WEEKLY COMMENTS ON CREDIT

13 MAY 2022

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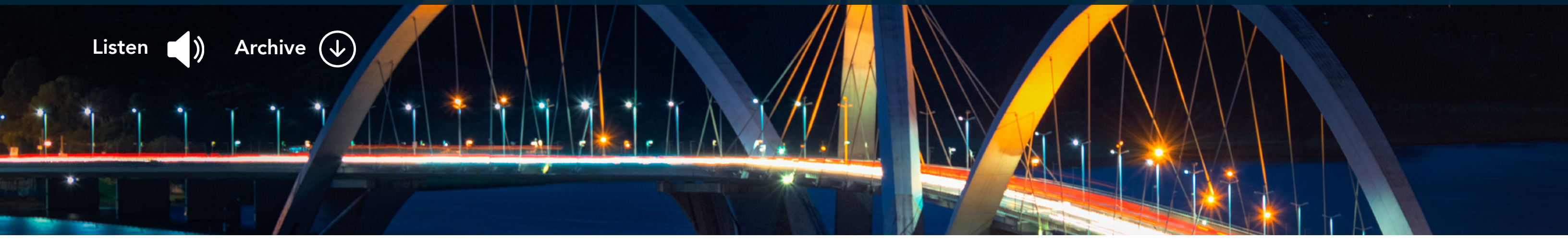


GLOBAL MARKET SUMMARY

Global credit markets focused on the incoming US inflation data and its implications on the Federal Reserve's (Fed) rate hiking path. Market volatility continued as a result of higher-than-expected Core Consumer Price Index (CPI), which increased by 0.6% month-on-month and now translates to an annualized rate of 7%. Following the inflation data, the benchmark US 10-year Treasury yields climbed to a three-year high of 3.20% before falling back down to 2.94% on Wednesday. Credit spreads widened and total returns were negative across the major credit sectors. Within emerging markets (EM) hard currency debt, investment grade credits generally outperformed non-investment grade bonds. EM local debt yields edged higher in most countries with the exception of China and Mexico. The US dollar advanced against the euro, while spot currency performance in emerging markets was broadly weaker.

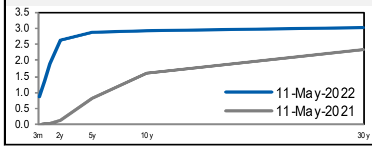
Emerging Markets

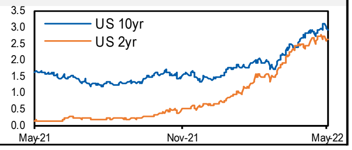
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	470		24	-16.55%
EMBI GD IG	183		10	-16.98%
EMBI GD HY	793		42	-16.12%
Africa	777		56	-16.40%
Asia	312		23	-12.09%
Europe	642		19	-35.78%
LATAM	436		18	-13.33%
Middle East	365		21	-7.71%
CEMBI BD	333		18	-10.97%
CEMBI BD IG	197		10	-11.65%
CEMBI BD HY	546		27	-10.15%
GBIEM GD (%)	7.06		26	-19.27%
EM Blend (%)	7.16		23	-15.62%
EMBI ESG	427		22	-17.66%
CEMBI ESG	331		15	-9.49%
GBI ESG (%)	7.03		28	-20.45%
		-400 -200 0 200 400		May-21 Nov-21 May-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	469		34	-7.04%
US HY BB	335		26	-7.09%
US HY B	508		33	-6.64%
US HY CCC	991		84	-8.32%
Pan Euro HY	503		36	-7.07%
LSTA 100 (%)	5.56		66	1.12%
		-300 -150 0 150 300		
US Treasury 7-10 (%)	2.91		-1	-8.95%
1M LIBOR (%)	0.85		1	0.13%
US Agg	50		1	-8.41%
US IG Corp	139		5	######
Global Agg	50		1	-6.88%
		-200 -100 0 100 200		May-21 Nov-21 May-22

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.05	-13.46%	Gold	1,854	0.33%	S&P500	8,286	-3.89%
USDJPY	129.97	-16.41%	VIX	33	49.08%	MSCI World	8,057	-8.11%
EM FX		-10.31%	Brent	108	56.83%	MSCI EM	2,466	-21.96%
		May-21 Nov-21 May-22			May-21 Nov-21 May-22			May-21 Nov-21 May-22

As of: May 11 2022. Source: Bloomberg, Stone Harbor Investment Partners, LLC. For illustrative purposes only. See disclosures at end of material for additional information.

