WEEKLY COMMENTS ON CREDIT

31 MARCH 2023

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GLOBAL MARKET SUMMARY

Global credit markets firmed this week as fears of heightened bank stress eased. The yield on 10-year US Treasury notes edged higher from a week ago. Benchmark spreads for most credit sectors in the fixed income markets tightened, and total returns were mostly positive, except for US investment grade corporates and the lowest rated segment of the US high yield market. The US dollar underperformed the euro, and the average spot currency performance in emerging markets was positive.

Emerging Markets

Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
EMBI GD	488		-16	-7.73%
EMBI GD IG	148		-12	-6.91%
EMBI GD HY	900		-22	-8.59%
Africa	970		-30	-13.22%
Asia	323		-5	-6.06%
Europe	606		-25	-10.50%
LATAM	451		-15	-7.98%
Middle East	331		-17	-3.34%
CEMBI BD	346		-9	-2.96%
CEMBI BD IG	202		-10	-4.67%
CEMBI BD HY	579		-9	-0.83%
GBIEM GD (%)	6.61		-2	-1.25%
EM Blend (%)	7.66		-1	-3.95%
EMBI ESG	407		-16	-8.13%
CEMBI ESG	352		-11	-2.52%
GBI ESG (%)	6.63		-2	-0.64%

-400 -200 0 200 400

Mar-22 Sep-22 Mar-23

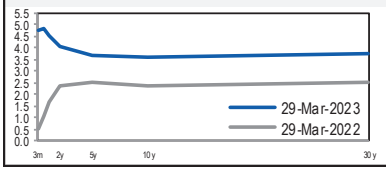
Developed Markets

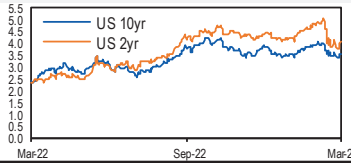
Index	Current Level (bps or %)	12 mos Change Spread or Yield (bps or %)	Weekly Change (bps)	12 mos Total Return
US HY	500		-16	-4.44%
US HY BB	342		-17	-3.19%
US HY B	526		-14	-4.63%
US HY CCC	1,130		-12	-9.60%
Pan Euro HY	476		-1	-3.44%
LSTA 100 (%)	9.47		-18	2.45%
		-150 0 150 300 450 600		
US Treasury 7-10 (%)	3.57		12	-5.79%
1M LIBOR (%)	4.86		6	2.66%
US Agg	57		1	-5.04%
US IG Corp	143		-2	-6.08%
Global Agg	54		0	-3.71%

-100 0 100200300400500

Mar-22 Sep-22 Mar-23

US Treasury Yield Curve (%)





Other Asset Classes
(12 mos Total Return)

	Level	Currency Return vs USD		Level	Commodities		Level	Equities
EURUSD	1.08	-2.18%	Gold	1,985	1.29%	S&P500	8,615	-11.53%
USDJPY	132.86	-7.50%	VIX	19	1.16%	MSCI World	8,436	-10.46%
EM FX		-4.97%	Brent	78	-28.98%	MSCI EM	2,465	-10.80%

Mar-22 Sep-22 Mar-23 Mar-22 Sep-22 Mar-23 Mar-22 Sep-22 Mar-23

As of: 29 March 2023. Source: Bloomberg, Stone Harbor Investment Partners. For illustrative purposes only. See disclosures at end of material for additional information.

United States

Several policymakers justified the Federal Open Market Committee's (FOMC) decision to raise its policy rate by another 25 bps to 5%, citing the need to contain inflation and restore price stability. St. Louis Federal Reserve (Fed) President Bullard now expects the Fed's terminal rate to peak above 5.5% despite the recent events in the banking sector. Bullard said that macro-prudential policies can help manage financial stress, while monetary policies should be geared towards containing inflation. Neel Kashkari, President of the Minneapolis Fed, indicated that the stresses in the banking sector increases the risk of a recession. However, it's unclear if the recent events will lead to a wider credit crunch. Kashkari said it is too early to provide any indication about the FOMC's next policy decision in May 2023.

As the dust begins to settle, the Federal Deposit Insurance Corp (FDIC) is faced with approximately US$28 billion in costs associated with the collapse of Silicon Valley Bank and Signature Bank. Following events like the recent bank failures, the FDIC reserves the right to impose a special assessment to replenish its reserves. To alleviate pressure on smaller regional banks, the FDIC is exploring measures to shift a larger portion of the costs across larger financial institutions.

Europe

French authorities raided several banks, including Société Générale, BNP Paribas and HSBC, on suspicion of tax fraud. The raids pertain to a dividend strategy known as "cum-cum" where, prior to dividends being paid, local shareholders would temporarily sell shares of stock to off-shore investors with more favorable tax rates, if any, and repurchase the stock after dividends are paid. The two parties would then typically split the savings.

