WEEKLY COMMENTS ON CREDIT

20 JANUARY 2023

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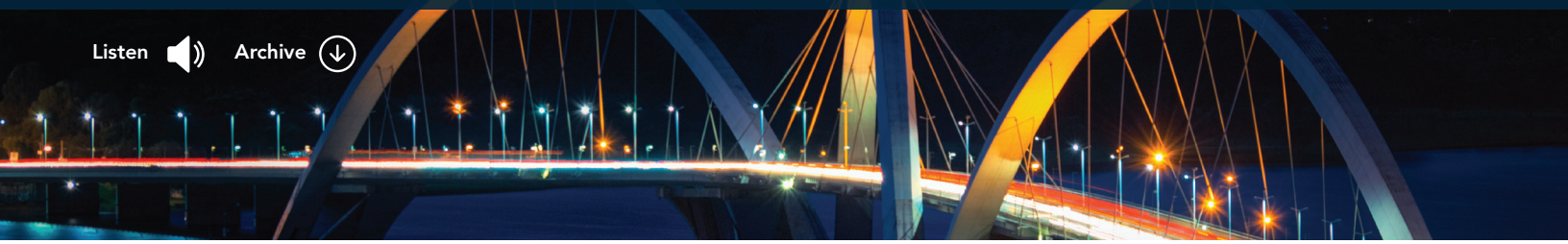

GLOBAL MARKET SUMMARY

Global credit markets weighed the latest set of U.S. economic data that suggest some weakness in growth, along with the impact of moderating inflation on the U.S. Federal Reserve's (Fed) policy response. Markets interpreted signs of slowing growth and better inflation data as conditions that would allow the Fed to reduce the scale of the rate increase in the upcoming meeting. The U.S. 10-year Treasury yield declined to a four-month low of 3.37%. The Bank of Japan announced it will maintain its yield curve control and easy monetary policy, in contrast to market expectations for an unwinding of the stimulus program. Credit spreads tightened, and total returns were positive across all major credit sectors. The U.S. dollar weakened against the euro, and the average spot currency performance in EMs 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	447		-15	-11.39%
EMBI GD IG	152		-6	-14.24%
EMBI GD HY	788		-25	-8.34%
Africa	764		-26	-5.51%
Asia	312		-17	-10.10%
Europe	624		1	-32.29%
LATAM	400		-18	-6.26%
Middle East	339		-8	-5.47%
CEMBI BD	318		-5	-8.43%
CEMBI BD IG	179		-1	-10.54%
CEMBI BD HY	526		-7	-5.71%
GBIEM GD (%)	6.58		-2	-7.54%
EM Blend (%)	7.27		-19	-9.08%
EMBI ESG	378		-13	-12.66%
CEMBI ESG	319		-1	-6.76%
GBI ESG (%)	6.58		-3	-7.32%

-200 0 200 400 Jan-22 Jul-22 Jan-23

Developed Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	438		-7	-6.23%
US HY BB	293		2	-5.51%
US HY B	463		-5	-5.87%
US HY CCC	1,006		-58	-11.10%
Pan Euro HY	448		-19	-6.79%
LSTA 100 (%)	8.95		-11	0.87%
US Treasury 7-10 (%)	3.33		-17	-8.68%
1M LIBOR (%)	4.49		6	1.79%
US Agg	47		-1	-7.62%
US IG Corp	123		-3	-9.17%
Global Agg	48		-1	-7.20%

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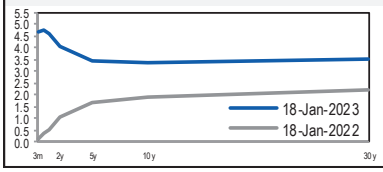
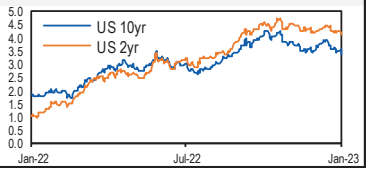
US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.08		-4.69%	Gold	1,907	4.30%	S&P500	8,374	-12.74%
USDJPY	128.90		-11.10%	VIX	20	-10.75%	MSCI World	8,329	-11.71%
EM FX			-3.61%	Brent	85	-2.89%	MSCI EM	2,580	-14.21%

Jan-22 Jul-22 Jan-23 Jan-22 Jul-22 Jan-23 Jan-22 Jul-22 Jan-23

As of: 18 January 2023. Source: Bloomberg, Stone Harbor Investment Partners. For illustrative purposes only. See disclosures at end of material for additional information.

United States

With less than six months of runway remaining, the U.S. is at risk of breaching the US$31.4 trillion debt ceiling and falling into technical default. Although Congress has yet to reach an agreement, Democratic Senator Joe Manchin expressed some progress around a compromise with Republican Speaker Kevin McCarthy. The U.S. Treasury Department will begin implementing, "extraordinary measures," to prevent the U.S. from exceeding the current debt ceiling and provide policymakers ample time to reach a resolution.

