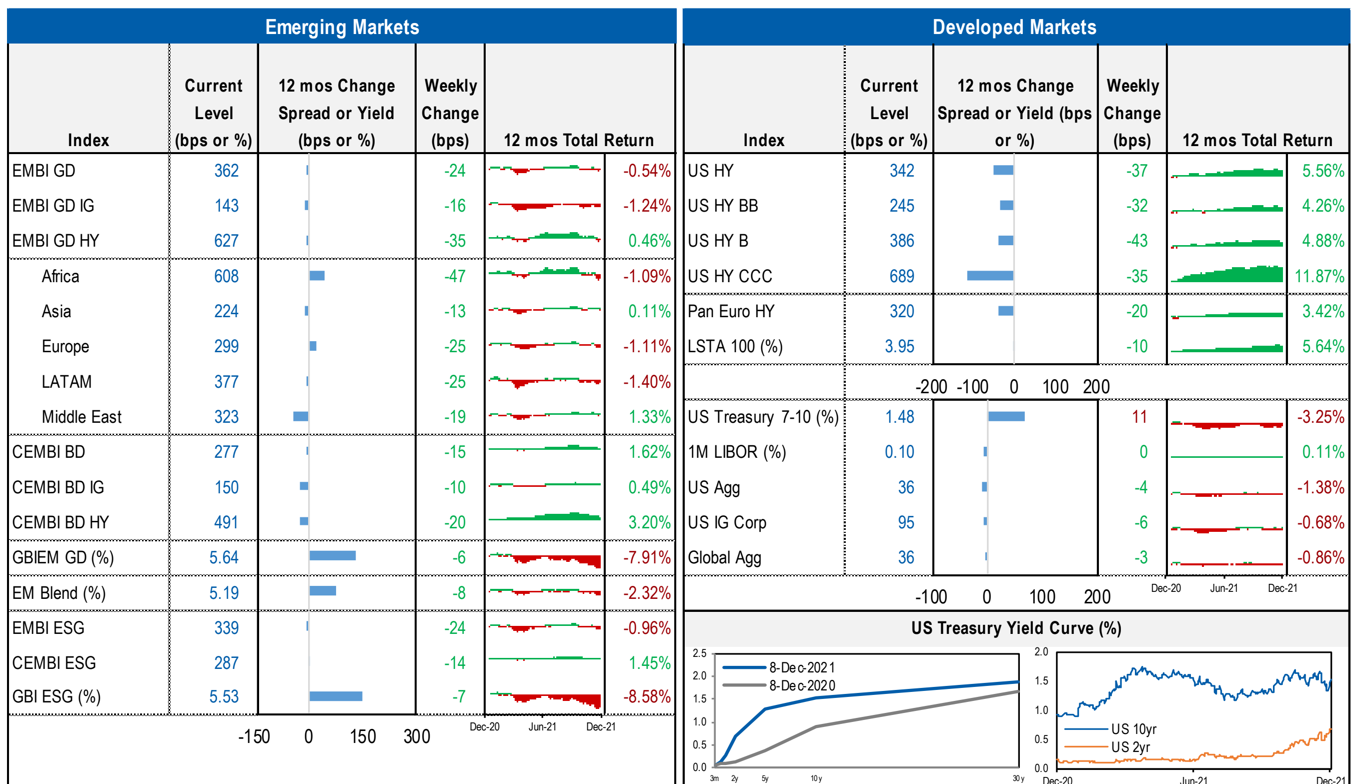
Stone Harbor
INVESTMENT PARTNERS

December 10, 2021

WEEKLY COMMENTS ON CREDIT

Global Market Summary

Market sentiment stabilized as preliminary information around the Omicron variant allayed fears of a potentially more serious illness and reduced vaccine response. While the path of Omicron remains very much uncertain at this early stage, markets shifted attention to economic data, which continues to suggest a broad economic reacceleration. In the US, the latest jobless claims data indicated a low initial claims figure of 184k, consistent with a strong labor market. Oil prices reached a two-week high earlier in the week in response to Omicron news, before giving back some of its gains. Credit spreads tightened and total returns were positive across major sectors, with the exception of US investment grade credits. Excess returns were led by high yield emerging markets (EM) sovereign debt, on average. Sub-investment grade bonds generally outperformed investment grade debt within each sector. The US dollar index (DXY) declined, and EM currencies advanced, on average.