During his speech at the London School of Economics, Bank of England Governor Bailey acknowledged the potential tightening of credit conditions following the recent turmoil in the banking sector but emphasized the distinction between monetary policy and financial stability. He said the Financial Policy Committee (FPC) will respond to issues around financial stability, while the Monetary Policy Committee (MPC) will focus on returning inflation back to target. He reiterated the importance for the MPC to have the tools to do its job, and for those tools to not be constrained by other factors. Bailey also said that interest rates will not necessarily have to return fully to, and remain around, higher pre-Global Financial Crisis levels, which suggests that the MPC's rate is nearing its peak.

Asia/Japan

As previously telegraphed, incoming Bank of Japan (BoJ) Deputy Governor Uchida said that any adjustment to the central bank's Yield Curve Control (YCC) will not be communicated in advance and will need to come as a surprise. When the time comes for changes to its YCC, some market participants expect the BoJ to act in a swift manner to minimise prolonged bond volatility. Kazuo Ueda will formally succeed Kuroda as Governor on 9th April 2023.

After returning from his visit to Moscow, President Xi called Saudi Arabian Crown Price Mohammed bin Salman and said he looked forward to continued improvements in relations between Saudi Arabia and Iran.

Economist Corner

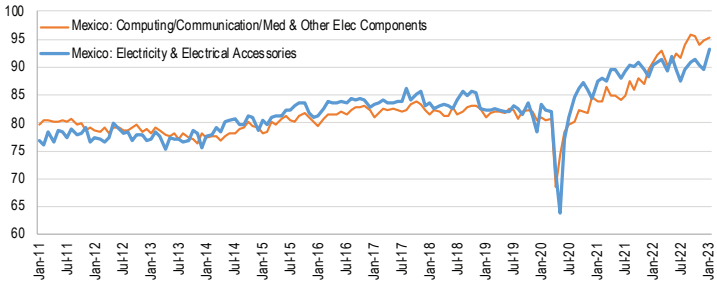
Seamus Smyth, PhD, Developed Markets | **Steffen Reichold, PhD, Emerging Markets**

The pandemic-related supply-chain disruptions, which include severe logistics capacity shortages along with the structural tensions with China and the threats of more sanctions, have substantially raised pressure for companies to make supply chains more resilient. That means making them less reliant on complex logistics chains and, more importantly, reducing exposure to countries with adversarial political relations. The experience with Russia in recent years also added to this trend. The solution to at least some of those concerns increasingly being pursued by companies is nearshoring – i.e., bringing supply chains closer to home. Full onshoring is often not an option (despite increased incentives from the CHIPS act) due to dramatic differences in labor costs, but the next best solution is often to bring production closer, both geographically and in terms of political relations. For the US, the country that clearly fits the requirements is Mexico. While we have seen trade tensions in recent years and pressure to limit outsourcing of production from the US to Mexico, the renegotiated USMCA agreement in 2020 has made the situation much more predictable. While the arguments for Mexico are clear, the question is still to what extent the country can benefit economically. In other words, are companies really moving production from China to Mexico?

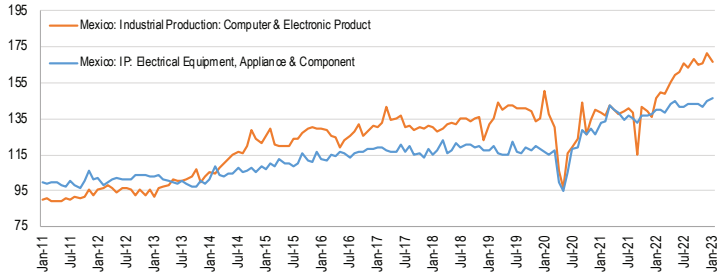
Anecdotal evidence suggests that this is happening, especially in technological sectors. But concrete data also confirms this trend. Mexican production of electronics, computers, and electrical equipment has been rising sharply over the past two years, reversing the stagnating trend in place since 2016. Capacity utilization has also increased sharply, and capacities are tight at this point. While this suggests that additional growth is likely to slow going forward, it increases the incentives to initiate new investments. Some high-profile announcements have already been made – e.g., chip production plants – but getting new production online will take time. However, in the meantime we can expect more FDI and more investment demand, with clear economic benefits for Mexico.

On the downside, economic policies under the current government have been mixed. In our view, many structural problems are not tackled proactively. Still, we believe there is a clear understanding of the importance of the economic relationship between US and Mexico and the unique opportunity it presents in the current global economic environment. We believe Mexico will clearly benefit in the coming years.

MEXICO CAPACITY UTILIZATION (%)



MEXICO INDUSTRIAL PRODUCTION SA, 2013=100



As of 31 January 2023 | Sources: Haver Analytics , Stone Harbor Investment Partners | For illustrative purposes only.

External Sovereign Debt

External sovereign debt spreads tightened by 16 bps, and the JP Morgan EMBI Global Diversified returned 0.3%. Non-investment grade credits outperformed investment grade bonds. The top performers included Zambia (6.27%), Argentina (4.41%), and El Salvador (4.09%). The bottom performers included Bolivia (-6.49%), Lebanon (-4.31), and Sri Lanka (-3.61%).

Local Currency Debt

The JP Morgan GBI EM Global Diversified returned 1.51%. EM currencies returned 1.27%, in aggregate. The Chilean peso outperformed this week with spot FX return of 3.58%, followed by the Colombian peso (3.35%) and the Hungarian forint (2.31%). Underperformers included Turkey (-0.52%), Romania (-0.48%), and Egypt (-0.16%).

