Stone Harbor
INVESTMENT PARTNERS

January 7, 2022

WEEKLY COMMENTS ON CREDIT

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Global Market Summary

Equity markets declined and select government bond yields rose in reaction to the latest minutes from the US Federal Open Market Committee (FOMC) meeting that signaled a more hawkish tone than markets had expected. The notes revealed that US rate increase and stimulus withdrawal may begin sooner than anticipated, given the current progress towards maximum employment. The minutes also underscored concerns around the pace of inflation and persistent global supply disruptions. The US 10-year Treasury yields reached the highest level since April 2021 this Thursday at 1.73%.

Similarly, expectations of rising rates across Europe and the UK led to weakness in regional government bonds. Credit spreads generally tightened, while total returns were mixed across major sectors. Non-investment grade bonds generally outperformed investment grade bonds. In terms of excess returns, emerging markets (EM) high yield corporate debt outperformed US high yield bonds, on average. The US dollar index (DXY) advanced modestly during the week, and EM currencies were little changed, on average.

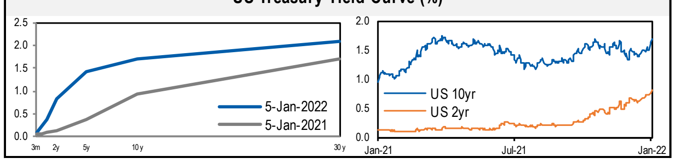
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	359		-6	-2.32%
EMBI GD IG	137		-2	-2.80%
EMBI GD HY	627		-13	-1.62%
Africa	596		-18	-2.25%
Asia	213		-8	-0.69%
Europe	316		-4	-3.92%
LATAM	375		-3	-3.99%
Middle East	316		-4	0.60%
CEMBI BD	262		-15	0.55%
CEMBI BD IG	142		-7	-0.43%
CEMBI BD HY	470		-26	1.86%
GBIEM GD (%)	5.81		10	-9.30%
EM Blend (%)	5.31		6	-3.74%
EMBI ESG	309		-34	-2.88%
CEMBI ESG	268		-19	0.39%
GBI ESG (%)	5.72		9	-10.08%
		-200 -100 0 100 200		Jan-21 Jul-21 Jan-22

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		8	5.01%
US HY BB	233		5	3.71%
US HY B	374		13	4.82%
US HY CCC	687		16	10.22%
Pan Euro HY	299		-12	3.55%
LSTA 100 (%)	3.85		-10	5.18%
		-200 -100 0 100 200		
US Treasury 7-10 (%)	1.65		15	-4.35%
1M LIBOR (%)	0.10		0	0.10%
US Agg	36		0	-2.36%
US IG Corp	91		-2	-1.81%
Global Agg	35		0	-1.94%
		-100 0 100 200		Jan-21 Jul-21 Jan-22

US Treasury Yield Curve (%)



Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD			Level	Commodities			Level	Equities
EURUSD	1.13	-8.00%		Gold	1,825	-7.59%		S&P500	4,701	26.13%
USDJPY	116.11	-11.54%		VIX	20	-22.14%		MSCI World	9,670	21.00%
EM FX		-9.92%		Brent	81	50.75%		MSCI EM	2,961	-5.07%
		Jan-21 Jul-21 Jan-22				Jan-21 Jul-21 Jan-22				Jan-21 Jul-21 Jan-22

As of: January 5 2022. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

Due to some delayed reporting around the holiday period, the US recorded over one million cases of infections on Monday. Recent studies are suggesting that, while the Omicron variant is more contagious, it tends to cause less severe symptoms resulting in a lower likelihood of hospitalization.

Incoming employment data reflect continued improvement in the labor market. Initial jobless claims fell for the week of the 24th after rising in the beginning of December. Continuing claims fell 140k to 1,716k, marking the third consecutive week of declines. The latest ADP employment data also indicates strength in the labor market after payrolls rose 807k in December.

As highlighted by their latest dot plot, the Fed is considering an earlier, and more expeditious, interest rate increases. The latest FOMC minutes also confirmed the central bank began discussing the reduction of its balance sheet. The FOMC expects the balance sheet runoff to begin closer to the first interest rate increase with several members leaning towards a faster pace than their previous normalization cycle (2014-2017).

Europe

Despite warning that the National Health Service is under increasing pressure, Prime Minister Johnson said that the UK can weather the recent surge of infections without the need for additional restrictions. Johnson acknowledged that certain services will inevitably experience some disruption, due to staff absences, and that the coming weeks will be challenging.