Emerging Markets

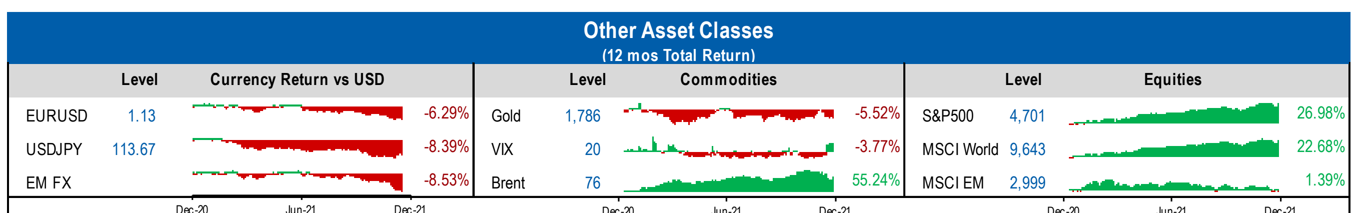
Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	362	-24	-0.54%
EMBI GD IG	143	-16	-1.24%
EMBI GD HY	627	-35	0.46%
Africa	608	-47	-1.09%
Asia	224	-13	0.11%
Europe	299	-25	-1.11%
LATAM	377	-25	-1.40%
Middle East	323	-19	1.33%
CEMBI BD	277	-15	1.62%
CEMBI BD IG	150	-10	0.49%
CEMBI BD HY	491	-20	3.20%
GBIEM GD (%)	5.64	-6	-7.91%
EM Blend (%)	5.19	-8	-2.32%
EMBI ESG	339	-24	-0.96%
CEMBI ESG	287	-14	1.45%
GBI ESG (%)	5.53	-7	-8.58%

(12 mos Change Spread or Yield (bps or %) shown as bar chart, axis -150, 0, 150, 300; 12 mos Total Return chart axis Dec-20, Jun-21, Dec-21)

Developed Markets

Index	Current Level (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	342	-37	5.56%
US HY BB	245	-32	4.26%
US HY B	386	-43	4.88%
US HY CCC	689	-35	11.87%
Pan Euro HY	320	-20	3.42%
LSTA 100 (%)	3.95	-10	5.64%
US Treasury 7-10 (%)	1.48	11	-3.25%
1M LIBOR (%)	0.10	0	0.11%
US Agg	36	-4	-1.38%
US IG Corp	95	-6	-0.68%
Global Agg	36	-3	-0.86%

(12 mos Change Spread or Yield (bps or %) shown as bar chart, axes -200, -100, 0, 100, 200 and -100, 0, 100, 200; 12 mos Total Return chart axis Dec-20, Jun-21, Dec-21)



Other Asset Classes (12 mos Total Return)

Currency	Level	Currency Return vs USD	Commodity	Level	Commodities	Equity	Level	Equities
EURUSD	1.13	-6.29%	Gold	1,786	-5.52%	S&P500	4,701	26.98%
USDJPY	113.67	-8.39%	VIX	20	-3.77%	MSCI World	9,643	22.68%
EM FX		-8.53%	Brent	76	55.24%	MSCI EM	2,999	1.39%

As of: December 8 2021. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Just days before the debt ceiling deadline, the House passed a new bill that provides Democrats the authority to execute a one-time increase to the US debt ceiling by a simple majority vote. Expectations are for the Democrats to use this opportunity to raise the debt ceiling to cover borrowing costs through 2022. The bill now makes its way to the Senate where it is expected to pass.

Presidents Joe Biden and Vladimir Putin met via a video call to discuss the recent accumulation of Russian soldiers at the Ukrainian border. Putin highlighted security concerns around NATO's potential expansion towards Russia's borders while Biden expressed concerns about the possible invasion of Ukraine. Biden warned that, if Russia were to invade Ukraine, the US is prepared to offer defensive services to Ukraine and impose economic sanctions on Russia. (See further details under Sovereign Soundbites on page 4.)

Europe

After 16 years of service, Angela Merkel stepped down as Germany's chancellor and Olaf Scholz was sworn in to lead the country. Scholz had served as vice chancellor for the last four years and is expected to maintain continuity of Merkel's policies. The Greens and Free Democrats agreed to join Schol'z Social Democrats to form a new tri-party coalition, which accounts for 416 of the Bundestag's 736 seats.

To slow the spread of the Omicron variant, the UK government will be tightening restrictions and initiating what it refers to as Plan B, which includes work from home guidance and mandatory vaccine passports for larger venues. The new rules will come into effect starting Monday, 13 December.

Japan/Asia

In efforts to support its economy, the People's Bank of China cut its RRR (reserve requirement ratio) by 0.50% to 11.5%, as generally expected. According to the central bank, the reduction will be effective 15th December and unlock nearly 1.2 trillion Yuan of long-term liquidity to banks (see further details under Sovereign Soundbites on page 3).