The yield of the JP Morgan GBI EM Global Diversified fell 2 bps to 6.61%. Turkey outperformed with yields 55 bps lower, followed by Hungary (-27 bps) and Colombia (-18 bps). Poland, the Czech Republic, and the Philippines underperformed with yields 9 bps, 7 bps, and 7 bps higher, respectively.

In central banking news, Azerbaijan raised its rate by 25 bps to 8.75%. As expected, the Philippines hiked rates 25 bps to 6.25%, as did Thailand, up from 1.50% to 1.75%. Turkey left rates unchanged at 8.50% per consensus, as did Hungary at 13.00% and the Czech central bank at 7.00%. In a surprise move, Ghana raised its policy rate by 150 bps, up to 29.5%. Kenya also surprised financial markets by hiking its rate by 75 bps up to 9.75%. South Africa also hiked its rate more than expected, up by 50 bps to 7.75%. Belarus cut its rate by 50 bps to 10.50%.

EM Corporate Debt

The JP Morgan CEMBI Broad Diversified saw slight positive returns of 0.1% this week. In spread terms, the index tightened by 9 bps this week compared with a widening of 7 bps last week. Market sentiment improved from the previous week as broader contagion risks into EM from the banking sector crisis look abated for now, further supported by the movement in US Treasuries.

High yield credits (+0.2%) performed better than high-grade bonds (0.0%). Latin America was the best performer for the week, returning 0.2%, followed by Africa (+0.1%) and Asia (+0.1%). Middle East, CEEMEA and Europe posted negative or flat returns of -0.1%, 0.0% and 0.0% respectively. China's Sino-Ocean Group gained back 10-15 points after the company paid the coupon that it had deferred paying last week. Strong performers for the week were Ukraine (+4.6%), Burkina Faso (+2.2%) and South Africa (+1.2%), while the worst performers of the week were Moldova (-2.6%) and Argentina (-1.1%). S&P Global Ratings downgraded Argentina's Foreign Currency Long-term credit rating from CCC+ to CCC- and kept the outlook negative. Among sectors, pulp and paper (+0.8%) and consumer (+0.4%) both outperformed, while real estate (-0.6%) and transport (-0.2%) lagged index returns.

Flows/Issuance

In EM hard currency sovereign debt, Costa Rica issued a US dollar-denominated bond due April 2034 totaling roughly US$1.5 billion. Meanwhile Poland issued two US dollar-denominated bonds, each roughly US$2.5 billion in size, maturing October 2033 and April 2053.

In EM corporate debt, positive momentum within this sector was also reflected in the primary market, with Korea National Oil Corporation (KNOC), Korea Mine Rehabilitation and Mineral Resources Corporation, Saudi Arabia's Al Rajhi Bank, and Hong Kong's AIA selling this week. KNOC's US$450 million 5-year tranche was oversubscribed, and the issue was subsequently offered 30 bps lower than initial guidance.

According to Emerging Portfolio Fund Research (EPFR), EM fixed income funds saw outflows of US$679 million, spread relatively evenly across hard and local currencies. We note that EPFR data provides a partial picture of portfolio flows as it accounts for a segment of the market.

Source: EPFR

Sovereign Soundbites

ARGENTINA Former Argentine President Mauricio Macri announced on Sunday that he will not run in the country's October general elections, putting an end to speculation about his candidacy. The decision clears the way for other opposition candidates in the "Together for Change" coalition, including Buenos Aires Mayor Horacio Rodriguez Larreta and former Security Minister Patricia Bullrich. The opposition coalition is considered the frontrunner against the incumbent Peronist-led leftist party, which has not yet defined its candidate amid major internal disputes between President Alberto Fernandez and his Vice President Cristina Fernandez. The election will be held October 22.

BRAZIL Brazil's central bank acknowledged in their latest policy meeting Finance Minister Fernando Haddad's efforts to pass a fiscal package to strengthen public finances, which could help reduce inflation. However, the bank emphasized that there is no direct link between a new fiscal framework and lower inflation, stressing its plans to monitor the framework's implementation. The bank also explained that it kept the Selic rate at 13.75% due to concerns about changing inflation targets, which led investors to bet that consumer prices would rise at a faster pace in the coming years, undermining the bank's efforts to anchor expectations. The central bank is under political pressure for holding borrowing costs at a six-year high even as annual inflation slowed for a 10th straight month by early March. Nevertheless, it gave no indication that it is ready to discuss rate cuts and reiterated that it would not hesitate to increase borrowing costs if inflation does not behave as expected.

ETHIOPIA The IMF has announced a 10-day visit to Ethiopia for talks on a new funding program to address the economic and humanitarian challenges faced by the country after two years of civil war. The Ethiopian government has requested US$20 billion for post-war reconstruction. The IMF officials expect to discuss funding for post-conflict reconstruction and bolstering foreign-currency reserves to pay for imports of medicine, food, and raw materials for Ethiopia's manufacturing industry. The IMF's willingness to consider providing support is a glimmer of hope for a government dealing with surging inflation and a crippling drought. Ethiopia's international bond due December 2024 rallied on the news, advancing approximately 1 percentage point in price to a bid level of US$68.