During their first in-person meeting in Zurich, the U.S. Treasury Secretary Janet Yellen and Chinese Vice Premier Liu He exchanged macroeconomic views and indicated plans to meet again later in the year. Yellen emphasized the importance of increasing coordination and communication between the two counties. Timing and details of futures meetings between Yellen and He have yet to be confirmed.

Europe

German Defense Minister Christine Lambrecht announced her resignation , which comes at a pivotal point as Germany reviews the potential delivery of its Leopard battle tanks to support Ukraine's efforts. Boris Pistorius, Interior Minister of Lower Saxony, was appointed as the new German Defense Minister.

The hawkish messaging from the ECB grew louder after Philip Lane, the central bank's Chief Economist, said rates need to go into restrictive territory in order to quell inflation. Similar to the Fed, which acknowledged that the lagged cumulative effect of policy tightening could end up being more restrictive than is necessary to bring down inflation, Lane also highlighted the prudence of observing the feedback from the tightening that occurred last year. Later in the week, several headlines suggested the ECB may consider a downshift, to 25 bps, after raising its deposit rate by 50 bps in February.

Asia/Japan

In contrast to speculation for further adjustments, the BoJ voted unanimously to keep its Yield Curve Control (YCC) and monetary policies settings unchanged. While no changes were made to the main policy rates, the BoJ amended its "Funds-Supplying Operations," which allowed banks to borrow at 0% interest. Going forward, interest rates for loans will be determined based on the goal of, "encouraging the formation of a yield curve that's consistent with the guideline for market operations." This may potentially allow the BoJ to offer negative rates, at different tenors, and effectively pay banks to buy bonds, which provides the central bank an additional lever in controlling the shape of the yield curve. This could also potentially allow the BoJ to circumvent its ownership concentration of bonds. During the press conference, Haruhiko Kuroda said that he expects the bond market's function to improve, reiterated his confidence in the sustainability of YCC and said that further widening of the yield target was not needed.

Economist Corner

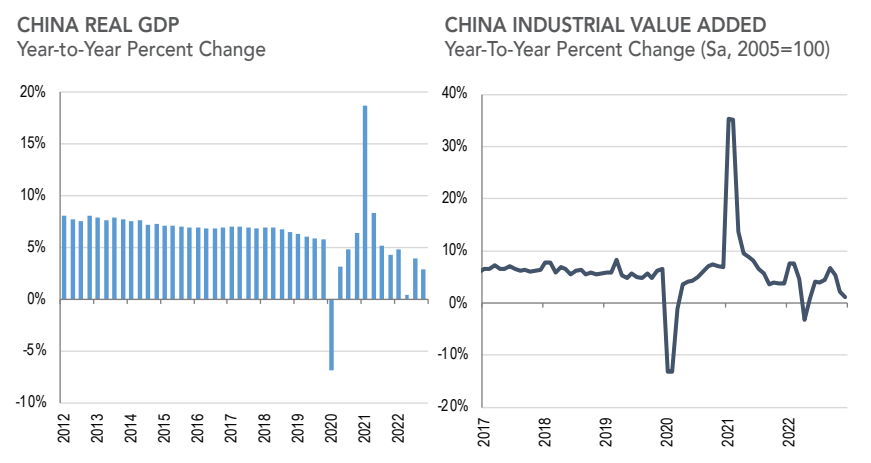
Seamus Smyth, PhD, Developed Markets **Steffen Reichold, PhD, Emerging Markets**

China's economy showed a significant slowdown towards the end of last year as rising COVID infections triggered more restrictions and lockdown. Monthly data, such as Industrial Value Added, show a sharp slowdown towards the end of the year. During the past three years, COVID waves have been the most important driver of economic activity in China. Yet, the official data released this week showed GDP growing 2.9% y/y, much better than expectations of only 1.6%. This means that the COVID restrictions and lockdowns in Q4 were much less disruptive than during the big Shanghai lockdown in Q2. But much more important that the Q4 data outcome was the abandoning of the Zero-COVID policy. We believe this substantially improved the growth outlook for 2023. In the initial phase, while COVID spreads rapidly, the economic impact is likely negative even without formal lockdowns, as people are either sick or socially distancing. But we are already seeing high-frequency mobility data showing a return of activity in major cities. As the COVID waves abate, we expect a fairly sharp return of activity. And consumption is likely to lead this recovery, in our view.

Chinese consumers have been very reluctant to increase spending over the past three years. They have increased their personal savings rates. Deposits are at very high levels. The housing slump likely contributed to this as new down payments for real estate purchases have collapsed. As a result, we see consumers with pent-up demand, who are currently under-spending, and with higher-than-normal savings. This should present a supportive environment for a rebound in activity, based on our current assessment.

