WEEKLY COMMENTS ON CREDIT

27 JANUARY 2023

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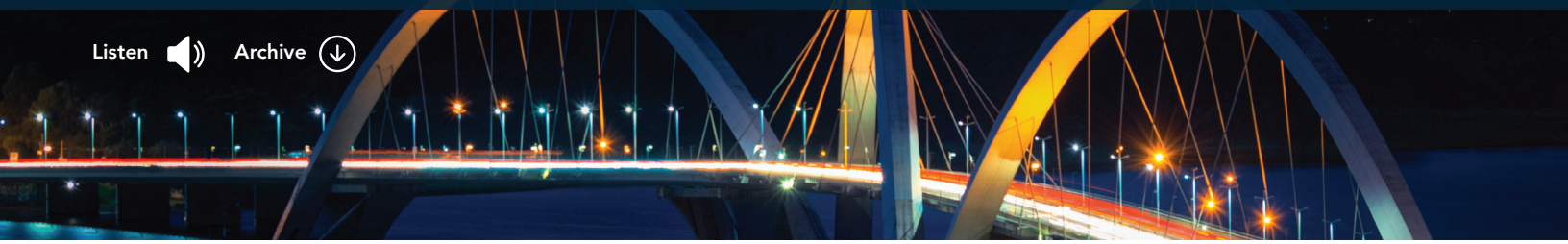

GLOBAL MARKET SUMMARY

Global credit markets remained focused on the expectation of a downshift in rate hikes to 25 bps by the U.S. Federal Reserve (Fed) at the upcoming meeting next week. While cautious optimism for a soft landing appears to be gaining traction, given the latest round of economic data, the messaging from Fed officials reflects their intention to avoid a premature end to the tightening cycle. The 10-year U.S. Treasury yield dropped to 3.46% on Wednesday's close after reaching a high of 3.55% earlier in the week. Outside of the U.S., the Bank of Canada announced its readiness to pause or end its rate hikes, raising hopes that other central banks may follow suit. In regard to China's reopening, market participants continue to monitor the impact of the Lunar New Year on mobility, logistics indicators, and other major economic activities. Credit spreads and total returns were mixed across all major credit sectors. Emerging markets debt outperformed U.S. high yield debt. 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	444		-3	-11.96%
EMBI GD IG	146		-7	-14.48%
EMBI GD HY	792		4	-9.27%
Africa	781		17	-7.83%
Asia	305		-7	-10.39%
Europe	611		-13	-31.65%
LATAM	402		2	-7.46%
Middle East	324		-15	-5.48%
CEMBI BD	303		-14	-8.30%
CEMBI BD IG	170		-8	-10.55%
CEMBI BD HY	505		-21	-5.39%
GBIEM GD (%)	6.57		-1	-7.08%
EM Blend (%)	7.29		1	-9.08%
EMBI ESG	374		-4	-13.07%
CEMBI ESG	306		-13	-6.68%
GBI ESG (%)	6.58		0	-6.73%

-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	447		9	-6.14%
US HY BB	299		6	-5.34%
US HY B	475		12	-5.91%
US HY CCC	1,015		9	-10.86%
Pan Euro HY	452		4	-6.45%
LSTA 100 (%)	8.94		-1	1.24%
US Treasury 7-10 (%)	3.41		8	-9.86%
1M LIBOR (%)	4.52		3	1.87%
US Agg	45		-2	-8.37%
US IG Corp	122		-1	-9.77%
Global Agg	47		-1	-7.75%

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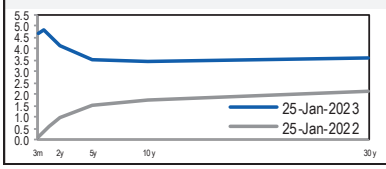
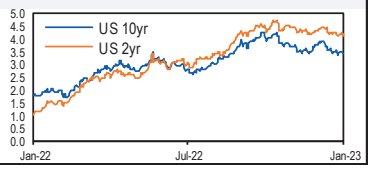
Jan-22 Jul-22 Jan-23

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD	
EURUSD	1.09		-3.41%
USDJPY	129.59		-12.14%
EM FX			-3.27%

Jan-22 Jul-22 Jan-23

	Level	Commodities	
Gold	1,959		4.64%
VIX	19		-38.77%
Brent	86		-2.36%

Jan-22 Jul-22 Jan-23

	Level	Equities	
S&P500	8,561		-6.27%
MSCI World	8,463		-5.82%
MSCI EM	2,609		-11.05%

Jan-22 Jul-22 Jan-23

As of: 25 January 2023. Source: Bloomberg, Stone Harbor Investment Partners. For illustrative purposes only. See disclosures at end of material for additional information.

