Stone Harbor INVESTMENT PARTNERS

January 14, 2022

WEEKLY COMMENTS ON CREDIT

Listen

Archive

Global Market Summary

US inflation data was a key focus for the markets following recent hawkish comments by the US Federal Reserve (Fed) that suggested a faster pace of US rate increases. The Core CPI rose 0.55% in December compared to November, and 7% compared to December 2020. An elevated reading was broadly anticipated -- given the ongoing global supply chain disruptions -- and reinforces the Fed's preference to begin raising the fed funds rate in March to curb inflation. At the same time, the People's Bank of China is set to introduce further easing steps to support slowing growth, although most likely not in the form of aggressive interest rate cuts. Credit spreads were mixed, while total returns were broadly negative across major sectors. In terms of excess returns, US high yield bonds outperformed emerging markets (EM) sovereign debt, on average. The US dollar index (DXY) declined during the week, and emerging market currencies appreciated, on average.

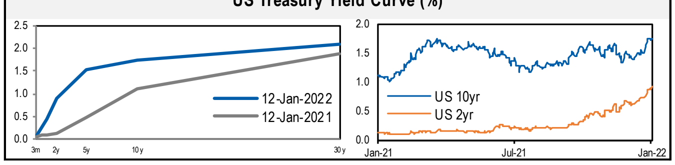
Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	374		16	-1.96%
EMBI GD IG	148		11	-2.15%
EMBI GD HY	649		22	-1.60%
Africa	631		36	-3.55%
Asia	225		12	-0.38%
Europe	329		13	-3.63%
LATAM	388		13	-2.76%
Middle East	330		15	0.66%
CEMBI BD	272		10	0.67%
CEMBI BD IG	148		6	-0.14%
CEMBI BD HY	484		14	1.76%
GBIEM GD (%)	5.86		5	-7.25%
EM Blend (%)	5.44		12	-2.86%
EMBI ESG	324		15	-2.43%
CEMBI ESG	275		7	0.55%
GBI ESG (%)	5.78		6	-7.90%

Developed Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	328		-2	4.74%
US HY BB	237		4	3.49%
US HY B	368		-6	4.72%
US HY CCC	678		-9	9.26%
Pan Euro HY	302		4	3.19%
LSTA 100 (%)	3.83		-2	4.61%
US Treasury 7-10 (%)	1.69		4	-3.35%
1M LIBOR (%)	0.11		1	0.10%
US Agg	37		1	-1.95%
US IG Corp	94		3	-1.24%
Global Agg	36		1	-1.63%

US Treasury Yield Curve (%)



Other Asset Classes (12 mos Total Return)

	Level	Currency Return vs USD
EURUSD	1.14	-6.27%
USDJPY	114.64	-9.49%
EM FX		-7.48%

	Level	Commodities
Gold	1,827	-1.88%
VIX	18	-24.47%
Brent	85	49.65%

	Level	Equities
S&P500	4,726	24.34%
MSCI World	9,705	19.19%
MSCI EM	3,070	-4.05%

As of: January 12 2022. Source: Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Global Backdrop

United States

US and Russian officials met in Geneva in efforts to deescalate tensions around Ukraine. In an attempt to apply some pressure ahead of the meeting, the US and its allies expressed the possibility of limiting exports, such as US developed and/or manufactured microelectronics, should Putin seize more of Ukraine. Unfortunately, the meetings ended without much progress and according to US Deputy Secretary of State, Wendy Sherman, "there was no commitment to deescalate." The US remains firm on its position regarding the scaling back of troop deployments but is open to exploring reciprocal restrictions on ground-based exercises.

During his testimony to the Senate Banking Committee, Fed Chair Jerome Powell indicated that the central bank is heading towards policy normalization. Against the backdrop of elevated inflationary pressures, and an improving employment situation, the Fed expects to begin raising interest rates and winding down its balance sheet, which is currently around US$9 trillion. Powell was careful to distinguish between tightening and the scaling back from its ultra-expansionary policies, which were initiated in response to the pandemic. The Fed chair also reassured the Committee that policy normalization should not negatively impact employment and/or growth. Echoing Powell, Fed Governor Lael Brainard said tackling inflation while sustaining an inclusive recovery is the central bank's primary objective.

