NYL Investors LLC
Fixed Income Investors

January 2017

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FIXED INCOME INVESTORS

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Summary - as of January 2017

- The optimism that sent stock prices and bond yields higher following the presidential election leveled-off in January.
- High Grade credit spreads tightened modestly in January.
- Non-corporate bonds, utilities, and finance outpaced the broader market, with 24 bps, 18 bps and 10 bps of excess returns, respectively.
- Industrials generated only 1 bp of excess return on the month.
- Higher beta sectors such as metals and energy experienced solid performance throughout the month.
- BBB rated paper outperformed AA/AAA and Single-A credit.
- Agency MBS underperformed during the month with negative 24 bps of excess return for January.
- Renewed prospects that the Fed could begin to taper or end its reinvestment in Agency MBS also weighed on the sector.
- CMBS had 37 bps of excess return for the month with long duration issues outperforming.
- ABS returned a modest 6 bps of excess return in the month with credit cards, autos and the non-index sub-sectors all performing well for the month.

Source: Bloomberg, NYL Investors, Barclays – February 2017.
Past performance is no guarantee of future results, which will vary.
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset –Backed Securities

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Market Review - as of January 2017

The optimism that sent stock prices and bond yields higher following the presidential election leveled-off in January. While we are holding the new ranges, the optimism has been tempered somewhat by political missteps, and limited progress on the confirmation of cabinet picks and tax reform. We see a fair amount of optimism still priced into the markets, and are cautious markets could suffer some retracement if disappointment emerges. For investment grade credit, we would view wider spreads as an opportunity to add exposure.

US Treasury Yields

Term	1/31/2017	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.76%	-5	12	-5	31
2Y	1.20%	2	36	2	43
3Y	1.46%	1	47	1	50
5Y	1.91%	-1	61	-1	58
7Y	2.25%	0	63	0	58
10Y	2.45%	1	63	1	53
30Y	3.06%	0	48	0	32
2s10s	125	-1	26	-1	10
10s30s	61	-1	-15	-1	-21

Treasuries settled into another range in the opening month of the year. Ten-year notes traded between 2.32% and 2.51%, ending the period at 2.45%. Two-year notes opened the year at 1.19% and closed the period at 1.20%. We wouldn't be surprised to see rates grind lower in the short-term.

High Grade credit saw modestly tighter spreads in January. The Credit index was 2 bps tighter, closing the month at 116 bps. Spread moves were relatively balanced across sectors and volatility was remarkably well contained. Credit managed to generate 9 bps of excess returns. Non-corporate bonds, utilities, and finance outpaced the broader market, with 24 bps, 18 bps and 10 bps of excess returns, respectively. Industrials generated only 1 bp of excess return on the month. Higher beta sectors, such as metals and energy experienced solid performance throughout the month.

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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Market Review - as of January 2017

US Fixed Income Spreads

Index	1/31/2017	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	37	2	3	2	2
Credit Aa	78	-1	-6	-1	-29
Credit A	100	-1	-8	-1	-43
Credit Baa	156	-4	-15	-4	-105
Finance	119	-1	-10	-1	-38
Industrial	123	-2	-12	-2	-93
Utility	114	-3	-11	-3	-46
Supranational	27	-1	3	-1	3
Sovereign	149	-8	1	-8	-72

The record pace of issuance in the corporate bond market showed no signs of abating in January, picking up right where it left off. As soon as we returned from the New Year's holiday, the calendar began in earnest. Issuance was dominated by Yankee Banks early in the month whereas U.S. domestic bank issuance outpaced all other sectors in the latter half of the month. Ultimately, January was the second busiest month on record, with $184 billion in fixed rate deals priced. This was a 19% increase over January 2016 issuance. Despite this supply secondary spreads proved to be resilient with the market absorbing the supply.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.12%	0.07%	-0.12%	0.67%
Credit Aa	0.00%	0.78%	0.00%	3.35%
Credit A	-0.06%	1.10%	-0.06%	4.94%
Credit Baa	0.27%	1.65%	0.27%	9.76%
Finance	0.10%	1.12%	0.10%	4.27%
Industrial	0.01%	1.47%	0.01%	8.69%
Utility	0.18%	1.66%	0.18%	5.75%
Supranational	0.02%	-0.11%	0.02%	0.02%
Sovereign	0.75%	0.29%	0.75%	6.03%

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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Market Review - as of January 2017

Investors continued their quest for yield in January. BBB rated paper outperformed AA/AAA and Single-A credit. The incremental spread drew investors to lower quality credit leading the segment to outperform. Front-end bonds also outperformed besting intermediate and long duration during the month as credit curves steepened.

