WEEKLY COMMENTS ON CREDIT

12 AUGUST 2022

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GLOBAL MARKET SUMMARY

Global credit markets focused the July U.S. Consumer Price Index (CPI) report, which was released on Wednesday. The headline number remained unchanged, reflecting the meaningful moderation in gasoline prices, while the core CPI, which excludes the cost of food and energy, increased only 0.31% compared to an increase of 0.71% for June. The particular relevance of the better-than-expected result is its potential impact on the Fed's deliberation around the size of the September rate hike. For now, we believe the U.S. Federal Reserve (Fed) is likely to reference this latest data point as a hopeful sign and wait for further confirmation. Credit spreads continued to tighten this week and total returns were positive across most major credit sectors. Emerging markets debt (EMD) outperformed other credit sectors again, and lower quality credits significantly outperformed higher quality bonds. The U.S. dollar declined against the euro, and spot currency performance in emerging markets was positive.

Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	489		-37	-17.53%
EMBI GD IG	161		-17	-16.42%
EMBI GD HY	879		-68	-18.66%
Africa	841		-124	-18.18%
Asia	307		-25	-12.17%
Europe	718		-54	-38.54%
LATAM	460		-23	-14.42%
Middle East	341		-22	-6.99%
CEMBI BD	364		-17	-13.03%
CEMBI BD IG	205		-10	-13.02%
CEMBI BD HY	607		-29	-13.14%
GBIEM GD (%)	6.65		-14	-15.22%
EM Blend (%)	7.23		-17	-15.23%
EMBI ESG	420		-30	-18.73%
CEMBI ESG	375		-17	-11.79%
GBI ESG (%)	6.58		-16	-15.96%

-200 0 200 400 600

Aug-21 Feb-22 Aug-22

Developed Markets

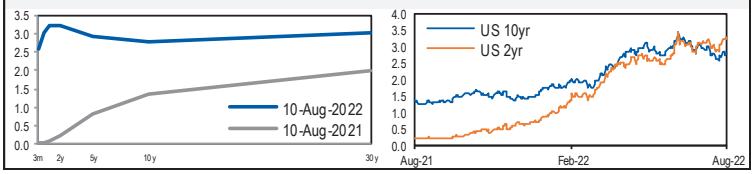
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	454		-20	-6.32%
US HY BB	310		-10	-6.33%
US HY B	498		-29	-5.42%
US HY CCC	1,008		-48	-9.05%
Pan Euro HY	546		-18	-8.60%
LSTA 100 (%)	6.54		-42	0.87%
US Treasury 7-10 (%)	2.78		7	-9.59%
1M LIBOR (%)	2.38		0	0.40%
US Agg	48		-2	-9.08%
US IG Corp	139		-2	-11.97%
Global Agg	52		-2	-7.80%

-150 0 150 300 450

-100 0 100 200 300

Aug-21 Feb-22 Aug-22

US Treasury Yield Curve (%)



Other Asset Classes (12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.03	-12.12%	Gold	1,814	4.06%	S&P500	8,903	-3.69%
USDJPY	132.89	-16.79%	VIX	20	17.57%	MSCI World	8,547	-8.17%
EM FX		-9.12%	Brent	97	37.90%	MSCI EM	2,469	-20.85%

Aug-21 Feb-22 Aug-22

As of: 10 August 2022. Source: Bloomberg, Stone Harbor Investment Partners. For illustrative purposes only. See disclosures at end of material for additional information.

United States

The focus this week centered around the latest U.S. CPI reading and its potential implications on monetary policy. Headline CPI was unchanged during the month of July and slowed from 9.1%to 8.5% on a year-on-year (y/y) basis, with the moderation largely attributed to the easing of gasoline prices. Core CPI, which excludes food and energy, grew at a more modest pace than expected and was unchanged at 5.9% y/y. The softer CPI readings, while positive, is tempered by the recent wage and productivity data, which potentially hints at further upward price pressure.

The U.S. Senate passed a distilled version of President Joe Biden's initial proposal in a 51-to-50 vote. The bill encompasses corporate tax rates, climate change and Medicare. The bill was presented as the largest investment by the U.S. government to tackle climate change and is expected to reduce greenhouse gas emissions by approximately 40% from 2005 levels. A minimum 15% corporate tax will be imposed on larger companies and an additional provision will allow Medicare to negotiate drug prices. The bill now goes to the House where it is expected to pass later this week.