The Reserve Bank of Australia (RBA) kept its cash rate target unchanged at 0.10% and will continue purchasing A$4 billion/week of government securities until at least mid-February 2022. The RBA reiterated its patience on rate hikes as wage inflation is expected to grow gradually. The central bank acknowledged the uncertainty surrounding the new omicron variant, but does not expect it to derail the recovery, and sees the economy returning to its pre-Delta path in the first half of 2022.

Economist Corner

Seamus Smyth, PhD, Developed Markets

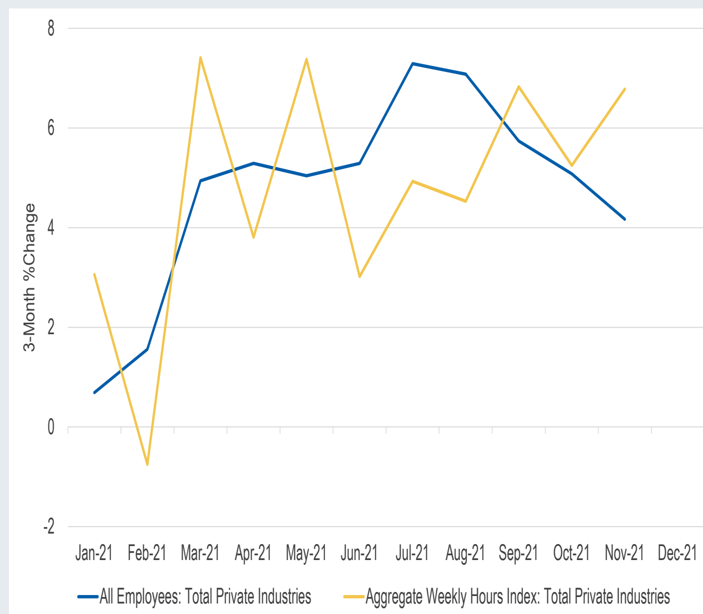
Steffen Reichold, PhD, Emerging Markets

Signs of a substantial reacceleration of US economic activity through Q4 continue to pile up.

Though the headline numbers from the establishment survey in last week's employment report were disappointing, with just 235k jobs added, the report as a whole was actually quite solid. The result was due to the parallel household survey showing much more rapid gains – gains that helped drive the unemployment rate down to 4.2% -- but also due to much stronger figures in aggregate hours worked across the private sector, which is a less high profile part of the establishment survey. There are several important implications of this outcome. First, it means that firms are asking their existing employees to work longer hours. As the accompanying graph shows, the 3-month average growth rate has accelerated over the last several months even as growth in the number of employees slowed. That also happened in the late spring, and was followed by a transition to hiring new workers over the early summer. Second, the total hours part of the report is most closely related to GDP: the continued firm pace points at rapid GDP growth into Q4.

Indeed, if we look at GDP growth from a bottom up perspective, we are currently on track for a gain at over 7% for Q4. The strength is broadly based, with consumption, equipment investment, trade and inventories all making meaningful contributions. That pace is a substantial recovery from the disappointing 2.1% in Q3, and would actually exceed the rapid 6.7% growth from Q2.

Aggregate Hours Worked Growth Well Outpacing Employment Growth



As of 30 November 2021
Sources: Bureau of Labor Statistics Haver Analytics, Stone Harbor Investment Partners LP
2007 = 100

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 24 bps and the JP Morgan EMBI Global Diversified returned 1.2%. Non-investment grade bonds outperformed investment grade securities, on average. The top performers included Argentina (+7.9%), Ghana (+5.7%), and Angola (+3.3%). The bottom performers included Venezuela (-4.5%), Sri Lanka (-4.4%), and Lebanon (-2.4%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.8%. EM currencies returned 0.4%, in aggregate. The Mexican peso outperformed with spot FX return of 1.6%, followed by the Brazilian real (1.3%) and the Colombian peso (1.2%). Underperformers included Turkey (-4.3%), Hungary (-1.0%) and Chile (-1.0%).

The yield of the JP Morgan GBI EM Global Diversified declined 6 bps to 5.64%. Dominican Republic bonds underperformed with yields 130 bps higher, followed by Philippines and Turkey bonds, which increased in yield by 18 bps and 15 bps, respectively. Brazil outperformed with yields 70 bps lower, followed by South Africa (-22 bps). Yields declined 17 bps in Hungary and Uruguay.

In central bank actions, key rates were left unchanged in Kazakhstan (9.75%), Australia (0.10%), India (4.00%), Namibia (3.75%), and Serbia (1.00%); while Georgia hiked by 50 bps to 10.50% and Brazil hiked by 150 bps to 9.25%, as expected. The People's Bank of China (PBOC) announced plans to cut the reserve requirement ratio (RRR) on banks and raise the RRR on foreign exchange deposits (see further details under Sovereign Soundbites below).