Regarding the timing, we believe this year's Lunar New Year holiday is still too early for a resumption of normal patterns. To the contrary, the holiday period will likely further boost the spread of COVID. We currently expect to see a meaningful improvement in activity towards the end of Q1 and continue into Q2 and Q3. Overall, we raised our forecast for Chinese GDP growth in 2023 to 5%. The housing market provides some more upside potential.

Housing sector policies have changed significantly in November. It seems clear that the policy priority is now to improve the financial conditions of real estate developers. But for home purchase activity to return, buyers need to regain confidence that prices have bottomed and that developers can finish and deliver sold units. This will likely take time but, if successful, it could add additional momentum to Chinese growth later in 2023.



As of 31 December 2022
Sources: Haver, China National Bureau of Statistics, Stone Harbor Investment Partners
For illustrative purposes only.

External Sovereign Debt

External sovereign debt spreads tightened 15 bps and the JP Morgan EMBI Global Diversified returned 2.2%. Non-investment grade bonds outperformed investment grade credits and registered total returns of 2.4% and 1.9%, respectively. The top performers included Argentina (9.7%), Venezuela (9.6%), and Sri Lanka (9.3%). The bottom performers were Tunisia (-1.2%), Suriname (-0.4%), and Armenia (0.0%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 1.4%. EM currencies returned 1.2%, in aggregate. The Indonesian rupiah outperformed with spot FX return of 2.6%, followed by the Brazilian real (2.1%) and Hungarian forint (2.0%). Underperformers included Peru (-1.2%), Dominican Republic (-0.2%), and Turkey (-0.1%).

The yield of the JP Morgan GBI EM Global Diversified declined 2 bps to 6.58%. Hungary bonds outperformed with yields 38 bps lower, followed by Colombia (-33 bps) and Uruguay (-28 bps) bonds. Egypt (+183 bps), Dominican Republic (+92 bps), and Peru (+22 bps) underperformed.

In monetary policy, the central banks of Malaysia and Turkey held their policy rates at 2.75% and 9%, respectively. Belarus cut the refinance rate by 50 bps to 11.50%, while Indonesia and Peru hiked policy rates by 25 bps to 5.75% and 7.75%, respectively.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified returned 1.0%, with almost equal contributions from non-investment grade credits and investment grade bonds. At the regional level, major contributors to the gains were Africa (1.6%) and Asia (1.1%). In Africa, Ghana (3.5%), Nigeria (1.8%) and South Africa (1.7%) contributed to positive returns. In Asia, the returns were driven by gains in Cambodia (2.9%), Philippines (2.5%), Vietnam (2.5%), Mongolia (2.1%) and Indonesia (1.6%). Underperformers included Armenia (-3.1%) and Tanzania (-0.5%). At the industry level, Oil & Gas (+1.9%), Utilities (+1.6%) and Industrial (+1.3%) were the major contributors to positive returns.

Flows/Issuance

In EM hard currency sovereign debt, Bulgaria issued a 10-year euro-denominated bond totalling roughly US$1.6 billion.

EM Corporates saw new issuances from banks, including Korean Woori Bank, Israel Discount Bank, and First Abu Dhabi Bank PJSC. According to dealers, investor demand exceeded supply for Woori Bank's issue by 15x, leading the offering's managers to lower the spread by 40 bps from initial guidance.

According to latest available data by Emerging Portfolio Fund Research (EPFR), EM fixed income funds recorded net inflows of US$1.9 billion, almost entirely into 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.

Sources: J.P. Morgan and EPFR

Sovereign Soundbites

ARGENTINA On Wednesday, Argentina's Economy Minister Sergio Massa announced a buyback program of U.S. dollar-denominated debt worth approximately US$1 billion, with focus on notes maturing in 2029 and 2030. The program, which Massa described as a liability management measure, is expected to begin immediately. While the move appears to be an attempt to send a positive signal to markets on debt reprofiling, there is also the speculation that the program will be used as a mechanism for FX intervention, allowing the central bank to later sell bonds against the peso in the blue-chip swap market. If the narrative around FX intervention unfolds and is realized, the impact could potentially be supportive for the blue-chip swap market and overtime, less constructive for USD bonds. The Argentina bond market's reaction to the announcement was positive.

BRAZIL Late last week, President Luiz Inacio Lula's administration announced fiscal measures designed to significantly lower the projected deficit for this year to less than 1% of GDP compared to the current forecast of 2.1% of GDP. The economic plan targets increasing revenues by more than R$190 billion and reducing expenses by R$50 billion. Key measures include tax increases that would roll back exemptions for large non-financial companies, as well as how companies can generate tax credits.