Although the ECB expects inflation to fall back below 2%, as supply chain constraints and energy prices ease, Governing Council Kazaks said the central bank remains prepared to raise interest rates should the inflation outlook strengthen further.

Japan/Asia

After successfully evading a Delta variant outbreak, Hong Kong has identified the Omicron variant within its borders. The government will be reinstating restrictions in efforts to prevent the spread of the more contagious variant. Bars, gyms and large scale events will be closed and indoor dining will cease after 6 pm. In addition, the country will be banning flights from several countries including the US, UK, France and Australia.

North Korea fired a short-range ballistic missile off its east coast for the first time in nearly 2 months. The missile launch, which have been historically timed around political events, took place several hours before South Korean President Moon Jae-in's appearance at a railway ceremony.

Economist Corner

Seamus Smyth, PhD, Developed Markets

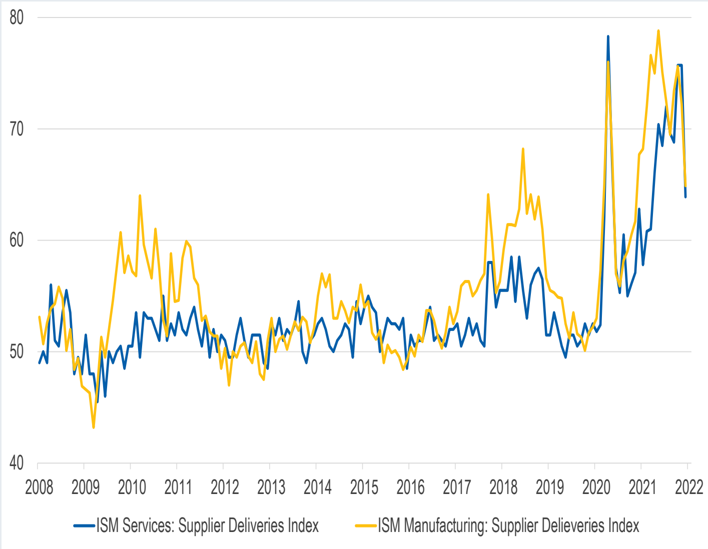
Steffen Reichold, PhD, Emerging Markets

Recent data contains potential signs that the supply chain pressures, which have helped push up goods inflation, may be starting to ease.

In early 2021, the sub-index for supplier deliveries started a sharp march higher, presaging the supply chain issues that were starting to emerge. This sub-index measures how long it is taking for manufacturers to get deliveries of inputs, with a higher reading meaning that those deliveries are taking longer to arrive. By the middle of the year, it had surged to almost 80, the highest reading since the early 1970s. Though it did decrease modestly in the early fall, early winter readings moved back up. The same sub-index in the parallel services sector survey also moved substantially higher with a lag. The increase did not start in earnest until the middle of 2021 and the highest readings were in October and November.

December saw the supplier deliveries sub-indexes for both manufacturing and services drop quite substantially. Each have dropped by more than 10 points over the last two months, with both falling below 65. Declines of that magnitude are unusual, with the only prior two-month decline of that size during the last two decades in the middle of 2020 as lockdown measures were eased. This could be an initial sign that supply chain pressures are starting to abate, and something we will be watching closely going forward. At most though, this is only an initial sign. At around 65, each of these still point at ongoing strains that will take at least several more months to resolve, in our view.

Fall in ISM Supplier Deliveries Indexes Could Be Initial Sign of Easing Supply Chain Woes



As of 31 December, 2021
Sources: Institute for Supply Management, Haver Analytics, Stone Harbor Investment Partners, LLC

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads tightened 6 bps and the JP Morgan EMBI Global Diversified returned -0.5%. Non-investment grade bonds outperformed investment grade securities, on average. The top performers included Tunisia (+3.3%), Ecuador (+3.3%), and Sri Lanka (+2.4%). The bottom performers included Venezuela (-3.7%), Argentina (-3.1%), and Kazakhstan (-1.9%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -0.2%. EM currencies returned 0.2%, in aggregate. The Hungarian forint outperformed with spot FX return of 2.4%, followed by the Czech koruna (1.4%) and the Chilean peso (1.4%). Underperformers included Turkey (-7.4%), Russia (-2.0%), and Dominican Republic (-0.7%).