Europe

The transport of Russian oil through the southern Druzhba pipeline to Czech Republic, Hungary, and Slovakia, were temporarily halted due to sanctions preventing the payment of fees. The flow of oil is expected to resume after Hungarian refiner Mol negotiated and paid the transit fee. According to Russian pipeline operator Transneft, the flow of oil through the northern link to Poland and Germany were unaffected.

While Germany avoided disruptions in the Druzhba pipeline, the country is faced with another transportation crisis. Due to declining water levels, the Rhine River is expected become impassable at a key waypoint threatening to limit the transportation of energy products, such as diesel and coal, and other industrial commodities.

Although the U.K. government does not view it as a base case, it is preparing for a potential energy shortfall this coming winter despite the reinstatement of emergency coal plants. Under its, "reasonable worst-case scenario," the government may need to implement organized blackouts for certain non-essential industries and, in an extreme scenario, impact households.

Japan/Asia

As China had previously warned, the People's Liberation Army (PLA) conducted a series of live military exercises around Taiwan in response to U.S. House Speaker Pelosi's visit to the island. According to the Japanese defense Ministry, several ballistic missiles were believed to have flown over Taiwan during the drills. The PLA announced the successful completion of military exercises but warned of ongoing patrols, which may test the limits of the U.S. imposed median line in the Taiwan Strait. Tankers and freight ships have resumed travel to and from Taiwan's ports.

External Sovereign Debt

External sovereign debt spreads tightened 37 bps and the JP Morgan EMBI Global Diversified returned 1.8%. Non-investment grade credits outperformed investment grade bonds. The top performers included Pakistan (12.6%), Lebanon (11.1%), and Nigeria (10.3%). The bottom performers included Venezuela (-6.9%), Ecuador (-2.1%), and Argentina (-1.4%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 3.2%. EM currencies returned 2.3%, in aggregate. The Brazil real outperformed this week with spot FX return of 5.0%, followed by the South African rand (4.5%), and the Mexican peso (3.7%). Underperformers included Peru (-0.4%), Egypt (-0.3%), and China (0.0%).

The yield of the JP Morgan GBI EM Global Diversified declined 14 bps to 6.65%. Turkey bonds outperformed with yields 122 bps lower, followed by Romania (-72 bps) and Brazil (-56 bps) bonds. Serbia, Philippines, and Egypt underperformed with yields 8 bps, 5 bps, and 4 bps higher, respectively.

In central bank actions, Romania hiked the key policy rate by 75 bps to 5.50%, India raised the repo rate by 50 bps to 5.40%, and Mexico increased its target overnight rate by 75 bps to 8.5%. In addition, Serbia hiked the one-week repo rated by 25 bps to 3%, and Thailand raised its benchmark rate by 25 bps to 0.75%. Hungary left its one-week deposit rate unchanged at 10.75%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified maintained the positive momentum for the week, returning 0.48%. Non-investment grade outperformed investment grade bonds, with the two sectors returning 1.01% and 0.09%, respectively. Spread tightening of 29 bps for non-investment grade credits reflected continued positive investor sentiment. The average spread of investment grade bonds tightened 10 bps, in-line with a widening of 7-year U.S. Treasury yields. Argentina continued to rebound after a change in the Minister of the Economy sparked optimism among investors. Turkey also outperformed, continuing the trend of the last few weeks. While returns on most of the major markets were positive, property credits once again dragged down China returns into negative territory. In Mexico, non-bank financial Unifin Financiera, which has approximately US$2.5 billion in bonds outstanding, caught the market off-guard when it announced a payment halt on its debt and its intention to pursue a restructuring with bondholders. The company's bond prices declined by 30 to 35 percentage points.

Flows/Issuance

In the sovereign debt market, Mexico issued a U.S. dollar-denominated bond due in 2033 totalling US$1.8 billion. In the corporate debt market, the new issuance market continued to be quiet.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net inflows of US$43 million. Outflows from local currency debt funds were offset by inflows to hard currency debt funds this again week. 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 According to a statement by Argentina's economy ministry, the country exchanged 85% or roughly US$14.9 billion in inflation-linked Treasury notes and other securities for a new "dual" bond maturing in June, July, and September 2023. The new notes pay the higher of two rates – an inflation-linked rate or a dollar-linked rate – at the time of maturity. The swap arrangement does not change the total amount of inflation-linked debt but the exchange of short-term debt maturing over the next 90 days relieves significant pressure on Argentina's public finances. This marks an important step in Argentina's ability to refinance short-term debt, as the new Economy Minister Sergio Massa introduces a series of measures to address pressing issues that span the fiscal deficit, the central bank's reserves, and an inflation rate that is currently projected to reach 90% by year-end.