United States

US headline CPI decelerated, from 1.2% in March to 0.3% in April, but remains elevated as prices are 8.3% higher than a year ago. The core CPI rose from 0.3% in March to 0.6% in April, with part of the increase attributed to particular segments such as airfares, which jumped 18.6% m/m. Although used car prices are moderating, new vehicle prices rose 1.1% m/m in April. On the employment front, after reaching the post-pandemic lows in March, initial jobless claims have been trending higher and rose from 181k to 200k during the last week of April. Partially offsetting the rise in initial claims was a small decline in continuing claims, which fell 19k to 1,384k. Although the recent uptick may not necessarily be a cause for alarm, the moderate increase in claims reflects an overall softer employment environment.

The US House of Representatives passed the US$40 billion Ukraine relief bill in a bipartisan 368-to-57 vote. Proceeds will be used to provide Ukraine with economic and humanitarian support, as well as additional military aid. The bill now makes its way to the Senate where it is expected to be approved next week.

Europe

The Bank of England (BOE) raised interest rates by another 25 bps to 1%, as expected, with mixed views within the committee. In efforts to tackle inflation, three members opted for a more aggressive 50 bps increase while two members saw guidance for additional rate hikes as unwarranted given economic conditions. The central bank now sees GDP contracting 1% in Q4 and shrinking 0.25% in 2023. Governor Bailey said that inflation risks in the UK are to the upside and the central bank is navigating a narrow path on policy.

The European Central Bank Executive (ECB) Board member Fabio Panetta warned that the Euro area is, "de facto stagnating," as the region faces a slowing economy amid rising inflationary pressures. He highlighted the balancing act faced by the central bank as it attempts to contain rising prices while causing the least amount of damage to an already stalling economy. German factory orders disappointedly fell 4.7% in March as weaker foreign demand, and a steeper decline in capital goods, offset increases in consumer goods. French, German and Spanish industrial production all fell more sharply than expected in March.

Japan/Asia

Chinese Premier Li Keqiang warned of the potentially, "complicated and grave," employment situation as China's zero-Covid policy limits activity and the country's unemployment data reached a near one-year high of 5.8% in March. During a nationwide statement, the Premier emphasised the importance for government entities to protect jobs as the country seeks to overcome the latest wave of infections. He also asked businesses to resume production, with enhanced safety protocols, to avoid further spreading of the virus. The impact of China's Covid restrictions are beginning to materialize in the economic data as the Caixin services and composite PMIs fell deeper into contraction in April. The Caixin services and composite PMIs fell to 36.2 and 37.2, respectively. Similarly, the Caixin manufacturing PMI also fell to a new two-year low of 46.0.

Economist Corner

Seamus Smyth, PhD, Developed Markets

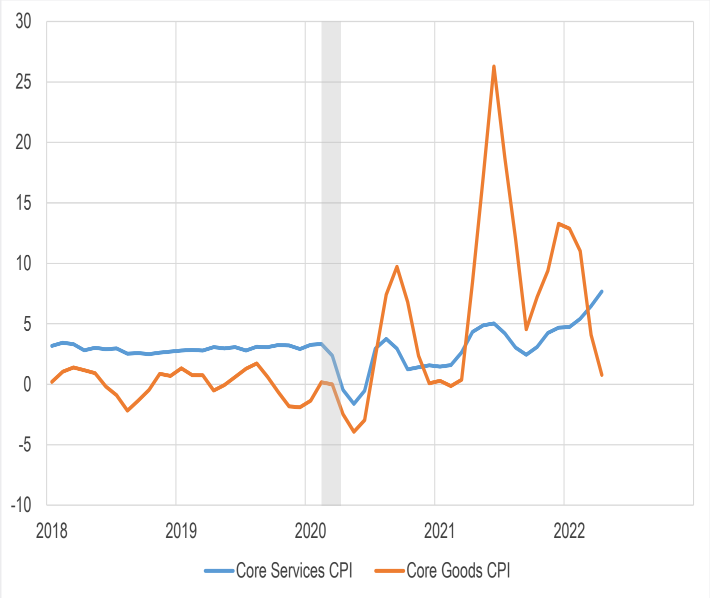
Steffen Reichold, PhD, Emerging Markets

The inflation situation remains complicated, with recent readings shining little light on the path through the rest of the year. In the immediate term, core inflation remains too high for the FOMC and they will continue to tighten policy. But looking ahead, there are both reasons for some optimism, as well as reasons to remain cautious.

This week's CPI report saw a rebound in core CPI, which rebounded to +0.57% from 0.32% in March. Any one month can be noisy–April saw a nearly 20% surge in airfares that is unlikely to be repeated–so it is helpful to break out core CPI into core goods prices and core services prices, and look at the 3-month average to get around some of the noise. As the accompanying graph shows, core goods and services prices have moved in different directions so far in 2022. Core goods over the last three months have been close to flat, a marked difference from the double digit annualized growth late in 2021. Though the moderation in core goods prices is helpful, the good news is offset by a pickup in core services prices. Those have moved up from about 4½%, already too rapid, to around 7½%, very clearly much too rapid. Services inflation tends to be more "sticky," so the move higher here is a clear source of concern, if sustained.