CHINA China's 4Q GDP registered 2.9% one-year annualized growth, following 3.9% in 3Q. This better-than-expected result transpired despite the rise in COVID infections in December, following the lifting of the Zero-COVID policy. The full-year 2022 GDP growth of 3.0% year-over-year, while significantly lower than the government's target of 5.5%, is still better than forecast and estimated to be higher than the U.S. GDP. Regarding the breakdown of growth contribution, consumption, gross capital formation and net exports contributed 1.0%-pt, 1.5%-pt and 0.5%-pt to overall 2022 GDP growth, respectively.

China's latest FX flows data is showing a reversal of recent trends. According to a State Administration of Foreign Exchange (SAFE), foreign investor holdings of RMB bonds and equities increased by US$7 billion and US$8 billion, respectively, in December, following ten consecutive months of net selling of RMB assets. This trend appears to be continuing so far this year, potentially supported by an improving growth outlook. The current account also recorded net trade-related inflows of US$21 billion in December, compared to US$1 billion inflow in November.

ECUADOR According to pollster CEDATOS, President Lasso's approval rating showed modest improvement in December even as the overall public perception of the current economic situation remains less favorable. Against this backdrop, regional elections are scheduled for 5 February, when over 5,000 authorities will be selected by popular vote. On the same day of the elections, the government is set to vote on the referendum of President Lasso and his administration. In our view, while political tensions and uncertainty may linger in the short term, the probability of President Lasso completing his term through 2025 appears higher. In addition, the outlook for a balanced budget that covers near-term financing needs, provides support for the credit, in our view.

ETHIOPIA China has agreed to the partial cancellation of debts owed by Ethiopia, according to the Ministry of Foreign Affairs. The amount has not been disclosed, but it was estimated that Ethiopia owes China roughly US$13.7 billion in 2020.

Separately, dissident Tigrayan fighters agreed to relinquish heavy weapons, and regional forces that had allied with the Ethiopian military against Tigrayan rebels are said to have withdrawn from a key city in another step towards a more permanent peace deal with the government.

GHANA The IMF has confirmed that Ghana is seeking debt treatment under the Common Framework platform, supported by the Group of 20 major economies. The nation is the fourth country to seek restructuring under the mechanism; Ethiopia, Zambia, and Chad are the other three countries that have requested restructuring under the Common Framework. Under the program, debt relief discussions are intended to include non-Paris club members like China. Ghana owes roughly US$1.7 billion in debt to China.

PAKISTAN Following the recent announcement by Saudi Arabia to boost its funding commitment to Pakistan and as international donors pledged over US$9 billion for flood recovery, the UAE pledged a US$1 billion loan to the country and agreed to extend an existing loan of US$2 billion.

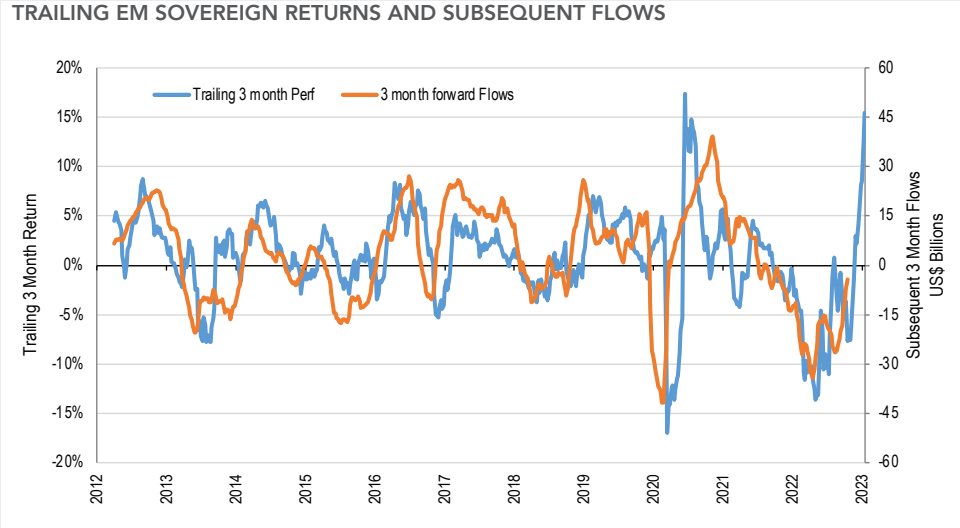
PERU Following recent protests and continued popular unrest, Peru reported weaker-than-expected GDP growth in November of 1.68% y/y compared to a median forecast of 2.3%. Regarding the protests, the government has renewed the state of emergency for 30 days, allowing the army to step in and control further riots.

Last Friday, Peru's Congress enacted the Minimum Pension Law, which allows new withdrawals from pension funds. The reform, which marks the sixth withdrawal that has been permitted from the pension system since the start of the pandemic, has resulted in a 40% decline in value of assets under management between February 2020 and November 2022.

