WEEKLY COMMENTS ON CREDIT

30 SEPTEMBER 2022

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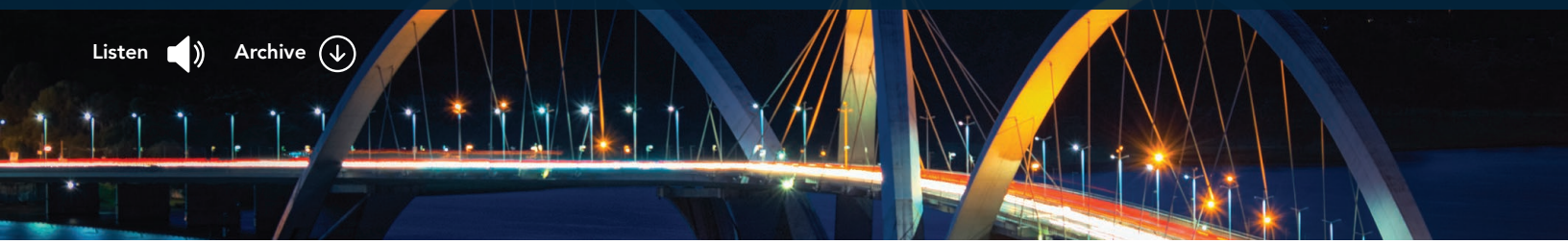

GLOBAL MARKET SUMMARY

Global bond yields increased on news of the U.K's new economic policy of tax cuts and regulatory reforms and retraced lower as the Bank of England stabilized the gilt market with renewed quantitative easing. The yield of ten-year U.S. Treasury notes broke above 4% for the first time since 2007 and settled to yields just above last week's close. The U.S. dollar strengthened against major currencies. Credit spreads widened resulting in negative total returns across the major credit sectors, while S&P 500 Index recorded its lowest close since November 2021. In emerging markets (EMs), hard currency corporate debt outperformed sovereign debt, both local and external. EM currencies depreciated against the U.S. dollar.

Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	564		57	-24.02%
EMBI GD IG	195		23	-22.86%
EMBI GD HY	996		101	-25.19%
Africa	1,042		156	-26.94%
Asia	379		47	-18.99%
Europe	740		64	-42.24%
LATAM	522		43	-21.26%
Middle East	393		37	-13.82%
CEMBI BD	387		32	-16.45%
CEMBI BD IG	207		18	-16.50%
CEMBI BD HY	652		48	-16.45%
GBIEM GD (%)	7.32		30	-21.15%
EM Blend (%)	8.39		54	-20.55%
EMBI ESG	480		48	-24.80%
CEMBI ESG	395		29	-15.35%
GBI ESG (%)	7.32		33	-22.21%

-200 0 200 400 600

Sep-21 Mar-22 Sep-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	556		58	-13.72%
US HY BB	388		49	-13.43%
US HY B	585		63	-13.12%
US HY CCC	1,245		90	-16.93%
Pan Euro HY	615		53	-14.49%
LSTA 100 (%)	7.92		59	-2.14%
US Treasury 7-10 (%)	3.73		20	-14.64%
1M LIBOR (%)	3.12		6	0.69%
US Agg	58		4	-13.83%
US IG Corp	158		17	-17.94%
Global Agg	60		5	-11.78%

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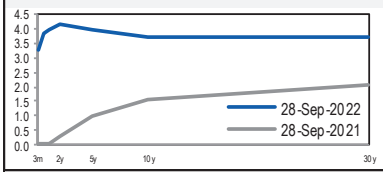
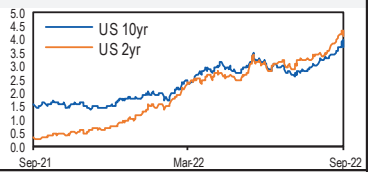
Sep-21 Mar-22 Sep-22

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	0.97		-16.67%	Gold	1,670	-4.40%	S&P500	7,885	-13.24%
USDJPY	144.16		-22.65%	VIX	30	29.81%	MSCI World	7,454	-18.32%
EM FX			-12.19%	Brent	89	12.93%	MSCI EM	2,181	-28.24%

Sep-21 Mar-22 Sep-22

As of: 28 September 2022. Source: Bloomberg, Stone Harbor Investment Partners. For illustrative purposes only. See disclosures at end of material for additional information.

United States

Fed speakers echoed Chairman Jerome Powell's hawkish rhetoric this week. St. Louis Fed Chief Jim Bullard reiterated the importance for the Fed to maintain its credibility and to stay on its tightening path despite the negative economic impact. Bullard also expressed his view that the Fed needs to maintain higher rates for longer to ensure inflation is contained and price stability is restored. Meanwhile, Chicago Fed's Charles Evans and Minneapolis' Neel Kashkari also indicated their support to deliver on the forecasted rate hikes and to maintain the higher levels of interest until inflation subsides.