United States

The Biden Administration increased its Ukrainian support and announced additional weaponry to bolster Ukraine's counter-offense. The US$2.5 billion package includes Stryker carriers, Bradley vehicles and additional ammunition and artillery rounds. The U.S. is also coordinating with its NATO allies, such as Germany, and announced it will provide Ukraine with 31 M1 Abrams tanks despite some hesitation at first.

In terms of developments in the U.S. – China relations, the Biden Administration provided the Chinese government with evidence suggesting several state-owned enterprises may be providing economic support to Russia. U.S. intelligence declined to elaborate on the findings, however, officials indicated that China's relationship with Russia has strengthened.

Europe

Sweden's path towards NATO membership encountered another hurdle after Rasmus Paludan, a far-right activist, burned a Quran near the Turkish embassy in Stockholm, further antagonising tensions. Although Sweden condemned the act, the protests were legal under Sweden's free speech laws. Turkey cancelled a visit by Swedish Defense Minister Jonson, and Turkish President Recep Tayyip Erdogan warned Sweden should not expect Turkey's support for admittance into NATO. Finland, which applied for NATO membership alongside Sweden, signalled its desire for a joint application but indicated it may seek membership into the treaty alone.

Ukraine has asked NATO for additional support in the form of heavier artillery, such as battle tanks, amid fears of an intensification of Russia's invasion post winter. Germany announced it will provide, and allow its allies to send, its Leopard 2 tanks to bolster Ukraine's counter-offense. Of the 112 Leopard tanks pledged, the initial tanks are expected to arrive in Ukraine within the next three months.

Asia/Japan

Australian inflation continues to surprise to the upside as headline CPI reaccelerated in December, bringing the Q4 reading up to 1.9% and to 7.8% on a y/y basis. A majority of the pickup in inflation can be attributable to domestic holiday travel and accommodation, which rose 13.3%, while international holiday prices rose 7.6%. An 8.6% increase in electricity prices also contributed to the upside surprise. The Reserve Bank of Australia (RBA) had previously looked passed the similarly stronger-than-expected CPI reading in Q3, citing the lag in policy transmission and that the full effects of its tightening have yet to completely materialize, but the latest reading is likely to put some incremental pressure on the RBA.

Economist Corner

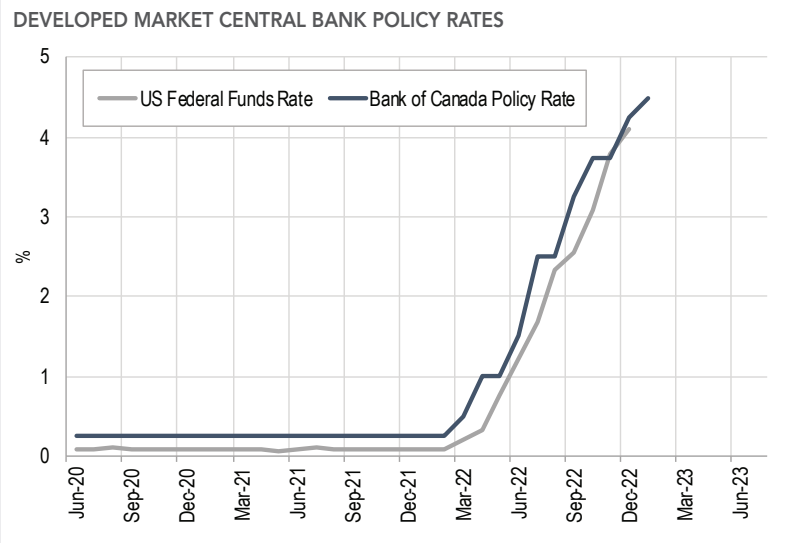
Seamus Smyth, PhD, Developed Markets **Steffen Reichold, PhD, Emerging Markets**

The week finished with a barrage of U.S. data. Notably, GDP growth remained quite strong with a 2.9% annualized increase for Q4. That strength, however, in our view, overstates underlying growth as it was buoyed by net exports and inventories, which can be lumpy. It's worth noting that final sales to domestic purchasers, which looks through net exports and inventories, increased at 0.8% annual rate, about where we think underlying growth is.

Despite these data releases, perhaps the most interesting economic development occurred north of the border: Wednesday's Bank of Canada rates decision, with the most interesting part being the following:

> *If economic developments evolve broadly in line with the MPR outlook, Governing Council expects to hold the policy rate at its current level while it assesses the impact of the cumulative interest rate increases.*

Over the course of the global tightening cycle, Canadian monetary policy has led policy in other developed markets. The Bank of Canada was one of the first central banks to start increasing rates, one of the first to increase the pace of rate increases and then one of the first to slow rate increases -- patterns that are evident in the accompanying chart. So, the signal that they expect to hold the policy rate to evaluate the effects of the sharp tightening cycle on the economy could also lead other country's policy decisions, including the Fed.