Europe

Prime Minister Boris Johnson appeared in the House of Commons this week following the revelation that his Principal Private Secretary invited Downing Street staff to a party in May 2020—when government restrictions around social gatherings were in place. Johnson acknowledged his attendance at the party and said that, in hindsight, it was inappropriate given the circumstances. Despite the increasing potential for a vote of no confidence, which could result in Johnson being dismissed as Prime Minister, UK risk sentiment remained driven by Bank of England policy expectations.

Against the backdrop of potential sanctions on Russia, should Putin seize more of Ukraine, European countries are concerned about the potential retaliatory cut-off of energy supplies from Russia. The US took steps to reassure its European allies that there will be contingency measures should Russia cut off its energy supplies.

Japan/Asia

China initiated its Zero-Covid policy in the city of Tianjin, which shares a border with Beijing, after several confirmed cases of the Omicron variant were detected. The Chinese government launched mass testing, asked residents of the city to avoid non-essential travelling and closed local schools. The winter Olympics remain set to begin on the 4th February in Beijing.

Australian retail sales surprised to the upside and rose 7.3%, versus estimates for 3.6%, during the month of November. Retail sales grew at their fastest pace since mid-2020 as lockdowns were lifted and restrictions eased. Shifting over to Europe, Italian retail sales unexpectedly fell 0.40% in November, however, increased to 12.5% on a y/y basis.

Economist Corner

Seamus Smyth, PhD, Developed Markets

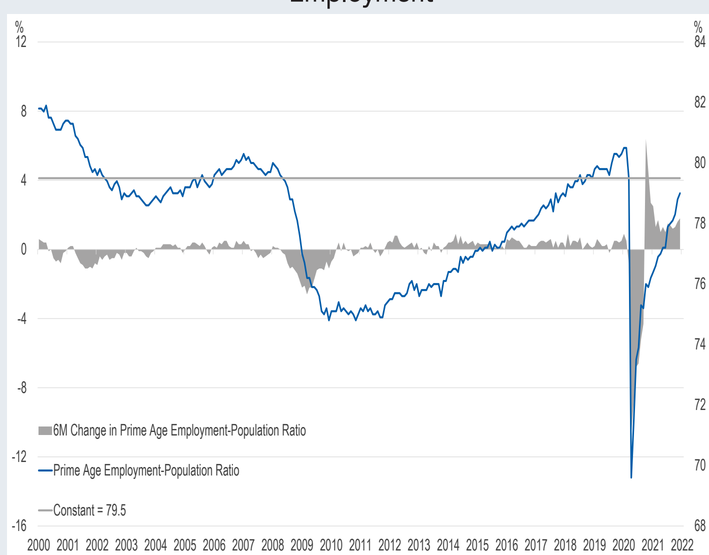
Steffen Reichold, PhD, Emerging Markets

The Fed is likely to soon declare victory on reaching maximum employment (at least in the short-term, though that's a distinction for another time). The Fed viewing maximum employment as having been attained is important, as their guidance on interest rates said that rates would remain at the effective lower bound until the economy hits maximum employment. Indeed, we now expect that they will increase rates, and maximum employment reached, at the March FOMC meeting.

The simplest case the Fed can make is this: the unemployment rate is under 4%. And that is a credible argument. Still, the Fed has over the past several years talked about maximum employment as a "broad and inclusive" concept, which raises the bar somewhat beyond just looking at the unemployment rate. Even if we take that on board and extend our horizons a bit to include broader measures the Fed's argument remains credible. The accompanying graph shows the prime-age (25-54) employment to population ratio, a measure that is, in our view, a very good summary of the overall labor market. Embedded in this metric is the labor force participation decision. Even with this broader metric, the economy looks to soon reach maximum employment. Looking across the last several cycles, a level of around 79½% seems a reasonable estimate of maximum employment. Back in the summer, that still appeared a decent way off. But progress over the last six months has been rapid, and the December reading was at 79.0%. With another couple months of similar improvement, it should be around 79½%.

The actual achievement of a labor market that the Fed can credibly say hits maximum employment is important when thinking about monetary policy going forward. Especially at the effective lower bound, monetary policy often operates through committing to do something, which changes interest rates beyond short tenors. By fulfilling their commitment, the Fed makes it more likely that the market will believe them next time they make a commitment.