EM Corporate Debt

The return of the JP Morgan CEMBI Broad Diversified rebounded with a positive gain this week after the weak performance during November. High yield credits outperformed investment grade bonds, which were particularly impacted by negative returns from the higher-rated Asian markets. The strong recovery in oil prices favorably impacted returns in Colombia and Ghana. Brazil also posted a strong positive return as the longer-end of many corporate curves outperformed. A notable underperformer was Macau, which was down on news that a prominent junket operator was arrested by police. This action prompted fears of increased regulatory scrutiny against the backdrop of Macau's gaming industry that is struggling to recover from the pandemic-driven downturn in tourism.

Flows/Issuance

Latvia issued Euro-denominated sovereign hard currency debt due in 2030. In EM corporate debt, the stronger markets did not spur a pick-up in new issuance activity and remained relatively low.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$1.2 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

Argentina

Argentina's economic team traveled to Washington DC over the weekend to meet with representatives from the International Monetary Fund (IMF) in hopes of advancing negotiations to refinance a loan of US$44 billion. While few details are available, the government appears to be accelerating negotiations with the IMF amid continued weakness in the peso. Argentina's external sovereign debt prices increased on speculation that the country's leadership and the IMF will come to agreement later this month or early in 2022.

China

The PBOC announced its plans to cut the RRR for banks by 0.5%, and to hike the RRR for foreign exchange (FX) deposits by 2 percentage points to 9% form 7%, both effective 15 December 2021. These policy moves have similar aims in terms of supporting growth. The cut in the RRR for banks aims to expand credit growth, especially in light of the recent challenges facing the property sector, and marks the second RRR cut for this year. Ultimately, the RRR cut will reduce the funding cost of financial institutions by roughly 15 billion yuan per year. The hike in the RRR on FX deposits will withdraw approximately US$20 billion in FX liquidity from the onshore banking system. In our view, this action signals that the PBOC wants to limit yuan appreciation after a period of rapid gains against its basket of currencies. A much stronger yuan could weaken China's exports, which have been the largest source of growth since mid-2020.

The latest November trade data showed that China's imports accelerated, rising 31.7% y/y compared to 20.6% y/y in October, while exports moderated to 22% y/y, down from 27% y/y the previous month in US dollar terms. As a result, China's trade surplus narrowed to US$71.4 billion, down from US$80.5 billion or 3.4% y/y. Looking ahead, exports are likely to remain robust over the next several quarters due to the supply constraints in China's export destination markets.

Mexico

Mexico's Petroleos Mexicanos (PEMEX) carried out a liability management operation supported by a US$3.5 billion capital injection from the government. The new capital will be added to proceeds from issuing new 2032-maturity bonds in exchange for buybacks of shorter maturity bonds due between 2024 and 2030, with the remaining amount used as part of a cash tender offer for long maturity bonds due between 2044 and 2060. Following the transaction, PEMEX gross debt will decline by US$8-9 billion over the next two years. In addition, PEMEX's bond maturity profile will be extended and the government confirmed that it would fund 2022 and 2023 maturities, which should reduce liquidity fears and uncertainty about additional government support. Accordingly, we view the transaction as credit positive. Separately, as planned in the 2022 budget, the Secretariat of Treasury announced a 12% reduction in PEMEX's federal tax burden to a profit sharing rate of 40%. PEMEX bond prices increased and outperformed comparable maturity Mexican sovereign bonds.

Iraq

The IMF conducted a virtual mission with Iraqi authorities to discuss economic developments and outlook, along with policy priorities moving forward. Based on the IMF's latest assessment, real non-oil GDP is expected to grow by 12% in 2021, and oil output is projected to gradually increase in line with the OPEC+

agreements. Inflation is projected to ease over the coming months, after having reached 7.2% in September. The fiscal and external current account balances are also expected to improve in 2021 compared to double-digit deficits in 2020, primarily supported by higher oil prices. Based on the discussions, the top priorities include a civil service reform designed to increase public sector's efficiency and containing the wage bill; reducing inefficient energy subsidies; diversifying fiscal revenues; reducing losses in the electricity sector; and strengthening governance. Other areas of focus include targeted social assistance to help protect the most vulnerable, and restructuring of large state-owned banks and strengthening their governance to revitalize the financial sector and ensure private sector's access to finance.

Russia

The meeting on Tuesday between Presidents Joe Biden and Vladimir Putin was reported to have been meaningful, lasting over two hours but with little details provided at this point. This stands in contrast to the less than half hour meeting between Secretary of State Blinken and Foreign Minister Lavrov last week. It has been reported that Putin drew a red line around Western military aid to Ukraine. President Biden voiced deep concerns of the US and European allies about the troop buildup and made clear that the US and allies would respond with economic and other measures should Russia escalate militarily. Both parties have agreed to follow up talks.