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

Along those lines, we've seen Fed policy makers into the February meeting indicate that there is a case for slowing the pace of increases further, down to 25 bps. If the data cooperates enough between the February and March meetings–remember that there are two CPI readings between those policy decisions–we think there is a real chance, though not certainty, that the Fed could likely pause to assess the impact of the sharp tightening over 2022.

External Sovereign Debt

External sovereign debt spreads tightened 3 bps and the JP Morgan EMBI Global Diversified returned -0.2%. Investment grade bonds outperformed non-investment grade credits, registering total returns of 0.0% and -0.4%, respectively. The top performers included Zambia (5.1%), Ukraine (3.2%), and Serbia (3.1%). The bottom performers were Venezuela (-7.5%), Ecuador (-7.0%), and Tunisia (-3.6%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 0.6%. EM currencies returned 0.4%, in aggregate. The Colombian peso outperformed with spot FX return of 3.2%, followed by the Hungarian forint (2.0%) and Chilean peso (1.8%). Underperformers included Peru (-1.6%), South Africa (-1.2%), and Egypt (-0.8%).

The yield of the JP Morgan GBI EM Global Diversified declined 1 bp to 6.57%. Dominican Republic bonds outperformed with yields 35 bps lower, followed by Colombia (-27 bps) and Uruguay (-25 bps) bonds. Hungary (+31 bps), Brazil (+22 bps), and Czech Republic (+22 bps) underperformed.

In monetary policy, the central bank of Nigeria hiked its policy rate by 100 bps to 17.5% and Thailand hiked by 25 bps to 1.5%. Pakistan hiked the discount rate by 100 bps to 17%. Angola, on the other hand, cut the benchmark rate by 150 bps to 18%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified returned 0.3%, with non-investment grade credits outperforming investment grade bonds with returns of 0.6% and 0.1%, respectively. At a regional level, major contributors to the gains were Africa (+1.0%) and Latin America (+0.6%). In Africa, Togo (+3.4%), Ghana (+2.1%) and Nigeria (+1.7%) contributed to positive returns. In Latin America, the returns were driven by gains in Ecuador (+2.0%), Argentina (1.1%) and Guatemala (1.1%). Tullow oil posted strong financial results with gearing at 1.3x ahead of guidance of 1.5x by FY23. Asia was out for most of the week due to Chinese New Year. Cambodia underperformed with negative returns of 1.26%. At the industry level, Metals and Mining (+1.0%), Pulp and Paper (0.7%) and Oil & Gas (0.6%) were the major contributors to positive returns.

Flows/Issuance

In EM hard currency sovereign debt, Serbia issued 5-year and 10-year, U.S. dollar-denominated bonds totalling roughly US$1.7 billion, and Colombia issued a U.S. dollar-denominated bond maturing in 2034 worth roughly US$1.8 billion.

EM Corporates saw two issuances from quasi Turkish Banks - Turkiye Ihracat Kredi Bankasi AS and T.C. Ziraat Bankasi A.S . According to dealers, investor demand exceeded supply leading them to lower the spread by 40 bps and 25 bps, respectively from initial guidance.

According to latest available data by Emerging Portfolio Fund Research (EPFR), EM fixed income funds recorded net inflows of approximately US$4.0 billion, a third of which went 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

This week, Finance Minister Sergio Massa highlighted progress with the Patagonian deposit of Vaca Muerta, the world's second-largest shale gas formation, that could potentially boost the country's medium-term economic prospects. The gas project, if completed in June as planned, is estimated to increase domestic production by 25%. A pipeline project for gas exports will begin within the next three months. In addition, mining activity is increasing, with 95 lithium, copper, and other projects in the pipeline, ranging from exploration to development stage. These developments, along with continued IMF support and a recent buyback of external sovereign debt, as well as the potential for political change in May presidential elections, have provided support for Argentina's bonds in the first weeks of 2023.

CZECH REPUBLIC

The Executive Board of the IMF concluded the Article IV consultation with Czech Republic late last week. Among the key points stressed by IMF staff was the need for a contractionary fiscal stance in light of high inflation and low unemployment. To that end, the Board recommended further hikes to the policy rate in the short term and underscored the importance of bringing down inflation as a priority even against the risk of slowing growth and economic activity. In our assessment, the risks to the rates outlook are elevated, especially considering the upcoming CPI figures in 1Q that are likely to show large price swings, in conjunction with the potential phasing out of FX interventions in Q2 that could lead to higher FX volatility.

