INVESTMENT NOTES
Egypt

23 February 2022

Egypt to be included in the J.P. Morgan (JPM) GBI-EM index series, with its entry staggered over a two-month period from 31 January 2022 to 28 February 2022.

- Egypt is rated single B by three agencies (Moody's B2, S&P B, Fitch B+), offering attractive yields and compelling valuations. At an average yield of 14.9%, Egypt is the second highest yielder in the GBI-EM Global Diversified Index after Turkey, with one of the shortest durations at 2.85 years. Our bullish case for Egyptian local rates and FX is based on strong anticipated growth dynamics and its central bank's effective monetary policy.

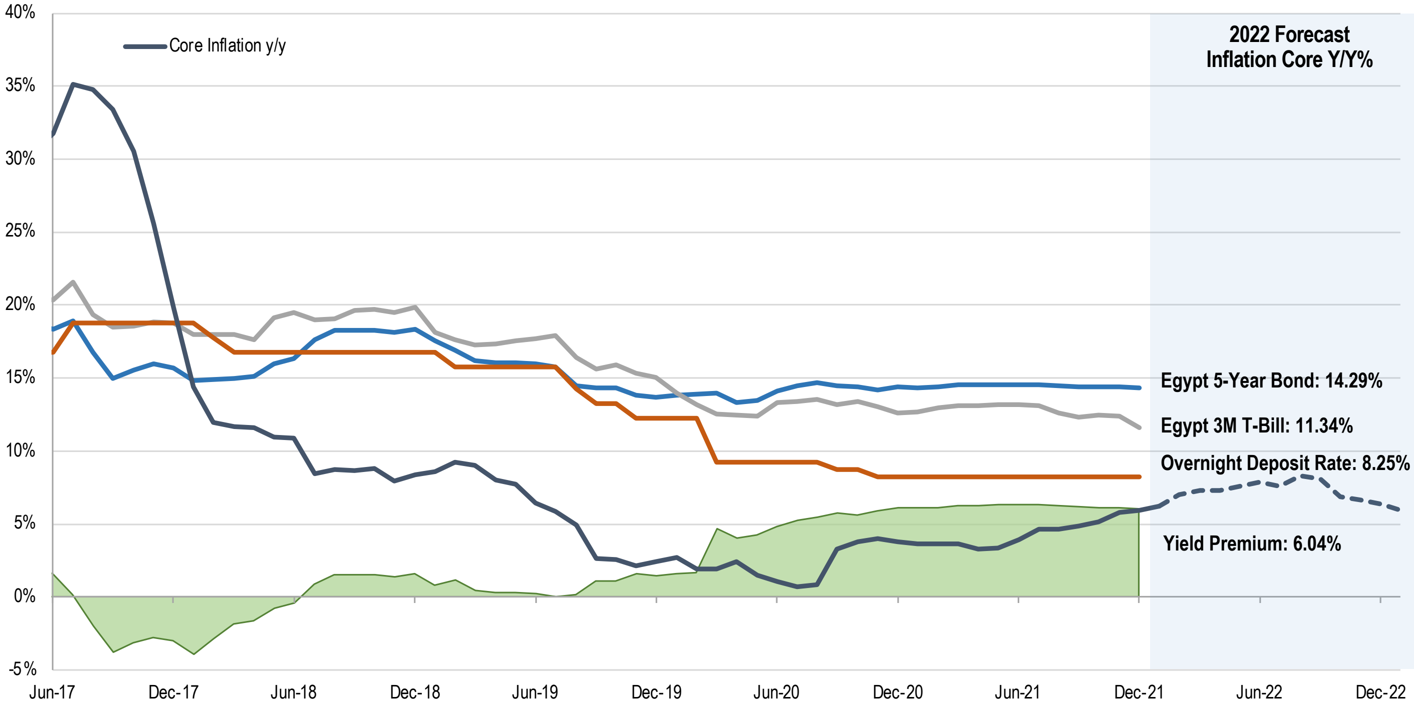
- Egypt's economy grew by 9.8% year-over-year in Q3—the highest quarterly growth rate in 20 years. Though we expect this to normalize, our forecast shows growth continuing for FY2022 at a rate of 5.3%. This is roughly in line with projections from the Egyptian government. We think their recovering tourism sector will be a key driver to growth—it maintained surprising resilience amid the impact of COVID in 2021, earning $13 billion USD of revenues, exceeding the government target of $6-9 billion USD.