Agency MBS underperformed in the opening weeks of the year with negative 24 bps of excess return for January. Option adjusted spreads widened 7 bps in the period with higher rates and a more optimistic outlook for the economy weighing on the sector. Renewed prospects that the Fed could begin to taper or end its reinvestment in the asset class also weighed on the sector. Several Fed governors spoke on the topic raising concerns the action could happen sooner than the market previously anticipated. All coupons in the MBS stack underperformed during the month. 15 year MBS outperformed the 30 year sector, due to their lower weighted average life and lower duration attributes. GNMA underperformed FNMA. Volatility in the GNMA sector was elevated from the flip-flop in mortgage insurance premium (MIP) pricing. Recall the Federal Housing Administration (FHA) reduced mortgage insurance premiums near the end of the Obama administration, raising the prospect of higher pre-payments in premium coupons. The last time the MIP was reduced in 2013, it resulted in higher pre-payments over the ensuing eight months. December's prepayment report (released in January) saw an 11% month over month decline in prepayment speed. The decline in prepayment speeds was not unexpected, since 30 year fixed rate residential loans rose above 4.0%. Risks remain elevated in the MBS sector, which have led us to be cautious for now.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.03%	0.22%	-0.03%	1.99%
Agency	0.14%	0.06%	0.14%	0.43%
Credit	0.09%	1.20%	0.09%	6.40%
MBS	-0.24%	-0.65%	-0.24%	0.04%
ABS	0.06%	-0.01%	0.06%	0.80%
CMBS	0.37%	0.78%	0.37%	3.24%
USD EM	1.03%	1.77%	1.03%	12.19%

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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Market Review - as of January 2017

CMBS had 37 bps of excess return for the month. Option adjusted spreads tightened 6 bps points. Long duration issues outperformed. The desire for yield attracted investors to lower rated issues, with BBB rated deals performing better than AAA rated issues. It was a slow month for new issuance in CMBS. Only one conduit deal was priced in January. The supply/demand dynamic was skewed as investors waited and pounced on the only conduit deal that was issued during the month. February is expected to return to a more normal issuance schedule. Commercial real estate fundamentals remain solid, with the exception of retail sector. Sales in the retail sector were lower than expectation over the holiday season, leading companies to close underperforming stores. We expect the deterioration in the retail sector will not affect the integrity of the CMBS deal structures.

ABS returned a modest 6 bps of excess return in the month. Option adjusted spreads tightened 3 bps. Credit cards and the auto sub-sectors both performed well for the month. Non-index or esoteric ABS also performed well in January. Non-index sectors include timeshare, dealer floorplans, and insurance receivables. ABS supply began 2017 on a strong note, with over $10 billion in new issues coming into the market. That is a 69.0% increase over same period in 2016. Supply was well received by investors, which continue to satisfy the need for safe, stable assets in the front-end of the yield curve.

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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Outlook - as of January 2017

While it's still early, data so far indicates real GDP growth will be close to trend in the first quarter. If the data holds up, we suspect the Fed will have a more complicated discussion at their March 15th policy meeting. The Fed has claimed they are in a policy tightening mode. Nonetheless, the Committee skipped three of their "forecast" rate hikes in 2016 due to weak economic data (which turned out to be more of an inconsistent growth pattern), perceived macro and political risks (which proved to be red herrings), and a general unease about the outlook for the economy. This year, we start 2017 with the Fed's median forecast for rate hikes during the year centered around 3 hikes. Add to the equation that economic indicators have surprised the market to the upside in the United States and Europe since early in the fourth quarter of last year, and there have been minimal macro or geopolitical concerns. It seems hard for us to believe the Fed could pass-up on an opportunity to raise rates given this back-drop. This is especially true given their decisions to pass on rate hikes given the mixed data last year.

We share this view despite acknowledging the Fed is composed of the most dovish voting members perhaps in its history. Messengers George, Mester, Rosengren, and Lacker are all nonvoting members this cycle. The lone hawk voting member on the Committee is Philadelphia Fed President Harker. The closest ideologically to his views are centrists Fischer and Kaplan.

Getting the Fed call right is always one of our priorities; however, our primary focus is getting the call on the investment environment for core fixed income assets right. Our view is this market still represents very good value for investors at current valuations and corporate bonds remain our favored asset in the group. The spread risk premium and corresponding yield pick-up looks attractive to us in the context of the macroeconomic backdrop. Low to moderate growth, combined with a Fed that has been cautious to a fault will likely provide a tailwind for most core fixed income assets. We'd argue the Fed's fear of raising rates benefits spread assets at least in the short-run. We say most because we are cautious on mortgage pass-throughs. We remain convinced the domestic economy will grow near potential, and rates will drift up. These developments should lead the market and the Fed to adopt a more aggressive bias towards ending reinvestment of their mortgage portfolio run-off, which in turn we expect to pressure spreads wider.