EL SALVADOR

President Nayib Bukele announced on Tuesday that the country has made principal and interest payments on US$800 million U.S. dollar-denominated debt maturing on 24th January. El Salvador has roughly US$6.4 billion of foreign bonds outstanding after the 2023 maturity, with the next major principal payment due in 2025. Recent strength in bond prices reflect several factors, including the US$450 million loan from the Central American Bank for Economic Integration and two debt repurchases. For now, President's Bukele's economic policy of avoiding a default ahead of the 2024 election appears intact, and this latest payment continues to demonstrate the country's willingness to pay. However, credit-improving catalysts appear limited as signs of directional change in policy that would allow for further multilateral funding and market access are still lacking, in our view.

INDIA On Wednesday, India sold R$80 billion (roughly US$1 billion) of 5- and 10-year domestic sovereign green bonds, which are associated with lower borrowing cost relative to comparable conventional sovereign debt. The proceeds from the bonds are earmarked to be used for clean transport, climate change adaptation, water and waste management, pollution prevention and control, and biodiversity projects. Companies and select government-backed entities in India have already issued approximately the equivalent of US$25 billion in green bonds, primarily denominated in foreign currency, and this latest sovereign green bond issuance may establish further precedent for growth in green corporate issuance. More broadly, with commitment by the government to significantly cut emissions by 2030, along with a growing population that is on track to exceed China this year, India is poised to be one of the largest markets for renewable energy.

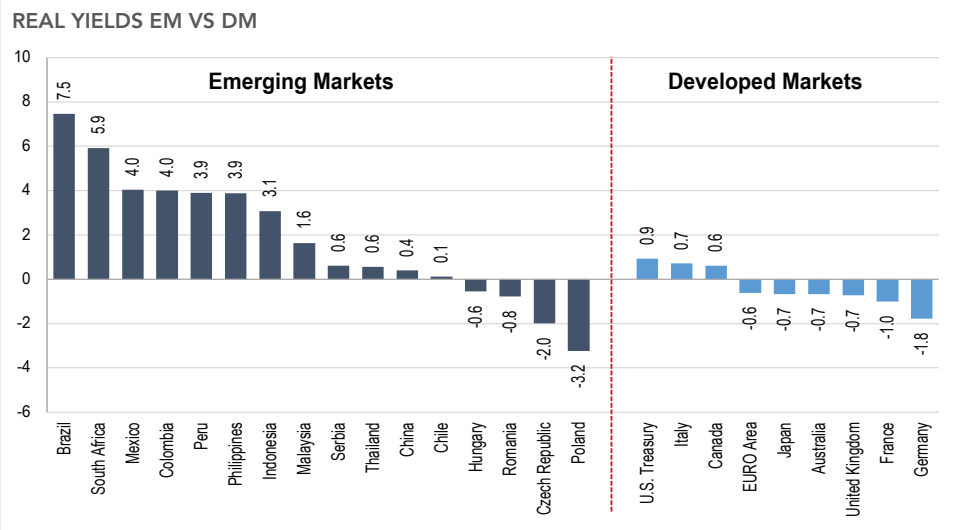
IRAQ Prime Minister Mohammed Shia al-Sudani replaced the Central Bank governor Mustafa Ghaleb Mukheef on Monday with acting governor Muhsen Al-Allaq amid a rapid decline in the country's currency. The sharp drop in Iraq's dinar against the U.S. dollar followed tighter controls on international dollar transactions by commercial Iraqi banks in November. The controls implemented were part of a joint effort by the New York Fed and Central Bank of Iraq to stop money laundering and illegal channelling of U.S. dollars to Iran and other sanctioned nations in the Middle East. Al-Allaq previously served as central bank governor between 2014 and 2020.

THAILAND Thailand's exports contracted for a third-consecutive month in December, falling 14.6% year-on-year (y/y) compared to forecast of a 11.5% y/y decline. Exports to the U.S. declined 3.9%, while exports to China dropped 20.8% from a year ago. Imports, much of which are used to produced goods to be exported, also declined, falling 12% in December.

ZAMBIA At the conclusion of a three-day meeting with Zambian officials in Lusaka this week, IMF Managing Director Kristalina Georgieva released a statement encouraging creditors to reach an agreement on debt treatment as soon as possible. As previously outlined, the debt resolution would allow for the first review of the IMF-supported economic program. According to the IMF statement, "Zambia is making tremendous progress on reforms…. [that] are critical to strengthen Zambia's resilience and seize its' opportunity – especially in the agricultural, energy, and tourism sector." The announcement followed technical discussions among Zambia's creditors on 12th January. Plans for a follow-up meeting with the Zambian government to sign a memorandum of understanding are underway.