This week's U.S. housing data was mixed but reflects the contractionary effects of higher mortgage rates. Home prices are beginning to cool and the FHFA (Federal Housing Finance Agency) and Case-Shiller indices fell 0.6% and 0.4% in July, respectively. New home sales rose 685k in August but was tempered by weaker-than-expected pending home sales. Mortgage applications fell 3.7% in September.

Europe

Newly appointed Chancellor of the Exchequer Kwasi Kwarteng announced a sweeping package of tax cuts and regulatory reforms with the intention of stimulating the U.K. economy. The basic income tax rate will be reduced, from 20% to 19%, and the 45% income tax on high earners will be removed. A planned corporate tax increase, from 19% to 25%, will also be scrapped. Markets did not respond well to the mini-budget and British assets, ranging from U.K. gilts and the pound, collapsed. The selloff in the U.K. gilts intensified before the BoE intervened to stabilize markets.

Three Nord Stream pipelines are leaking, after suspected sabotage, solidifying Western Europe's position to endure winter without any Russian energy. Russia declared victories in referendums held in territories currently occupied by its military forces and is prepared to formally annex the regions. The EU proposed additional sanctions including price caps of Russian oil sold to third countries, bans on European technology and services, and prohibiting EU nationals from sitting on boards of Russian state-owned enterprises.

Right-winged Giorgia Meloni won Sunday's election and is poised to become Italy's first female Prime Minister.

Asia/Japan

The People's Bank of China (PBoC) increased its stimulus efforts and announced a 200 billion Yuan lending facility to assist local manufacturers with upgrading their equipment. The funds will be directed primarily towards improving the infrastructure across education, health, electric vehicle chargers and urban underground facilities. The PBoC also announced the potential expansion of a special lending program to ensure fulfillment of delayed housing projects, if needed. The government is expected to implement city-specific property policies to support local demand.

Economist Corner

Seamus Smyth, PhD, Developed Markets

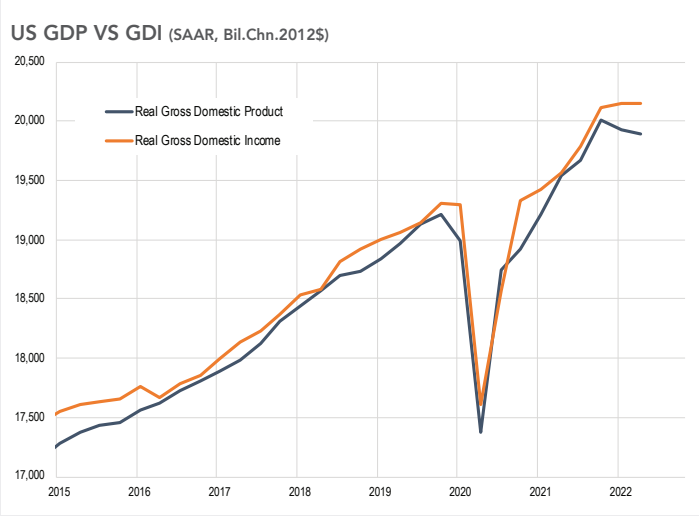
Steffen Reichold, PhD, Emerging Markets

A major puzzle in the economic data over the last several months has been what was a yawning gap between Gross Domestic Production (GDP) and Gross Domestic Income (GDK). Revisions to the data this week, however, bring them into much closer alignment and, instead of telling different stories about the post-COVID, they now tell the same story, or at least pretty close to the same story.

GDP and GDI are parallel estimates of the total production of the economy. Though they should, in theory, be equal, they are built up from different sources. Prior to recent revisions, that divergence was extremely large, with GDI estimating that the economy was over 4% larger than GDP–much larger than normal. They also told different stories about the recovery from COVID, and the recent path of the economy. GDI showed a much stronger rebound in output from the nadir in Q2 2022 to the end of 2021 than GDP did. Both measures put late 2021 output above the pre-COVID peak, but GDI put it well above while GDP was only moderately above. But GDP growth over that period was substantially softer. Then over H1 2022, GDP showed contractions in both Q1 and Q2; growth in GDI was clearly slower than previously but remained solidly positive.

But revisions–to both series–have substantially closed those gaps. GDP was revised up meaningfully over the 2020-2021 recovery. Though no individual quarter saw very large revisions, the total amount was significant. That has two implications: 1/ with GDP stronger it helps better rationalize inflation and 2/ productivity growth no longer looks as disappointing as previously. GDI also saw substantial revisions, this time concentrated in the last two quarters–instead of fairly robust growth over H1, it shows a marked slowing, similar to GDP though not dipping below zero as GDP does.