At this time, we believe that a path towards de-escalation is more likely than not. In our view, the motivation for Russia to amass troops at the border has been to make a clear statement that Ukraine remains in Russia's sphere of influence and that it will oppose Ukraine joining NATO and limit the amount of Western military influence in the region. Ultimately, we believe the cost of a military conflict is high for Russia to bear. The Ukrainian military is much better equipped than in 2014 and Russian lives would be lost. Domestic popular support for military action is not high. In addition, the economic cost to Russia could also be significant as the next level of sanctions by the West would likely be more impactful and could include stopping the Nordstream 2 pipeline and potentially excluding Russia from the SWIFT payments system. Removal of Russia from SWIFT would be meaningful and would severely limit the ability of Russia to participate in international transactions.

Zambia

The IMF reached a staff-level agreement with Zambian authorities on a three-year, US$1.4 billion arrangement under the Extended Credit Facility (EFF) to help restore macroeconomic stability and provide the framework for an inclusive economic recovery. The top priorities of the government's reform agenda include: reinforcing fiscal and debt sustainability; shifting public resources away from inefficient public investment to social spending and greater investment in health, education, and social benefits; and strengthening economic governance and transparency to reestablish credibility of the budget. Ensuring central bank autonomy, as well as monetary and financial stability also remains a priority. The staff-level agreement is subject to IMF Management and Executive Board approval and receipt of the necessary financing assurances, according to the IMF.

Sri Lanka

The government reported that official reserves fell by US$682 million to US$1.58 billion in November, the lowest level since May 2009. This figure compares to US$2.27 billion reported in October. Based on the average monthly imports of US$1.6 billion over the last 12 months, the current level of reserves covers less than one month of imports. Foreign currency reserves, which equal official reserves less gold, Special Drawing Rights (SDRs) and other reserve assets, amount to little over US$1 billion. According to Bloomberg, Sri Lanka's central bank governor Ajith Nivard Cabraal said in a phone interview that the government has earmarked funds to make payment on US$500 million of sovereign bonds maturing in January 2022. Sri Lanka's January 2022 bond price dropped four percentage points immediately following the report on official reserves, but recovered to approximately US$90 by the market's close on 9 December 2021.

Chart of the Week

The Colombian Ministry of Mines and Energy released the domestic oil and gas production for October. Crude oil production decreased 1.5% y/y and 0.5% m/m to 740 kbpd. Natural gas production has been steadier, increasing 3.3% y/y and 4.2% m/m. According to the ministry, electrical and mechanical issues, as well as local farmer protests at several major oil fields, contributed to the decline in overall production this year. October's data reconfirms a longer-term decline in Colombia's oil and gas production. The main reason for declining production over the past six years has been the lack of new oil discoveries large enough for state-owned Ecopetrol to profitably develop. Another reason for the decline was reduced production by Pacific Rubiales, a private company that entered into financial difficulties in 2016. However, as shown in the data table, smaller producers Gran Tierra and Geo Park have increased production over this period, highlighting the continued success of select private companies in exploiting Colombia's energy opportunities.

Colombia Oil and Gas Production

	Thousand Barrels Of Oil Equivalent Per Day (Kboed) Average Production							Change 2015 - YTD 2021	
Producers	2015	2016	2017	2018	2019	2020	2021	Kboed	%
State Owned	**707**	**668**	**656**	**661**	**665**	**638**	**607**	**-100**	**-14**
Ecopetrol	707	668	656	661	665	638	607	-100	-14
Select Private	**46**	**51**	**62**	**75**	**77**	**63**	**67**	**20**	**44**
Geopark	23	24	31	39	42	40	38	15	64
Gran Tierra	23	27	31	36	35	23	29	6	24
Other	**426**	**340**	**296**	**300**	**331**	**263**	**250**	**-176**	**-41**
Colombia Total	**1,180**	**1,059**	**1,014**	**1,036**	**1,073**	**964**	**924**	**-256**	**-22**

As of 31 October 2021
Sources: Haver Analytics, Agencia Nacional De Hidrocarburos, J.P. Morgan LP, Stone Harbor Investment Partners LP

US High Yield

The US high yield market reversed two weeks of declines with a robust move adding 0.90% of total return. The tone has shifted with the December rally setting in as the macro and technical picture improve. However, rate volatility still remains elevated and will continued to be monitored by the market with the December Fed meeting scheduled for next week. High yield spreads tightened 37 bps to an OAS of 342 and yields tightened 0.32% to finish 4.45%. Sector outperformance was led by reopening sectors, and lower dollar and lower rated issues attributed to short covering in recent underperforming names and a heightened sentiment to add risk. The sectors include Airlines, Leisure, Lodging, Refining, Midstream, E&P, and Drillers. Saint-Gobain has announced their purchase of GCP Applied Technologies Inc., a leading global provider of construction chemical products technologies, in a transaction valued at US$2.3 billion.