Chart of the Week

Real bond yields adjusted for a year ahead consensus inflation expectations favor many domestic government bond markets from emerging markets. Our chart this week compares real yields from select developing (EM) and developed countries (DM). Not all EMs have positive real bond yields. Yields on bonds from Central and Eastern Europe, in particular, remain negative in inflation-adjusted terms. However, many DM bond markets have negative real rates, hence the valuation advantage in EM on average and in select EM countries including Brazil, South Africa, Colombia, Mexico, Philippines, Peru, Malaysia, Serbia, Thailand and Chile. Within EM, the wide dispersion of real rates also highlights, in our view, the advantage of active management in EM local debt markets.



As of 25 January 2022
Sources: Bloomberg, JP Morgan, Stone Harbor Investment Partners
Real yields are derived from benchmark yields and Bloomberg consensus 2023 inflation forecasts. Emerging Markets = JP Morgan GBI-EM GD Yields minus 2023 Inflation Forecast. Developed Market = Bloomberg Global Agg Treasury Yields minus 2023 Inflation Forecast
For illustrative purposes only.

U.S. High Yield

The ICE BofAML U.S. High Yield Constrained Index lost 0.60%, which was mostly attributed to Thursday's selloff led by ETFs, which saw a US$1 billion outflow, and some hedge fund profit taking after a strong start to the month. Generally, the market has been better bid stemming from healthy cash balances, clients underfunded to risk, and low net new issuance (majority of proceeds were to refinance existing debt). Volumes have been light due to the lack of sellers at lower prices and focus drawn toward the large number of S&P names reporting this week. Single Bs declined the most, losing 0.67% of total return, while BB's and CCCs lost 0.52% and 0.57%, respectively. For the month, CCCs are still up 1.80% versus the overall index. Index spreads widened 9 bps on the week to finish with a +447 OAS where single Bs again underperformed, widening 12 bps. The Index yield-to-worst widened 0.18% to close at 8.16%. Outperforming sectors that declined less than 30 bps included Gaming, Home Builders, Metals/Mining, Refining, and Retail Food/Drug. Underperforming sectors were Airlines, Media Cable, Retail Non-Food/Drug, Satellites, Technology, and Wirelines.

Leveraged Loans

Leveraged loans remained resilient in the face of broader macro volatility on the heels of more hawkish commentary from members of the Fed, softer-than-expected retail sales, increasing news on layoffs in the tech sector, as well as some disappointing corporate earnings. Despite the less favorable commentary, the Morningstar LSTA US Leveraged Loan Index (the "Index") posted a return of 0.32% led by the discounted B rated portion of the market (0.41%), while BB (0.17%) & CCC (0.27%) were positive but lagged. Month-to-date, all ratings cohorts remain in positive territory, which is in stark contrast to much of 2022, when CCC's were largely out of favor for the majority of year. Additionally, over the course of the week, the average bid price of the Index increased another 14 bps to US$94.09, while the spread to maturity of the index tightened 6 bps to L+512. The dollar price of the Index has retraced back to levels last seen in September, while the higher quality BB portion of the market is currently back to levels seen last May. Lastly, there were two bankruptcies in the Index last week. First, power-plant operator, Heritage Power, filed for Chapter 11 this week with US$520 million of debt outstanding. Second, manufacturer and distributor of bedding products, Serta Simmons Bedding LLC, filed for Chapter 11 with US$1.05 billion of debt outstanding. Both issuers had Restructuring Support Agreements (RSAs) with lenders in place prior to filing.

European High Yield

The Bloomberg Barclays Pan-Euro High Yield 2% Cap Ex Financials Index declined 0.25% as weaker economic data provided investors with an excuse to take profits after a strong start to the year. Index spreads widened 4 bps for the week. Stada bonds closed up 1 point following their trading update that showed EBITDA up 23% in 2022. Playtech bonds were unchanged after a preliminary earnings update. Lottomatica bonds gained 1 point after a trading update that showed strong free cash flow, strong EBITD growth, and confirmed recent IPO reports.

Flows/Issuance

According to EPFR, the U.S. high yield market lost US$1.384 billion driven by negative ETF flows. Six deals came to the market to price US$4.1 billion where all but one deal was used to refinance existing debt. The deals were all multiple times oversubscribed and trading above new issue price. One deal, Rayonier Advanced Materials Inc., was pulled after failing to receive enough interest to refinance their 2024 notes. For the month, the primary market saw 18 borrowers selling US$14.9 billion in new bonds, after just US$2.7 billion was sold in December and US$9 billion in November.