TURKEY The Turkish authorities filed a lawsuit against Istanbul Mayor Ekrem Imamoglu, a potential challenger to President Tayyip Erdogan, on suspected false charges. The latest move by President Erodogan suggests the government is decisively acting to supress political opponents and general popular dissent ahead of the upcoming elections, renewing concerns around governance. On Wednesday, President Erdogan signalled that Turkey's elections will be pulled forward by one month to 14 May. Opposition parties have not yet announced their candidates.

Chart of the Week

Over the past three months, the JP Morgan EMBI Global Diversified returned 15.5%, the second-best quarterly return since 2012, using weekly data. The only period with a higher return over the past decade was Q2 2020 (+17.3%) after markets began to recover from the initial COVID-driven downturn. In the ensuing three months through 19 September 2020, inflows into EM hard currency debt portfolios increased by US$11 billion. So far this year, EM debt funds have recorded US$1.8 billion of inflows, modest in comparison to the result in 2020. Regressing flow and return data over the past 10 years shows no strong causal relationship between past total returns and subsequent portfolio flows. However, after a year of significant outflows--US$110 billion in 2022, according to EPFR Global-- we think the combination of attractive valuations compared to other fixed income alternatives, ongoing support for EM sovereigns from the IMF and other IFIs, and a market that already prices dire outcomes for countries facing troubling debt dynamics may attract flows into EM debt portfolios in the months ahead.



As of 31 December 2022
Sources: Bloomberg, Haver, Stone Harbor Investment Partners
For illustrative purposes only.

U.S. High Yield

The ICE BofAML U.S. High Yield Constrained Index extended the strongest start to a year since 2009 by adding .97% of total return. This brings the month-to-date return to 4.35%. The positive momentum was driven by signs that inflation is moderating, dovish comments by several Fed officials supporting the slowing pace of interest rate hikes, high cash balances, limited new issue supply, and a sharp drop in rates. The same themes that we have seen to start 2023 -- spread compression and increasing eagerness to add CCC risk -- led to continued outsized gains in the rating class. CCCs returned 1.5%, while both single Bs and BBs underperformed with a 0.91% total return. For the month, CCCs have outperformed the index by 1.78%. Index spreads declined 7 bps to finish with a 438 bps OAS. Again, CCCs dominated by tightening 58 bps, while BB's widened by 2 bps. The index yield-to-worst dropped 0.26% to close at 7.98%, the lowest since late August. Industries with a bigger component of CCCs, recent primary activity, or better earnings delivered outsized returns and included Airlines, Drillers, Leisure, Building Products, and Wirelines. Industries with higher quality issues, including Aerospace/Defense, Food/Beverage, Paper/Forest Products, Healthcare, and Transports, underperformed.

Leveraged Loans

As interest rates remained relative stable, leveraged finance markets delivered another week of positive returns, albeit slightly moderating from earlier in the month. The Morningstar LSTA US Leveraged Loan Index (the "Index") delivered a 0.60% return, which was led by the CCC rated loan cohort (0.75%) followed by B's (0.69%) and then BB's (0.40%). Risk sentiment has modestly improved over the recent weeks as the potential for a more moderate recession has increased, and an improvement in capital market activity in other fixed income is driving secondary loan markets higher. The average bid price of the Index increased 38 bps to US$93.94, which is a level not seen in several months, and the spread-to-maturity tightened 10 bps to L+518. Year-to-date, we've seen the average bid price increase 150 bps and spread to maturity tighten 42 bps. From an industry sector perspective, we continue to see strength in several commodity and interest rate sensitive sectors, including Refining, Metals/Mining/Steel, and Building Products, while laggards are mostly lower beta sectors or sectors with idiosyncratic credit events. Lastly, there were no defaults in Index last week.

European High Yield

The Bloomberg Barclays Pan-Euro High Yield 2% Cap Ex Financials Index gained 1.42% for the week and 3.34% month-to-date as softer inflation datain the U.S. and headlines from the ECB suggesting a step-down to a 25 bps hike in March instead of the previously anticipated 50 bps drove rates lower and sparked another strong rally led by spread compression. Index spreads tightened 19 bps for the week, with CCC credits 50 bps tighter and BB only 15 bps tighter. Altice France announced an amend and extend on its term loan debt. The company is seeking to extend maturities to August 2028 from the current mix of 2025/2026 maturities (please see further details under Industry Insights).

Flows/Issuance

According to EPFR, the U.S. high yield market gained US$520 million, largely driven by ETF products. The primary market swung into action after recent gains to start the year pricing US$5.8 billion, the busiest week since mid-November. The seven deals all priced inside of price talk, four were upsized, and all were multiple times oversubscribed. All but one were used to refinance existing debt. For the month, the market priced US$10.8 billion, which is in-line with earlier estimates.