Leveraged Loans

The Loan market rebounded following a bout of volatility driven by the Omicron variant. The S&P/LSTA Leveraged Loan Index returned 0.31%, the average bid price increased 23 bps to US$98.39, and the spread-to-maturity tightened 5 bps to L+406 bps. Secondary market activity was robust over the past week, and improved risk sentiment drove outperformance in lower quality CCC portion of the market, while BB and B rated returns were similar to the Index. From an industry perspective, we saw the most strength in reopening sectors, notably Airlines, while commodity- related sectors lagged for the week. Lastly, there were no defaults in the index last week.

European High Yield

The overall European high yield benchmark rallied 0.51% for the week on positive early indications of the severity of the new Omicron variant and the potential effectiveness of vaccines. Investors remain cautious into the end of the year and more defensively positioned. Index spreads tightened 20 bps for the week, with CCC spreads reversing the prior week's underperformance with 31bps of spread tightening. Airlines were the big outperformer as Omicron fears eased, however, bonds came off the highs as the UK announced the move to its coronavirus Plan B to combat the spread of the new variant. Nobian's bonds moved more than 1 point higher during the week as the chemical company reported strong quarterly earnings and gave a favorable outlook for Q4 as the company is successfully passing through higher raw material costs.

Flows/Issuance

According to EPFR, the US high yield market saw an outflow of US$615 million last week mitigated by US$1.6 billion ETF inflows the last two trading sessions. This latter move was more indicative of the strength of the market, which coincided with sharply higher equity moves, gapping commodity prices, leaner dealer inventories, and positive Omicron variant headlines. The stronger market sentiment opened the window for new issuance and six companies for US$ 5.1 billion priced with large subscriptions and higher levels in the secondary.

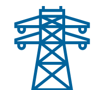
In the loan market, even with the recent bout of choppiness, arrangers continued to launch new deals as we head towards year-end. Month-to-date, 34 deals have launched for approximately US$12.5 billion, with proceeds skewed towards M&A, along with a few opportunistic transactions. From a demand perspective, we continue to see Collateralized Loan Obligation (CLO) formation, albeit seasonally lighter, with five deals pricing for approximately US$2.5 billion. Additionally, outflows from retail loan mutual funds and Exchanged Traded Funds (ETFs) have reversed course following the second negative weekly outflow in 46 weeks. For European high yield, EPFR data showed a significant impact from recent market volatility with reported outflows of US$660 million during the week, reducing November flows to an outflow of US$254 million.

Source: Lipper, EPFR

Industry Insights

Chemicals: Raw material inflation and ongoing supply chain and logistics challenges remained headwinds in recent quarterly reports from Chemical companies. However, most companies indicated that demand in the majority of their key end markets remains robust, with the expectation for strong levels of demand to continue through 2022. While companies continue to announce price increases to offset the inflationary pressures, it is expected that it will take until 2H 2022 for full margin recovery. On 1 December, Dow said it expects fourth quarter EBITDA to be below analyst consensus due to higher raw material costs and lower polyethylene pricing. Dow still expects "sustained demand strength" with favorable conditions across key value chains through 2022. Additionally, it expects global logistic constraints to ease as we move through next year and its order backlogs remain robust. DOW also noted its December order book appears stronger than November.

Media: As we approach the end of 2021, core advertising has largely returned to pre-pandemic levels. A key driver for this recovery has been the Online Sports Betting (OSB) category, which has posted significant gains as more states legalize online sports betting. Strength in this category has helped to offset continuing challenges in both Automotive and Retail as both of these categories face persistent supply chain challenges, adversely impacted product availability. As we look forward into 2022, supply chain challenges are expected to abate, which should further aid a recovery in core advertising. In addition, early indications are that the 2022 mid-term elections should set a record for advertising spending.



Utilities Power prices and spark spreads have risen significantly since January 2021, lifted by the recovery in demand post Covid and rising gas prices. Declining US coal stockpiles for the electric power sector, now ~34% below the 5-year average as of 31 August, are also contributing to the power rally. In addition to the impact of elevated coal prices, historical coal to gas switching has been impacted by the multi-year trend of coal plant retirements. In the PJM power market, over 30 gigawatts of coal fueled power plants have retired, reducing the share of coal to only 17% of the PJM power supply.