GHANA Ghana's central bank increased its key rate on Monday to 29.5% – the highest ever – to control inflation, now more than five times the target range of 10%. This is the latest in a series of hikes amounting to a total of 14.5 percentage points since November 2021. The decision came as a surprise, as none of the economists in a Bloomberg survey predicted a hike of this size. Meanwhile, on Tuesday, Ghana's government and international bondholders pushed forward on formal debt talks to restructure the country's dollar-denominated debt of over US$13 billion, according to Reuters. It has already struck a deal to write down its domestic debt and has also requested to rework its bilateral debt under the framework supported by the Group of 20 major economies.

INDIA India's sovereign bond market is experiencing a shift as the country's growing middle class, which is increasingly investing in long-term debt through life insurers, provident funds, and pension funds, is reducing the government's dependence on banks. Insurers and pension funds now own 26% of

government bonds, up from 22% in 2010. Longer-dated debt has been snapped up by the insurers at auctions at lower yields than shorter-maturity paper, leading to a flattening of the yield curve. This trend could help fulfill Prime Minister Narendra Modi's ambitious nation-building plans, which include 50 new airports, heliports, and aerodromes.

MEXICO The Mexican government plans to challenge the Supreme Court's temporary suspension of parts of President Andres Manuel Lopez Obrador's electoral reform – a scaled-down version of a failed constitutional reform. The reform, known as "Plan B," significantly downsizes the independent electoral institute INE while giving more power to local officials, many of whom are members of Lopez Obrador's MORENA party. Tens of thousands of protestors opposed the reform out of concerns it will undermine democracy. Meanwhile, state-owned oil giant Pemex submitted a development plan to regulators for the Zama oil field in a deal that will allow Talos Energy and its partners to take part in operational decisions. A private consortium led by Talos had discovered the 800 million-barrel Zama field in 2017, but Pemex was granted operatorship of the field after it was found that Zama bled into a reservoir owned by the state company. At roughly 670 million recoverable barrels of oil, the discovery was the largest oil find in Mexico by a private company in decades. Zama is expected to reach 180,000 barrels a day of output, according to Pemex – about 10 percent of Mexico's total oil production.

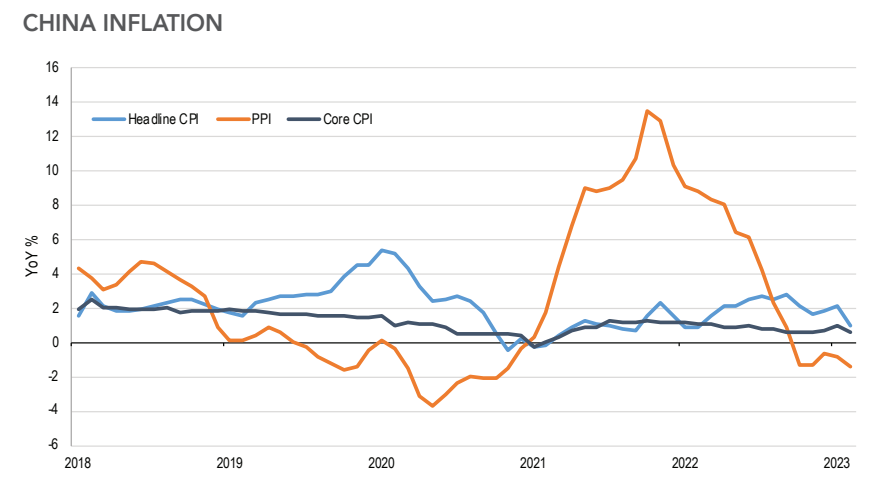
PANAMA First Quantum Minerals and the Panama government announced on 23 March their agreement on the final text for a new contract on the operations of Cobre Panama, a large open-pit copper mine that accounts for 3.5% of the Panamanian GDP and 50% of First Quantum's global production. The company and government had agreed to the new contract in principle earlier in the month. The government of Panama has now launched a 30-day non-binding public consultation process related to the contract. Completion of the public consultation and the expected parliamentary approval of the contract will finally resolve tensions between the government and First Quantum that escalated earlier this year.

PERU Peruvian Prime Minister Alberto Otarola announced on Monday that the government will implement reforms to overhaul the Peruvian National Police (PNP) at the request of President Boluarte. This comes after the dismissal of former Commander General Raul Alfaro, who was allegedly linked with a Spanish citizen accused of leading an espionage network under the orders of former President Pedro Castillo. The government has also announced changes in posts within the PNP as part of a new focus on security and anti-corruption efforts. Otarola noted that the Ministry of Interior had been dismantled during Castillo's administration and that the current government is gradually changing this. This announcement comes after 49 citizens died in clashes with the police during the demonstrations against Boluarte from December 2022 to February this year. In addition, according to Bloomberg, Peruvian prosecutors said late on Tuesday that they had opened an investigation of Boluarte and Castillo for allegedly laundering money. These charges come in the same week that congress is expected to decide on whether to launch impeachment proceedings against Boluarte. The investigation involves allegations of illegal campaign financing during the 2021 election.