In leveraged loans, we continued to see a supportive environment for floating rate assets. Over the past week, we have seen a handful of new issues launched, most of them have been for higher-quality issuers and proceeds have been mixed. However, we are beginning to see some refinancing and Amend & Extend (A&E) activity, which is favorable given the absence of such activity during the second-half of 2022. Notably, the Ontario-based environmental services company, GFL Environmental, launched an A&E transaction to extend its term loan maturity from 2025 to 2027. Further, Altice France, which is France's second-largest telecom operator, has launched an €8 billion A&E transaction, for several tranches of their cross-currency term loan, pushing out maturities into the 2028 and 2029 context. Year-to-date, we have seen limited new-money transactions come into the market, which has been supportive to the technical backdrop. On the demand front, Collateralized Loan Obligation (CLO) formation is off to a slow start with approximately three deals pricing in the last week for US$850 million. While issuance has been slow to start the year, we have seen the spreads for the AAA tranche of the structure being issued well below levels at the end of 2022, which is a favorable dynamic for future deals. Additionally, we continue to see outflows from retail loan mutual funds and Exchange Traded Funds (ETFs), albeit below averages seen late last year.

In European high yield, inflows continued this week with another US$141 million, bringing the January total to US$453 million. Faurecia priced a 250 million euro add-on of its 7.25% senior notes due 2026 at 101.75% to yield 6.65% in a private placement arranged by BNP Paribas.

Source: Lipper, EPFR

Industry Insights

AIRLINES: Leverage loan airline issuers Delta Airlines and United Airlines both reported slightly better-than- expected earnings for the December 2022 quarter. Delta had pre-announced a strong December and full year 2023 at their December analyst day. United gave the markets very strong guidance for revenue and earnings growth for full year 2023. However, the big difference in the earnings outlooks was that Delta guided to strong Free Cash Flow in 2023 and United guided to "we expect adjusted free cash flow to be positive for the full year." Shortly before the earning call, United stock was trading up over 2%, but after the FCF and CapEx guidance, United stock began trading lower and closed the day down over 2%. The United's CapEx guide of US$8.5 billion is high but was slightly lower than the US$9 billion guide. United released in an 8k in mid-December announcing a large order with Boeing for plane deliveries after 2023 and also modified an Airbus order, perhaps as an early signal of elevated CapEx. The term loans of both United and Delta have traded up small week-over-weak as both credits continue to improve.

CABLE: With the general positive tone in the market leading into this week DISH and Altice France both returned to the capital markets to address their respective balance sheet needs. Given that the capital markets had largely been closed to both of these issuers for much of last year, this is a positive sign for this sector, assuming current market conditions persist for the foreseeable future. DISH launched a US$500 million tap of its inaugural spectrum deal issued in November 2022 and given strong demand was able to triple the launch size to US$1.5 billion and price the deal over 100 bps tighter than the initial deal. Fundamentally, this is important for DISH because it provides the company with significant funding runway for its wireless network buildout while also removing an overhang on the legacy DBS side of the business, which historically had been the funding source for the buildout. Altice France launched a large scale amend and extend for all of its ~$/€8b term loans maturing in 2025 and 2026. This marks the last of the three Altice credit silos to pursue a transaction of this nature (both Altice International and Altice USA completed similar transactions in late 2022) and was launched at least quarter earlier than Altice France management initially expected. While having 100% of existing lenders extend is improbable, the ultimate participation rate on this transaction will be a very good barometer for the risk appetite in the loan market.

OILFIELD EQUIPMENT AND SERVICES: Transocean priced a US$1.175 billion high yield bond offering this week, its second note offering this year. The new secured offering will be guaranteed on a senior secured basis by certain Transocean subsidiaries that guarantee existing bonds outstanding, which are backed by contracts with Shell and Equinor and amortize at a rate of 10% per year. With this deal, Transocean is able to alleviate near term liquidity pressure and push out nearly US$1 billion of maturities that were due in 2024 and 2025. While leverage remains high, Ebitda is projected to rise by 30% off recent lows as spot day rates have moved up from US$200k/day in 2021 to more recent secured market contracts at US$400+ day rates.

Governments

The YTD rally in government bonds gained further momentum this week and U.S. Treasuries remained better bid across the maturity curve. Weaker economic data fostered further repricing of potential rate cuts towards the end of 2023 by the FOMC. Treasury volatility, as measured by the ICE BofA MOVE index, continued to ease and ended the period 3 pts lower to 113 as the yield on 10-year Treasuries fell to 3.37%. With some signs of inflation cooling, U.S. breakevens, a gauge of inflation expectations, slipped 7 bps to 2.17%, while the real 10-year yield fell for the third consecutive week to 1.24%. Demand for Treasuries was fairly consistent across the curve and U.S. 2s10s were little changed at -70 bps.

