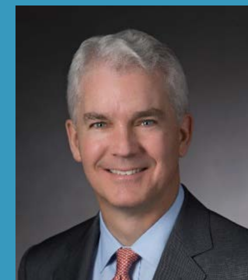
Update on the economy and the financial markets

Perspectives from Tony Malloy, Executive Vice President and Chief Investment Officer



March 18, 2020

- We are in unchartered waters with the unprecedented global pandemic creating a demand and supply shock at the same time, which is an extremely rare occasion
- From a demand perspective, the pandemic is grinding the economy to a standstill; restaurants, shopping malls, flights, and hotels are all experiencing dramatic declines as people adhere to social distancing recommendations
- From a supply perspective, the ongoing oil price war is impacting the energy sector and substantial declines in the production of goods is impacting supply chains and choking the supply of finished products globally
- Our economic system is a perpetual motion machine, each person's spending is another person's income and it repeats itself
- When this cycle begins to break down, economic growth is impacted as 70% of US GDP is generated by consumer spending; as a result, we expect a sharp contraction in the economy
- A global recession is now expected with all the world's major economies impacted; how severe and how prolonged it will be is the question
- The U.S. unemployment rate is expected to rapidly rise from 3.5%, the lowest level in half a century, to 10% or higher as more and more companies furlough or lay off workers
- We should expect aggressive fiscal response to compliment the Fed's monetary policy to alleviate the stresses building in the system
- Flattening of the curve of the pandemic is vital to containing the human and economic impact

Market Impact

- Market volatility and fluctuations are primarily driven by fear and greed, they tend to overshoot on the upside and downside
- Currently, the markets are driven by fear and panic with equities off 30% from their peak
- Volatility has been extreme, we recently experienced 3 consecutive days where the markets were up or down 10% per day. We haven't seen that since 1929
- Interest rates have followed a similar pattern with 50-60 bps moves in a day
- The entire U.S. Treasury yield curve traded below 1% last week with the 10yr yield touching 31 bps and the 30yr hitting 61 bps, both all-time lows

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- In the bond market, credit spreads have widened materially, and the new issue market has been effectively closed
- Liquidity in the system is challenged, especially in the front end of the curve
- Traditional safe havens like Treasuries and AAA rated municipal bonds are also under pressure
- Money managers and banks are attempting to raise cash in anticipation of redemptions
- Commodities, especially oil, have seen extreme volatility with prices down 50% since January
- Gold, typically a safe haven investment, has been volatile, which is a sign of liquidity pressure
- Algorithmic trading has exacerbated volatility which is at post Global Financial Crisis highs

Federal Reserve Response

- Over the last couple of weeks, the Federal Reserve has taken a series of actions to stabilize markets and provide liquidity to the financial system:
    - Reduced the Fed Funds target rate to 0% to 0.25%, through two emergency rate cuts
    - Resumption of their bond buying program, quantitative easing, with plans to purchase $500B in Treasuries and $200B of mortgage backed securities
    - Injection of $1.5T dollar into the Repo market to improve liquidity
    - Established a Commercial Paper funding facility
    - Increased access to the Dealer Discount Window
    - Reopened the Term Asset Funding Facility
- Overall, there is a very coordinated effort with other central banks around the world to help with funding and easing of monetary conditions

The Fiscal Response

- This is a very fluid situation and there are several measures are being considered
- A minimum of $1T of support is expected with possibly up to $4T over time
- Some of the ideas which are being considered include:
    - $1k to each adult in the US (delivered in the next week or two)
    - Industry bailouts of the airlines, hotels, cruise lines
    - Small business loans
    - Stabilization funds
    - Tax deferrals; Federal filing date pushed from April 15th to July 15th
    - Paid leave and expanded unemployment benefits
    - Lots of things in process, the faster the implementation the better

New York Life

- We came into the crisis in an incredibly strong position and we have a fortress balance sheet
- We regularly conduct rigorous stress tests including severe scenarios including a Great Depression, Pandemic, Equity Shock, and Interest Rate Shock
- In each of these scenarios, we retain our ability to meet our long-term promises and guarantees, as we have for 175 years
- We are clearly in an unprecedented environment and expect this to be a marathon not a sprint

- Everyone at New York Life is working tirelessly around the clock to be there for our policy owners, agents and employees; we're all in this together
- I am confident we will see better days ahead and it's extremely important that we remain positive, optimistic and strong

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