COLOMBIA Following the inauguration of the newly elected President Gustavo Petro over the weekend, new Finance Minister Jose Ocampo unveiled a fiscal reform targeting wealthy individuals, 'suboptimal' corporate exemptions, and hydrocarbons and mining sectors with a windfall tax. The reform, if approved by Congress, is intended to identify permanent revenue sources necessary to support Petro's social spending goals, as well as allow for a 2.3% point fiscal adjustment in the next four year. The reform is expected to deliver 1.7% of GDP in 2023. The key unknown remains on the expenditure side. Primary current expenditure, excluding Petro's agenda, is projected to increase in 2023. In our view, the challenge for Ocampo will be to maintain investor confidence and at the same time have the political gravitas to advance the agenda of the president. We note that the decision to name Ocampo as finance minister is another sign of possible moderation from Petro, who will have to contend with a divided congress in his push to overhaul the economy.

ECUADOR On Tuesday, the economy minister said that the country's capacity to meet its external debt obligations has not been affected by a Luxembourg court's decision last week to freeze the country's assets amid a dispute with oil company Perenco. The Perenco award was booked in 2021, and therefore does not pose an issue for public finances. The delay in award payment has been caused by unpaid tax payments by Perenco to the Internal Revenue Services. According to the minister, Ecuador expects to reach a payment agreement with Perenco by establishing a payment mechanism until the tax obligations have been addressed. The minister also added that Ecuador has complied with the payment of the amortization and interest coupon of its international bonds as of July month-end. Ecuador's external sovereign credit spreads tightened.

GHANA Finance Minister Ken Ofori-Atta indicated that Ghana has doubled IMF funding target to US$3 billion. According to the Minister, the increased loan request takes into account recent economic developments — that continue to present challenges as the country tries to shore up finances and regain access to global markets — and Ghana's drawing rights at the Fund. The Government is hoping to complete work on its Enhanced Domestic Program by the end of September this year, which will form the basis for negotiations and with the goal of securing an IMF-funded program by early next year. IMF spokesperson said that it is too early to comment on the final form of the program. The government began discussion with the IMF just last month.

KENYA The top candidates in Kenya's presidential election are Raila Odinga and Deputy President William Ruto. The Independent Electoral and Boundaries Commission (IEBC) estimated that final turnout would be around 60%, far lower than the 80% in the 2017 election, and making this the lowest turnout in 20 years. As of this writing, Ruto has taken an early lead. The race is proving to be tight with Ruto at 51.6% and Raila at 47.8%. The IEBC is expected to announce the new president by August 16th at the latest. The candidates need to obtain more than half of the valid votes cast and at least a quarter of the ballots cast in half of Kenya's 47 counties to be declared president. If no candidate meets the set threshold, a runoff election between the front runner and the runner up will be held within 30 days.

OMAN Oman official FX reserves declined in June to US$ 16.6 billion from US$ 17.4 billion in May. Reserves are currently US$ 3.1 billion lower than at the end of 2021. This result contrasts with an increasingly wide current account surplus. Some analysts expect Oman to record a positive balance at 7.9% of GDP in 2022. Local authorities reported that, by the end of July, public debt would have been cut by OMR 2.2 billion (US$ 5.7 billion, about 5% of GDP). At the end of June, Oman completed a voluntary buy back for US$700 million for Eurobonds with maturity between 2025 and 2032, which is likely the key reason behind the reserve contraction during the month. Public debt as a percentage of GDP is likely to decline to ~43% in 2022 from 71.4% in 2020.

