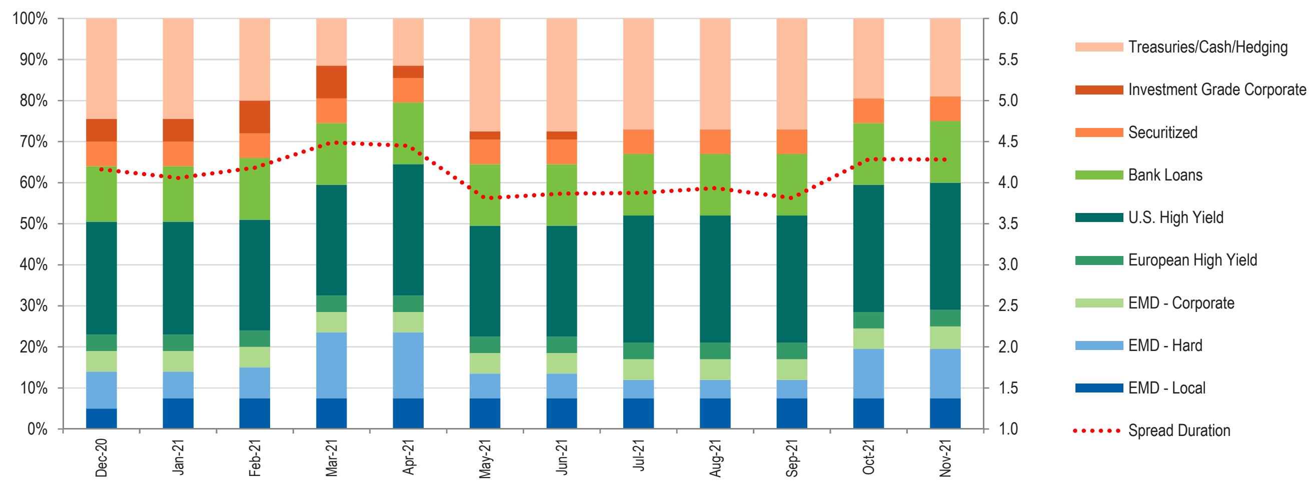
Flows/Issuance

In the primary markets, investment grade corporate supply took a breather over the holiday week but deal flow was scheduled to pick up this week with the market expecting elevated supply of roughly US$35-$40 billion. Supply got off to a good start with six deals pricing on Monday, however six deals stood down on Tuesday given market weakness. As markets recovered, another roughly US$18 billion came to market for just under US$25 billion. During the month of November, supply totaled just over US$111 billion, which makes it the 4th largest November on record. Year-to-date supply is US$1.411 trillion, which is down 21% year-over-year.

High grade fund flows had a small inflow of US$472 million for the latest period according to EPFR. The smaller inflow was driven by an outflow of US$574 million from total return funds. Outflows were also experienced in short-term aggregate and short and long corporate only funds; but the intermediate funds for both categories outweighed the outflows resulting in the modest inflow for the period.