- Large public investments, a recovery in private demand, recovering tourism, and increasing net exports have all contributed to recent growth. Industrial production grew by 7.6% in Q3, up from a 0.1% contraction in Q2. Meanwhile, Suez Canal revenues continue to grow, expanding by over 20% year-over-year in Q3 from 19.5% growth in Q2.

- The Central Bank of Egypt's (CBE) effectiveness in managing growth and inflation through monetary policy has put the country on strong footing moving forward. Egypt had started 2020 with one of the world's highest real interest rates when the CBE aggressively cut overnight policy rates in response to the COVID shock. The benchmark deposit rate, for example, declined from 12.25% to 8.25% in 2020. Since then, the CBE has left the benchmark deposit rate unchanged even as inflation remains in line with the central bank's target, intentionally retaining positive real interest rates. Accordingly, yields of Egypt's domestic bonds and Treasury bills attract strong inflows from foreign investors. These capital flows further offer an important buffer as tourism recovers to pre-pandemic levels.

- Due to this cautious approach, the CBE maintained the option to hold off on hiking rates at a time when other emerging markets central banks needed to act swiftly to tighten policy in response to inflation pressures. As of the end of 2021, Egypt's inflation rate was at 5.9%, well below the mid-point of its inflation target of 7% (plus or minus 2%). But, we believe inflation may rise above the target band in the first half of 2022, requiring the CBE to initiate a hiking cycle. Currently, however, with the policy rate at 8.25% and longer dated bonds touching 15%, the curve is very steep (see graph on next page). With our expectations of a stable exchange-rate going forward, Egypt offers highly attractive real yields. We anticipate longer dated yields to remain stable throughout an expected hiking cycle, as there is ample cushion to withstand aggressive hikes to tame inflationary pressures.

Egypt: Policy Rates, Yields, and Inflation



As of 31 January 2022. Sources: Bloomberg, Haver, JP Morgan, Stone Harbor Investment Partners. Blue shading indicates JP Morgan Egypt core inflation forecasts. For illustrative purposes only.

Index inclusion:

- Egypt's pound-denominated government bonds (EGYGBs) will be included in the JPM GBI-EM Index family, with its full entry staggered over a two-month period from 31 January 2022 to 28 February 2022.
- Twelve EGYGBs are currently eligible for inclusion, with an average yield of 14.9% and modified duration of 2.85 years. JPM estimates Egypt's index weight will be approximately 1.65% in GBI-EM Global Diversified upon the full inclusion date.
- Egypt will also be entering the GBI-EM Broad and GBI-EM Broad Diversified, with an estimated weight of 0.60% and 1.35%, respectively.
- Egypt currently has a JPM ESG (JESG) score of 30.43, ranking Band 4 among sovereigns. The country is estimated to have a weight of 1.05% after full inclusion in the JESG GBI-EM, 60 basis points lower compared to its weight in the baseline GBI-EM Global Diversified index.
- Egypt was fully included into JPM's cross-market and global fixed income indices on 31 January 2022 without staggering. Its weight in the indices is estimated to be at 0.06% and 0.20% in the GBI-Aggregate (GBI-AGG) and the GBI-AGG Diversified, respectively.
- JPM estimates Egypt's initial entrance into the index resulted in approximately $600 million-$1.2 billion in inflows, with a similar amount expected in February upon the close of its inclusion.
- JPM indicates broad investor support for Egypt's inclusion. The index provider monitored Egypt's local debt and currency markets since 2020 for governance criteria and placed the country on Index Watch following substantial progress since April 2021.
- The majority of investors can already access local bonds and currency with minimal hurdles. Markets will soon be linked to Euroclear, and this will further enable access and liquidity for Egyptian local instruments.