Fed Will Soon Be Able to Credibly Claim Maximum Employment



As of 7 January, 2022
Sources: Bureau of Labor Statistics, Haver Analytics, Stone Harbor Investment Partners, LLC

Emerging Markets Debt

External Sovereign Debt

External sovereign debt spreads widened 16 bps and the JP Morgan EMBI Global Diversified returned -1.2%. Investment grade bonds modestly outperformed non-investment grade securities, on average. The top performers included Tunisia (+1.4%), Papua New Guinea (+0.9%), and Ecuador (+0.5%). The bottom performers included Lebanon (-4.8%), Argentina (-4.4%), and Sri Lanka (-3.4%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.7%. EM currencies returned 0.9%, in aggregate. The Hungarian forint outperformed with spot FX return of 2.5%, followed by the South African rand (2.3%) and the Brazil real (1.9%). Underperformers included Dominican Republic (-0.5%), Philippines (-0.5%), and Thailand (-0.4%).

The yield of the JP Morgan GBI EM Global Diversified rose 5 bps to 5.86%. Brazil bonds outperformed with yields 20 bps lower, followed by Dominican Republic bonds and Hungary bonds, which declined in yield by 19 bps and 13 bps, respectively. Colombia underperformed with yields 38 bps higher, followed by Turkey (+36 bps) and Russia (+31 bps).

In central bank actions, Romania surprised the market and hiked only 25 bps to 2.00%, when expectations had been for a 50 bps hike; Serbia kept its key rate unchanged at 1.00%, as expected; and Hungary kept its one week deposit rate unchanged at 4.00%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified had a weak start to the year, with a number of major markets down more than 1% for the week. Both investment grade and non-investment grade credits were down in-line with the index. Many of the specific drivers of performance remain the same, but general market weakness was broader. Homebuilder woes continue in China with continued selling by investors and no clear direction from the government. Ukrainian corporates were also down once again in sympathy with the sovereign as political tensions with Russia remain. In Latin America, Brazil, Chile, and Colombia were down between 90 and 100 bps over the past week. Turkey was one of the few significant markets with a positive return, as the lira rebounded marginally following the sharp depreciation over the past few weeks.

Flows/Issuance

Israel issued EUR-denominated sovereign debt due in 2032, totaling rough US$1.7 billion, and Panama issued USD-denominated sovereign debt due in 2033 and 2063, totaling approximately US$2.5 billion. In EM corporate debt, all regions saw a number of new issues for the week. In addition to social and sustainability bonds from the Brazilian banking sector, there was a debut issue from the Oil and Gas sector.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of approximately US$84 million. Outflows from hard currency debt funds were entirely offset by inflows into local currency debt 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 dollar bonds declined after Economy Minister Martin Guzman expressed concerns during a presentation to governors in Buenos Aires about the IMF's proposed spending cuts. Minister Guzman stated that the main difference that is preventing an agreement with the IMF is the fiscal path – specifically, the pace at which the government must reduce its fiscal deficit. The government expects to reach fiscal balance in 2027 without adjusting real expenditures. However, the IMF is requiring a more front-loaded fiscal consolidation, citing some inconsistencies in the government proposal in terms of funding sources, monetary financing, and inflation paths. Argentina owes the IMF US$2.8 billion in March, which is the implied deadline to reach a deal. An agreement with the IMF before the end of March, perhaps inclusive of a more aggressive fiscal path, still appears to us a necessary condition to avoid more disruptive scenarios that carry adverse implications for the economy, in our view.

Egypt

According to the World Bank's "January 2022 Global Economic Prospects" report, Egypt's economy expanded at a faster rate than expected during fiscal year 2020/2021 due to strong consumption demand, growing remittances by Egyptians working abroad, and relatively contained inflation. The report also highlighted strong external demand from major trading partners, expansion of the information and communications technology and gas extractive sectors, and a gradual improvement in tourism as key factors supporting growth for the current fiscal year, which they forecast to be 5.5%. The upgrade comes as the prospects for an economic recovery in the region varies, driven primarily by the spread of Omicron and changes in oil prices. Finally, the report also noted that sectors that were most impacted by the pandemic – including tourism, manufacturing, and the Suez Canal – are recovering, as the unemployment rate has remained at record lows.