Similarly, the rally in European government bonds extended for another week as peak rate expectations percolate across developed markets. The yield on 10-year Bunds and OATs fell 20 bps and 23 bps to 2.01% and 2.43%, respectively. U.K. Gilts strengthened, but to a lesser degree following this week's stronger core inflation and wages reading, and the yield on 10-year Gilts slipped 11 bps to 3.30%.

After several intra-day moves above the BoJ's 50 bps tolerance, amid speculation of further adjustments by the central bank, the yield on 10-year Japanese Government Bonds settled 7 bps lower to 0.46% after the central bank kept its policies unchanged. With the January meeting now behind us, it is reasonable to suggest policy should not deviate too much before Kuroda steps down as Governor in April 2023. While there may be an eventual change, the BoJ will likely exit its YCC in a more methodical, or controlled, manner.

Corporates

Investment grade corporates saw spreads tighten another 3 bps this week, leaving the OAS at 123 bps. Earlier in the week, the focus was mostly on supply and the impending bank issuance which ultimately underwhelmed the market and resulted in bank spreads gapping tighter by 5-15 bps. Higher beta outperformed as investors looked to add more risk, while demand for duration, combined with a lack of 30-year supply helped performance in the back end of the curve. Towards the end of the week, spreads began to fade after hitting some resistance at the tighter levels, but performance for the year has had a great run with excess returns positive by 88 bps, while total returns were up 4.45%.

Securitized

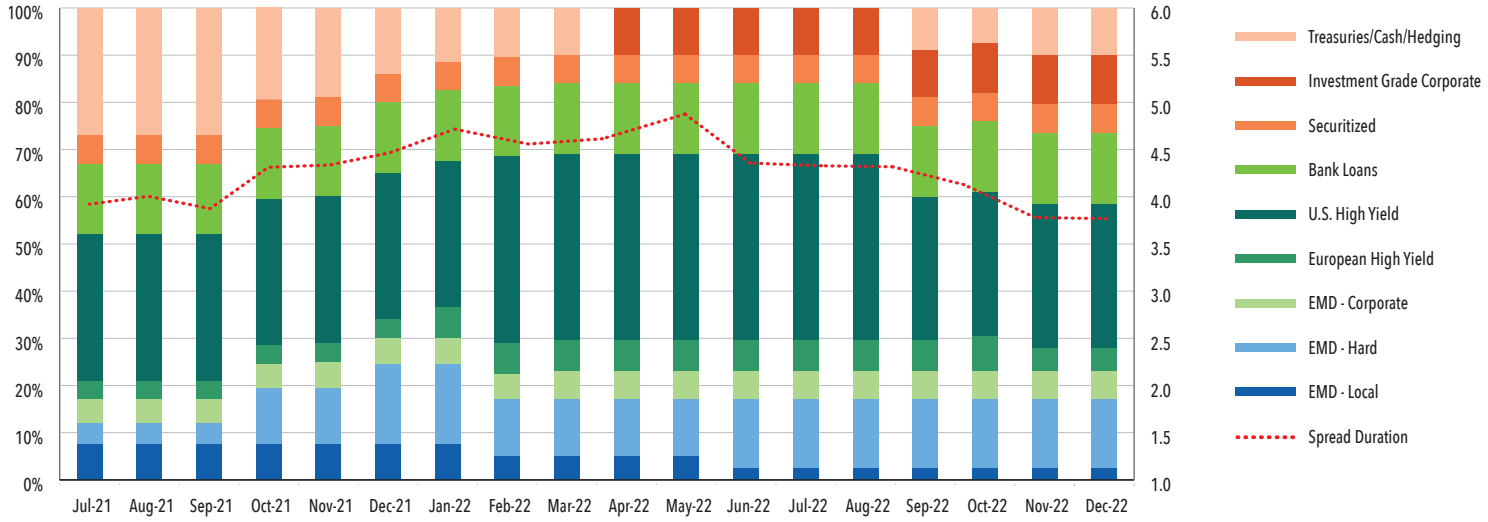
Mortgage spreads were 2 bps wider on the week. The Mortgage Bankers Association mortgage rate fell 19 bps to 6.23%, the lowest in 4 months, which should help bring out some originations. ABS and CMBS were tighter on the week on lack of supply. ABS new issue deals have been tightening into pricing and upsizing, and the pipeline is growing rapidly. CMBS new issuance is quiet with the exception of a lone, smaller CMBS conduit, the first of the year.

Flows/Issuance

In the investment grade primary markets, supply for the week was nothing short of underwhelming as only US$14 billion in deals hit the market, compared to expectations for upwards of US$30-$35 billion. Given the lack of calendar, deals that did price saw overwhelming demand, particularly for the two major bank deals from Morgan Stanley and Bank of America. On average, books were above 5x oversubscribed and new issue concessions were negative for the first time since October 2021. Supply for the month has now crossed the US$100 billion mark and is standing around US$108 billion.