Overall, both GDP & GDI now tell very similar stories: a strong and rapid recovery from COVID, but substantial slowing in that recovery over the first half of 2022. There is still some remaining discrepancy as GDI is about 1% higher than GDP, but it is now a normal error, not a yawning gap.



As of 31 August 2022
Sources: Haver Analytics, BEA, Stone Harbor Investment Parnters
For illustrative purposes only

External Sovereign Debt

External sovereign debt spreads widened 57 bps and the JP Morgan EMBI Global Diversified returned -4.4%. Investment grade credits modestly outperformed non-investment grade bonds. The top performers included Maldives (3.3%), El Salvador (0.0%), and Croatia (0.7%). The bottom performers included Pakistan (-20.6%), Ecuador (-15.1%), and Nigeria (-10.9%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned -3.5%. EM currencies returned -2.2%, in aggregate. The Dominican peso outperformed with spot FX return of 0.4%, followed by the South African rand (-1.1%) and Turkish lira (-1.1%). Underperformers included Hungary (-4.3%), Poland (-3.5%), and Brazil (-3.4%).

The yield of the JP Morgan GBI EM Global Diversified increased 30 bps to 7.32%. Serbia bonds outperformed with yields 1 bp higher, followed by Egypt (+3 bps) and China (+6 bps) bonds. Poland (+78 bps), Chile (+41 bps), and Mexico (+41 bps) underperformed.

In central bank actions, Indonesia hiked the reference rate by 50 bps to 4.25%, South Africa raised the repo rate by 75 bps to 6.25%, Guatemala raised the leading rate by 25 bps to 3.00%, Paraguay increased the policy rate by 25 bps to 8.50%, Hungary hiked the base rate by 125 bps to 13.00%, and Nigeria hiked the policy rate by 150 bps to 15.50%. Angola moved to cut the benchmark rate by 50 bps to 19.50%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified returned -2.1%, outperforming EM sovereign debt and U.S. high yield bonds. Latin America continued to underperform with a total return of - 3.05%. Spreads of non-investment grade debt widened 48 bps, while investment grade bond spreads widened 18 bps, on average. Fifty-three of 59 benchmark countries and each region posted negative total returns, lowering the index's year-to-date performance to -15.94%.

Flows/Issuance

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw net outflows of US$4.2 billion, primarily from hard currency debt funds. We note that EPFR data provides a partial picture of portfolio flows as it accounts for a segment of the total market.

Source: EPFR

Sovereign Soundbites

BELARUS On Wednesday, Belarus announced early redemption/tender of Eurobonds due 2023, 2026, 2027, 2030, and 2031. The offer outlined four options for fulfilling debt obligations, including: replacing the Eurobonds with domestic government bonds; redeeming the Eurobonds early at 30% of the face value, with accrued interest; receiving the coupon payments previously transferred to the paying agent; and receiving coupon and redemption payment of the Eurobonds in Belarusian rubles. The latest resolution follows several events throughout this summer involving attempts to make interest payments to bondholders in local currency and through alternative payment agents.

CHINA China announced earlier this week the resumption of an e-visa scheme for mainland travelers and group tours to Macau, China's special administrative region where it is legal for citizens to gamble in casinos. Macau is now planning to open up to mainland tour groups in November for the first time in nearly three years. The individual visa scheme accounted for roughly 50% of Chinese visitors to Macau and tour groups accounted for approximately 25% prior to the pandemic-related restrictions, suggesting that the announcement could have a significant impact on the tourism industry in the world's largest gambling hub. The announcement, along with recent calls for greater policy implementation efforts on opening up the economy implies that relaxation of China's zero-COVID policy may be underway. These announcements correspond with the recent push by the Chinese Center for Disease Control to boost vaccination rate and raise the possibility of a gradual lifting of China's zero-COVID policy.

COLOMBIA According to the Finance Minister Jose Antonio Ocampo, the government will submit a revised tax reform bill to congressional economic committees for a vote next week. Key components of the bill include a wealth tax on individuals; 20% levy on oil and coal exports when prices are higher than a 20-year average, and a surcharge on oil if international prices reach US$71 per barrel (the previous threshold was US$48 per barrel); and a 5% corporate tax surcharge for the financial sector. President Gustavo Petro has previously indicated a goal of raising 25 trillion pesos or roughly US$5.6 billion in tax revenue in 2023 and gradually increasing that figure to US$11.5 billion.