Source: EPFR, JP Morgan

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 30 November 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 December 1, 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	386	19	(5)	31	36	17	(0.0)	0.4	(1.4)	(2.8)	(1.1)
	CEMBI Broad Diversified	CEMBI B D	292	25	0	34	22	(1)	(0.2)	(0.0)	(1.0)	0.5	1.9
	GBI EM Global Diversified Yield	GBI EM GD	5.70	(0.10)	0.02	0.40	1.48	1.35	0.8	0.5	(3.5)	(9.7)	(7.3)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	386	19	(5)	31	36	17	(0.0)	0.4	(1.4)	(2.8)	(1.1)
	EMBI GD Investment Grade	EMBI IG	159	13	(1)	12	11	5	0.5	0.2	0.3	(2.7)	(1.9)
	EMBI GD High Yield	EMBI HY	662	29	(10)	68	54	15	(0.6)	0.6	(3.2)	(2.7)	0.1
EM Sovereign Debt Regions	Africa	Africa	655	33	(15)	94	100	60	(0.8)	0.9	(4.8)	(4.6)	(1.3)
	Asia	Asia	237	22	6	10	5	5	(0.3)	(0.4)	(0.2)	(0.4)	(0.2)
	Europe	Europe	323	23	(2)	45	58	41	(0.2)	0.1	(2.0)	(3.0)	(1.6)
	LATAM	LATAM	402	14	(8)	26	48	19	0.4	0.8	(1.0)	(4.9)	(2.4)
	Middle East	Middle East	341	13	(4)	11	(26)	(28)	0.3	0.3	(0.5)	0.2	1.1
EM Corporates	CEMBI Broad Diversified	CEMBI B D	292	25	0	34	22	(1)	(0.2)	(0.0)	(1.0)	0.5	1.9
	CEMBI BD Investment Grade	CEMBI IG	159	14	1	12	(10)	(18)	0.3	(0.0)	(0.3)	(0.1)	0.7
	CEMBI BD High Yield	CEMBI HY	511	31	(2)	56	26	(21)	(0.8)	(0.0)	(1.9)	1.3	3.5
US High Yield	US High Yield	US HY	379	26	(9)	46	(13)	(48)	(0.0)	0.3	(0.9)	3.7	5.4
	US High Yield BB	US HY BB	277	25	(8)	42	(4)	(25)	0.1	0.3	(0.9)	2.6	4.0
	US High Yield B	US HY B	429	23	(9)	45	4	(31)	(0.1)	0.3	(0.9)	3.2	4.7
	US High Yield CCC	US HY CCC	724	26	(16)	61	(78)	(175)	(0.2)	0.4	(1.4)	8.9	12.7
European High Yield	Barclays PanEur HY	BAR PanEur HY	339	18	(9)	41	(17)	(21)	(0.4)	0.2	(0.8)	2.9	3.4
	2% Ex Financials Yield	2% ExFin Yield	3.68	0.05	(0.13)	0.47	0.23	0.08	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	98.2	(0.3)	0.0	(0.5)	2.0	3.0	(0.3)	0.0	0.1	4.6	5.9
	LSTA 100 Yield	LSTA 100 Yield	4.05	0.10	(0.01)	0.34	0.07	(0.08)	(0.3)	0.0	0.1	4.6	5.9
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.37	(0.22)	(0.02)	(0.06)	0.59	0.55	1.8	0.2	0.8	(2.6)	(2.2)
	1M LIBOR	1M LIBOR	0.10	0.01	0.01	0.02	(0.04)	(0.05)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	US AGG	40	4	1	7	(2)	(5)	1.0	0.1	0.4	(1.2)	(0.7)
	US Investment Grade Corporates	US IG Corp	101	7	2	17	5	0	1.2	0.1	0.4	(0.9)	(0.1)
	Global Aggregate	Global AGG	39	2	1	6	2	0	0.8	0.0	0.5	(1.0)	(0.4)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	50	4	1	13	9	4	0.3	0.0	(0.7)	(0.6)	(0.2)
FX	DXY (US dollar)	DXY	96.03	0.0	0.0	0.0	0.0	0.0	(0.9)	0.0	1.9	6.8	5.2
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.6	(2.2)	(6.5)	(5.2)

1W reflects data from November 24 close through December 1 close. Source: Stone Harbor Investment Partners LP; 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.

Stone Harbor
INVESTMENT PARTNERS

CONTACT

Main Office - New York

31 W. 52 Street
16th Floor
New York, NY 10019
+ 1 212 548 1200

London Office

48 Dover Street
5th Floor London,
W1S 4FF
+ 44 20 3205 4100

Singapore Office

3 Killiney Road
Winsland House 1
Singapore 239519
+ 65 6671 9711

ClientService@shiplp.com www.shiplp.com