Ghana

Ghana sovereign bonds continued to underperform this week – and are now around 190 bps wider since the beginning of the year -- amid lingering concerns about the administration's ability to deliver the revenue-led fiscal consolidation envisaged in the 2022 budget plan. In particular, a controversial levy on electronic transactions prompted protests in Parliament when presented in December, and may have to be watered down in order to pass Parliament at next week's vote (18 January). At the same time, inflation continues to edge higher, rising to 12.6% in December, well above the 6-10% target range, putting pressure on the Central Bank to continue hiking rates at its next meeting on 25 January. On the positive side, Ghana does have a relatively comfortable reserve position and no near-term debt maturities, but the authorities will likely need to address the market's fiscal concerns to regain confidence.

Emerging Markets Debt continued

Mexico

Mexico's industrial production fell in November, led by declines in utilities and construction. Utilities output fell 1.2%, while construction activity fell for a third consecutive month, declining 0.6% from October. Mining rose 0.4%, including a 0.2% increase in oil and gas production. The industrial output grew only 1.6% y/y, highlighting concerns around weaker-than-expected growth recovery, despite strong remittances and trade activity with the US. Mexico's economy contracted approximately 8.5% in 2020, and the latest estimates suggest that 2021 result will be insufficient to cover the lost ground. In addition, private investment continues to be weak, increasing 6.5% compared to 9.9% previously and remains at levels below those seen prior to the pandemic.

Philippines

November trade deficit widened more than expected to US$4.7 billion compared to US$2.1 billion a year ago, with imports surging 36.8% y/y -- the strongest pace in five months -- while exports grew 6.6% y/y. The US was the primary recipient of Philippines exports, while most of the imports came from China. Capital goods imports, particularly transport-related equipment, were the main source of import expansion. Consumer goods imports also grew, but virus-related mobility restrictions that have been extended to this month may pose a downside risk to private consumption moving forward. Mobility restrictions are also likely to impact growth forecast to the downside, in our view.

Sri Lanka

Amid a deep financial crisis, Sri Lanka's President Gotabaya Rajapaksa asked China to help restructure debt repayment to avoid default. Rajapaksa also asked for concessional terms for China's exports to Sri Lanka, which amounted to roughly US$3.5 billion in 2020; and proposed allowing Chinese tourists access to Sri Lanka, provided strict restrictions are followed. Sri Lanka is due to repay approximately US$4.5 billion in debt this year, including a US$500 million International Sovereign Bond (ISB) maturing on 18 January. Sri Lanka's central bank has stated that all debt repayments will be met and that funds for the January ISB has already been earmarked. The latest discussion follows a 1.5 billion yuan swap from China in December that helped to increase Sri's Lanka's reserves to US$3.1 billion. Sri Lanka's external sovereign debt spreads widened this week due to market speculation of default, in our view.

Tunisia

The Tunisian Company of Refining Industries (STIR) signed a US$200 million agreement with the Saudi Export-Import Bank to finance the Saudi oil derivatives imported by STIR. While the loan amount is relatively small, the agreement is indicative of Saudi's previously expressed support of Tunisia's development process. At the same time, the government plans to restart negotiations with the IMF this month with the goal of reaching a staff level agreement on an Extended Fund Facility by April. We continue to watch for the government's level of commitment to structural reforms and fiscal consolidation, as well as general parameters of a potential IMF program. Tunisia's external sovereign debt spreads tightened this week.