EL SALVADOR According to Dante Mossi, Executive President of the Central American Bank for Economic Integration (CABEI), three new loans to El Salvador are under review for a total of US$550 million. Mossi expects approval by the end of the year. The El Salvador government has declared that the funds, if approved, will be used to support the budget (US$350 million), road maintenance (US$100 million) and the Lempa River Hydroelectric Executive Commission (US$100 million).

LEBANON Finance Minister Youssef Khalil announced plans to change the official exchange rate of the Lebanese pound to 15,000 against the USD, confirming that the 25-year-old peg of the Lebanese pound (or lira) of 1,507 against the USD will come to an end in October. Parallel or black market rates as well as rates on the Banque du Liban (BdL)-run Sayrafa platform have not been at or below 15,000 in a year and currently stand at around 39,000 and 30,000, respectively. These rates and the inflation they have generated have fed through to local prices and wages. The announced devaluation may still not be enough, in our view, given the significant difference between the proposed official rate and the parallel rate. The new official rate is unlikely to attract sellers of US dollars, which suggests either a continuation of the multiple exchange rate regime or requiring the BdL to provide the liquidity to retain the rate at the desired level. Given the low level of FX reserves at the BdL, the latter seems unlikely. Citibank notes that Finance Minister Khalil appeared to acknowledge as much when describing this devaluation as a step towards unification rather than the final destination for the exchange rate.

PAKISTAN Amid ongoing economic crisis that has been further exacerbated by catastrophic floods, the IMF assured Pakistan this week that the Fund will consider increasing the US$1.1 billion installment due in a few weeks, in addition to several other concessions, including: allowing a 3-month freeze on taxes on fuel and easing Pakistan's current account and fiscal deficit targets to help cotton, wheat, and rice imports.

Separately, Ishaq Dar was appointed as the next Finance Minister, replacing Miftah Ismail, a day after being sworn in as a member of the country's parliament. Dar had led the finance ministry three times in the past, most recently from 2013 to 2017. He is widely known for his preference for currency management, which could stand in contrast to IMF recommendations of a flexible and market-determined currency.

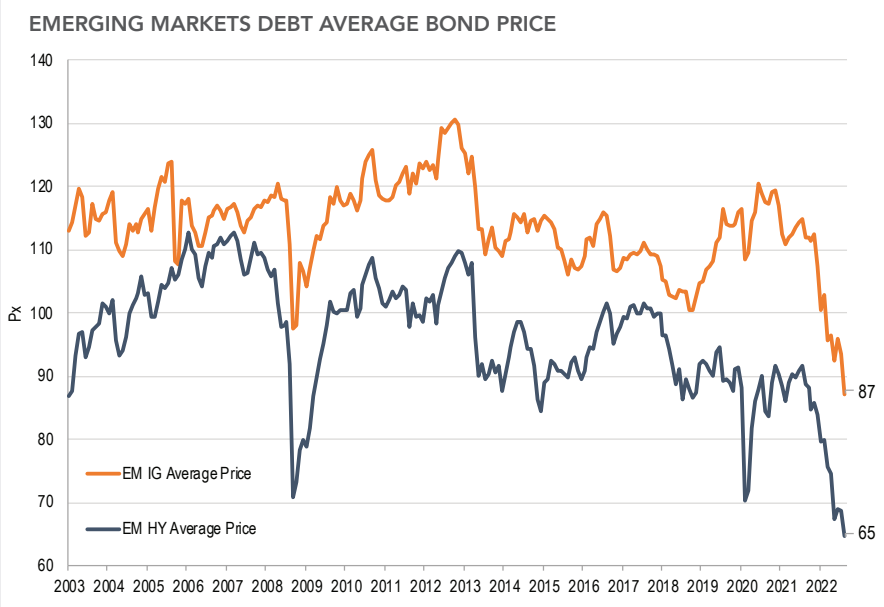
ROMANIA The Executive Board of the IMF concluded the Article IV consultation with Romania. The Executive Board assessed that Romania has achieved a strong economic recovery from the pandemic but that the outlook has been clouded by uncertainties stemming from the war in Ukraine. The conclusion of the consultation coincided with a positive preliminary assessment by the European Commission on Romania's first payment request for €2.6 billion under the Recovery and Resilience Facility.

SERBIA On the sidelines of the U.N. General Assembly meeting in New York, Serbian Foreign Affairs Minister Nikola Selakovic signed an agreement with Russian Foreign Minister Sergey Larov for mutual consultations on foreign policy matters. Serbia, which is a candidate for European Union (EU) membership, has refused to join Western sanctions against Russia, further misaligning its policies with the EU and jeopardizing its chances of membership approval. Selakovic has stated that the agreement is technical in nature and is related to bilateral ties rather than security issues.