Investment Grade

Governments

It was another volatile week for government bonds as the benchmark 10-year Treasury yield traded inside a 20 bps range, from 1.33% to 1.53%, before ending the period 12 bps higher at 1.52%. Government bond yields oscillated with the news flow and initially fell after the weaker-than-expected US nonfarm payroll release and rising omicron cases. The demand for haven assets subsided after several vaccine manufacturers reported optimistic efficacy results against the new variant. Treasury volatility, as measured by the ICE BofAML MOVE Index, drifted back towards the lower end of its 2-week range at 80 but remains elevated from a historical perspective. The curve exhibited a slight twist as 2s10s fell 1 bps to 84 bps, while 5s30s rose 2 bps to 62 bps. 10-year real yields were unchanged at -1.05% this week, while breakevens, a proxy for inflation expectations, rose 13 bps to 2.56%.

German Bunds also weakened across the curve with the yield on the 10-year bonds ending the week 3 bps higher at -0.31%. In contrast, UK Gilts saw better demand, as markets repriced and pushed back expectations for an imminent rate hike by the BoE, with 10-year Gilts closing 4 bps lower to 0.78%. The spread on 10-year Italian and Spanish bonds tightened 1 bp to 4 bps to 1.34% and 0.73%, respectively.

Corporates

Investment grade corporate debt performed well during the week, reversing some of the underperformance from the prior week, and doing so in the face of an elevated primary calendar. Spreads were better by 6 bps over the period bringing the Bloomberg corporate OAS to +95 bps and leaving the index better by 1 bps on the year. Trading flows showed a decent amount of risk was lifted by customer accounts as spreads remain wider by 15-20 bps off their tightest levels of the year, while market technicals have improved substantially with dealer inventories down from recent highs and with limited new issue supply expected for the remainder of the year.

Securitized

The mortgage current coupon tightened 5 bps on the week. FNMA 30-year mortgage prepayments dropped 9% versus October led by lower coupons, while higher coupons remain speedy. November ABS issuance saw the highest volume since 2005. Issuance will be tapering ahead of next week's industry conference and the holidays and year-end approaching.

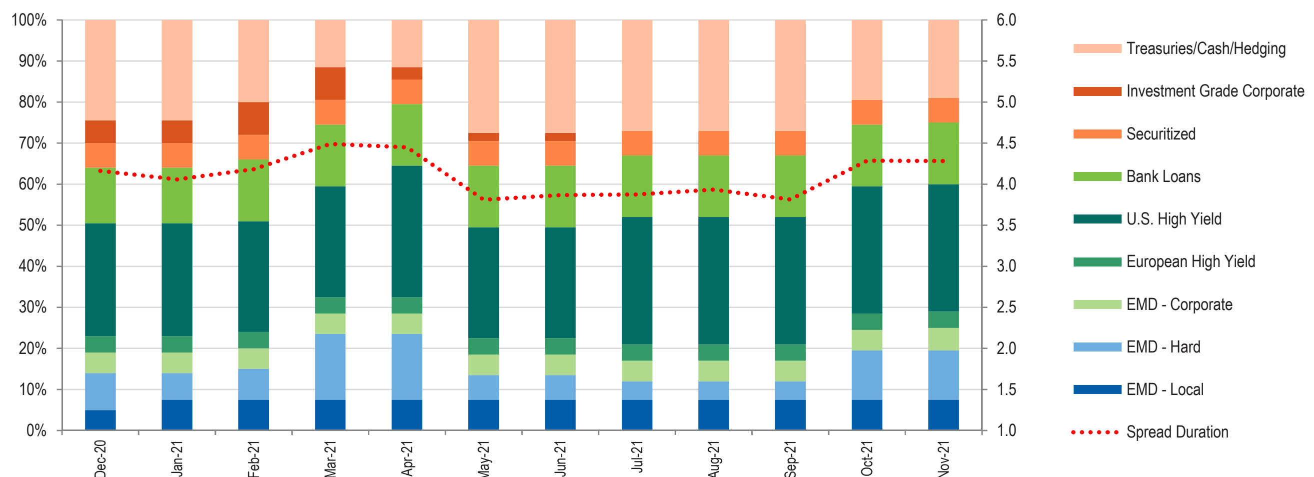
Flows/Issuance

In the investment grade corporate debt primary markets, US$36 billion priced this week including a few large pharma deals such as Roche Holdings and Merck & Co., which accounted for close to half the issuance. Western Digital also priced a deal after moving up to investment grade from high yield and saw good demand despite pricing 35 bps inside of initial price talk. For the most part, deals saw good follow thru demand and spreads seemed to be well supported in the after markets. Supply for December is approaching close to US$58 billion, which would put it in the top five months for December going back to 2001.

High grade fund flows saw US$2.7 billion of outflows for the latest period with the decline driven by Corporate-only funds and Aggregate-based funds. Corporate-only funds declined by $863 million, while Aggregate funds declined by $1.5 billion, with the majority of the outflow coming in the short end. According to JP Morgan, Corporate-only fund declines were ETF driven, while Aggregate fund declines were driven by outflows from mutual funds.