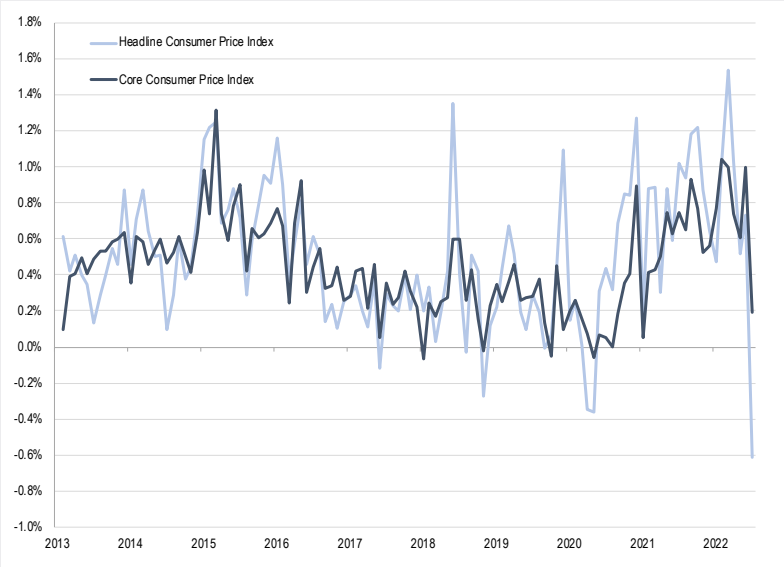
While these fundamental developments are positive, Oman's external sovereign debt (Ba3/BB-/BB-) valuations are less attractive, in our view. At an average sovereign spread of 298 bps, Oman bonds trade ~200 bps tighter than the JP Morgan EMBI Global Diversified and ~85 bps tighter than comparably-rated credits.

PERU Several changes to Peru's Cabinet were announced this week following the unexpected resignation of Anibel Torres, Head of the Cabinet. While his resignation was rejected by President Pedro Castillo, other changes, including the designation of Kurt Burneo as Finance Minister followed. Minister Burneo is well known in the local academic world as a Professor of Macroeconomics and Public Finance at a number of local colleges. He also has experience in public office and public policy. He has been a Board member at the central bank, BCRP (2001–2006), Minister of Production (August–December 2011, government of Ollanta Humala) and Vice-minister of Treasury at the Ministry of Finance (2001–2004). Burneo has also been Peru's representative at the Inter-American Development Bank in Washington D.C. Burneo said among his priorities in office is to promote public infrastructure projects, coordinate policy with the central bank, and improve relations with Congress to prevent political disagreements from impacting the economy.

Chart of the Week

Brazil's consumer prices declined in July for the first time since the early phase of the COVID pandemic. July's CPI of -0.68% this was the largest monthly decline since the days of hyperinflation in the early 90s and the third consecutive downside surprise. The key downside drivers were transportation and housing. Both groups were impacted by tax reductions, approved late in June, for fuel, electricity, public transport, and communications. These tax cuts, taken to boost President Jair Bolsonaro's reelection chances in October, were already known and the resulting drop in consumer prices was anticipated. However, the decline was larger than expected and, more important, measures of core inflation recorded a sharp move lower. While some pass-through of fuel prices to broader categories is always expected, this could be the first sign that inflation dynamics are changing. Brazil has already hiked the policy rate by 1175 bps over the past 18 months and economic growth has remained subdued. It is too early to declare victory over the inflation wave. Indeed, inflation pressure continues in other EMs in July. But Brazil has led EMs in monetary tightening, both in terms of timing and size of hikes, and could thus be a leading indicator of broader trends. Moreover, the better-than-expected inflation print in the U.S. this week raises hopes that global inflation dynamics could begin to change.

BRAZIL INFLATION MOM % CHANGE



As of 31 July 2022. Sources: Instituto Brasileiro de Geografia e Estatistica, Haver Analytics, Stone Harbor Investment Partners. For illustrative purposes only.

U.S. High Yield

The ICE BofAML U.S. High Yield Constrained Index gained 0.76% marking the 6th week of positive total returns. Favorable technicals continue to drive market participants to put cash balances to work after signs that inflation may be gradually slowing. The market still favors B and CCC issues over BBs. After hitting wides in early July, BBs have tightened 138 bps and are only 82 bp from their tights, while BBBs have only tightened 25 bps during the same period. Meanwhile, B issues are -184 bps from the wides and +152 bps from the tights and CCCs are -212 bps from the wides and but still +354 bps from the tights directly correlating to the lower tiers' outperformance and compression versus BBs over the last few weeks. The disparity among ratings continued with CCCs +1.80%, Bs +1.08%, and BBs lagged with a +0.34% total return. Similarly in spreads, CCCs tightened 48 bps, Bs were 29 bps tighter, and BBs only 10 bps tighter, while the index tightened 20 bps to close at a +454 bps OAS. The HY index reached its lowest yield since June 8th closing at 7.50%, which was 0.15% tighter on the week.