A key input into the path of services inflation is the behavior of wages. There, the highest quality measure is the Employment Cost Index (ECI). That remains elevated, with Q1 growth at a nearly 6% annual rate–too rapid to be consistent with 2% price inflation. Though ECI is high quality, it comes out only quarterly; for a more timely read, we have to look to average hourly earnings (AHE), which have the advantage of coming out monthly, but can be quite noisy. In the most recent data are some hints of moderation in the pace of wage gains. The 3-month moving average has slipped down to 3.7% from a recent high of 6.3% back in November of 2022, a potential trend we will be watching very closely.

DIP IN CORE GOODS INFLATION OFFSET BY MOVE UP IN CORE SERVICES



As of 30 April 2022.
Sources: Bureau of Labor Statistics,Haver Analytics, Stone Harbor Investment Partners

External Sovereign Debt

External sovereign debt spreads widened 24 bps and the JP Morgan EMBI Global Diversified returned -1.5%. Investment grade credits outperformed non-investment grade bonds. The top performers included Ukraine (7.3%), Barbados (0.3%), and Poland (0.3%). The bottom performers included Venezuela (-16.6%), Sri Lanka (-12.7%), and Rwanda (-5.2%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -2.0%. EM currencies returned -0.9%, in aggregate. The Peruvian sol outperformed this week with spot FX return of 1.0%, followed by the Egyptian pound (0.5%), and the Philippine peso (0.4%). Underperformers included Turkey (-3.3%), Czech Republic (-2.6%), and China (-2.1%).

The yield of the JP Morgan GBI EM Global Diversified increased 26 bps to 7.06%. Turkey bonds underperformed with yields 423 bps higher, followed by Romania (+98 bps) and Czech Republic (+62 bps) bonds. Mexico and China outperformed with yields 23 bps and 2 bps lower, respectively.

In central bank actions, Georgia kept its key rate unchanged at 11.00%. Serbia hiked 50 bps to 2.00%, and Malaysia surprised with a 25 bps hike to 2.00%, when no change had been expected.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified declined 0.75% for the week, bringing the YTD return to -11.66%. Latin America was the underperformer compared to both Asia and Central and Eastern Europe, Middle East and Africa (CEEMEA). It is worth noting that Latin America had outperformed Asia and the Middle East for most of the year, but returns over the last few weeks have brought Latin America's returns in line with the other major regions. Non-investment grade credits underperformed investment Grade bonds, reflecting the "risk-off" sentiment of the market.

Flows/Issuance

No sovereign bonds priced this week. In EM corporate debt, issuance was concentrated around high-quality Asian issuers. A limited number of deals that conducted roadshows never priced, and there were even some tenders cancelled that were contingent on new issuances being completed.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of US$3.4 billion, predominantly from 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.

Sovereign Soundbites

CHINA The People's Bank of China (PBOC) published the Q1 Monetary Policy Report on 9 May. According to the report, the key factors constraining monetary policies have included: rising inflation (especially food and energy prices following Russia-Ukraine war); spillover effect from other central banks' policies amid narrowing interest rate gaps and depreciating renminbi; and ongoing disruptions associated with the "zero-Covid" policy.

In Shanghai, no new Covid case was identified on 10 May, suggesting that mobility may resume shortly. Three consecutive days of zero cases would meet the threshold to conclude no community transmission and pave the way for an economic recovery in Shanghai and the neighboring areas. The unlocking of Shanghai and its port, which handles 19% of China's container throughput, would lead to a significant improvement in logistics and supply chains, while at the same time exporters are expected to increase production to offset the loss incurred during the lockdown.

ECUADOR Ecuadorian authorities and the IMF have reached a staff-level agreement on the merged 4th and 5th reviews under the current US$6.5 billion Extended Fund Facility (EFF) program. This agreement allows for the total combined disbursement of US$1 billion upon IMF Board approval, which is expected by mid-June. The remaining US$700 million in funding support is anticipated at year-end, when the program is set to expire. Fiscal consolidation remains key to debt sustainability, in our view, and IMF's post-program monitoring will be a helpful anchor in this regard. Ecuador's sovereign bond spreads tightened following the announcement.

EGYPT Egypt reported that international reserves remained stable in April at US$37.2 billion, a welcome signal after the large drop in March. The Central Bank of Egypt's (CBE) foreign currency claims on local banks also remained stable. The stability in reserves appears to confirm that major portfolio outflows have stopped since the CBE's monetary and FX actions in late March. Other actions that may have staunched the outflows include Egypt's request for IMF assistance and financial support from Qatar, Saudi Arabia and the United Arab Emirates.