RUSSIA Russia has increased classified or unspecified expenditure to 2.4 trillion rubles (US$31 billion) through 24 March, more than doubling the spending levels from a year ago. The surge in classified spending suggests an increase in war-related expenses, including costs related to territories annexed by President Putin. Spending on defense is now second only to social programs, reflecting Russia's fiscal commitment to the war effort. At 2.58 trillion rubles, the budget shortfall in the first two months of this year alone approached its planned level for the entire year, which was previously forecast by the country's Finance Ministry at 2.93 trillion rubles. Russia's budget is likely to run a deficit of 3-4% of GDP this year. Despite officials blaming this deficit on advance payments made to support businesses and the economy, the data show the biggest increase went toward defense spending. The shift in spending priorities risks becoming entrenched over time, with the government looking to expand the size of the military to 1.5 million from 1.15 million.

Chart of the Week

While China's economy has strengthened so far this year in a post-reopening recovery, inflation has continued at a mild pace, in stark contrast to developed economies and many emerging markets. China's CPI inflation averaged 0.9% in 2021 and 2% in 2022. For January, headline CPI rose 0.8% on a seasonally-adjusted basis. Most forecasters, including us, expect China's CPI inflation to run well below the government's target of roughly 3%. The spike in producer prices at the end of 2021 largely reflected increases in upstream and midstream raw material prices as supply chain and logistical logjams raised prices during COVID lockdowns. These issues dissipated in late 2022. Food inflation has been the key driver of China's inflation over the years. JP Morgan estimates food accounts for 21% of China's CPI, comprised of a 33% weight for grain, 14% for pork, 14% for vegetables, 9% for fruit, and the rest for other livestock meat, fish, milk and other products. With falling food prices in the current environment and limited pressure from wage or rent inflation, we think the outlook for Chinese consumer prices is likely to remain benign.



As of 31 January 2023
Sources: Haver Analytics, J.P. Morgan, Stone Harbor Investment Partners
For illustrative purposes only.

U.S. High Yield

The ICE BofAML US High Yield Constrained Index increased 0.15% for the week, mired by negative news on regional banks and other financial institutions. The following days, after supportive comments from the Treasury Secretary and the acquisition of Silicon Valley Bank, the market started to find some footing. Positive tailwinds from limited new issue supply, stability in rates, higher equities, and decent cash balances propelled accounts to add risk at lower prices. The market compressed, with buyers favoring defensive positions in higher quality names over more levered CCCs. High yield spreads tightened 16 bps to finish +500 OAS, a two-week low, with BBs seeing the most benefit by tightening 17 bps. On a performance basis, BBs also outperformed with 0.24% of total return, while CCCs were negative at -0.08%, and single Bs stayed more in line with the index, garnering 0.11% of total return. Negative sector performance was led by sectors with a higher percentage of lower-quality liquid names, which included media, cable, wirelines, publishing, and retail. Sectors that outperformed were consumer products, leisure, metals, refining, and satellites.

Leveraged Loans

As fears over widespread banking contagion subsided and questions regarding near-term interest rate hikes were addressed, risk markets stabilized from previous weeks and we headed into quarter-end with a better tone. The leveraged loan market followed suit and recovered some of its losses from earlier in the month. For the week, the Morningstar LSTA US Leveraged Loan Index ("the Index") posted a 0.58% return, led by the discounted B-rated portion of the market, while lower-quality CCC rated loans lagged. Secondary trading activity saw lighter volumes, but investors were more focused on investing cash balances ahead of quarter-end amortization payments. From an industry perspective we saw outperformance in a number of consumer-facing sectors including gaming, leisure, and airlines, while we saw some weakness in wirelines and media. Industry laggards are being driven by idiosyncratic credit events, at this point.

European High Yield

The European high yield market gained 0.35% as market volatility eased and the wider spreads motivated investors to add risk. Index spreads tightened 1 bps, with CCCs underperforming at 77 bps wider. Netflix bonds traded up 2 points after Moody's upgraded the bonds one notch to Baa3 with a positive outlook. S&P had previously upgraded the company to investment grade. TalkTalk Telecom bonds gained 1 point on reports of the potential sale of its B2B unit. The rumored proceeds of around £200 million would be used to reinvest into its wholesale business.

Flows/Issuance

For US high yield, EPFR data showed the market lost US$2.125 billion in the last week, which was primarily attributed to ETF flows. LABL Inc. ended the three-week new issue drought, selling a US$300 million 5.5-year note that attracted orders of more than US$1 billion, and tightened pricing to 9.5% from 10%.

Leveraged loan markets had a supportive backdrop this week, but overall, technicals appear fragile. Supply remained limited this week as issuers and arrangers sat mostly on the sidelines with new deals. Notably, we had a few amend & extend (A&E) transactions in syndication. However, it appears that early in the marketing period, lender-friendly provisions are being added. On the demand front, given the market volatility, we saw a slowdown in collateralized loan obligation (CLO) formation, with two deals under US$1 billion pricing this past week. Additionally, we saw an uptick in outflows from retail loan mutual funds and exchange-traded funds (ETFs) this past week. Last week's US$1.94 billion outflow was the largest since last June and marked the twentieth consecutive weekly outflow. Lastly, there were no defaults in the loan market last week.