As Egypt completes its entrance to the benchmark in February, we have maintained an overweight position in our local currency portfolios. Additionally, significant strides in fiscal consolidation and a growth recovery strongly supported by tourism revenue that exceeds expectations leads us to continue holding an overweight in our external sovereign debt portfolios.

Updated Investment Policy

As of 24 January 2022

Base case and key macro economic scenarios

SCENARIO	ASSUMPTIONS			PROBABILITY
Recovery Continues, though Pace Moderates, as COVID Fades Over 2022	▪ Omicron slows recovery in Q1, though by somewhat less than Delta's drag. ▪ The very high infectiousness of Omicron means that close to the entire population in most countries has been exposed and recovered or vaccinated by spring. Pandemic starts to fade into background as behavior changes and growth-hindering measures are abandoned. ▪ By Q3, most economies are operating along pre-pandemic norms. ▪ Policy of local lockdowns remains in place for China and continues to impact economic behavior. ▪ U.S./China tensions remain cooler, but do not return to pre-Trump status quo. ▪ China growth somewhat softer than consensus. ▪ Core PCE remains elevated well into 2022. Some of the increase comes from still-snarled supply chains, which start to normalize in the summer combined with rotation of demand back to services. But the underlying inflation run-rate has moved higher. ▪ Fed hikes rates four times in 2022, starting in March. Balance sheet runoff commences in H2. ▪ ECB winds down asset purchases over 2022; rate hikes priced for 2023. ▪ Rate hikes continue across EM, except for China. ▪ Oil gradually returns to ~$70/barrel for WTI, ~$75/barrel for Brent.	U.S. Real 4Q GDP Fed Funds U.S. Core PCE 2yr U.S. Treasury 10yr U.S. Treasury 10yr Bund China 4Q GDP EM 4Q GDP	3.25% 1.13% 2.60% 1.50% 2.25% 0.10% 5.00% 4.00%	**60%**
U.S.-Led Policy Error	▪ Challenged by high inflation, the Fed ends asset purchases earlier than expected and subsequently embarks on a course of more frequent rate hikes. Balance sheet runoff starts in Q2. Financial conditions tighten materially, but the Fed persists. ▪ Build Back Better fails. When combined with ongoing roll-off of 2021 stimulus, fiscal policy is very contractionary. ▪ The combination of rapid fiscal and monetary tightening materially slows the U.S. economy. Growth fades rapidly to below 2% into H2. ▪ With slower activity and sluggish consumer demand, inflation moderates rapidly, dipping toward target by year end. ▪ Slower U.S. growth spills over into other DM and EM economies, though they perform relatively better than the U.S. ▪ Curve inverts as the market prices in the reversal of some rate increases. In late 2022, Fed stops shrinking the balance sheet. ▪ ECB asset purchases continue and rate hikes appear far off. Pace of rate increases slows in EM. ▪ Oil: WTI at ~$55/barrel; Brent at ~$60/barrel.	U.S. Real 4Q GDP Fed Funds U.S. Core PCE 2yr U.S. Treasury 10yr U.S. Treasury 10yr Bund China 4Q GDP EM 4Q GDP	1.50% 1.13% 2.00% 1.00% 1.25% -0.50% 4.00% 2.50%	10%
Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	▪ Asset sales by distressed Chinese developers trigger price declines. ▪ Buyers lose confidence and fail to step in, triggering deeper liquidity problems for developers, deeper price cuts, and sharp drop in construction activity. ▪ China continues attempting to contain COVID by using very aggressive measures, now under the "dynamic clearing" label. ▪ The combination slows China's economy sharply. Move away from using regulatory policy in stabilization makes adjustment harder. ▪ Growth slump spreads globally as China troubles coincide with the withdrawal of fiscal stimulus in DMs and some EMs, though China most affected. ▪ Inflation news is mixed. Relief on headline measures as lower Chinese demand pulls down energy prices, but supply chain issues remain problematic with rolling shutdowns of different regions. ▪ Fed raises interest rates, but with slower growth and slow enough inflation, pauses into H2-2022. No balance sheet shrinkage. ECB also extends guidance that rates will remain fixed. ▪ Trade tensions persist, as in the base case. ▪ Dollar sees upward pressure from renewed flight to safety. ▪ Oil prices hit by lower growth: ~$55/barrel for WTI; ~$60/barrel for Brent.	U.S. Real 4Q GDP Fed Funds U.S. Core PCE 2yr U.S. Treasury 10yr U.S. Treasury 10yr Bund China 4Q GDP EM 4Q GDP	2.50% 0.63% 2.25% 0.90% 1.90% -0.40% 2.50% 2.00%	15%
Inflationary Boom	▪ Growth remains very strong, with Omicron only causing a brief drag. Services demand rebounds while goods demand remains robust. Output moves clearly above the pre-pandemic trend. ▪ Supply chain issues don't resolve, and price increases remain elevated. Facing tight labor supply, firms continue to bid up wages to pull workers off the sidelines. ▪ Recent inflation surprises prove durable: there is no reversion downward in sequential rates. Wage inflation flows into price inflation through housing as CPI rent and OER are high. ▪ Core inflation remains meaningfully elevated into mid-2022. Inflation also drifts higher in other DMs. ▪ Fed immediately transitions to rate hikes and indicates a steeper path ahead. Other central banks also indicate sooner and more rapid rate increases. ▪ Rates move sharply higher along the curve. ▪ Interest rate sensitive sectors start to drag, but that is offset in the broader economy by growth elsewhere. ▪ Oil prices rise further with growth and inflation: WTI at $100/barrel, Brent at $105/barrel.	U.S. Real 4Q GDP Fed Funds U.S. Core PCE 2yr U.S. Treasury 10yr U.S. Treasury 10yr Bund China 4Q GDP EM 4Q GDP	4.50% 1.63% 3.25% 2.25% 3.00% 1.00% 5.50% 4.75%	15%