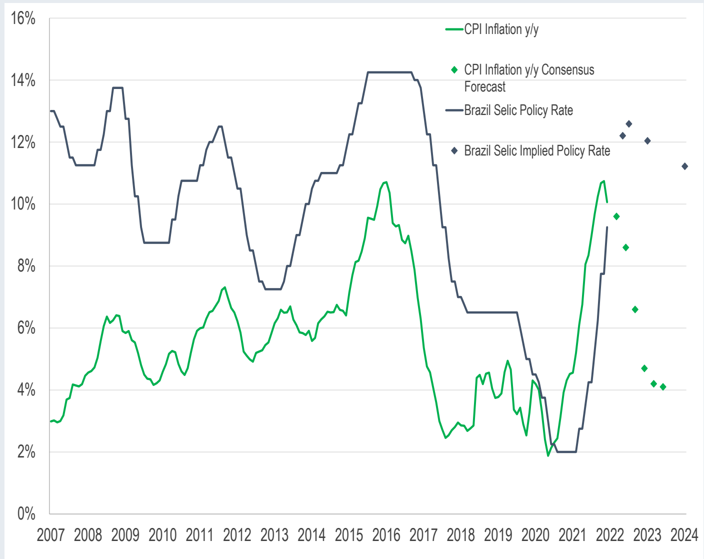
Turkey

Turkey's current account reported a deficit of US$2.68 billion in November after posting the largest surplus in three years in the previous month at US$3.14 billion. The deficit was attributed to high energy import costs and weak tourism revenue, according to the Turkish central bank. Providing support for the current account through raising exports with a competitive exchange rate has been the main priority under a new economic program. The latest figure brings the 12-month rolling deficit to US$14.3 billion. The Turkish lira was broadly stable after the publication of the deficit, but remains at historically weak levels, down by more than 50% over the past year.

Chart of the Week

Brazil's year-over-year inflation rate declined in December for the first time since May 2020. But at 10.06%, inflation is still far above the 2-5% target range for 2022 and the Central Bank remains hawkish. Several factors also point towards continued pressures in the coming months: in particular, the effects of the drought and pass-through from the FX depreciation. But with weakening GDP growth and tighter fiscal and monetary policy, the odds are shifting in favor of significant declines in inflation during 2022. This increases the odds that the Central Bank will fall short of implementing all the rate hikes that have been priced into local curves. Unless inflation meaningfully overshoots current expectations, local markets are now pricing a real policy rate of over 8% by early 2023, a level not seen in more than 15 years. We believe this is excessive, more than what is needed to contain inflation, and more than Brazil's economy can handle. Thus, we expect the Central Bank to end the hiking cycle earlier and we see value in Brazil's local curve.

Brazil Inflation and Policy Rate



As of 13 January, 2022
Sources: Haver Analytics, Stone Harbor Investment Partners, LLC

Global High Yield

US High Yield

The ICE BofAML US High Yield Constrained Index returned -0.24% for the week but rebounded in the second half following an inline CPI number and the Fed's comments on reducing inflation as the economy rebounds. Recovering equity markets, rising oil prices and stable treasury rates pushed the actively managed community, with ample cash balances and a light new issue calendar, to start to add in the secondary market, which has weakened year-to-date. The buying focused on adding to 5-8 year paper and to single B's and CCC's, which were down 0.07% and 0.08% on the week versus BB's, which were down 0.38%. Index spreads tightened 2 bps to a 328 bps OAS and yields finished at 4.51%. Sectors with higher quality issues with longer duration underperformed with buyers focused on less rate- sensitive names, which led to larger losses in Utilities, Food, Wireless, and Technology. Drillers and Refiners benefitted on higher commodity prices and rose 67 bps and 92 bps, respectively.

Leveraged Loans

The leveraged loan market continued its strength this past week and returns for the floating-rate asset class continue to outpace other risk assets month-to-date. While loan investors are focused on impacts of the Omicron variant on economic growth, the volatile interest rate backdrop amidst a more hawkish Fed and upcoming earnings, cash balances are seasonally higher given year-end paydowns and amortization payments. The timing of new issuance leaves the Loan market technical very favorable. The S&P/LSTA Leveraged Loan Index returned 0.21%, the average bid price increased 14 bps to $98.95, and the spread-to-maturity tightened 5 bps to L+402. Investors continue to search for yield as best evidenced by the lower quality CCC portion of the market outperforming this week, followed by B rated loans, and lastly BB's underperforming the broad Index. From an industry perspective, commodity related sectors were the largest outperformers, along with Airlines, which was driven by earnings that were better than expected and favorable forward-looking commentary. Industry sector laggards were specific to individual credits and did not follow any major themes. Lastly, there were no defaults in the index last week.

European High Yield

The Bloomberg Barclays PanEuro HY 2% Cap Ex Financials Index declined 0.19% for the week as volatile equity markets and concerns about tighter central bank policy drove the weakness. On the positive side, technicals remain supportive with high cash balances, market inflows, and a slow start to the primary market. Lower-rated issues continued to outperform, with CCC issues gaining 0.11%. Index spreads widened 2 bps for the week, but CCC spreads tightened 2 bps. The easing fears around Omicron helped Gaming, Leisure, Lodging, Restaurants, and Retail as those industries benefitted from the absence of more significant lockdowns and restrictions. The main underperformer was Cable due to new issuance in the first week of the month and a large pending new issue that had repriced existing bonds.