For European high yield, market outflows accelerated to US$478 million this week, increasing monthly outflows to US$1.2 billion.

Source: Lipper, EPFR

Industry Insights

AIRLINES AND AIR LEASE COMPANIES: High yield and leveraged loan issuer Castlelake Aviation reported slightly better-than-expected earnings for the December 2022 quarter. Castlelake also forecasted strong growth for 2023 and has capital expenditure commitments in place to add 40 airplanes to the rental fleet to support airline customer traffic growth. Castlelake is buying these planes in sale leaseback deals with both new and existing airline customers. Most importantly, Castlelake disclosed in year-end financial statements that all its airline customers are current on lease payments – another sign that airline credit fundamentals are improving. Investment grade issuer Aviation Capital Group LLC also highlighted strong industry growth in Asia as increases in Chinese cross border passenger traffic drive volume growth at all Asian airlines, helping raise demand for both narrow-body and wide-body aircraft. Air leasing companies are in a very good position to fill the demand for newer fuel-efficient planes as the two major OEMs, Airbus and Boeing, continue to fall behind on their published delivery schedules.

HOMEBUILDERS: Existing home sales for February rose 14.5% month-over-month to US$4.58 million, snapping a 12-month streak of declines, though still down -22.6% year-over-year. The Pending Home Sales Index, which represents homes contracted but not closed, rose 0.8% month-over-month in February, above the 3% decline estimated, which bodes well for March sales. Home buyers took advantage of mortgage rates dropping from November 2022 highs of 7% to February's average of 6.25%. Mortgage rates have been volatile in March as well, ticking down by -31 bps over the past two weeks to 6.42% — this is consistent with the sharp -33 bps decline in 10-year Treasuries. National median home pricing fell 0.2% to US$363,000, its first year-over-year decline in over a decade, and down -12.3% from the June 2022 record peak of US$413,000. KB Home, which reported slightly better than estimated first quarter results last week, issued guidance that the average selling price will be down -2% sequentially in its next quarter, consistent with market data. Homebuilders have outperformed the overall high yield index as demand has held in better than estimated. They entered the year with conservative building plans, with housing starts down -18% year-over-year. Homebuilders are also facing lower headwinds from labor shortages and lumber costs. Real-estate brokerage Redfin Corp. said roughly 45% of offers written by its agents faced competing bids in February. While this is down from 66% in February 2022, the market is still competitive as supply remains relatively tight.

SATELLITES: This week, headlines surfaced that SES and Intelsat are in merger discussions to form a leading global satellite connectivity provider. Markets have long thought this was a possible combination, and initial press reports indicated that discussions were in relatively advanced stages, and a deal could be completed in the coming weeks. Later the same day, SES put out a formal press release confirming they are in discussions with Intelsat about a potential merger. While there is no guarantee these talks will result in a deal, this is the most definitive information the market has received around this long-rumored transaction. Beyond SES confirming these discussions, additional details remain scant. However, assuming a deal does get announced, this should be a positive for both Intelsat and the broader industry. In our view, consolidation should lead to a more rational marketplace, and, in the case of Intelsat, should help create operating synergies both via capacity rationalization and potential future capex avoidance.

Governments

Markets remain highly sensitive to the incoming news flow following the recent collapse of Silicon Valley Bank and Signature Bank. The yield on 10-year Treasuries traded down to 3.28% after Treasury Secretary Yellen said she has not considered or discussed, "blanket insurance or guarantees of deposits." Risk sentiment soured after her comments. However, Yellen clarified her remarks the next day and said that regulators are prepared to take additional measures to protect the banking system, if necessary. Sentiment improved, and the yield on 10-year Treasures rose to end the week at 3.57%. Like the prior week, OIS markets continue to price in rate cuts by the FOMC, albeit to a lesser degree. Market participants now expect the Fed to cut its policy rate by 75 bps by December 2023. The Treasury curve slipped deeper into inversion, with the US 2s10s falling 3 bps to -54 bps. US breakevens, a gauge of inflation expectations, and 10-year inflation swaps, rose 8 bps. Treasury volatility, as measured by the ICE BofA MOVE Index, edged higher to 151 but remains well off the peak in mid-March.

European government bonds continue to diverge from US Treasures and saw better demand across maturities. European government curves bull steepened with UK 2s10s rising 10 bps to 6 bps, while German 2s10s gained 5 bps to -33 bps. The spread on peripherals tightened this week as risk sentiment improved, and the spread on 10-year Italian BTPs and Spanish government bonds fell 2 bps over comparable Bunds.

In Asia, 10-year Japanese Government Bonds remain stable at 0.32%, below the Bank of Japan's 50 bps threshold.