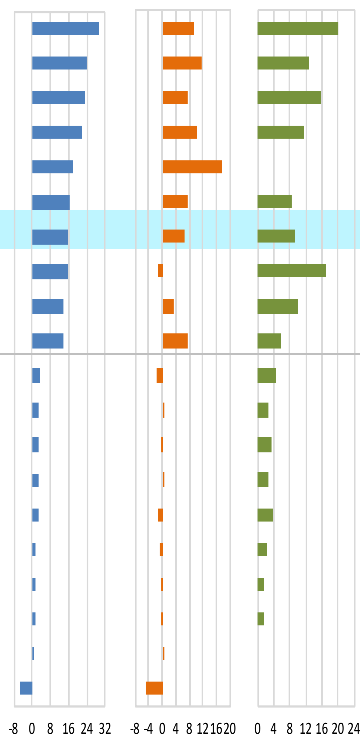
Source: Stone Harbor Investment Partners. The portfolio management team refers to the charts above as one of various factors when making allocation decisions. The charts demonstrate scenarios and base case assumptions which Stone Harbor uses in analysis to determine projected returns. Unless otherwise specified, scenario assumptions and base case returns summarize the team's 12-month return projections and outlook. Data reflects the views of the portfolio management team as of the date hereof and is subject to change without notice. Our analysis does not guarantee performance results. For illustrative purposes only.

Valuation Analysis: **EM External Sovereign Debt:** 1yr Projected Total Returns

As of 15 February 2022[1]

We forecast projected hard currency returns for every country in the market across the scenarios.