The yield of the JP Morgan GBI EM Global Diversified rose 10 bps to 5.81%. Brazil bonds underperformed with yields 62 bps higher, followed by Hungary and Colombia bonds, which increased in yield by 35 bps and 31 bps, respectively. Turkey outperformed with yields 86 bps lower, followed by Philippines (-4 bps) and Serbia (-2 bps).

In central bank actions, Dominican Republic hiked by 100 bps to 4.50%; Poland hiked by 50 bps to 2.25%, as expected; and Uruguay hiked by 75 bps to 6.50%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified started the New Year with a small negative return, with Asia underperforming both Central and Eastern Europe, Middle East and Africa (CEEMEA) and Latin America. Non-investment grade credits outperformed investment grade bonds as US Treasury rates moved higher during the week. China's homebuilding sector continued to be under stress with speculation and little new guidance from the government. Kazakhstan underperformed the index in response to reports of social unrest and violence in the country. Conversely, both Argentina and Turkish corporates rebounded a bit after being down in December. Ghana outperformed as higher oil prices supported bonds of Tullow Oil.

Flows/Issuance

Mexico issued USD-denominated sovereign debt due in 2034 and 2052, totaling rough US$4 billion, and Slovenia issued EUR-denominated sovereign debt due in 2026 and 2062, totaling approximately US$2 billion. In EM corporate debt, Reliance Industries issued a three-tranche deal, totaling approximately US$3.4 billion.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of approximately US$102 million, entirely from local currency funds, which offset positive inflows into hard 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

Angola

The Executive Board of the IMF completed the sixth review of Angola's economic program supported by the Extended Fund Facility (EFF). The decision in late-December 2021 allowed for an immediate disbursement of US$748 million, bringing total disbursements under the arrangement to approximately US$4.5 billion. The EFF had been in place since 7 December 2018 for approximately US$3.7 billion and was later increased in size. Angolan authorities announced the completion of the program and future engagement with the IMF via a Post Financing Monitoring Program. While the new relationship with the IMF does not involve funding, Angola is now supported by higher oil prices, a strong currency, and a prudent budget for 2022.

Brazil

Brazil recorded a trade surplus of US$3.9 billion in December, following a deficit of US$1.3 billion in November. Exports rose to US$24.4 billion from US$20.3 billion in November, while imports declined to US$20.4 billion from US$21.6 billion. The seasonally adjusted and annualized quarterly moving average of the trade surplus advanced to US$30.4 billion from US$29.6 billion in November. For 2021, Brazil posted a surplus of US$61 billion – the highest reading in the historical series – with US$280.4 billion in exports and US$219.4 billion in imports. The positive full-year trade result was driven by higher average commodity prices, the lagged effects of exchange rate depreciation, and the global recovery. Although the latest data have shown some deceleration in the balance caused mainly by higher fuel imports, market expectations of the trade surplus remains at near US$62 billion.

Chile

Chile's lower house of Congress approved the government's project to create a universal guaranteed pension of CLP185,000 per month for those 65 years and older. The fiscal cost of the initiative will be a maximum of 0.95% of GDP, according to a press release from the Chilean Ministry of Finance. The bill will be financed through provisions already incorporated in the 2022 budget, modification of tax exemptions, and the reduction of the mandatory contribution to the Pension Reserve Fund. The approval of this project by the lower house suggests that, in the medium term, public spending will exceed pre-social crisis and pre-pandemic levels by at least 3 percentage points of GDP. The proposal will be debated in the Senate in coming weeks.

China

China's headline manufacturing PMI registered the highest reading in six months, rising 1.0 point to 50.9 vs consensus of 50.0. Similarly, the NBS manufacturing PMI rose by 0.2 point to 50.3. For the Caixin/Markit manufacturing PMI, the output component showed a more notable rebound of 2.6 points to 52.7 in December, representing the highest reading in 12 months. The NBS manufacturing PMI output component fell slightly by 0.6 point to 51.4, in comparison, but follows the increase of 3.6 points in November. Both sets of manufacturing PMIs suggest production recovery from easing of supply shock in Q3 and reduced input cost pressure. In addition, suppliers' delivery time has shortened as the supply bottleneck pressure continues to ease. In terms of forward-looking demand conditions, the new orders component in both the Caixin/Market and NBS PMIs both rose in December. However, demand recovery is reliant on virus-related uncertainties, particularly as domestic virus outbreak and associated lockdown measures will weigh on the outlook of domestic consumption and service sector recovery.