Corporates

Investment grade corporates remain on a path to recovery this week as the banking sector's worst fears started to subside and rate volatility abated. Despite the market's attempt at recovery, participants have shown a heightened dispersion in credit selection, with a preference for liquid higher-quality credits versus illiquid higher-beta issuers. Some of this dispersion is not related to fundamentals, but rather to technicals, as trading can sometimes be disjointed and choppy. Ongoing stress is evident in the short end of the banking curve, while ancillary sectors like REITS continue to suffer. When looking at the spread differential between financials and industrials, financials stand out as cheap today at roughly 43 bps compared with an average of only 11 bps over a one-year period. Over the last decade, the spread differential between financials and industrials shows industrials traded cheaply versus financials by an average of 10 bps – thus, as markets normalize, there is room for financial sector bonds to compress. As we close out the week, month-end buying has pushed spreads tighter. However, we remain wider by 19 bps on the month. The Bloomberg Corporate Index was better by 2 bps week-over-week, leaving the OAS at +143 bps. This leaves month-to-date excess returns negative by -72 bps, while total returns are up by 1.75%.

Securitized

The mortgage current coupon spread widened 7 bps as rates backed up. ABS (asset-backed securities) issuance resumed, with multiple deals and good demand down the stack. Activity in CMBS (commercial mortgage-backed securities) is slowly returning, with three new issue conduits entering the market, though bid lists are not all trading. Carvana proposed to restructure its corporate debt; however, a bondholder group that owns more than 80% of that debt has already rejected the plan. Though prepayment speeds for non-qualified mortgage residential mortgage-backed securities are still slow, they are beginning to pick up as the spring homebuying season begins. For a sector that is predominately discounted in price, any increase in prepayment speeds is a positive.

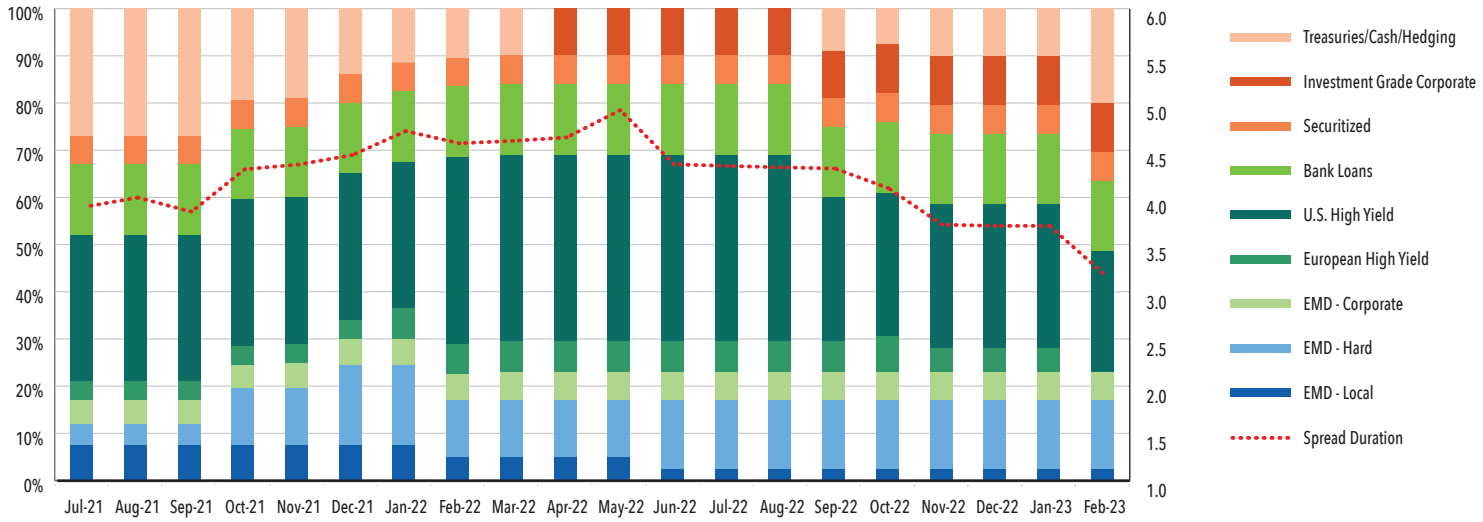
Flows/Issuance

The investment grade primary markets remain open for business, with just over US$25 billion of deals pricing this week. Deals continue to see stable demand, with many of them more than four times oversubscribed, while new issue concessions have been fair. Deals have priced somewhere between 30-35 bps through initial price talk, with little attrition with regards to book size. Stable volatility and favorable interest rates have lured more issuers to market and will leave the month with just around US$100 billion in supply – roughly half what was expected before the bank failures earlier during the month. April could see supply forecasts adjusted upwards, as many issuers who delayed could choose to re-enter if markets remain friendly.

Flows into high grade bond funds showed outflows for the second consecutive week, with -US$493 million of outflows for the latest period, according to EPFR. Aggregate funds saw significant inflows of US$2.2 billion, driven by the intermediate and long end of the curve, while corporate only funds offset this with outflows of -US$2.8billion, driven almost entirely by ETFs in the front end. Total return funds showed insignificant inflows totaling only US$80million. JP Morgan's estimate of flows to high grade corporates across all high-grade funds was estimated at -US$2 billion..