MALAYSIA Malaysia's industrial production in March rose 5.1% from a year ago, supported by sustained reopening of the global economy and improving labor market conditions. The latest figure compares to 4% y/y growth in February and 4.3% y/y rise in January. Manufacturing outpaced other sectors and advanced 6.9% y/y in March, after gaining 5.2% in the prior month. Among the top contributors to manufacturing growth were electronics, non-metallic mineral products, metal products, and food, beverage, tobacco products. On the employment front, data from the statistical office showed that the unemployment rate stabilized at 4.1% in March, compared to 4.7% for the same period last year. In the longer term, we believe supply chain reconfiguration as a result of diversification efforts away from China could further support Malaysia's external position, given its similarity to China in exports, stronger business environment and infrastructure compared to regional peers.

On Wednesday, Malaysia's central bank unexpectedly hiked the benchmark interest rate by 25 bps to 2.0% from 1.75%. The central bank cited latest indicators, which suggest that economic growth continues to improve and the downside risk to the growth outlook has abated.

PAKISTAN The talks between Pakistan and the IMF to revive the US$6 billion Extended Fund Facility (EFF) may begin as early as next week, according to local media reports. The IMF's special delegation is expected to discuss the budget recommendations, as well as subsidies on petroleum, electricity and gas as preconditions for reviving the stalled IMF program.

Separately, Pakistan announced this week plans to issue US dollar-denominated bonds.

PHILIPPINES Ferdinand Marcos Jr, "Bongbong," won the presidential election by a wide margin. Marcos's vice-presidential running mate and the daughter of outgoing President Rodrigo Duterte, Sarah Duterte, also appears to have won by a landslide. Marcos and Duterte had campaigned on a platform of national unity, but have so far revealed little details around key political, economic, and foreign policy agenda. At this early state, however, Marcos is expected to align with President Rodrigo Duterte's framework, emphasizing large infrastructure projects and close ties with China. The newly elected president and vice president will take office on 30 June after the election results are confirmed by Congress.

SRI LANKA Prime Minister Mahinda Rajapaksa resigned on Monday, following weeks of public protests against corruption and the government's mismanagement of the economic crisis. The latest development allows for the formation of an interim government and continued discussions with the IMF for a bailout package. Last month, the country defaulted on its US$51 billion foreign debt, and last week, finance minister Ali Sabry said they are down to US$50 million of foreign reserves. The government is seeking a bailout package from the IMF, but progress will depend heavily on stabilization of the political environment. IMF Sri Lanka mission chief Masahiro Nozaki indicated that virtual technical talks for a loan package, which started on Monday, would continue in anticipation of a new government and subsequent policy discussions.

According to the ministry of tourism, over a million tourists visited Tunisia year-to-date as of 20 April. The ministry's figures show a 128% increase in tourist visits from a year ago, about half the pre-pandemic level. Tourism receipts accounted for US$818 million in 2021, or approximately 3.5% of current account receipts, and by US$1.92 billion in 2019 (8.8% of current account receipts).

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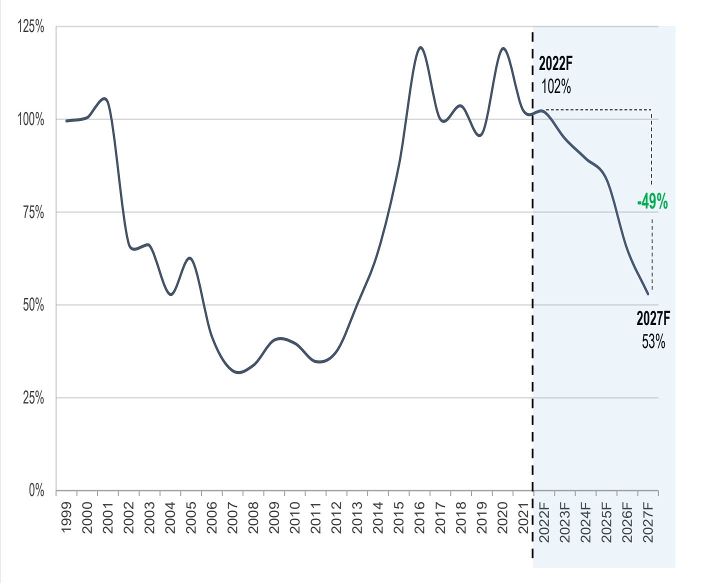
ZAMBIA First Quantum Minerals (FQM) approved plans for a US$1.25 billion expansion of the Kansanshi copper mine in Zambia, citing "renewed confidence" in the country's investment climate. According to the company, business-friendly reforms implemented by President Hakainde Hichilema's administration -- particularly one that allows mining companies to deduct mineral royalties from their income tax assessments – were important factors in unlocking the latest investment. As Africa's second-largest copper producer, Zambia is now aiming to increase production to 3 million tons of copper a year within the next decade, following a 4.5% y/y drop in production to 800,696 tons last year. FQM also indicated that it approved another US$100 million in its Enterprise nickel project in Zambia.