Flows/Issuance

According to EPFR, the US high yield market lost US$2.195 billion over the last week. Flows recently turned positive with ETFs adding more than US$1 billion over the last couple days. New issuance picked up but is still below estimates with eight deals pricing US$6.075 billion over the last week and US$10.54 billion for the month. Dealer estimates for the month are US$30-35 billion.

In the loan market, the technical backdrop remained strong. Month-to-date, 34 deals have been announced for approximately US$32.5 billion, but only six deals for US$3.3 billion have allocated. Use of proceeds continue to be skewed towards M&A and LBO activity, which includes the multi-billion dollar financing for Crocs Inc.'s acquisition of footwear company HEYDUDE, as well as PAI Partners acquisition of a majority interest in a portfolio of juice brands, including Tropicana of PepsiCo Inc. From a demand perspective, Collateral Loan Obligation (CLO) formation is off to its seasonally slow start, but retail loan mutual fund and Exchange Traded Fund (ETF) investors continue to allocate funds to the asset class. Traditionally, inflows into the floating rate asset-class are highly correlated to moves in the 10-year US Treasury, which has held true since the beginning of the year. Daily inflows have been consistent and are on pace to record another weekly inflow number.

For European high yield, EPFR data showed continued strong inflows the past week of US$283 million, bringing the year-to-date total to US$315 million.

Source: Lipper, EPFR

Industry Insights

Airlines: Airlines outperformed after a positive prelease from American Airlines and better-than-expected earnings from Delta along with a bullish earnings call. Despite the impact of Omicron at the end of the quarter, strong domestic leisure traffic with close to record holiday travel contributed to the favorable performance. Delta indicated that the business had recently stabilized and returned to pre-holiday performance and the company anticipates a strong spring and summer travel season due to significant pent-up demand for leisure and business travel. The company expects to return to profitability in March and would then remain profitable for the remainder of the year. Positively for bondholders, Delta reiterated that its top priority is debt reduction with a target of returning to investment grade metrics by 2024.

Cable: The New York Post reported that DISH and DirectTV are once again entertaining merger discussions. Roughly 20 years ago, these two companies attempted to merge but ultimately had their merger blocked by the Federal Government, and since that time have held on and off discussions. Given a challenging regulator backdrop and Charlie Ergen's "mercurial" personality, it is hard to tell if these discussions will result in a transaction, but the industrial logic behind a merger is very sound. To the extent that the two parties can come to an agreement that meets the economic and control parameters of both Charlie Ergen and TPG that also satisfies regulator concern, this merger would be a material positive for both credit silos and would create and MVPD/SVOD player of material scale.

Financials: Earnings reporting season for large banks begin on Friday 14 January and continue for the next two weeks, with the high yield financial services companies reporting later in earning season. We expect the big investment grade rated banks to say that the consumer remains in a very good credit position. We also expect to hear that the consumers have stopped paying down debt and may even have added small amounts of revolving debt to their balance sheets. But consumer credit risk remains low even for the lower FICO scored consumers. Strong housing prices and strong used car prices should help the lenders in the High Yield Index to continue to show very low credit losses as they report December 2021 quarter earnings.

Investment Grade

Governments

Following the sharp sell-off experienced around the New Year, duration weakened further this week but there is some sense of stabilization as the BofAML MOVE index, a gauge of Treasury volatility, ended the period at a new three-week low of 75. During his testimony at the Senate Banking Committee, Fed Chair Powell maintained the central bank's more hawkish pivot and said that the Fed is progressing towards policy normalization. Weakness was more pronounced in shorter-dated maturities leading to flattening of the Treasury curve. US 2s10s fell 5 bps to 82 bps, while 5s30s fell 10 bps to 57 bps. The yield on the benchmark 10-year Treasuries traded above 1.80% intra-week before ending the period 4 bps higher at 1.75%. For the second consecutive week, 10-year real yields rose while breakevens fell, reflecting the shifting of growth and inflation expectations.

Core European government bonds also weakened further this week as the yield on 10-year Bunds and OATs rose 3 bps and 9 bps, respectively. Gilts also weakened for the third consecutive week as the 10-year yield ended the period another 5 bps higher to 1.14%. The spreads on peripherals, such as Italy and Spain, were unchanged for the week.