Leveraged Loans

The strength in the tail end of July carried into August with some better-than-expected macroeconomic data as well as corporate earnings that have been mostly inline. This past week was one of the strongest in recent memory and was broad-based across ratings categories. For the week, the S&P/LSTA Leveraged Loan Index (the "Index") returned 1.36%, the average bid price increased 133 bps to $95.17, and the spread-to-maturity tightened 32 bps to L+477. The B portion of the index outperformed on a total return (1.46%) and spread to maturity (-36 bps) basis, while BB returns lagged the Index (+1.15%) and the spread to maturity (-27 bps) tightened less but was still strong. Notably, CCC's posted solid positive returns (0.89%), while spreads tightened modestly (-23 bps). From an industry perspective, sectors that had lagged due to concerns around the economy, including Retail and Leisure, showed strength, while commodity sectors, including E&P and Drillers/Services, were positive, but lagged the overall market. Lastly, there were no defaults in the Index last week.

European High Yield

The Bloomberg Barclays PanEuro High Yield 2% Cap Ex Financials Index gained another 0.68% this week amid better-than-expected earnings and a more credit friendly macro backdrop. Index spreads tightened 18 bps this week led by compression across BBs and above. Bonds of Superior Industries, which manufactures auto parts and accessories, rallied 4 points this week after the company reported a net sales increase of 24% y/y to US$432 million in Q2. Stronger quarterly results were driven by continued upselling, more favourable product mix and better-than-anticipated cost pass-throughs. Similarly, bonds of building materials company SIG gained 3 points after the company's 1H2022 revenue beat, rising 21.2% y/y to £1.358 billion versus estimates for £1.343 billion, and the company reaffirmed its guidance.

Flows/Issuance

According to EPFR the U.S. high yield market added US$461 million. While this figure is lower than the previous two weeks, the inflow suggests interest in the asset class and adds momentum to the strong technical we have seen the past few weeks. In the primary market, there were four deals for US$2.4 billion pricing so far this month, which were several times oversubscribed. New issues are expected to be light for the balance of the month with activity to pick up in September.

In leveraged loans, while the market has improved, new issuance remains modest given choppy markets and the summer slowdown. Notably, Sabre GLBL Inc., was able to upsize and price a refinancing transaction in line with Initial Price Talk ("IPT"), and on the heels of that, arrangers have launched a billion-dollar transaction for Asurion, a provider of insurance for smartphones, tablets, consumer electronics, appliances, satellite receivers and jewelry. On the demand front, trends remained similar to previous weeks. We continued to see moderate Collateralized Loan Obligation (CLO) formation as well as outflows from retail loan mutual funds and Exchange Traded Funds (ETFs). For the week, we saw five CLOs price for approximately US$2 billion. This brings year-to-date issuance to US$85 billion, which is down 10% year-over-year. From an outflow perspective, we recorded the eighth consecutive week of outflows; however, the pace of flows has slowed materially, and the year-to-date inflows remain positive, totalling US$8.7 billion.

For European high yield, EPFR data showed inflows of US$124 million.

Industry Insights

BUILDING PRODUCTS: Cornerstone Produxts and Primesource reported second quarter results. Both companies continued the trend of strong demand for building products supply despite the slowing housing demand during the quarter. In both cases, the companies reported a strong volume and pricing during the quarter.

EXPLORATION & PRODUCTION: As 2Q22 earnings season winds down, E&P companies largely reported earnings above estimates and committed to return more cash to shareholders with updates including increased base dividends and share buybacks and new variable dividends based on free cash flow. The excise tax on stock buybacks, as currently outlined in the Inflation Reduction Act, will unlikely change the cadence of stock buybacks, despite increasing costs to do so by an estimated 1%, if the bill becomes law. Capex spend is, on average, coming in 10% higher than the guide at the start of year, as oil companies are not immune to inflation on raw materials and a tight labor market. Despite the incremental capex raises, capex as a whole remains muted for the sector, averaging approximately 30% of '22 cash flow from operations, compared to the '15-'19 period when it averaged 125% of cash flow. The Energy Information Administration this week estimated that US oil production will average 12.7Mbpd in '23, +7% from 2022 estimated production of 11.8Mbpd and in-line with E&P companies guide for spending next year.