							Projected Spread Change (bps)				Projected Return from Carry and Spread (%)				
							60%	10%	15%	15%	60%	10%	15%	15%	
		Index Weight (%)	Index Spread (bps)	Base Case Total Return (%)	Spread Capital Gain	Carry	Recovery Continues, Though Pace Moderates, as COVID Fades Over 2022	US-Led Policy Error	Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	Inflationary Boom	Recovery Continues, Though Pace Moderates, as COVID Fades Over 2022	US-Led Policy Error	Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	Inflationary Boom	Volatility
Top 10	ARGENTINA	1.1	1,800				-164	233	246	38	29.5	6.5	5.7	17.7	41.4
	GHANA	1.4	1,084				-225	61	86	(97)	24.2	9.6	8.3	17.7	21.2
	TUNISIA	0.1	1,389				-298	63	89	(71)	23.2	14.1	13.4	17.4	15.5
	UKRAINE	2.2	989				-255	(102)	-83	(201)	22.0	15.8	15.1	19.8	16.8
	LEBANON	0.2									17.9	6.4	5.7	12.9	42.8
	NIGERIA	1.9	637				-118	71	88	(41)	16.2	3.8	2.7	11.1	21.8
	EGYPT	2.5	721				-117	31	44	(17)	16.1	7.5	6.7	10.3	14.4
	ETHIOPIA	0.1	1,516				40	439	509	289	15.9	5.7	3.9	9.5	16.0
	MALDIVES	0.1	819				-110	22	42	(66)	13.6	9.3	8.7	12.2	
	COLOMBIA	2.6	367				-87	17	27	(37)	13.4	4.4	3.5	9.0	14.9
Bottom 10	JAMAICA	0.8	262				16	115	119	71	3.3	(5.9)	-6.2	(1.8)	14.0
	CHINA	4.6	82				-5	39	59	19	3.0	1.0	0.0	1.9	3.8
	AZERBAIJAN	0.9	150				14	79	83	31	2.8	0.3	0.1	2.2	12.3
	VIETNAM	0.1	79				-11	23	37	14	2.8	1.9	1.6	2.2	6.7
	NAMIBIA	0.1	204				38	107	118	72	2.6	0.3	0.0	1.5	7.4
	KUWAIT	0.6	29				12	35	40	19	1.6	0.6	0.4	1.3	5.2
	POLAND	0.8	7				12	33	39	30	1.5	1.0	0.9	1.1	1.4
	CROATIA	0.5	20				24	50	51	42	1.2	0.9	0.9	1.0	2.8
	SURINAME	0.1	1,497								0.7	(8.6)	-10.7	1.4	37.5
	SRI LANKA	0.8	2,583								-5.0	(15.0)	-18.3	4.7	29.8
	Index	100.0	418				-38	50	58	4	8.1	1.9	1.3	5.3	10.2



Source: Stone Harbor Investment Partners. Index: J.P. Morgan EMBI Global Diversified
This chart reflects Stone Harbor's base case total return targets for the index countries. [1]Model date as of 24 January 2022
The projected returns are not a prediction of the future results of any Stone Harbor portfolio. The projected base case returns summarize the 12-month return projections of the team for each hard currency sovereign debt market based on our analysis of several scenarios. In the chart above, we include the results from our analysis of four scenarios: 60%: Recovery Continues, 10%: U.S.-Led Policy Error, 10%: Weaker Growth, 15%: Inflation Boom. These projected returns are presented only as an example of how Stone Harbor makes allocation decisions based upon its view of various factors that may impact returns. The projected returns are the views of the portfolio management team as of the date hereof and are subject to change without notice. The assumptions and return projections on this slide represent Stone Harbor's estimates. These return projections should not be viewed as an indication of any Stone Harbor strategy performance. Please refer to complete endnotes for further information. For illustrative purposes only.

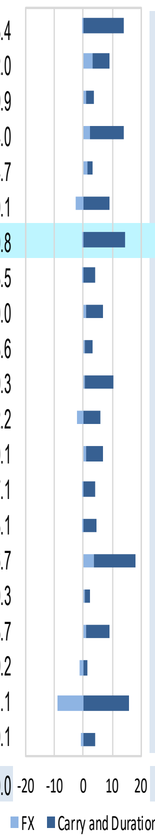
Valuation Analysis: **EM Local Currency Debt:** 1yr Projected Total Returns

As of 15 February 2022[1]

For each scenario, we forecast projected FX and bond returns for local currency investments.