Corporates

Spreads on Investment grade corporates widened 3 bps over the week as the markets begin to navigate the proposed Fed rate hikes and potential balance sheet reversal. Elevated supply also contributed to the soft market as investors were a little more finicky with regards to recent new issue offerings as can be seen in the elevated new issue concessions and lower oversubscription rates. The option-adjusted spread on the Bloomberg corporate index finished the week at +94 bps. With rates up on the year, yields on the index have risen to 2.56% after having starting the year around 2.33%. This puts total returns on the corporate index deep into negative territory at -1.88%.

Securitized

The mortgage current coupon widened 5 bps this week on Fed Chairman Powell's comments on perhaps faster balance-sheet runoffs. Mortgage spreads reached their highest level in nine months. JP Morgan is projecting the Fed to be a net seller of US$15 billion mortgages in 2022, compared to an earlier projection of US$130 billion in buying. The CREFC industry conference concluded on a positive tone with consensus that commercial real estate fundamentals remain strong. CMBS issuance is resuming with participants back from the conference.

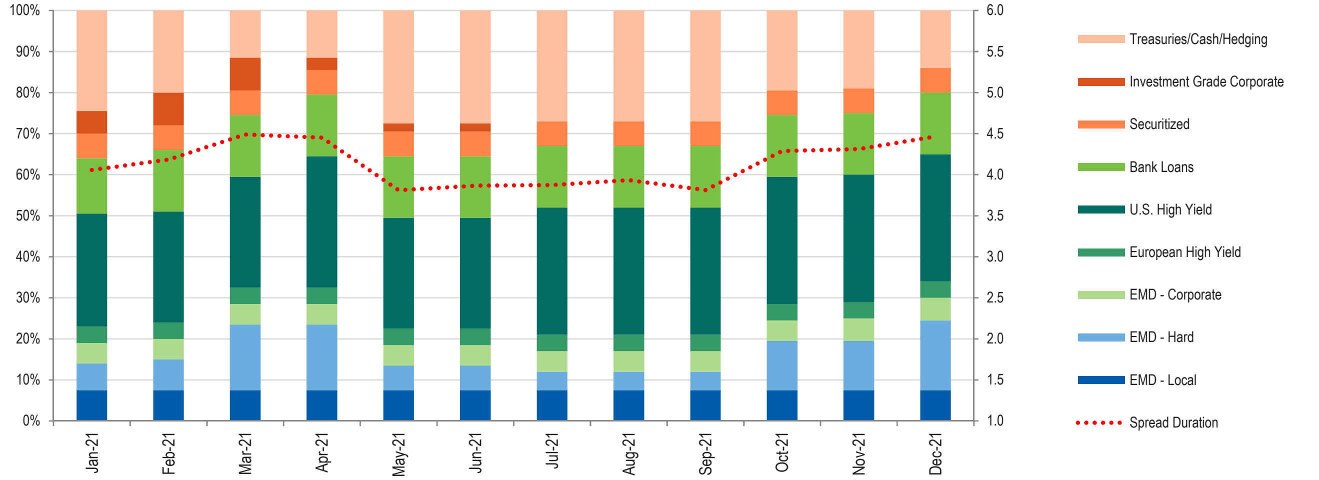
Flows/Issuance

In the investment grade corporate debt primary markets, just under US$40 billion came to market this week beating street estimates of roughly US$35 billion. Deals saw decent demand for the most part; however, investors were more selective and price sensitive given the more recent market volatility. New issue concessions were seemingly more generous at upwards of 5 bps, on average; while oversubscription rates hovered around 2x.

High grade fund flows for the latest period showed investor inflows of US$2.8 billion. Historically, inflows are strong in the beginning of January and have been positive in the first week of January over the last 5 years. Inflows were positive in the corporate only funds across the curve, as well as in total return funds. Aggregate funds saw inflows in the short and intermediate maturity buckets but outflows in the long end