*Bureau of Labor Statistics, 25 years and older

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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Supplemental Data - as of January 2017

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.20%	-2.04%	0.20%	1.45%
Treasury	0.23%	-2.55%	0.23%	-0.85%
Agency	0.33%	-1.19%	0.33%	0.34%
Credit	0.34%	-1.81%	0.34%	5.43%
MBS	-0.03%	-1.75%	-0.03%	0.34%
ABS	0.22%	-0.44%	0.22%	1.22%
CMBS	0.61%	-1.66%	0.61%	2.41%
USD EM	1.25%	-0.75%	1.25%	11.29%

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.09%	-1.73%	0.09%	0.26%
Credit Aa	0.24%	-2.11%	0.24%	2.48%
Credit A	0.19%	-2.06%	0.19%	3.87%
Credit Baa	0.53%	-1.53%	0.53%	8.68%
Finance	0.33%	-1.26%	0.33%	3.63%
Industrial	0.28%	-1.87%	0.28%	7.53%
Utility	0.46%	-2.53%	0.46%	4.20%
Supranational	0.21%	-1.31%	0.21%	0.01%
Sovereign	1.01%	-3.42%	1.01%	4.66%

US Fixed Income Spreads

Index	1/31/2017	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	44	1	-1	1	-19
Agency	16	-5	-4	-5	-2
Credit	116	-2	-9	-2	-65
MBS	22	7	9	7	1
ABS	56	-3	3	-3	-10
CMBS	69	-6	-13	-6	-63
USD EM	285	-16	-17	-16	-165

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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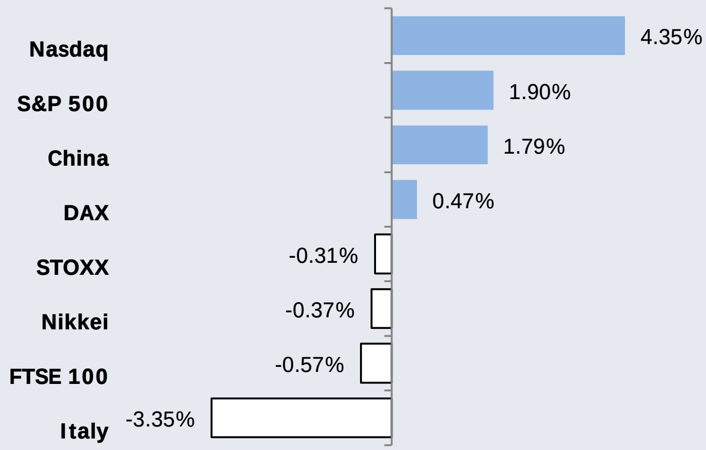
Fixed Income Investors

Supplemental Data - as of January 2017

Global Equity Returns

Stock	1/31/2017	1-Month	3-Month	YTD	1-Year
S&P 500	2279	1.90%	7.76%	1.90%	20.04%
Nasdaq	5615	4.35%	8.54%	4.35%	23.23%
STOXX	360	-0.31%	6.54%	-0.31%	8.32%
FTSE 100	7099	-0.57%	2.67%	-0.57%	21.41%
DAX	11535	0.47%	8.16%	0.47%	17.73%
Italy	18591	-3.35%	8.56%	-3.35%	-0.36%
Nikkei	19041	-0.37%	9.45%	-0.37%	10.81%
China	3159	1.79%	1.89%	1.79%	15.40%

1-Month Performance



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Supplemental Data - as of January 2017

Europe

Stock	Last	1-Month	3-Month	YTD	1-Year
STOXX	360	-0.31%	6.54%	-0.31%	8.32%
FTSE 100	7099	-0.57%	2.67%	-0.57%	21.41%
DAX	11535	0.47%	8.16%	0.47%	17.73%
CAC 40	4749	-2.32%	5.54%	-2.32%	10.39%
Portugal	4475	-4.36%	-3.80%	-4.36%	-11.66%
Italy	18591	-3.35%	8.56%	-3.35%	-0.36%
Ireland	6392	-1.86%	8.22%	-1.86%	2.20%
Greece	612	-4.95%	3.86%	-4.95%	13.45%
Spain	9315	0.05%	2.95%	0.05%	9.73%
Russia	2217	-0.69%	11.45%	-0.69%	24.23%

International

Stock	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1732	2.90%	4.30%	2.90%	12.03%
MSCI EM	909	5.47%	0.84%	5.47%	25.41%
MSCI FM	532	6.66%	7.61%	6.66%	17.54%
MSCI FM100	1158	7.74%	10.21%	7.74%	23.96%

Source: Bloomberg, NYL Investors, Barclays – February 2017.
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