	Index Weight (%)	Projected Return from FX (%) — 60% Recovery Continues, Though Pace Moderates, as COVID Fades Over 2022	10% US-Led Policy Error	15% Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	15% Inflationary Boom	Projected Return from Bond Carry and Duration (%) — 60% Recovery Continues, Though Pace Moderates, as COVID Fades Over 2022	10% US-Led Policy Error	15% Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	15% Inflationary Boom	Projected Total Return (%) — 60% Recovery Continues, Though Pace Moderates, as COVID Fades Over 2022	10% US-Led Policy Error	15% Weaker China Growth from Combo of Real Estate Bust & Continued COVID Lockdowns	15% Inflationary Boom	Volatility — FX	Local Rates
BRAZIL	8.4	(0.3)	(8.9)	(9.9)	(8.9)	14.1	14.8	15.0	9.1	13.8	5.9	5.1	0.2	17.4	6.2
CHILE	2.0	3.1	(3.5)	(5.3)	(0.7)	6.0	8.7	9.7	1.4	9.1	5.2	4.5	0.7	12.8	9.5
CHINA	9.9	0.7	(0.8)	(4.4)	(1.7)	3.0	4.3	6.0	(0.1)	3.8	3.5	1.5	(1.8)	3.4	2.4
COLOMBIA	4.0	2.3	(4.9)	(7.1)	(3.2)	11.6	13.8	15.2	7.5	13.9	8.8	8.1	4.2	13.6	9.9
CZECH REPUBLIC	4.7	1.2	2.8	(3.5)	(5.9)	1.9	5.3	6.0	(0.3)	3.1	8.1	2.5	(6.3)	11.1	4.2
DOMINICAN REP	0.1	(2.7)	(4.3)	(5.4)	(5.1)	9.2	10.1	10.1	7.7	6.5	5.8	4.7	2.6	4.0	6.6
EGYPT	0.8	(0.5)	(3.2)	(5.1)	(5.1)	14.7	14.7	14.7	14.4	14.2	11.5	9.5	9.2	2.4	
HUNGARY	3.5	(0.3)	1.9	(4.5)	(5.7)	4.2	8.3	9.4	1.0	4.0	10.2	4.9	(4.7)	12.4	4.5
INDONESIA	10.0	1.0	(3.3)	(6.0)	(3.9)	5.8	7.4	6.3	0.7	6.9	4.1	0.3	(3.1)	8.5	5.4
MALAYSIA	8.6	0.4	(1.8)	(4.8)	(3.4)	2.9	5.9	7.4	(0.2)	3.3	4.1	2.6	(3.6)	4.5	3.3
MEXICO	9.3	0.5	(6.2)	(7.6)	(6.9)	9.7	11.9	12.4	3.9	10.3	5.7	4.9	(3.0)	14.4	6.4
PERU	2.2	(2.4)	(7.3)	(10.3)	(7.2)	6.1	8.6	9.3	0.7	3.7	1.4	(1.0)	(6.5)	7.9	11.4
PHILIPPINES	0.1	0.8	0.2	(2.1)	(1.8)	6.1	9.1	11.0	3.2	6.9	9.3	8.8	1.4	4.0	4.9
POLAND	7.1	(0.5)	1.5	(4.4)	(5.8)	4.0	6.4	6.9	1.7	3.5	7.9	2.5	(4.2)	11.2	3.4
ROMANIA	3.1	(0.0)	1.7	(4.4)	(5.1)	4.8	6.7	7.3	2.3	4.8	8.4	2.9	(2.9)	7.5	4.1
RUSSIA	6.7	3.7	(2.0)	(4.6)	0.5	14.4	16.4	17.3	12.1	18.1	14.4	12.6	12.6	12.4	6.2
SERBIA	0.3	0.7	2.3	(2.4)	(4.1)	1.6	3.9	3.5	(2.1)	2.2	6.1	1.1	(6.1)	7.1	
SOUTH AFRICA	8.7	0.7	(5.5)	(9.5)	(5.5)	8.2	10.8	11.2	1.1	8.9	5.3	1.7	(4.4)	15.9	10.8
THAILAND	9.2	(1.3)	(3.7)	(5.4)	(5.5)	1.5	4.5	5.7	(3.1)	0.2	0.9	0.3	(8.6)	6.1	4.2
TURKEY	1.1	(9.0)	(13.1)	(15.0)	(16.0)	15.7	19.0	20.7	9.9	6.7	5.9	5.7	(6.1)	34.0	15.4
URUGUAY	0.1	(0.7)	(4.1)	(6.4)	(6.6)	4.1	6.6	7.5	(2.2)	3.3	2.5	1.1	(8.8)	8.2	7.1
Index	100.0	0.4	(3.1)	(6.2)	(4.8)	6.7	9.0	9.7	2.6	7.2	5.9	3.4	(2.2)	8.1	4.0