In leveraged loans, while we have seen a pickup in new issue activity, there is very little if any net new money entering the market. Notably, casino operator and hospitality service company, Caesar's Entertainment, as well as global packaging supplier, Mauser Packaging, are both in the market with sizeable refinancing transactions that will result in a smaller term loan. The other transactions that are currently in the market are smaller in nature and are not offsetting the shrinking supply. Further, on the demand front, Collateralized Loan Obligation (CLO) formation has picked up with five deals pricing this past week for US$2.4 billion. Importantly, a steady backlog of new deals is expected to launch in coming weeks, which will require buying collateral in the secondary market, therefore, supporting demand. Additionally, while we continue to see retail outflows from Mutual Funds and Exchange Traded Funds (ETFs), they continue at a more moderate pace.

In European high yield, inflows continued this week with another US$615 million, bringing the January total to over US$1 billion. The strong inflows have led to increased activity in the primary market with three new deals pricing for 1.3 billion euros. German auto supplier ZF also announced a new 3.5-year senior unsecured green bond.

Source: Lipper, EPFR

Industry Insights

FINANCIAL SERVICES: Investment grade rated Brown and Brown Inc., one of the smaller publicly traded insurance brokers, reported stronger-than-expected December quarter organic revenue growth of 7.8%, compared to analysts' expectations of a 7% growth. The December organic revenue growth rate slowed from the March and June quarters of 2022 but was still quite strong. On the earning conference call, Brown & Brown management said that insurance pricing for most products should be up again year-over-year in 2023. In particular, Catastrophe Insurance (CAT) in the Property and Causality market continues to increase in price, this is forcing some buyers to spend more money but have less coverage. Brown & Brown said "we expect CAT property rates to be up 10% to 40% or more for at least the first half of the year, as well as capacity to potentially be constrained." We would expect most of the private high yield insurance companies to also report strong organic revenue growth in their December quarters. Brown and Brown also showed year-over-year margin improvement in the December quarter.

HOMEBUILDERS: DR Horton (DHI), one of the largest U.S. homebuilders, beat street estimates on Wednesday when they reported a lower-than-projected cancellation rate of 27% and a gross margin of 23.9%, which was also better than estimates. DHI also reiterated their 2023 guide where they see net order activity improving and cancellation rates moderating. There has been a slowdown in housing demand due to affordability challenges as mortgage rates peaked in November at 7.35% and the housing affordability composite index dipped below 100 in the 3Q22 reading. However, so far in 1Q23, mortgage rates have moved lower to average 6.47%, helping boost optimism for the spring, the peak home buying season in the U.S. Also helping, the National Association of Homebuilders reported homebuilder sentiment unexpectedly rose to 35 in January, following a decline in every month last year and an average of 34 in the 4Q22. Moody's expects single-family housing starts to fall 18.5% below '22 to 821,000, a level representative of a 5-year average pre-pandemic.

TELECOMMUNICATION: As we approach Q4 high yield earnings season, we received some early insights into performance this week when investment grade peers Verizon, AT&T, and Comcast all reported results. Broadly speaking, results from the three companies were in-line with street expectations and also signaled minimal change in consumer behavior. This likely means our high yield peers will report results that look very similar to Q3 with muted Broadband net adds, rising ARPU and product bundling continuing to gain momentum.

Governments

The rally in government bonds took pause this week and the yields on U.S. Treasuries drifted higher across the maturity curve. The yield on 10-year Treasuries rose 7 bps to 3.44% and, with the belly of the Treasury curve better offered, resulted in the U.S. 2s10s bear steepening 3 bps to -69 bps. Treasury volatility, as measured by the ICE BofA MOVE index, eased another 5 bps lower to a new 3-month low of 108. Despite some signs of inflation cooling, the combination of a tight labor market, rising energy prices and China re-opening limited optimism. U.S. breakevens, a gauge of inflation expectations, rose 17 bps to 2.30% while the real 10-year yield fell for the fourth consecutive week to 1.14%. Rate cut expectations remain unchanged from last week with OIS markets pricing in a potential 50 bps cut by the FOMC towards the end of 2023.

European government bonds diverged alongside monetary policy expectations this week. The yield on 10-year German Bunds and French OATs rose 15 bps to 2.16% and 2.60%, respectively, as the ECB is expected to raise and maintain higher policy rates throughout 2023. In contrast, a weaker economic backdrop in the U.K. has led markets to anticipate interest rate cuts by the BoE towards the end of the year. The yield on 10-year Gilts fell 7 bps to 3.24%.

Since the BoJ's announcement last week, when it effectively doubled down on its Yield Curve Control, the yield on 10-year JGBs stabilized below 50 bps, providing the central bank with some breathing room. Although Japanese CPI rose to 4% y/y in December, Kuroda attributed the rise to import prices and expects the pricing pressures to moderate.