Source: EPFR, JP Morgan, Lipper.

STONE HARBOR MULTI-ASSET CREDIT TARGET ALLOCATIONS (%)



Stone Harbor Multi-Asset Credit Representative Target Allocation as of 28 February 2023. Actual allocations within any account may be significantly different from the target allocations shown here. For illustrative purposes only.

As of March 29, 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	488	(16)	41	36	36	48	0.3	0.3	1.2	1.2	(7.7)
	CEMBI Broad Diversified	CEMBI B D	346	(9)	50	24	24	(20)	0.1	0.3	1.7	1.7	(3.0)
	GBI EM Global Diversified Yield	GBI EM GD	6.61	(0.02)	(0.20)	(0.25)	(0.25)	0.34	1.5	3.3	4.3	4.3	(1.2)
EM Sovereign Debt	EMBI Global Diversified	EMBI G D	488	(16)	41	36	36	48	0.3	0.3	1.2	1.2	(7.7)
	EMBI GD Investment Grade	EMBI IG	148	(12)	13	14	14	(59)	0.1	1.8	2.3	2.3	(6.9)
	EMBI GD High Yield	EMBI HY	900	(22)	85	77	77	189	0.6	(1.3)	(0.0)	(0.0)	(8.6)
EM Sovereign Debt Regions	Africa	Africa	970	(30)	155	152	152	343	1.0	(4.5)	(3.3)	(3.3)	(13.2)
	Asia	Asia	323	(5)	28	6	6	56	(0.4)	0.9	2.8	2.8	(6.1)
	Europe	Europe	606	(25)	25	15	15	(236)	0.7	1.6	2.0	2.0	(10.5)
	LATAM	LATAM	451	(15)	34	36	36	70	0.3	0.5	1.2	1.2	(8.0)
	Middle East	Middle East	331	(17)	20	19	19	7	0.4	1.4	1.8	1.8	(3.3)
EM Corporates	CEMBI Broad Diversified	CEMBI B D	346	(9)	50	24	24	(20)	0.1	0.3	1.7	1.7	(3.0)
	CEMBI BD Investment Grade	CEMBI IG	202	(10)	30	32	32	(17)	0.0	0.9	1.7	1.7	(4.7)
	CEMBI BD High Yield	CEMBI HY	579	(9)	77	34	34	(10)	0.2	(0.5)	1.6	1.6	(0.8)
US High Yield	US High Yield	US HY	500	(16)	63	7	7	133	0.2	(0.2)	2.4	2.4	(4.4)
	US High Yield BB	US HY BB	342	(17)	46	20	20	78	0.2	0.5	2.0	2.0	(3.2)
	US High Yield B	US HY B	526	(14)	74	0	0	123	0.1	(0.4)	2.6	2.6	(4.6)
	US High Yield CCC	US HY CCC	1,130	(12)	124	(27)	(27)	363	(0.1)	(2.6)	3.8	3.8	(9.6)
European High Yield	Barclays PanEur HY	BAR PanEur HY	476	(1)	55	(19)	(19)	81	0.4	(0.1)	2.8	2.8	(3.4)
	2% Ex Financials Yield	2% ExFin Yield	7.66	(0.08)	0.20	(0.29)	(0.29)	1.97	0.00	0.0	0.0	0.0	0.0
Bank Loans	LSTA Price	LSTA Price	93.1	0.4	(1.1)	0.7	0.7	(4.3)	0.6	(0.4)	2.8	2.8	2.4
	LSTA 100 Yield	LSTA 100 Yield	9.47	(0.18)	0.18	0.36	0.36	5.03	0.6	(0.4)	2.8	2.8	2.4
Investment Grade	US Treasury 7-10 Yield	US Tsy 7-10 Yld	3.57	0.12	(0.35)	(0.25)	(0.25)	1.15	(0.8)	3.0	2.8	2.8	(5.8)
	1M LIBOR	1M LIBOR	4.86	0.06	0.19	0.47	0.47	4.40	0.1	0.4	1.1	1.1	2.7
	US Aggregate	US AGG	57	1	9	6	6	16	(0.8)	1.9	2.3	2.3	(5.0)
	US Investment Grade Corporates	US IG Corp	143	(2)	19	13	13	27	(0.6)	1.8	2.5	2.5	(6.1)
	Global Aggregate	Global AGG	54	0	7	3	3	12	(0.2)	2.0	2.6	2.6	(3.7)
	Barclays 1-5 Year Credit	Barclays 1-5 Year Credit	101	(1)	30	22	22	41	(0.3)	1.0	1.3	1.3	(0.5)
FX	DXY (US dollar)	DXY	102.64	-	-	-	-	-	0.3	(2.1)	(0.9)	(0.9)	4.3
	GBI EM FX	GBI EM FX	-	-	-	-	-	-	1.3	1.8	1.6	1.6	(5.8)

1W reflects data from 22 March 2023 close through 29 March 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 Morningstar LSTA U.S. Leveraged Loan Index is a daily total return index that uses LSTA/LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the Index represent a broad cross section of leveraged loans syndicated in the United States, including dollar- denominated 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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