Chart of the Week

Mozambique's public debt burden as a percentage of GDP may be easing substantially in the coming years. In a signal of the turnaround underway in the Mozambique economy, the Board of the International Monetary Fund (IMF) approved this week a new three-year US$470 million lending arrangement for Mozambique under the Extended Credit Facility. With the restructuring of its external sovereign debt in 2017, the government has resolved concerns over hidden debts that led the IMF to suspend lending to the country in 2016. The agreed new measures include a series of tax reforms. On the spending side, the recently approved wage bill reform will reduce pressure on public finances. The program also targets the passage of a sovereign wealth fund law and securing a strong institutional framework to manage natural resource wealth, focused initially on production of liquid natural gas (LNG). The IMF now expects GDP growth in Mozambique to rebound to its pre-pandemic growth levels this year, and increase to 8.3% by 2024 as more LNG projects come on line. In an environment of rising demand for LNG, we agree with the IMF that the odds for Mozambique's debt burden to decline over the next five years have improved.

MOZAMBIQUE PUBLIC DEBT AS A PERCENTAGE OF GDP



As of 30 April 2022
Sources: Haver, IMF WEO, Stone Harbor Investment Partners
Information above contains forecasts. For illustrative purposes only

US High Yield

The US high yield benchmark declined 1.71% for the week due to poor market sentiment, more economic data highlighting elevated inflation, increased recession concerns, and several company- specific earnings misses. CCCs underperformed, posting a decline of 2.90% compared to a decline of 1.17% for BBs. Index spreads widened 34 bps for the week and are now already 47 bps wider in May. CCC issues are increasingly out of favor with investors focused on higher quality bonds. CCC spreads widened 84 bps for the week and 115 bps in May, compared to BB spread widening of 26 bps for the week and 32 bps in May. Earnings misses that resulted in large gaps down in bond prices for several companies contributed to deteriorating sentiment for lower quality issues. Coinbase bonds dropped 15 points to 60 on weak earnings and disappointing guidance. Bonds of Diebold, Bausch, Endo, and Dish also had bonds drop double digits after posting earnings

Leveraged Loans

Similar to other risk assets, leveraged loans remained under pressure this week, and the downward trajectory of returns intensified as macro concerns weighed on markets and loan market technicals softened. The S&P/LSTA Leveraged Loan Index (the "Index) returned -1.34%, the average bid price declined 139 bps to US$95.70, and the spread-to-maturity widened 27 bps to L+453. The average bid price of the market has dropped below levels seen during mid-March when the Russian/Ukraine invasion roiled markets. Year-to-date, the loan market continues to outpace several other asset classes with a -1.57% return; however, its relative outperformance seems to be driving weakness as evidenced by a broad-based flight to safety, as well as move into other asset classes that have posted substantially weaker returns year-to-date. This week's decline was broad-based, but as expected, the lower quality B (-1.46%) and CCC (-2.20%) portions of the market underperformed the broader Index, while BB's (-1.10%) outperformed. Industry sector returns were all negative for the week, and dispersion was limited.

European High Yield

The European high yield benchmark remained weak, posting a decline of 0.99% as market sentiment remained depressed with inflation and growth concerns remaining the focus of the market.

CCCs underperformed posting a decline of 1.23% compared to 0.89% for BBs. Index spreads widened 37 bps for the week and are now already 53 bps wider in May. Investors continue to prefer higher quality bonds and there is very little demand for lower quality bonds. This has resulted in CCC spreads widening 51 bps for the week and 72 bps in May, compared to BB spread widening of 33 bps for the week and 46 bps in May. The market was volatile with several outsized moves in both directions. Ontex bonds gained 4-5 points following headlines that they are in preliminary talks with American Industrial Partners regarding a possible business combination. Diebold bonds continued to fall with bonds down more than 10 points into the low 80s as the company was downgraded to CCC+ and placed on credit watch negative after weak earnings. Banijay bonds jumped 4 points on an announcement the company would be taken public through a SPAC.

Flows/Issuance

According to EPFR, the US high yield market lost US$132 million for the week, decreasing May inflows to US$671 million. Flows remain negative quarter-to-date with an outflow of US$4.2 billion.

Loan market technicals have weakened over the past week. First, new issuance has significantly slowed as market volatility has increased. Issuers and arrangers remain on the sidelines as the secondary market softens and pricing becomes challenging. Second, we have seen a pullback in demand from retail loan mutual funds and Exchange Traded Funds (ETFs) this past week. While we printed a weekly inflow number last week, following last week's FOMC meeting, we have seen a wave of outflows and anticipate our first outflow since March. Lastly, demand from structured credit investors for Collateralized Loan Obligations (CLOs) has softened as well. Last week, the market priced four deals for US$2 billion, which brings the YTD figure to US$47.0 billion or down 16% y/y.