TECHNOLOGY: Avaya Holding, the issuer we wrote about in June, reported extremely bad earnings after preannouncing below guidance revenue and EBITDA for the June quarter. The earnings report was even worse than expected. Five pieces of very bad news emerged in the earning release and conference call. The first was that the 6/22Q Form 10-Q will be delayed as the company said numbers released are "preliminary, have not been reviewed or audited, are based on the Company's estimates." Secondly, Avaya has "determined that there is substantial doubt about the Company's ability to continue as a going concern," - the reason for the company's expensive financing in June was to avoid issues over a "going concern" option from the Auditors. The Audit Committee also announced two internal investigations to "review the circumstances surrounding the Company's financial results for the quarter ended June 30, 2022" and an "investigation to review matters related to a whistleblower letter." Finally, Avaya management did not provide any forward financial guidance or even take any investor questions on the earning call. Avaya did confirm that pro-forma for the transactions at quarter end cash was US$404 million "with an additional US$221 million of restricted cash held in escrow." In the June quarter, Avaya burned US$113 million cash. In the December of 2021 earning presentation, Avaya repeated that the cash needed to run the business is "US$250-300mm." If Avaya does not have access to the escrow cash and cash burn is similar in the September quarter to June's burn, Avaya will be in a very difficult position.

Governments

Government bonds oscillated alongside economic data this week with 10-year Treasuries initially rising to 2.87% following a stronger-than-expected U.S. payrolls report. The bond market interpreted the tight labor market as a catalyst, which may embolden the Federal Open Market Committee to hike more aggressively; however, those expectations subsided after U.S. CPI data came in softer than expected and the yield on 10-year Treasuries ended the period at 2.79%. Markets recalibrated their September rate hike expectations, down to a 50 bps move, but Bloomberg's OIS model still indicates an implied forward rate of 3.50% for December 2022. The U.S. 2s10s curve inverted further and reached -50 bps before retracing to end the week at -44 bps. U.S. breakevens, a gauge of inflation expectations, fell 4 bps to 2.45%, while the 10-year real yield rose 12 bps to 0.34%.

A more subdued week in Europe as the yield on 10-year Bunds and OATs were unchanged at 0.89% and 1.45%, respectively. The spread on 10-year Italian BTPs stabilized and tightened 4 bps to 2.10% as political uncertainty dissipates. In the U.K., the Bank of England raised its key interest rate by 50 bps to 1.75% as the central bank ratchets up its efforts to tackle inflation. Perhaps most notable were the central bank's GDP forecasts, which anticipate the U.K. economy entering a recession from Q4 2022 with economic activity contracting every quarter through to mid-2024. The U.K. 2s10s curve bear flattened and reached a multi-year low as the spread hovers just above zero.

Corporates

Investment grade corporate spreads opened the week mixed and mostly name dependent with a slight bias wider as investors were focused on the new issue calendar. Better-than-expected inflation news towards the middle of the week fueled a credit rally that took cash spreads tighter by 3-10 bps with long duration and BBB rated names outperforming. The Bloomberg corporate index posted spreads that were better 2 bps w/w, leaving the OAS at +139 bps. Investment grade credit default swaps were better by 6 bps on the week and closed through their 3-month tights, while corporate ETF's traded at large premiums to their NAV which put them in create mode leading to more cash buying. Yields on corporates eased back to 4.45%, higher by about 12 bps on the week but well off recent tights of 4.15% and nowhere near the highs of 4.99% seen in June.

Markets seem to have shaken off some of the recession worries for now despite estimates that the Fed will continue to raise rates in September by an average of +61 bps.