Corporates

Spreads on investment grade corporates were on firm footing this week, having shown resiliency in the face of any weakness as participants remain better buyers on dips. The focus continues to be on the primary markets, with new deals seeing robust demand and offering little to no concession while having no widening effect on secondary offerings. The OAS on the Bloomberg corporate bond index was tighter by 1 bp on the week, leaving spreads at +122 bps which is at the lowest point of the year. Solid technicals, including positive inflows, and a lack of duration in the primary seem to be a driving force for tighter spreads. Going forward, markets could become more sensitive to relative value with spreads at tighter levels, while idiosyncratic risks around earnings could create more credit dispersions.

Securitized

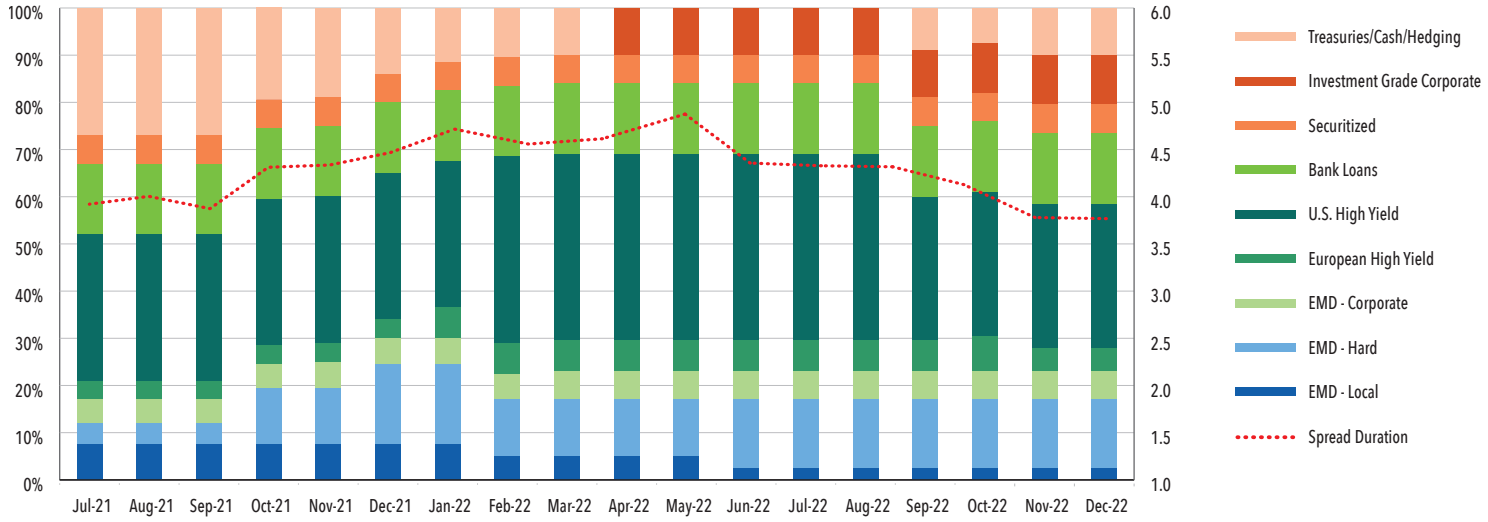
Mortgage spreads were flat on the week as the market waits for new direction. Mortgage rates continue to drop with the MBA 30-year fixed rate down 3 bps on the week to 6.20% and applications, purchases and refinancings rising in response. ABS new issuance has been strong and active while CMBS has been quiet with the first CMBS SASB of the year making an appearance.

Flows/Issuance

Supply for the week came in at roughly US$26 billion, which was closer to the high end of street estimates. Deals saw overwhelming demand with oversubscription rates broaching 5x's in many instances, leaving concessions in the low single digits for almost all entrants. Money center banks were absent again and brought no new supply this week; however, supply continues to be dominated by financials as the majority of issuers were from the regional bank space. Also missing from the primary was any long-dated issues. Thus far in 2023, issuance at the long end has been only US$7 billion or roughly 5% of the overall volume, while last year's volumes for the long end were closer to US$27 billion or roughly 20% of overall volume.