For European high yield, EPFR data showed outflows of US$434 million for the week, increasing May outflows to US$580 million.

Source: Lipper, EPFR

Industry Insights

BUILDING PRODUCTS: Over the past week, several building products portfolio companies have reported Q1 results that reflect little easing of the underlying fundamental supply and demand imbalance, which has been a strong tailwind for the sector. Given the continued strong end market demand for both new homes and repair and remodel activity, building products distributors, like US Lumber and Builders First Source, continue to have the ability to pass on all inflationary pressures to their customers, driving strong financial performance. With this continued growth, we expect to see further deleveraging across the sector as the year progresses, which we believe should provide tailwind for the sector over the medium term.

REFINING: Refining margins have surged over the past few weeks as inventories of refined products, including middle distillates and light ends, are well below their 5-year average. A barrel of jet fuel was selling for US$260/barrel last week in the NY Harbor. The sharp increases in the cost of natural gas prices explain some of the crack spread expansion but also the low inventories of refined products is pushing crack spreads upward to record highs. Refinery utilization hit 90% this week, up 1.6% week-over-week as refiners return from seasonal turnarounds; however, refiners are favoring middle distillates, particularly diesel and jet fuel runs, at the expense of gasoline inventories. While Chinese refining capacity has expanded by approximately 1 million barrels a day ("mbd") to 28mbpd, their product exports are down 0.4mbpd from 2021 levels as the Chinese government is limiting exports in an effort to control prices. The next refinery opening will be the Al-Zour refinery in Kuwait, which should add 616 thousand barrels per day of capacity by 4Q22.

TECHNOLOGY: Diebold Nixdorf, a small issuer in the US high yield market but a direct competitor to larger issuer NCR, reported a very bad March quarter and guided down revenue, EBITDA and free cash flow for full year 2022. The guide down was expected after NCR's weak results but Diebold's guide to a cash burn in 2022 after restructuring charges and statements by the CFO on the conference call were much worse than investors expected. The CFO said "we secured the covenant relief through 2022… as we have debt maturities beginning in the second half of 2023. Management is working with Evercore and Sullivan & Cromwell to assist in our refinancing efforts." This statement leads investors to think a restructuring is likely. After the earning call on 11 May S&P downgraded the Diebold issuer credit rating to CCC+ from B- and placed Diebold on credit watch with negative implications, citing uncertainty over the company's ability to address upcoming debt maturities in 2023 and 2024.

Governments

After a volatility ascent at start of the quarter, duration stabilized this week and the ICE BofAML MOVE Index drifted lower to end the period at a 3-week low of 118. A week after the FOMC raised its Fed Funds rate by 50 bps, the yield on 10-year Treasuries traded up to 3.20% before retracing to end the period unchanged at 2.94%. According to Bloomberg's OIS model, market participants still expect an additional 2% in rate hikes by December 2022. The US Treasury curve steepened modestly, as shorter-dated maturities saw better demand, and the US 5s10s stabilized around 2 bps. The recent upward trend in US 10-year real yields accelerated and ended the week at 0.19%, while Breakevens, a gauge of inflation expectations, fell 14 bps.

Core European government bonds stabilized and the yield on 10-year Bunds and Oats ended the period unchanged at 0.99% and 1.50%, respectively. In contrast, the yield on 10-year Gilts fell 14 bps after the BoE signalled an imminent economic slowdown. According to the BoE's projections, the central bank now expects GDP to fall 1% in Q4 and contract 0.25% in 2023. Peripherals performed better this week and the yield on 10-year Spanish and Italian bonds tightened 5 bps and 8 bps, respectively, over comparable Bunds.

Similar to prior weeks, the BoJ's recommitment to Yield Curve Control proved effective as the yield on 10-year Japanese government bonds remain confined below the 0.25% limit.

Corporates

The Bloomberg corporate index returned -0.3% for the week. Spreads were wider by 5 bps, leaving the Bloomberg corporate OAS at +139 bps where it has been for the last three days. One could argue corporates have actually held in pretty well considering the carnage in the equity market; however, markets remain choppy and liquidity is poor at best particularly when it comes to seasoned off the run issues. There have been big outflows, mostly concentrated in the short end of the curve, while there has been decent demand for long deep discounted liquid issues, otherwise the market has been mostly technical. The dispersion between liquid on the run paper vs seasoned off the run names continues to widen and even less well-known names in the primary are having trouble garnering interest unless concessions are ample. Excess returns have suffered YTD and are negative by -284 bps, while YTD total returns are some of the worst on record at -12.89%. Barclays updated their year-end 2022 IG spread forecast. They are now estimating spreads move wider to +145 bps to 150bps from original estimates of +95bps to 100bps. This takes their excess return estimate to -50 bps to 0 bps for the remainder of the year. Reasons for the update include a quickly aging credit cycle, inflation, supply chain mismatch, and consumer sentiment. They also cite higher risk of stagflation and recession.