Kazakhstan

Kazakh President Kassym-Jomart Tokayev accepted the resignation of his cabinet amid widespread protests over surging liquefied petroleum gas (LPG) prices. Tokayev named First Deputy Prime Minister Alikhan Smailov as acting prime minister and subsequently ordered the reinstatement of price controls on LPG, and broadened them to gasoline, diesel and other "socially important" consumer goods. Other ministers will carry out their previous duties until a new government is formed. Tokayev also declared a state of emergency in Almaty, and the oil-rich Mangystau region, where protests first erupted. Kazakhstan's dollar-denominated sovereign bond prices declined approximately 5-6% in response to the turmoil and recovered to down 3-4% as markets began to recover following the government's swift response to meet some of the protestors' demand. As of this writing, the escalating violence has led to increase in police control and civilian and police casualties.

Mexico

Remittances from foreign workers remain highly supportive of the Mexican economy, benefitting the current account and private consumption. According to data released by Banco de Mexico this week, remittances grew 37.7% y/y in November to US$4.67 billion, the second highest monthly inflow on record and the ninth consecutive month of an inflow greater than US$4 billion. For the 12-month period through November, remittances grew 26% to a new record high of US$50.5 billion, or approximately 4% of 2021 GDP. This figure is more than double the US$23.5 billion in crude oil receipts.

Peru

As part of a wider cabinet reform, President Pedro Castillo's advisers are looking to replace Finance Minister Pedro Francke and have offered the position to at least two candidates over the past few weeks, according to sources familiar with the matter. Francke, who had been instrumental in calming investor concerns regarding economic policies under Castillo, has attempted to increase key mining taxes and levies on stock market profits but has failed to obtain full congressional approval – highlighting, in our view, a deeply divided government.

Sri Lanka

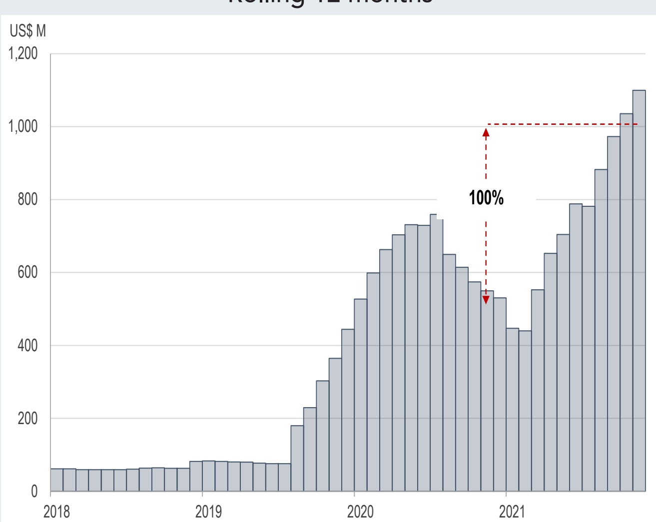
Following a cabinet meeting on 3 January, Sri Lanka's Minister of Finance Basil Rajapaska announced US$1 billion in relief measures to compensate against rising inflation. In addition, Rajapaska confirmed the government's decision not to request support from the International Monetary Fund. The government will raise civil servants salaries and pensions, remove select taxes on food and medicine, and provide cash support to low income households. The aid package amounts to 1.2% of GDP, and will be re-allocated from the 3.9 trillion rupees spending budget for 2022. According to Rajapaksa, there are no plans for new taxes. At the same time, external liquidity and domestic inflation, which accelerated to 12.1% in December, have not been addressed. Furthermore, the tourism sector, which serves as a key source of foreign exchange earnings, also remain essentially closed due to the pandemic. However, in public comments, the minister alluded to investor appetite for extending the maturity of July 2022 bonds. In other developments, the central bank announced an increase in foreign reserves to greater than US$3 billion as of late December.

Zambia

The Ministry of Finance published a presentation made to bilateral creditors in mid-December as part of the G20 process for developing a common framework for treatment of debt. The presentation signals continued progress towards debt reprofiling and include macro assumptions for growth in 2025 of 4.2%, a primary budget surplus of 3% and exports of US$14.7 billion—all reasonable from our point of view.