TURKEY Faced with growing sanctions risks associated with conducting business with Russia, three Turkish banks – Turkiye Halk Bankasi AS, also known as Halkbank, TC Ziraat Bankasi AS and Turkiye Vakiflar Bankasi TAO – announced they will suspend the use of Russian payment system Mir, which was established as an alternative to the Belgium-based SWIFT network. The decision follows guidance by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC) earlier this month against forming new agreements or expanding existing ones with Mir cards, citing Russia's suspected attempts to evade sanctions and to identify new methods of processing payments.

Chart of the Week

EM sovereign bond prices closed on 27 September 2022 at lower levels than at any time in the past 20 years, including during the 2007-2009 Global Financial Crisis. Sixty percent of the CCC and lower-rated sovereign credits traded at prices of US$40 and below, and debt from some countries that have already defaulted, including Venezuela and Lebanon, were marked at single-digit prices. EM sovereign high yield and investment grade sub- indexes traded at a weighted-average cash prices of US$65 and US$87, respectively. While the bottom of prices for investment grade bonds will depend to a large degree on the level of U.S. Treasury yields, the high yield bond price reflects the large number of countries facing liquidity challenges and, in some cases, debt unsustainability. Through support from the International Monetary Fund and bilateral lenders, countries currently in debt distress may avoid restructuring and their bond prices may rise as and when their economies recover. For those countries that eventually restructure their debt, current low bond prices may already discount downside risks and offer significant potential returns, in our view.



As of 27 September 2022
Sources: Bloomberg, Stone Harbor Investment Partners
Benchmark: Bloomberg EM USD Sovereign Index
For illustrative purposes only.

U.S. High Yield

The ICE BofAML U.S. High Yield Constrained Index declined 2.81% following the volatile moves in the equity and rate markets in response to last week's U.S. interest rate hike. In addition, the selloff in European rates pressured high yield bonds as there were forced sellers looking to cover hedges that turned negative. Technicals remain favorable as real money clients with decent cash balances coupled with an absent primary calendar helped the market remain two sided but moved lower in tandem with the deteriorating macro environment. Decompression among ratings classes remained with BBs outperforming, losing only 2.67% versus CCCs, which decreased by 3.31%. Bs were in-line with the index with a total return of -2.84%. The yield-to-worst of the index widened +.70% to finish at 9.45% close to 30-month highs. Index spreads widened 58 bps to finish at +556 OAS. Rating classes performed similarly with BBs outperforming with spreads 49 bps wider, while CCCs widened 90 bps, and Bs widened 63 bps. Underperforming sectors that declined more than -3.25% were Chemicals, Consumer Products, Containers, Leisure, Cable, Retail, and Satellites.

Leveraged Loans

The Leveraged Loan market declined in response to both monetary and macro-economic pressures, and the Morningstar LSTA US Leveraged Loan Index ("the Index") declined 1.40%, the average bid price decreased 145 bps to US$92.29, and the spread-to-maturity widened 42 bps to L+558. Loan market activity was relatively subdued as investors digested broader market moves and the syndication of the Citrix leveraged buyout (LBO). Within the secondary market the higher quality BB portion of the market outperformed, while the lower quality B and CCC portions of the market lagged. Notably, within the single B ratings cohort, the newly issued Citrix LBO term loan fell below its new issue price amidst the heavy tone in the market, which does not bode well for further new issuance until we see market stabilization. From an industry sector perspective, we saw higher quality defensive sectors such as Utilities outperforming, while more interest rate sensitive sectors, including Consumer Products and Building Products, underperformed. Lastly, there were no defaults in the Index last week.

European High Yield

The Bloomberg Barclays Pan-Euro High Yield 2% Cap Ex Financials Index declined 2.55% as volatility in interest rates, especially in the U.K., triggered forced selling. Additionally, concerns continued to mount about the potential for the Fed's hiking cycle to result in a more severe recession. Index spreads widened 53 bps for the week. Promontoria bonds gained another 1 point after SATS Ltd. announced the acquisition of the company for €2.25 billion. Nexi bonds gained 2 points after the company announced partial tenders on its 2024 and 2026 notes of up to €400 million.

Flows/Issuance

According to EPFR, the U.S. high yield market lost US$3.075 billion this week. ETFs drove the outflow losing US$2.298 billion while institutional accounts only lost US$620 million. One company, Royal Caribbean Cruises Ltd, braved the primary market after some positive industry/company reports from the sell-side to issue a US$2 billion two-part deal. They priced US$1 billion senior secured and US$1 billion senior unsecured notes, which came at tight end of price talk to refinance 2023 maturities.