Securitized

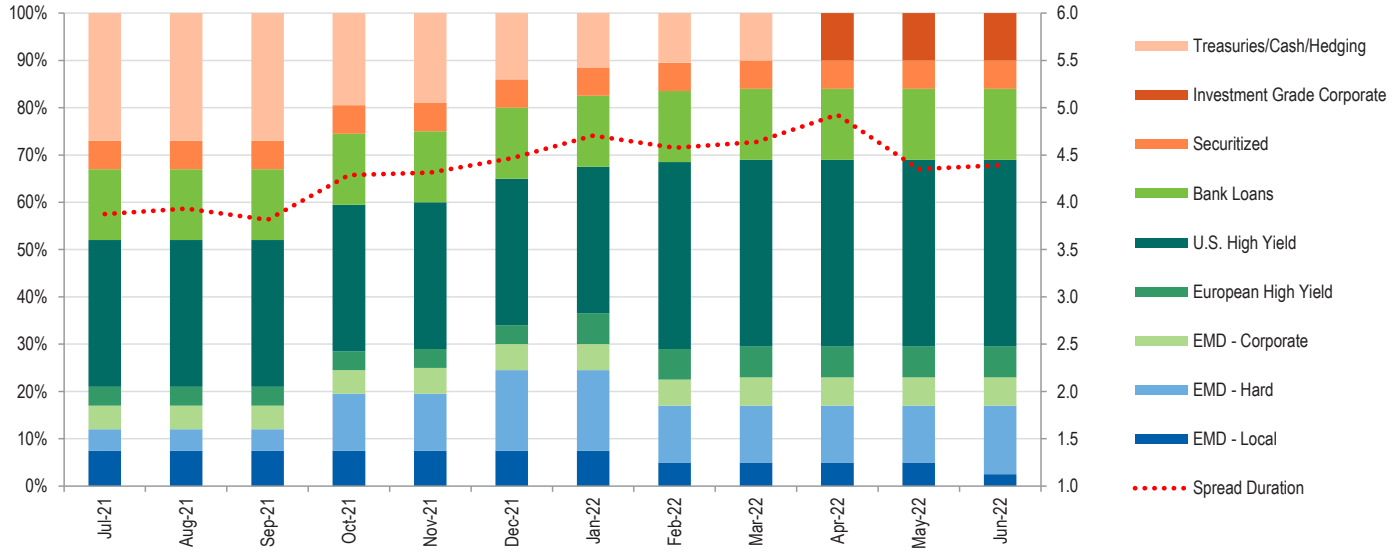
The mortgage current coupon tightened 4 bps on the week after a better-than-expected CPI number. FNMA 30-year prepayments fell 16% in July while Freddie's dropped to 21% CPR. ABS issuance was robust and spreads were a couple basis points tighter while CMBS issuance is beginning to pick up and spreads are relatively unchanged. Non-bank lenders are beginning to offer home equity loans or 2nd mortgages as homes still have positive equity in them. However, negative HPA (home price appreciation) is beginning to appear in places such as Seattle, San Jose and San Francisco. As expected, a 2008 Navient FFELP student loan deal triggered an event-of-default when it failed to pay off at the legal final maturity. With a 97% government guarantee, the bonds are expected to pay off in full but after the legal final maturity.

Flows/Issuance

In the investment grade corporate debt market, issuers took advantage of the large investor appetite for paper despite lackluster performance on some deals, while others seem to perform nicely. Supply reached just under US$28 billion this week, which leaves the month well ahead of expectations at over US$85 billion. Year-to-date supply at US$920 billion is only down 5% y/y.

Fund flow data for the latest period saw high grade fund flows report another positive week of inflows with US$6.5 billion entering the asset class. Aggregate and total return funds both posted positive inflows of US$3.111 billion and US$1.032 billion, respectively. This breaks a 10-week streak of outflows for aggregate funds and 25 weeks of outflows for total return funds. Corporate only funds saw inflows of US$2.3 billion across the curve driven by ETF's, while aggregate funds saw most inflows from the intermediate maturity bucket. JPMorgan's estimate of inflows into high grade corporates across all high grade credit funds is US$3.4 billion.

STONE HARBOR MULTI-ASSET CREDIT TARGET ALLOCATIONS (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 31 July 2022. Actual allocations within any account may be significantly different from the target allocations shown here. For illustrative purposes only.