Chart of the Week

China Imports from Panama
Rolling 12 months



As of 30 November, 2021
Sources: National Bureau of Statistics of China, Stone Harbor Investment Partners, LLC

Like many other emerging market countries, Panama's fiscal outlook deteriorated during the pandemic in 2020 as growth declined and the country's debt burden increased. So far, investors and rating agencies have been skeptical about the economy's ability to rebound. Both Fitch and Moody's recently downgraded the country's long-term credit rating on concerns over whether Panama can comply with its Fiscal Responsibility Law, which calls for a fiscal consolidation of more than 4% in the next two years. The political willingness to implement structural reforms may be limited in the current environment. However, Panama retains several strengths that suggest it can recover to real growth rates of 5% in the medium term including high savings and investment rates, high levels of banking credit relative to GDP, stable, market-friendly politics and an economy open to global trade. According to the Embassy of the People's Republic of China in Panama, Panama's exports to China reached an historical record increase of 187% between January and October 2021 compared to the same period a year ago. In our chart of the week, we show China's monthly imports from Panama, which doubled on a rolling 12-month basis. The June 2017 recognition of the People's Republic of China (PRC) by the Panamanian government of Juan Carlos Varela set in motion increased economic activity between the two countries. Over the past four years, China has become a main commercial partner for Panama as a supplier of the Colon Free Trade Zone and as the second largest user of the Panama Canal.

Global High Yield

US High Yield

The US high yield market started the year on a softer tone as investors were focused on the removal of stimulus from the global economy. The FOMC minutes signaled that interest rate hikes could be more aggressive than expected and caused rates to rise, equities to fall, and high yield to continue its slide. The ICE BofAML US High Yield Constrained Index returned -0.34%, led by underperformance from BB's, which lost 0.49%. Flows continued to favor the outperformance of higher yielding risk in relation to high quality and rate sensitive paper with CCC's returning 0.13%. Passive managers have been better sellers of risk and actively managed accounts have been on the sidelines waiting for a better entry point and upcoming primary issuance that is expected. Underperforming sectors that fell more than 0.70% included Food/Beverage and Cable, which includes higher quality and rate sensitive paper. Drillers and Refiners benefitted on higher commodity prices and both rose 1% or more.

Leveraged Loans

The expectations of increasing US interest rates, an improving macroeconomic conditions, improving issuer fundamentals, and a positive technical backdrop all appear to be supporting a strong demand for floating rate assets. For the week and the year-to-date period the S&P Leveraged Loan Index returned 0.26% and 0.22%, respectively, with lower quality CCC rated loans outperforming in both periods. The average bid price of the Index has increase 19 bps and 17 bps for week and year-to-date period to $98.81, which is the highest level in the past seven years. Further, the spread-to-maturity tightened 9 bps and 4 bps for the corresponding periods to L+407. Industry sector strength has been broad with the energy and re-opening themed sectors outperforming. Loan investors started the year with healthy cash balances as a result of quarterly amortization payments and paydowns from issuers, which strengthens the loan market technical. Lastly, the default rate at year-end was sequentially unchanged at 0.29%, which remains well below long-term averages and the level of distress in the market remains very low at approximately 1% of the market.

European High Yield

The Bloomberg Barclays PanEuro HY 2% Cap Ex Financials Index gained 0.26% for the week as light dealer inventories spurred gains. Lower rated issues outperformed with CCC issues gaining 0.45% as investors reassessed the downside risk from the Omicron variant. Index spreads tightened 13 bps for the week, with CCC spreads tightening 34 bps. Airlines significantly outperformed after underperforming to end 2021 due to Omicron fears.

Flows/Issuance

According to EPFR, the US high yield market gained US$ 2.2 billion. ETFs saw a one day outflow of US$ 920 million after the Fed minutes but sill posted a positive gain. Four companies came to the market pricing US$4.465 billion in the New Year. Estimates for the month are US$30–35 billion.

In the loan market, notable launches include Quest Software Inc.'s first and second lien term loan facility to finance private equity firm, Clearlake Capital's, acquisition from private-equity firm Francisco Partners. Additionally, diversified gaming, restaurant and entertainment company, Golden Nugget Inc., launched a refinancing of their entire capital structure with a combination of term loans and high yield bonds. We anticipate significant engagement from lenders on these deals. From a demand perspective, the Collateralized Loan Obligation (CLO) market is following their seasonal lull and issuance has yet to begin, however, we continue to see healthy daily inflows from retail loan mutual fund and Exchange Traded Fund (ETF) investors, which is expected to translate to our first positive weekly flow number.