High grade fund flows registered a large inflow of US$8.4 billion for the latest period according to EPFR. The inflow was primarily attributable to ETF's with all the sub-categories participating. Corporate only funds saw the largest inflows with US$4.73 billion, followed by Aggregate funds at +US$2.37 billion, and total return funds at +US$1.29 billion. JP Morgan's estimate of flows directed to corporate bonds by the entire complex of high grade credit was US$5.68 billion.

STONE HARBOR MULTI-ASSET CREDIT TARGET ALLOCATIONS (%)



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

As of January 18, 2023			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	447	(15)	(5)	(5)	(5)	60	2.2	3.9	3.9	3.9	(11.4)
	CEMBI Broad Diversified	CEMBI B D	318	(5)	(5)	(5)	(5)	38	1.1	2.6	2.6	2.6	(8.4)
	GBI EM Global Diversified Yield	GBI EM GD	6.58	(0.02)	(0.28)	(0.28)	(0.28)	0.64	1.4	4.4	4.4	4.4	(7.5)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	447	(15)	(5)	(5)	(5)	60	2.2	3.9	3.9	3.9	(11.4)
	EMBI GD Investment Grade	EMBI IG	152	(6)	18	18	18	1	1.9	2.9	2.9	2.9	(14.2)
	EMBI GD High Yield	EMBI HY	788	(25)	(35)	(35)	(35)	116	2.4	4.9	4.9	4.9	(8.3)
EM Sovereign Debt Regions	Africa	Africa	764	(26)	(54)	(54)	(54)	109	2.5	6.1	6.1	6.1	(5.5)
	Asia	Asia	312	(17)	(4)	(4)	(4)	80	2.1	3.6	3.6	3.6	(10.1)
	Europe	Europe	624	1	33	33	33	264	1.0	1.4	1.4	1.4	(32.3)
	LATAM	LATAM	400	(18)	(16)	(16)	(16)	3	2.9	5.5	5.5	5.5	(6.3)
	Middle East	Middle East	339	(8)	26	26	26	4	1.7	1.9	1.9	1.9	(5.5)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	318	(5)	(5)	(5)	(5)	38	1.1	2.6	2.6	2.6	(8.4)
	CEMBI BD Investment Grade	CEMBI IG	179	(1)	9	9	9	28	1.1	2.4	2.4	2.4	(10.5)
	CEMBI BD High Yield	CEMBI HY	526	(7)	(19)	(19)	(19)	31	1.1	3.0	3.0	3.0	(5.7)
US High Yield	US High Yield	US HY	438	(7)	(55)	(55)	(55)	103	1.0	4.3	4.3	4.3	(6.2)
	US High Yield BB	US HY BB	293	2	(29)	(29)	(29)	50	0.9	3.8	3.8	3.8	(5.5)
	US High Yield B	US HY B	463	(5)	(63)	(63)	(63)	90	0.9	4.5	4.5	4.5	(5.9)
	US High Yield CCC	US HY CCC	1,006	(58)	(151)	(151)	(151)	318	1.5	6.1	6.1	6.1	(11.1)
European High Yield	Barclays PanEur HY	BAR PanEur HY	448	(19)	(47)	(47)	(47)	138	1.4	3.3	3.3	3.3	(6.8)
	2% Ex Financials Yield	2% ExFin Yield	7.05	(0.39)	(0.91)	(0.91)	(0.91)	3.34	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	93.9	0.4	1.5	1.5	1.5	(5.1)	0.6	2.1	2.1	2.1	0.9
	LSTA 100 Yield	LSTA 100 Yield	8.95	(0.11)	(0.16)	(0.16)	(0.16)	5.14	0.6	2.1	2.1	2.1	0.9
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	3.33	(0.17)	(0.49)	(0.49)	(0.49)	1.49	1.4	4.0	4.0	4.0	(8.7)
	1M LIBOR	1M LIBOR	4.49	0.06	0.09	0.09	0.09	4.38	0.1	0.2	0.2	0.2	1.8
	US Aggregate	US AGG	47	(1)	(4)	(4)	(4)	8	1.2	3.6	3.6	3.6	(7.6)
	US Investment Grade Corporates	US IG Corp	123	(3)	(7)	(7)	(7)	27	1.6	4.5	4.5	4.5	(9.2)
	Global Aggregate	Global AGG	48	(2)	(4)	(4)	(4)	11	1.1	2.9	2.9	2.9	(7.2)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	77	(2)	(2)	(2)	(2)	32	0.6	1.5	1.5	1.5	(3.2)
FX	DXY (US dollar)	DXY	102.36	-	-	-	-	-	(0.8)	(1.1)	(1.1)	(1.1)	6.9
	GBI EM FX	GBI EM FX	-	-	-	-	-	-	1.2	2.5	2.5	2.5	(4.3)

1W reflects data from 11 January 2023 close through 18 January 2023 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 general 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 asset backed 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 multi-currency 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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