In leveraged loans, while the overall new issue supply pipeline appears limited, we continue to see marginal demand from structured credit investors in the form of Collateralized Loan Obligation (CLO) and further outflows from retail loan mutual funds and Exchange Traded Funds (ETFs). On the CLO front, another six deals priced this past week for US$2.4 billion, bringing the year-to-date tally to 218 deals worth US$101.1 billion, which outside of last year's record-setting year, marks the second largest historical year-to-date volume. Further, the market continues to see steady outflows from retail mutual funds and ETFs. Last week, approximately US$1.2 billion was withdrawn from the market, which was the largest outflow since mid-July and is the fifth consecutive week of outflows. The market continued to receive outflows this past week.

For European high yield, market conditions produced another week of outflows with US$466 million of redemptions, bringing the September total to US$833 million. Verisure, the leader in European alarm systems, priced 500 million euros of five year secured notes at par to yield 9.25%, compared to initial price talk of 9.25-9.5%.

Source: Lipper, EPFR

Industry Insights

BUILDING PRODUCTS: White Cap reported their fiscal year 2Q results for the period ended August 1st. Despite some softness in single family construction (~10% of total revenues), results continued to be strong even in the face of growing macro headwinds. White Cap saw growth in its non-residential, infrastructure and multi-family residential end markets as the company continues to see stable organic growth in average daily sales, which were supplemented by continued integration of previously announced acquisitions. For the quarter, both revenue and EBITDA were up 17% year-on-year due to favorable pricing, volume growth and acquisitions. The company remains focused on its longer-term growth strategy of pursuing a combination of strategy tuck-in acquisitions and greenfield projects, both of which will help the company further deleverage over time.

MIDSTREAM: Senator Joe Manchin's "Energy Independence and Security Act of 2022" was pulled from a stopgap spending bill on Wednesday when it became clear that Manchin could not get the votes necessary to progress it. Details of the bill included provisions that would set a two-year time limit for environmental reviews involving major energy infrastructure projects, establish a 150-day limit for court filing challenges, and allow the president to create a rolling list of 25 energy projects of "strategic national importance." The bill would also require federal agencies to fast track EQM's Mountain Valley Pipeline, which runs through Manchin's home state of West Virginia. Earlier in the week, the bill dropped language to change Section 401 of the Clean Water Act, which would have limited state and tribal authority to verify water quality impacts of proposed projects within their borders, but the adjustment was not enough to push the bill over the finish line in time to be included with the continuing resolution. Manchin remains focused on negotiation so that the bill could pass before year end. EQM bonds were weaker on the news.

TECHNOLOGY: High yield and leverage loan issuer Rackspace Technology Inc. announced management changes. The CFO Amar Maletira was promoted to CEO and the current CEO was moved to the "role of operating advisor with Apollo." Mr. Maletira reiterated the plan to split the company into two separate business units and stated that "I am very excited about the journey ahead and look forward to leading the company as we transition to our new strategy and operating model." The exact split will be communicated to investors at a future date when Rackspace announces the date of the upcoming analyst day. We think that any split into two separate companies and capital structures will be at least a few quarters after the business units disclose separate financials. The good news was that Rackspace confirmed the earning guidance for the September quarter and indicated that "it expects third quarter 2022 financial results to be within the previously announced guidance."

Governments

It was an eventful week in the U.K. as nominal and inflation-linked gilts collapsed at a historic rate, in response to Prime Minister Truss' mini-budget plans, before the BoE intervened to bring stability to the markets. U.K. gilts stabilized and recovered most of its intra-week losses after the BoE announced it will purchase long dated gilts, at whatever scale is necessary, to restore orderly market conditions. Given the potential inflationary effects of the proposed tax cuts, markets now expect the BoE will need to raise its policy rate more aggressively. According to the OIS markets, participants are now pricing in a 1.50% rate increase by the BoE in November.

Following the FOMC's revised dot plot, which suggests the committee is determined to continue raising interest rates more aggressively, U.S. Treasuries weakened further and the yield on 10-year bonds rose 20 bps to 3.73%. As the market reprices for more tightening policy, Treasury volatility, as measured by the ICE BofA MOVE Index, jumped 28 pts to 159. OIS markets were little changed and participants still expect the Fed Funds rate to reach around 4.25% by the end of 2022. After reaching -52 bps last week, U.S. 2s10s retraced and ended the period 12 bps higher to -41 bps. 10-year real yields rose for an eighth consecutive week to 1.40% while U.S. breakevens, a gauge of inflation expectations, slipped 4 bps higher to 2.33%.

The Bank of Japan continues to defend the 0.25% limit for 10-year Japanese government bonds.