For European high yield, EPFR data showed strong inflows of US$352 million in the past week.

Source: Lipper, EPFR

Industry Insights

Autos: US light vehicle sales for December of 2021 were released this week. December seasonally adjusted annual rate (SAAR) was 12.7 million units on an annualized basis, slightly lower than the Bloomberg consensus estimate of 13.1 million units. Despite the miss, auto companies and industry watchers both say pricing per unit remains very strong. Industry consultant IHS is forecasting a 2022 SAAR of 15.5 million. General Motors is forecasting a 16 million SAAR for 2022. We expect demand to remain strong in 2022 but SAAR could be hurt by continued supply chain bottlenecks. Unfortunately for auto manufacturers, a number of industrial semiconductor parts are seeing delivery lead times move longer again after moving down in 4Q 2021. Supply availability of both semiconductors and traditional automobile sub-assemblies will determine the number of light vehicles sold in the US in 2022, and because of part supply constraints, we expect pick-up truck market share to grow again in 2022.

Energy: At OPEC's meeting earlier this week, members rubberstamped its previously outlined plan of adding 400kbpd of additional barrels to the market. They also took down their estimates for spare capacity -25% to 1.4mbpd, which led to strong oil price performance for the week. OPEC+ is still struggling to add the headline 400kbpd/month, averaging only about 250kbpd, keeping the market tight and pricing resilient. Goldman Sachs Energy Conference kicked off this week, with management shifting their capital allocation priorities at the start of the year from debt reduction to shareholder returns. Credit agency actions last year was 4 to 1 upgrades to downgrades on overall debt reduction by E&Ps. Going into 2022, the pace of debt reduction should slow as capital allocation shifts to dividends and share buybacks. Capital expenditures are estimated to grow about 10 to 15% y/y.

Leisure: The CDC issued a Level 4 notice regarding cruise travel – the highest level, which indicates very high Covid-19 levels. The warning came as more than 90 ships were under CDC investigation following cases of Covid-19 on board. The CDC advised people to avoid cruise travel, regardless of vaccination status. The Cruise Lines International Association questioned the CDC's notice, arguing that cases on board are mild and represent a smaller percentage than on land. Royal Caribbean noted it had experienced an uptick in cancellations and a slowdown in bookings following the emergence of Omicron, but not to the extent of the Delta variant. Several companies were forced to cancel certain future sailings due to global travel restrictions. However, Royal Caribbean commented that 2H 2022 bookings continue to be in line with historical levels and at higher prices. Despite some of the renewed headwinds, the company was able to price an upsized offering of US$1 billion 5 3/8% senior notes.

Investment Grade

Governments

Since the last publication, duration has weakened with most of the losses experienced after the New Year leading up to the latest FOMC minutes. Consistent with their latest dot plot, the Fed is now prepared for an earlier, and more expeditious, rate hiking cycle. In addition, the central bank began discussing balance sheet normalization and expects the time between runoff and the first rate hike to narrow. Against this backdrop, the yield on 10-year Treasuries gapped higher to 1.71% at Wednesday's close. Relative to two weeks ago, the Treasury curve has bear steepened with the front end experiencing more pronounced weakness as 2s10s rose 9 bps to 87 bps. 10-year breakevens rose 8 bps to 2.54%, while 10-year real yields rose 16 bps to -0.86%. Similar to the US, rate expectations also rose across Europe and the UK leading to weakness in regional government bonds. Since mid-December, the yield on 10-year Gilts rose 35 bps to 1.09%, while the yield on Bunds and OATs advanced over 25bps to -0.08% and 0.23%, respectively. Spreads on peripherals were little changed. Some focus has shifted over to Japan given the pivot, or preparation to pivot, across most developed economies. While it is unlikely that the BoJ will announce a policy pivot, any recalibration of inflation expectations has the potential to move the needle. The yield on 10-year JGBs rose to a 6-month high of 0.9%.

Corporates

Investment grade corporate spreads performed nicely in December with the Bloomberg corporate index OAS tightening 7 bps during the month. Market illiquidity towards the end of the month was responsible for at least 4 bps of tightening that occurred during the last week of the year as investors paid up for what was left of dealer inventories as they needed to put cash to work. The OAS on the Bloomberg corporate index finished the year at +92 bps, which was 4 bps tighter over the year and provided generous positive excess returns of 161 bps; however, total returns for the year were negative by 1.04% given the large increase in the rates markets over the period. By sector, outperformers for the year were led by Airlines, Oilfield Services, and Midstream, while the worst performing sectors were Tobacco, Technology and Banking. Issuers rated BBB outperformed higher rated credits while those with split ratings or crossover credits provided the best performance. Along the maturity curve, bonds maturing in the 10-25 year buckets outperformed followed by those with maturities longer than 25 years.