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

				Spread or Yield Change (bps or %)					Total Return (%)				
As of December 8, 2021			Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	EMBI G D	362	(24)	(29)	7	11	(1)	1.2	1.5	(0.3)	(1.7)	(0.5)
	CEMBI Broad Diversified	CEMBI B D	277	(15)	(15)	19	7	(7)	0.3	0.2	(0.8)	0.8	1.6
	GBI EM Global Diversified Yield	GBI EM GD	5.64	(0.06)	(0.04)	0.34	1.42	1.32	0.8	1.3	(2.8)	(9.0)	(7.9)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	362	(24)	(29)	7	11	(1)	1.2	1.5	(0.3)	(1.7)	(0.5)
	EMBI GD Investment Grade	EMBI IG	143	(16)	(17)	(4)	(5)	(12)	0.6	0.8	0.9	(2.1)	(1.2)
	EMBI GD High Yield	EMBI HY	627	(35)	(45)	32	19	(3)	1.7	2.3	(1.6)	(1.1)	0.5
EM Sovereign Debt Regions	Africa	Africa	608	(47)	(62)	47	52	45	2.6	3.6	(2.3)	(2.1)	(1.1)
	Asia	Asia	224	(13)	(7)	(3)	(8)	(11)	0.2	(0.2)	(0.0)	(0.2)	0.1
	Europe	Europe	299	(25)	(26)	21	33	22	1.0	1.1	(1.0)	(2.1)	(1.1)
	LATAM	LATAM	377	(25)	(33)	1	23	(3)	1.4	2.3	0.4	(3.6)	(1.4)
	Middle East	Middle East	323	(19)	(23)	(8)	(45)	(42)	0.7	1.1	0.3	1.0	1.3
EM Corporates	CEMBI Broad Diversified	CEMBI B D	277	(15)	(15)	19	7	(7)	0.3	0.2	(0.8)	0.8	1.6
	CEMBI BD Investment Grade	CEMBI IG	150	(10)	(9)	3	(19)	(24)	0.0	0.0	(0.3)	(0.1)	0.5
	CEMBI BD High Yield	CEMBI HY	491	(20)	(22)	36	5	(23)	0.6	0.5	(1.4)	1.9	3.2
US High Yield	US High Yield	US HY	342	(37)	(46)	9	(50)	(67)	0.9	1.2	(0.0)	4.6	5.6
	US High Yield BB	US HY BB	245	(32)	(40)	10	(36)	(46)	0.9	1.1	(0.0)	3.5	4.3
	US High Yield B	US HY B	386	(43)	(52)	2	(39)	(50)	1.0	1.2	0.0	4.1	4.9
	US High Yield CCC	US HY CCC	689	(35)	(51)	26	(113)	(173)	0.8	1.2	(0.7)	9.7	11.9
European High Yield	Barclays PanEur HY	BAR PanEur HY	320	(20)	(29)	22	(37)	(33)	0.5	0.7	(0.3)	3.4	3.4
	2% Ex Financials Yield	2% ExFin Yield	3.56	(0.12)	(0.25)	0.35	0.11	0.09	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	98.4	0.2	0.3	(0.2)	2.2	2.8	0.3	0.3	0.4	4.9	5.6
	LSTA 100 Yield	LSTA 100 Yield	3.95	(0.10)	(0.11)	0.24	(0.03)	(0.07)	0.3	0.3	0.4	4.9	5.6
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.48	0.11	0.09	0.05	0.70	0.69	(0.8)	(0.6)	(0.0)	(3.4)	(3.3)
	1M LIBOR	1M LIBOR	0.10	(0.00)	0.01	0.02	(0.04)	(0.05)	0.0	0.0	0.0	0.1	0.1
	US Aggregate	US AGG	36	(4)	(3)	3	(6)	(10)	(0.6)	(0.5)	(0.2)	(1.8)	(1.4)
	US Investment Grade Corporates	US IG Corp	95	(6)	(4)	11	(1)	(7)	(0.5)	(0.4)	(0.1)	(1.4)	(0.7)
	Global Aggregate	Global AGG	36	(3)	(2)	3	0	(3)	(0.2)	(0.1)	0.3	(1.1)	(0.9)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	46	(4)	(3)	9	5	(1)	(0.2)	(0.2)	(0.9)	(0.8)	(0.5)
FX	DXY (US dollar)	DXY	95.89	0.0	0.0	0.0	0.0	0.0	(0.1)	(0.1)	1.8	6.6	5.4
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.4	1.0	(1.9)	(6.2)	(6.0)

1W reflects data from December 8 close through December 10 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.

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