Corporates

Spreads on investment grade corporates reversed course this week on a rush of selling related to outflows from accounts that were subject to collateral calls on volatile interest rate and currency moves in overseas markets. Spreads accelerated wider in a rapid pace as dealers were reluctant to step in and bid risk while others set new short positions. Higher quality liquid issues saw spreads widen by 7-15 bps while less liquid off the run issues saw spreads decompress by as much as 25 bps. Spreads on the Bloomberg corporate index were wider by 17 bps on the week leaving the OAS at 158 bps, only 2b bps off the recent wides of 160 bps in June of this year. As we approach the end of September, total returns for the month are pretty dismal at -4.56%, while month-to-date excess returns are -1.36%. Year-to-date total returns are unprecedented at -18.12%.

Securitized

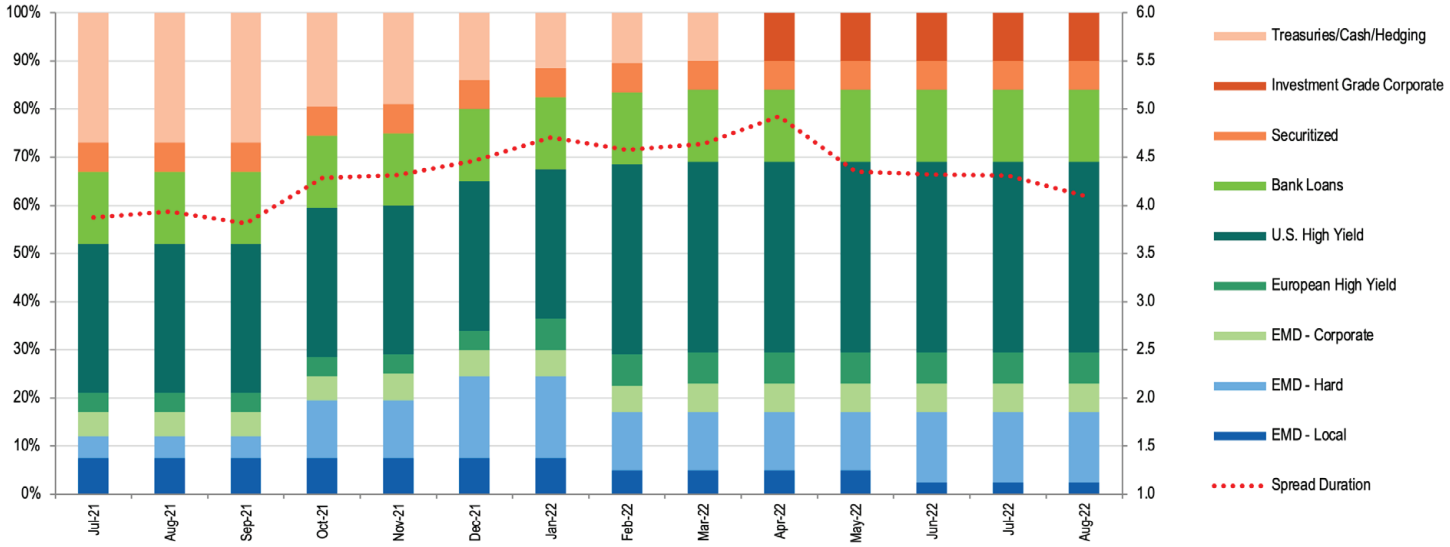
The mortgage current coupon widened 14 bps in the market turmoil this week. Several U.K. lenders paused their mortgage lending programs in order to reprice amidst the sharp rise in rates. The MBA mortgage coupon reached 6.52%, +27 bps from the previous week with the MBA applications index at the lowest level since 1999. T-Mobile is issuing their first ABS backed by phones, becoming the second issuer in the sector. Hertz and BP have partnered to provide electric-vehicle (EV) charging stations in North America to support Hertz's expansion of their EV fleet. 2 Loan Depot ABS deals were called within the last week, leaving only 2 warehouse securitization deals outstanding in a rapidly shrinking sector.

Flows/Issuance

In the primary markets, corporate issuance has all but come to a standstill with only two deals coming to market this week for roughly US$1.1 billion, far under the US$15-US$20 billion expected. September supply looks very underwhelming with only US$80 billion coming to market when expectations were for upwards of US$150 billion, according to street estimates. Higher rates and volatile markets have kept many potential issuers on the sidelines looking for a better entry point. Year-over-year supply is down 11.27% with US$1.025 trillion issued.

High grade fund flows saw accelerated outflows of US$2.9 billion for the latest period according to EPFR. Corporate only and total return funds accounted for the bulk of the outflows with -US$1.9 billion and -US$1.1 billion, respectively, while aggregate funds registered modest inflows of US$33 million. Outflows were evenly split between ETF's and mutual funds and were particularly evident in the long corporate only funds. JPMorgan's estimate of flows into high grade corporates from across all high grade credit funds recorded US$2.1 billion of outflows.