Securitized

The mortgage current coupon widened 4 bps on the Fed minutes indicating the possibility of an earlier and faster taper. FHLMC is moving to a new CRT structure by creating 2 classes out of the senior class so a shorter, higher-rated 1M1 class and a longer 1M2 class will replace the M1 class. This brings their structure into alignment with FNMA's CAS structure. While ABS issuance is gearing up, CMBS new issuance will remain muted until after an industry conference next week. In a further transition from LIBOR, fixed-rate CMBS are now pricing to the J-curve, which is the interpolated nominal Treasury curve; however, ABS are still pricing to swaps. President Joe Biden extended the student loan moratorium to 1 May while he considers a longer-term solution.

Flows/Issuance

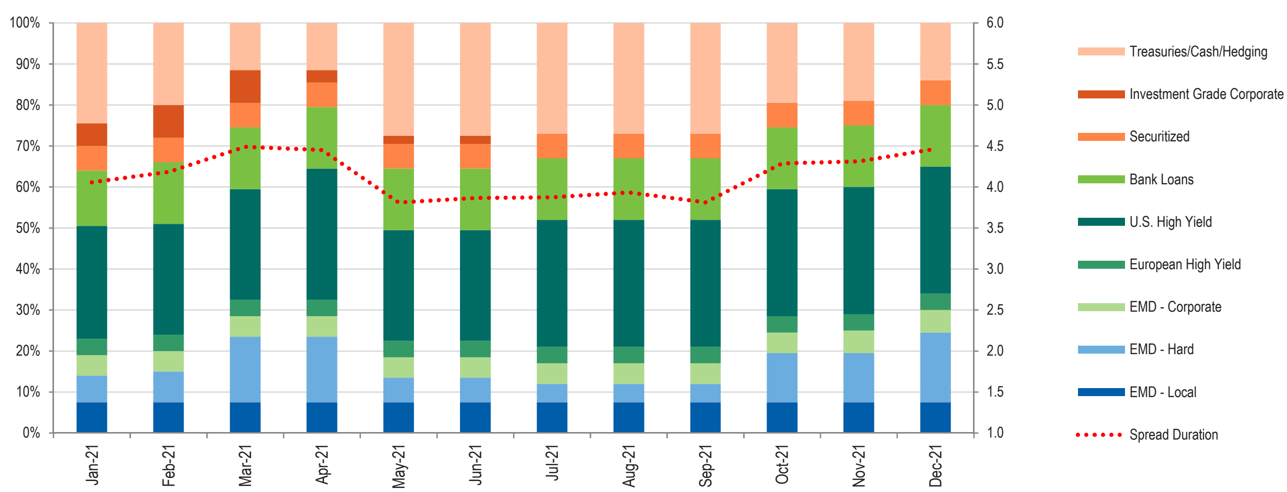
In the investment grade corporate debt market, supply for the 2021 reached US$1.457 trillion, which was the 2nd largest year on record despite being down 20% from the prior year. Supply for nine of the months during the year reached over the US$100 billion mark, which was the most in any year on record and three of those months hit all-time monthly records (February, October, and December). Supply for December finished at US$57.8 billion, which was much higher than street expectations.

Prior to the Christmas holiday, high grade fund flows had seen four consecutive weeks of outflows with the last outflow approximately US$2.3 billion driven by short end corporate only funds and total return funds.

Spreads have held in quite well as we start the year and are slightly better at +91 bps despite continued rate volatility and heavy new issue calendar. This week saw supply approaching US$60 billion, which was well above expectations and heavily tilted towards Yankee banks.