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 12, 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	374	16	7	7	7	19	(1.2)	(1.9)	(1.9)	(1.9)	(2.0)
	CEMBI Broad Diversified	CEMBI B D	272	10	(0)	(0)	(0)	2	(0.5)	(0.8)	(0.8)	(0.8)	0.7
	GBI EM Global Diversified Yield	GBI EM GD	5.86	0.05	0.15	0.15	0.15	1.55	0.7	0.3	0.3	0.3	(7.3)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	374	16	7	7	7	19	(1.2)	(1.9)	(1.9)	(1.9)	(2.0)
	EMBI GD Investment Grade	EMBI IG	148	11	4	4	4	(2)	(1.1)	(2.2)	(2.2)	(2.2)	(2.2)
	EMBI GD High Yield	EMBI HY	649	22	9	9	9	34	(1.3)	(1.5)	(1.5)	(1.5)	(1.6)
EM Sovereign Debt Regions	Africa	Africa	631	36	19	19	19	81	(2.3)	(2.2)	(2.2)	(2.2)	(3.5)
	Asia	Asia	225	12	6	6	6	(8)	(1.0)	(1.7)	(1.7)	(1.7)	(0.4)
	Europe	Europe	329	13	5	5	5	62	(0.9)	(1.4)	(1.4)	(1.4)	(3.6)
	LATAM	LATAM	388	13	7	7	7	21	(1.2)	(2.2)	(2.2)	(2.2)	(2.8)
	Middle East	Middle East	330	15	5	5	5	(38)	(1.1)	(1.7)	(1.7)	(1.7)	0.7
EM Corporates	CEMBI Broad Diversified	CEMBI B D	272	10	(0)	(0)	(0)	2	(0.5)	(0.8)	(0.8)	(0.8)	0.7
	CEMBI BD Investment Grade	CEMBI IG	148	6	(3)	(3)	(3)	(18)	(0.5)	(1.0)	(1.0)	(1.0)	(0.1)
	CEMBI BD High Yield	CEMBI HY	484	14	(0)	(0)	(0)	(3)	(0.6)	(0.6)	(0.6)	(0.6)	1.8
US High Yield	US High Yield	US HY	328	(2)	(4)	(4)	(4)	(67)	(0.2)	(0.6)	(0.6)	(0.6)	4.7
	US High Yield BB	US HY BB	237	4	2	2	2	(47)	(0.4)	(0.9)	(0.9)	(0.9)	3.5
	US High Yield B	US HY B	368	(6)	(8)	(8)	(8)	(66)	(0.1)	(0.3)	(0.3)	(0.3)	4.7
	US High Yield CCC	US HY CCC	678	(9)	(16)	(16)	(16)	(109)	(0.1)	0.1	0.1	0.1	9.3
European High Yield	Barclays PanEur HY	BAR PanEur HY	302	4	(8)	(8)	(8)	(47)	(0.2)	0.0	0.0	0.0	3.2
	2% Ex Financials Yield	2% ExFin Yield	3.60	0.06	0.04	0.04	0.04	0.11	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	99.0	0.1	0.3	0.3	0.3	1.8	0.2	0.4	0.4	0.4	4.6
	LSTA 100 Yield	LSTA 100 Yield	3.83	(0.02)	(0.05)	(0.05)	(0.05)	0.11	0.2	0.4	0.4	0.4	4.6
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	1.69	0.04	0.24	0.24	0.24	0.70	(0.4)	(1.9)	(1.9)	(1.9)	(3.4)
	1M LIBOR	1M LIBOR	0.11	0.01	0.01	0.01	0.01	(0.02)	0.0	0.0	0.0	0.0	0.1
	US Aggregate	US AGG	37	1	1	1	1	0	(0.3)	(1.5)	(1.5)	(1.5)	(1.9)
	US Investment Grade Corporates	US IG Corp	94	3	2	2	2	(1)	(0.4)	(1.9)	(1.9)	(1.9)	(1.2)
	Global Aggregate	Global AGG	36	1	0	0	0	1	(0.3)	(1.0)	(1.0)	(1.0)	(1.6)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	44	2	1	1	1	3	(0.2)	(0.5)	(0.5)	(0.5)	(0.9)
FX	DXY (US dollar)	DXY	94.92	0.0	0.0	0.0	0.0	0.0	(1.3)	(0.8)	(0.8)	(0.8)	5.4
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.9	0.9	0.9	(4.3)

1W reflects data from January 5 close through January 12 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.

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, LLC ("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.

Effective January 1, 2022, Stone Harbor Investment Partners, LLC is an affiliate of Virtus Investment Partners.

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**