Securitized

The mortgage current coupon widened 3 bps this week in the volatility of the equity market decline. Mortgage rates rose again this week, +17 bps on the MBA fixed 30-year contract rate, which reported at 5.53%. Cleveland Fed President Loretta Mester commented on mortgage run-off options: selling up to a monthly cap or setting a floor on reductions. FNMA 30-year prepayments fell 19.39% and 2.75 CPR in April, close to expectations. FHLMC 30-year speeds fell 14.43% and 1.86 CPR with 0.7 CPR of "catch-up" curtailments passing through this month. Fintech stocks fell after Upstart cut forecasts based on the macro environment of inflation and rate hikes. Goldman's US$811 million hotel deal was pulled from the new issue market after a lengthy marketing process. The Cosmopolitan Resort in Las Vegas has come around again in a US$3 billion CMBS SASB new issue.

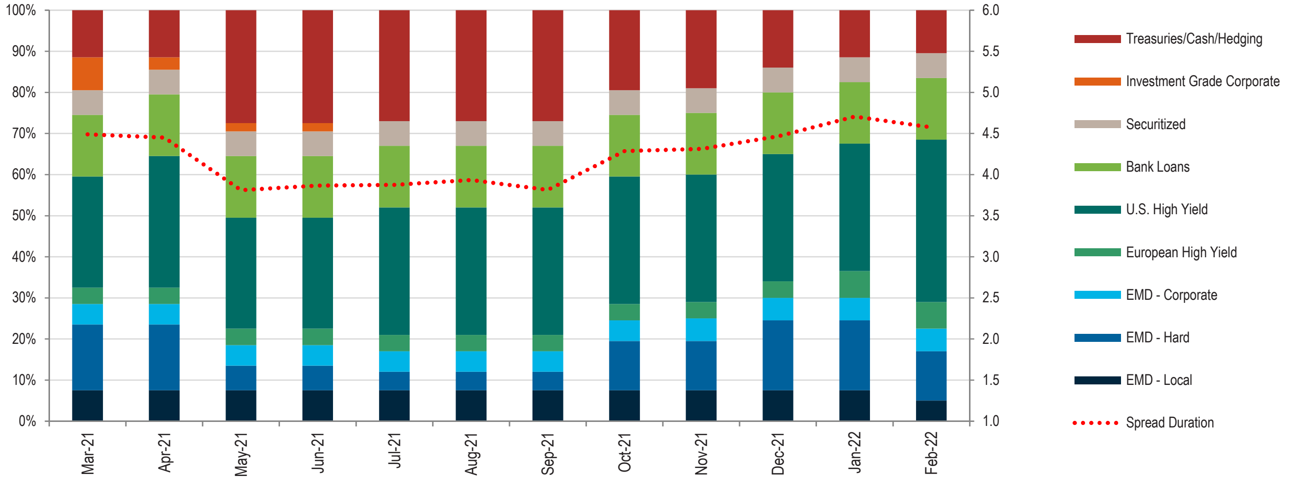
Flows/Issuance

Supply in the primary market for investment grade bonds has been unsettling with many deals waiting in the wings for a more hospitable opportunity to fund. Seven potential issuers stood down earlier during the week given the challenging macro tone but it seems many were able to enter the market once things settled. Supply looks like it will be underwhelming this week with just over US$20 billion entering the market when expectations were calling for upwards of US$30-US$35 billion. Intercontinental Exchange headlined the week with an US$8 billion deal but most other issuers were smaller size and new issue concessions remain elevated.

High grade bond fund flows saw more outflows with a US$5.348 billion outflow for the latest period according to EPFR. All three fund categories had outflows with Aggregate funds showing -US$2.826 billion, Total return funds with -US$1.684 billion and corporate only at -US$838 million. This is the second largest outflow on record according to JP Morgan which estimated that flows into HG corporates across all HG credit funds was negative by -US$2 billion. Lipper reported outflows of -US$5.98 billion for IG funds in the latest period.

Source: EPFR, JP Morgan

STONE HARBOR MULTI-ASSET CREDIT TARGET ALLOCATIONS (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 28 February 2022. Actual allocations within any account may be significantly different from the target allocations shown here. For illustrative purposes only.