As of August 10, 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	489	(37)	(43)	(53)	122	142	1.8	2.0	4.9	(16.4)	(17.5)
	CEMBI Broad Diversified	CEMBI B D	364	(17)	(29)	(25)	92	104	0.5	0.6	1.7	(12.5)	(13.0)
	GBI EM Global Diversified Yield	GBI EM GD	6.65	(0.14)	(0.18)	(0.41)	0.94	1.66	3.2	2.9	3.2	(11.8)	(15.2)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	489	(37)	(43)	(53)	122	142	1.8	2.0	4.9	(16.4)	(17.5)
	EMBI GD Investment Grade	EMBI IG	161	(17)	(16)	(28)	17	16	0.6	0.6	4.0	(16.5)	(16.4)
	EMBI GD High Yield	EMBI HY	879	(68)	(82)	(87)	240	303	3.0	3.5	5.9	(16.3)	(18.7)
EM Sovereign Debt Regions	Africa	Africa	841	(124)	(141)	(133)	228	301	6.2	6.8	9.1	(15.1)	(18.2)
	Asia	Asia	307	(25)	(31)	(25)	88	87	0.9	1.1	2.7	(11.8)	(12.2)
	Europe	Europe	718	(54)	(68)	(48)	395	437	2.1	2.4	3.6	(36.7)	(38.5)
	LATAM	LATAM	460	(23)	(22)	(47)	79	95	1.1	1.0	5.7	(13.3)	(14.4)
	Middle East	Middle East	341	(22)	(33)	(47)	16	3	0.8	1.3	4.4	(7.5)	(7.0)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	364	(17)	(29)	(25)	92	104	0.5	0.6	1.7	(12.5)	(13.0)
	CEMBI BD Investment Grade	CEMBI IG	205	(10)	(16)	1	54	54	0.1	0.1	1.0	(12.8)	(13.0)
	CEMBI BD High Yield	CEMBI HY	607	(29)	(49)	(60)	123	154	1.0	1.4	2.7	(12.1)	(13.1)
US High Yield	US High Yield	US HY	454	(20)	(46)	(140)	122	106	0.8	1.2	7.3	(7.7)	(6.3)
	US High Yield BB	US HY BB	310	(10)	(30)	(117)	75	64	0.3	0.6	6.9	(7.5)	(6.3)
	US High Yield B	US HY B	498	(29)	(57)	(159)	122	90	1.1	1.5	7.7	(7.1)	(5.4)
	US High Yield CCC	US HY CCC	1,008	(48)	(95)	(194)	314	337	1.8	3.1	8.1	(10.5)	(9.1)
European High Yield	Barclays PanEur HY	BAR PanEur HY	546	(18)	(39)	(110)	235	251	0.7	1.2	6.5	(8.5)	(8.6)
	2% Ex Financials Yield	2% ExFin Yield	6.47	(0.16)	(0.28)	(1.55)	2.92	3.25	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	95.2	1.3	1.5	3.0	(3.5)	(2.8)	1.4	1.6	3.8	(0.9)	0.9
	LSTA 100 Yield	LSTA 100 Yield	6.54	(0.42)	(0.50)	(0.40)	2.66	2.64	1.4	1.6	3.8	(0.9)	0.9
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	2.78	0.07	0.12	(0.23)	1.33	1.52	(0.6)	(0.9)	2.1	(8.9)	(9.6)
	1M LIBOR	1M LIBOR	2.38	0.00	0.02	0.59	2.28	2.28	0.0	0.1	0.2	0.4	0.4
	US Aggregate	US AGG	48	(2)	(1)	(7)	12	12	(0.5)	(0.7)	1.8	(8.8)	(9.1)
	US Investment Grade Corporates	US IG Corp	139	(2)	(5)	(16)	47	50	(0.5)	(0.4)	2.8	(12.0)	(12.0)
	Global Aggregate	Global AGG	52	(1)	(2)	(4)	17	18	(0.2)	(0.3)	2.3	(7.0)	(7.8)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	77	(4)	(7)	(17)	34	37	(0.1)	(0.5)	0.9	(4.5)	(5.1)
FX	DXY (US dollar)	DXY	105.20	-	-	-	-	-	(1.2)	(0.7)	0.5	10.0	13.0
	GBI EM FX	GBI EM FX	-	-	-	-	-	-	2.3	1.7	0.3	(4.9)	(7.1)

1W reflects data from 3 August 2022 close through 10 August close. Source: Stone Harbor Investment Partners; Bloomberg. For illustrative purposes only. See disclosures at end of material for additional information.

Representative asset class benchmarks referenced herein are defined as follows: U.S. 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 U.S. 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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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

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