STONE HARBOR MULTI-ASSET CREDIT TARGET ALLOCATIONS (%)



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

As of September 28, 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	564	57	63	22	197	209	(4.4)	(6.1)	(4.3)	(23.7)	(24.0)
	CEMBI Broad Diversified	CEMBI B D	387	32	38	(2)	114	131	(2.1)	(3.5)	(2.3)	(15.9)	(16.4)
	GBI EM Global Diversified Yield	GBI EM GD	7.32	0.30	0.43	0.26	1.60	2.05	(3.5)	(5.4)	(5.2)	(19.0)	(21.2)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	564	57	63	22	197	209	(4.4)	(6.1)	(4.3)	(23.7)	(24.0)
	EMBI GD Investment Grade	EMBI IG	195	23	33	6	52	51	(3.5)	(6.1)	(4.8)	(23.5)	(22.9)
	EMBI GD High Yield	EMBI HY	996	101	95	29	356	400	(5.4)	(6.0)	(3.7)	(23.9)	(25.2)
EM Sovereign Debt Regions	Africa	Africa	1,042	156	133	68	429	480	(8.0)	(7.6)	(4.2)	(25.5)	(26.9)
	Asia	Asia	379	47	81	46	160	159	(3.8)	(7.1)	(5.8)	(19.1)	(19.0)
	Europe	Europe	740	64	55	(26)	417	451	(3.7)	(4.3)	(3.5)	(41.0)	(42.2)
	LATAM	LATAM	522	43	42	16	141	148	(4.5)	(6.0)	(4.3)	(21.6)	(21.3)
	Middle East	Middle East	393	37	51	5	68	60	(3.3)	(5.6)	(3.3)	(14.3)	(13.8)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	387	32	38	(2)	114	131	(2.1)	(3.5)	(2.3)	(15.9)	(16.4)
	CEMBI BD Investment Grade	CEMBI IG	207	18	26	4	57	64	(1.9)	(3.6)	(3.2)	(16.4)	(16.5)
	CEMBI BD High Yield	CEMBI HY	652	48	48	(15)	168	200	(2.5)	(3.4)	(1.2)	(15.4)	(16.4)
US High Yield	US High Yield	US HY	556	58	41	(38)	224	226	(2.8)	(3.7)	(0.3)	(14.3)	(13.7)
	US High Yield BB	US HY BB	388	49	28	(39)	153	155	(2.7)	(3.6)	(0.6)	(14.0)	(13.4)
	US High Yield B	US HY B	585	63	47	(72)	209	203	(2.8)	(3.6)	(0.2)	(13.9)	(13.1)
	US High Yield CCC	US HY CCC	1,245	90	97	43	551	591	(3.3)	(4.5)	0.3	(16.9)	(16.9)
European High Yield	Barclays PanEur HY	BAR PanEur HY	615	53	58	(41)	304	318	(2.5)	(4.0)	(0.2)	(14.3)	(14.5)
	2% Ex Financials Yield	2% ExFin Yield	8.73	0.85	1.40	0.70	5.17	5.46	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	92.3	(1.4)	(2.3)	0.1	(6.3)	(6.3)	(1.4)	(1.9)	1.7	(2.9)	(2.1)
	LSTA 100 Yield	LSTA 100 Yield	7.92	0.59	0.95	0.98	4.04	4.20	(1.4)	(1.9)	1.7	(2.9)	(2.1)
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	3.73	0.20	0.55	0.72	2.28	2.27	(1.5)	(4.0)	(4.9)	(15.1)	(14.6)
	1M LIBOR	1M LIBOR	3.12	0.06	0.56	1.33	3.01	3.03	0.1	0.2	0.5	0.7	0.7
	US Aggregate	US AGG	58	4	8	3	22	25	(1.6)	(3.6)	(4.0)	(13.9)	(13.8)
	US Investment Grade Corporates	US IG Corp	158	17	18	3	66	75	(2.7)	(4.6)	(4.4)	(18.1)	(17.9)
	Global Aggregate	Global AGG	60	4	6	3	24	27	(1.4)	(2.9)	(3.0)	(11.8)	(11.8)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	91	13	12	(3)	48	55	(0.7)	(1.7)	(1.7)	(6.9)	(7.5)
FX	DXY (US dollar)	DXY	112.60	-	-	-	-	-	1.8	3.6	7.6	17.7	20.1
	GBI EM FX	GBI EM FX	-	-	-	-	-	-	(2.2)	(3.9)	(5.8)	(10.6)	(12.2)

1W reflects data from 21 September 2022 close through 28 September 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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