Source: EPFR, JP Morgan

Stone Harbor Multi-Asset Credit Target Allocations (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 December 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 January 5, 2022			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	359	(6)	(8)	(8)	(8)	9	(0.5)	(0.7)	(0.7)	(0.7)	(2.3)
	CEMBI Broad Diversified	CEMBI B D	262	(15)	(10)	(10)	(10)	(4)	(0.1)	(0.3)	(0.3)	(0.3)	0.5
	GBI EM Global Diversified Yield	GBI EM GD	5.81	0.10	0.09	0.09	0.09	1.60	(0.2)	(0.4)	(0.4)	(0.4)	(9.3)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	359	(6)	(8)	(8)	(8)	9	(0.5)	(0.7)	(0.7)	(0.7)	(2.3)
	EMBI GD Investment Grade	EMBI IG	137	(2)	(7)	(7)	(7)	(11)	(1.0)	(1.1)	(1.1)	(1.1)	(2.8)
	EMBI GD High Yield	EMBI HY	627	(13)	(13)	(13)	(13)	20	0.1	(0.2)	(0.2)	(0.2)	(1.6)
EM Sovereign Debt Regions	Africa	Africa	596	(18)	(17)	(17)	(17)	45	0.4	0.0	0.0	0.0	(2.3)
	Asia	Asia	213	(8)	(6)	(6)	(6)	(16)	(0.5)	(0.8)	(0.8)	(0.8)	(0.7)
	Europe	Europe	316	(4)	(8)	(8)	(8)	53	(0.5)	(0.6)	(0.6)	(0.6)	(3.9)
	LATAM	LATAM	375	(3)	(6)	(6)	(6)	18	(0.8)	(1.0)	(1.0)	(1.0)	(4.0)
	Middle East	Middle East	316	(4)	(9)	(9)	(9)	(51)	(0.6)	(0.6)	(0.6)	(0.6)	0.6
EM Corporates	CEMBI Broad Diversified	CEMBI B D	262	(15)	(10)	(10)	(10)	(4)	(0.1)	(0.3)	(0.3)	(0.3)	0.5
	CEMBI BD Investment Grade	CEMBI IG	142	(7)	(9)	(9)	(9)	(25)	(0.3)	(0.5)	(0.5)	(0.5)	(0.4)
	CEMBI BD High Yield	CEMBI HY	470	(26)	(14)	(14)	(14)	(11)	0.1	0.0	0.0	0.0	1.9
US High Yield	US High Yield	US HY	330	8	(2)	(2)	(2)	(67)	(0.3)	(0.3)	(0.3)	(0.3)	5.0
	US High Yield BB	US HY BB	233	5	(2)	(2)	(2)	(52)	(0.5)	(0.5)	(0.5)	(0.5)	3.7
	US High Yield B	US HY B	374	13	(2)	(2)	(2)	(57)	(0.2)	(0.2)	(0.2)	(0.2)	4.8
	US High Yield CCC	US HY CCC	687	16	(7)	(7)	(7)	(121)	0.1	0.1	0.1	0.1	10.2
European High Yield	Barclays PanEur HY	BAR PanEur HY	299	(12)	(12)	(12)	(12)	(52)	0.3	0.2	0.2	0.2	3.5
	2% Ex Financials Yield	2% ExFin Yield	3.54	(1.13)	(0.01)	(0.01)	(0.01)	0.09	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	98.8	0.2	0.2	0.2	0.2	2.4	0.3	0.2	0.2	0.2	5.2
	LSTA 100 Yield	LSTA 100 Yield	3.85	(0.10)	(0.03)	(0.03)	(0.03)	(0.08)	0.3	0.2	0.2	0.2	5.2
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.65	0.15	0.20	0.20	0.20	0.83	(1.2)	(1.6)	(1.6)	(1.6)	(4.3)
	1M LIBOR	1M LIBOR	0.10	(0.00)	0.00	0.00	0.00	(0.03)	0.0	0.0	0.0	0.0	0.1
	US Aggregate	US AGG	36	0	0	0	0	(6)	(0.8)	(1.1)	(1.1)	(1.1)	(2.4)
	US Investment Grade Corporates	US IG Corp	91	(2)	(1)	(1)	(1)	(8)	(0.9)	(1.4)	(1.4)	(1.4)	(1.8)
	Global Aggregate	Global AGG	35	0	(1)	(1)	(1)	(2)	(0.5)	(0.7)	(0.7)	(0.7)	(1.9)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	42	0	(1)	(1)	(1)	0	(0.2)	(0.3)	(0.3)	(0.3)	(0.8)
FX	DXY (US dollar)	DXY	96.17	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.5	0.5	7.5
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.2	(0.0)	(0.0)	(0.0)	(6.1)

1W reflects data from December 29 close through January 5 close. Source: Stone Harbor Investment Partners, LLC; 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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