High grade fund flows saw inflows of US$3.8 billion for the latest period, according to EPFR. Flows again were centered around inflows into ETF's with all sub-categories receiving inflows. Corporate only funds saw inflows of US$1.525 billion with the larger portion of inflows coming in the long end, while total return funds had inflows of US$2.122 billion. Aggregate funds received only modest inflows of US$179 million coming primarily in the intermediate maturity bucket, which were offset by a large outflow in the short end. JP Morgan's estimate of flows into high grade corporates across all high grade credit funds saw inflows of US$2.122 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 25, 2023			Level	Spread or Yield Change (bps or %) 1W*	MTD	QTD	YTD	LTM	Total Return (%) 1W	MTD	QTD	YTD	LTM
EM	EMBI Global Diversified	EMBI G D	444	(3)	(7)	(7)	(7)	55	(0.2)	3.7	3.7	3.7	(12.0)
	CEMBI Broad Diversified	CEMBI B D	303	(14)	(19)	(19)	(19)	19	0.3	3.0	3.0	3.0	(8.3)
	GBI EM Global Diversified Yield	GBI EM GD	6.57	(0.01)	(0.29)	(0.29)	(0.29)	0.66	0.6	5.0	5.0	5.0	(7.1)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	444	(3)	(7)	(7)	(7)	55	(0.2)	3.7	3.7	3.7	(12.0)
	EMBI GD Investment Grade	EMBI IG	146	(7)	11	11	11	(11)	0.0	2.9	2.9	2.9	(14.5)
	EMBI GD High Yield	EMBI HY	792	4	(31)	(31)	(31)	121	(0.4)	4.5	4.5	4.5	(9.3)
EM Sovereign Debt Regions	Africa	Africa	781	17	(37)	(37)	(37)	138	(1.1)	4.9	4.9	4.9	(7.8)
	Asia	Asia	305	(7)	(12)	(12)	(12)	71	0.1	3.7	3.7	3.7	(10.4)
	Europe	Europe	611	(13)	20	20	20	233	0.4	1.8	1.8	1.8	(31.6)
	LATAM	LATAM	402	2	(14)	(14)	(14)	4	(0.6)	4.8	4.8	4.8	(7.5)
	Middle East	Middle East	324	(15)	11	11	11	(13)	0.5	2.4	2.4	2.4	(5.5)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	303	(14)	(19)	(19)	(19)	19	0.3	3.0	3.0	3.0	(8.3)
	CEMBI BD Investment Grade	CEMBI IG	170	(8)	1	1	1	13	0.1	2.5	2.5	2.5	(10.6)
	CEMBI BD High Yield	CEMBI HY	505	(21)	(40)	(40)	(40)	9	0.6	3.6	3.6	3.6	(5.4)
US High Yield	US High Yield	US HY	447	9	(46)	(46)	(46)	86	(0.6)	3.7	3.7	3.7	(6.1)
	US High Yield BB	US HY BB	299	6	(23)	(23)	(23)	34	(0.5)	3.3	3.3	3.3	(5.3)
	US High Yield B	US HY B	475	12	(51)	(51)	(51)	76	(0.7)	3.8	3.8	3.8	(5.9)
	US High Yield CCC	US HY CCC	1,015	9	(142)	(142)	(142)	284	(0.6)	5.5	5.5	5.5	(10.9)
European High Yield	Barclays PanEur HY	BAR PanEur HY	452	4	(43)	(43)	(43)	111	(0.3)	3.1	3.1	3.1	(6.4)
	2% Ex Financials Yield	2% ExFin Yield	7.16	0.11	(0.79)	(0.79)	(0.79)	3.16	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	94.1	0.2	1.7	1.7	1.7	(4.8)	0.3	2.4	2.4	2.4	1.2
	LSTA 100 Yield	LSTA 100 Yield	8.94	(0.01)	(0.17)	(0.17)	(0.17)	5.02	0.3	2.4	2.4	2.4	1.2
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	3.41	0.08	(0.41)	(0.41)	(0.41)	1.66	(0.5)	3.5	3.5	3.5	(9.9)
	1M LIBOR	1M LIBOR	4.52	0.03	0.13	0.13	0.13	4.41	0.1	0.3	0.3	0.3	1.9
	US Aggregate	US AGG	45	(2)	(6)	(6)	(6)	10	(0.3)	3.3	3.3	3.3	(8.4)
	US Investment Grade Corporates	US IG Corp	122	(1)	(8)	(8)	(8)	21	(0.5)	4.0	4.0	4.0	(9.8)
	Global Aggregate	Global AGG	47	0	(4)	(4)	(4)	11	(0.3)	2.7	2.7	2.7	(7.8)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	74	(3)	(5)	(5)	(5)	25	(0.1)	1.4	1.4	1.4	(3.4)
FX	DXY (US dollar)	DXY	101.64	-	-	-	-	-	(0.7)	(1.8)	(1.8)	(1.8)	5.9
	GBI EM FX	GBI EM FX	-	-	-	-	-	-	0.4	2.9	2.9	2.9	(3.7)

1W reflects data from 18 January 2023 close through 25 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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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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