Base Case Total Return (%)



The projected returns are not a prediction of the future results of any Stone Harbor portfolio. The projected base case returns summarize the 12-month return projections of the team for each currency and local bond market based on our analysis of several scenarios. In the chart above, we include the results from our analysis of four: 60%: Recovery Continues, 10%: U.S.-Led Policy Error, 10%: Weaker Growth, 15%: Inflation Boom. These projected returns are presented only as an example of how Stone Harbor makes allocation decisions based upon its view of various factors that may impact returns. The projected returns are the views of the portfolio management team as of the date hereof and are subject to change without notice. The assumptions and return projections on this slide represent Stone Harbor's estimates. These return projections should not be viewed as an indication of any Stone Harbor strategy performance. Please refer to complete endnotes for further information. For illustrative purposes only.

Important Endnotes

Investments in emerging markets securities are subject to risks arising from political or economic instability, nationalization or confiscatory taxation, currency exchange restrictions, and an issuer's unwillingness or inability to make principal or interest payments on its obligations. Investing in emerging markets may involve relatively higher degrees of volatility. Such investments are also subject to currency risk. The value of an emerging markets debt strategy's investments may fall as a result of changes in exchange rates. Because an emerging markets debt strategy generally may invest a portion of its assets in investments denominated in non-U.S. currencies or investments whose returns are linked to those currencies, such strategies are especially susceptible to currency risk. More generally, fixed-income investments are subject to certain risks such as interest rate, inflation, and credit risks. These risks and others may materially impact the ability of Stone Harbor to achieve its stated investment objectives for a given strategy.

Stone Harbor believes the targeted or projected returns set forth herein are reasonable based on a combination of factors, including the investment team's general experience and assessment of prevailing market conditions and investment opportunities. There are, however, numerous assumptions that factor into the targeted or projected return that may not be consistent with future market conditions and that may significantly affect actual investment results. Such assumptions include, but are not limited to, 1) current monetary policy, inflation expectations, and other fundamental and technical factors determine interest rate levels in the local bond markets; 2) the direction of change in credit quality of a country may determine the direction of change in the country's currency valuation; and 3) the extent of total return due to interest rate movements is also a function of changes in fundamental credit quality and real interest rate expectations, as well as technical factors such as foreign and local investor flows into particular segments of a local bond yield curve. Assumptions for hard currency debt returns include, but are not limited to, 1) fundamental credit quality of sovereign issues including both willingness and ability to repay debt; 2) technical factors in the current marketplace including supply of new debt, current appetite for risk among global credit investors, and funds flows; and 3) the term structures and level of U.S. interest rates. Stone Harbor does not make any representation as to the reasonableness of the assumptions or that all the assumptions used in calculating the target returns have been stated or fully considered. Stone Harbor's ability to achieve investment results consistently, in the aggregate or with regard to any particular country or region, depends significantly on a number of factors in addition to the accuracy of its assumptions. These include Stone Harbor's ability to identify a sufficient number and mix of suitable investments.

Stone Harbor's consideration of ESG factors is intended to aid it in evaluating the financial risks and rewards of a given investment and is not expected to by itself determine an investment decision for a client account. There are significant differences in interpretations of what it means for an issuer to have positive ESG factors. Information used to determine an issuer's ESG characteristics may be provided by third-party sources and typically is based on backward-looking analysis. The subjective nature of ESG criteria means a wide variety of outcomes are possible. Stone Harbor's ESG analysis is also dependent on issuers disclosing relevant data and the availability of this data can be limited. Stone Harbor attempts to mitigate these limitations through the use of a variety of data sources and Stone Harbor's own in-house research.

ESG scores are subjective. ESG scores do not guarantee any particular performance results.

There is no guarantee that the target return objectives will be met, and they should not be relied upon as an indication of future results. Strategy characteristics are subject to change based on, among other things, market environments and the discretion of the portfolio management team. Target returns are not actual returns.

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