				Spread or Yield Change (bps or %)					Total Return (%)				
As of May 11, 2022			Level	1W*	MTD	QTD	YTD	LTM	1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	EMBI G D	470	24	32	72	103	138	(1.5)	(1.9)	(7.4)	(16.7)	(16.6)
	CEMBI Broad Diversified	CEMBI B D	333	18	29	30	60	83	(0.7)	(1.1)	(3.1)	(11.7)	(11.0)
	GBI EM Global Diversified Yield	GBI EM GD	7.06	0.26	0.29	0.83	1.34	2.14	(2.0)	(2.3)	(8.2)	(14.1)	(19.3)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	470	24	32	72	103	138	(1.5)	(1.9)	(7.4)	(16.7)	(16.6)
	EMBI GD Investment Grade	EMBI IG	183	10	17	33	39	43	(1.0)	(1.6)	(7.3)	(18.8)	(17.0)
	EMBI GD High Yield	EMBI HY	793	42	49	109	153	224	(2.0)	(2.3)	(7.4)	(14.4)	(16.1)
EM Sovereign Debt Regions	Africa	Africa	777	56	76	160	165	264	(2.9)	(3.9)	(10.8)	(14.4)	(16.4)
	Asia	Asia	312	23	34	62	93	108	(1.5)	(2.0)	(6.6)	(12.8)	(12.1)
	Europe	Europe	642	19	28	82	319	370	(0.6)	(0.9)	(5.1)	(35.1)	(35.8)
	LATAM	LATAM	436	18	17	54	55	98	(1.5)	(1.3)	(8.2)	(13.4)	(13.3)
	Middle East	Middle East	365	21	37	50	40	21	(1.3)	(2.2)	(6.1)	(10.0)	(7.7)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	333	18	29	30	60	83	(0.7)	(1.1)	(3.1)	(11.7)	(11.0)
	CEMBI BD Investment Grade	CEMBI IG	197	10	19	24	46	45	(0.6)	(0.9)	(3.5)	(12.7)	(11.6)
	CEMBI BD High Yield	CEMBI HY	546	27	40	40	62	94	(1.0)	(1.3)	(2.6)	(10.3)	(10.2)
US High Yield	US High Yield	US HY	469	34	47	96	137	117	(1.7)	(2.1)	(5.7)	(9.9)	(7.0)
	US High Yield BB	US HY BB	335	26	32	68	100	77	(1.2)	(1.5)	(5.1)	(10.0)	(7.1)
	US High Yield B	US HY B	508	33	54	103	132	115	(2.1)	(2.6)	(5.8)	(9.1)	(6.6)
	US High Yield CCC	US HY CCC	991	84	115	232	297	328	(2.9)	(3.7)	(7.6)	(11.1)	(8.3)
European High Yield	Barclays PanEur HY	BAR PanEur HY	503	36	53	113	193	204	(1.0)	(1.7)	(4.5)	(8.3)	(7.1)
	2% Ex Financials Yield	2% ExFin Yield	7.04	0.32	0.55	1.77	3.49	3.85	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	95.7	(1.4)	(1.8)	(1.9)	(2.9)	(2.1)	(1.3)	(1.7)	(1.5)	(1.6)	1.1
	LSTA 100 Yield	LSTA 100 Yield	5.56	0.66	0.82	1.19	1.68	1.84	(1.3)	(1.7)	(1.5)	(1.6)	1.1
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	2.91	(0.01)	0.00	0.56	1.46	1.44	0.1	0.1	(4.1)	(10.4)	(9.0)
	1M LIBOR	1M LIBOR	0.85	0.01	0.05	0.40	0.75	0.76	0.0	0.0	0.0	0.1	0.1
	US Aggregate	US AGG	50	1	1	9	14	19	(0.1)	0.0	(3.8)	(9.5)	(8.4)
	US Investment Grade Corporates	US IG Corp	139	5	4	23	47	51	(0.3)	(0.2)	(5.6)	(12.9)	(10.5)
	Global Aggregate	Global AGG	50	1	2	8	15	18	(0.1)	(0.2)	(2.9)	(7.7)	(6.9)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	78	3	3	18	35	38	(0.0)	0.2	(1.1)	(4.7)	(5.2)
FX	DXY (US dollar)	DXY	103.85	0.0	0.0	0.0	0.0	0.0	1.2	0.9	5.6	8.5	15.2
	GBI EM FX	GBI EM FX	0.0	0.0	0.0	0.0	0.0	0.0	(0.9)	(1.1)	(5.1)	(3.8)	(8.9)

1W reflects data from May 4 close through May 11 close. Source: Stone Harbor Investment Partners, LLC; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional 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 PanEuropean High Yield; IG Corp: Bloomberg 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 Treasury Index tracks the obligations of the U.S. Treasury with a remaining maturity of one year or more. The Bloomberg 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 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 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 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 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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