NYL Investors LLC
Fixed Income Investors

April 2020

Fixed Income Investors

Summary - as of April 30, 2020

- April was marked by what we hope will be the peak of the coronavirus epidemic in the United States.
- As of May 1st, more than half of the states in the U.S. had partially re-opened their local economies while harder hit areas, such as New York and California, remain under statewide stay-at-home orders.
- With no national plan in place for reopening states, governors are left to weigh the benefits of restarting their local economies versus the risks of causing a devastating second wave of infections.
- The longest expansion in U.S. history came to a crashing halt during Q1 2020 when GDP registered at -4.8%, the worst quarterly print since Q4 2008. Q2 2020 GDP is expected to come in much worse, perhaps between -25% and -40%.
- Over the past six weeks, over 30 million Americans have filed for unemployment, leading to a historic unemployment number for April. The unemployment rate jumped from 4.4% in March to 14.7% in April, the highest since the Great Depression.
- Labor force participation dropped to 60.2%, the lowest rate since January 1973. University of Michigan Consumer Sentiment came in at 71.8 for the month of April, the lowest print since December 2011.
- ISM Non-Manufacturing, which covers approximately two-thirds of the U.S. economy, came in at 41.8 during the month of April, the worst print since March 2009.
- The Federal Reserve ("the Fed") is holding the target range for the federal funds rate steady at 0.00% - 0.25% while also highlighting the large risks that the virus poses to the economy over the "medium" term.
- The Fed has purchased approximately $1.5 trillion in U.S. Treasuries and nearly $500 billion in Agency MBS, thereby increasing its balance sheet to over $6 trillion.
- High Grade Credit was the best sector in the Bloomberg Barclays U.S. Aggregate Index during the month recovering from the depths of the sell-off in March.
- The Bloomberg Barclays Credit Index generated 391 bps of excess return as spreads tightened 64 bps, closing at 191 bps.
- The Utility and Industrial sectors outpaced the broader market, generating 796 bps and 469 bps, respectively. The Finance and Non-corporate sectors lagged, returning 346 bps and 53 bps, respectively.
- April fixed-rate issuance surpassed $290 billion, easily eclipsing the prior month's record volume. 2020 year-to-date volumes are now 86% higher than 2019's pace.
- The Fed bought nearly $300 billion in Agency MBS in April and $6.5 billion of Agency CMBS. On April 9th, the Fed announced outstanding AAA conduit CMBS would be included among the asset classes eligible for Term Asset-Backed Securities Loan Facility (TALF) 2.0.
- MBS generated 48 bps in excess return, underperforming ABS with 117 bps in excess return and CMBS with 80 bps in excess return.

Source: Bloomberg, NYL Investors, Barclays – May 2020.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset-Backed Securities

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Market Review - as of April 30, 2020

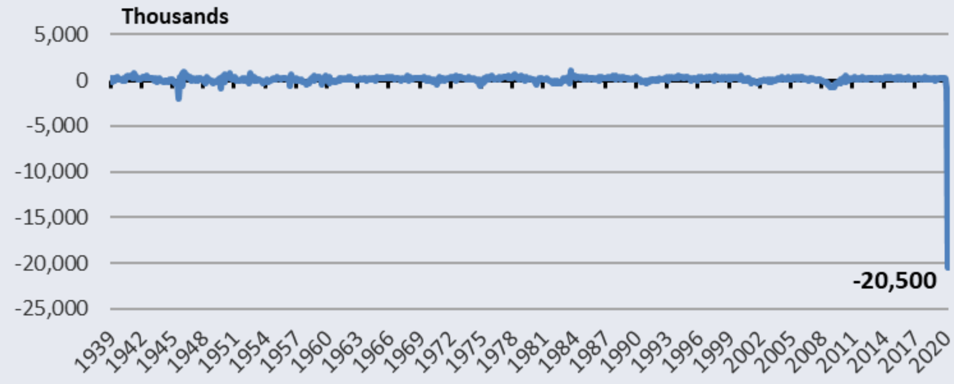
The month of April was marked by what we hope will be the peak of the coronavirus epidemic in the United States. Even with the government pumping trillions of dollars into the economy through the CARES Act, stay-at-home orders and the closure of all non-essential business effectively paralyzed the U.S. economy. While countries are racing to bring a viable vaccine to market, U.S. states are beginning to slowly reopen their economies. As of May 1st, more than half of the states in the U.S. had partially re-opened their local economies while harder hit areas, such as New York and California, remain under statewide stay-at-home orders. With no national plan in place for reopening states, governors are left to decide what is best for their local communities. Their decisions carry immense consequences as they weigh the benefits of restarting their local economies versus the risks of causing a devastating second wave of infections.

The longest expansion in U.S. history came to a crashing halt during the first quarter of 2020 when GDP registered at -4.8%, the worst quarterly print since the fourth quarter of 2008. Second quarter GDP is expected to come in much worse, perhaps between -25% and -40%. Over the past six weeks, over 30 million Americans have filed for unemployment, leading to a historic unemployment number for April. The unemployment rate jumped from 4.4% in March to 14.7% in April, the highest since the Great Depression. The 20.5 million job losses in April essentially erased all the jobs gained over the past two decades. With filings for jobless benefits increasing in May, expectations are for the unemployment rate to rise even higher over the ensuing months. Labor force participation dropped to 60.2%, the lowest rate since January 1973. University of Michigan Consumer Sentiment came in at 71.8 for the month of April, the lowest print since December 2011. ISM Non-Manufacturing, which covers approximately two-thirds of the U.S. economy, came in at 41.8 during the month of April, the worst print since March 2009. Other economic indicators such as manufacturing and personal income/spending also reached multi-year lows.

U.S. Unemployment Rate

Source: Bureau of Labor Statistics; Seasonally adjusted, May 2020

Change in Nonfarm Payrolls (Total MoM Net Change)



Source: U.S. U-6 Unemployed & Part Time & Margin % Labor Force & Margin SA, May 2020

Source: Bloomberg, NYL Investors, Barclays – May 2020.
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The Federal Reserve ("the Fed") held their third monetary policy meeting of 2020 on April 28th - 29th. Seeing as the Fed has already opened nine lending facilities with the capacity to lend over $4 trillion while also reducing the effective federal funds rate to basically zero, we did not expect any major policy announcements. The meeting went largely as expected with the Fed holding the target range for the federal funds rate steady at 0.00% - 0.25% while also highlighting the large risks that the virus poses to the economy over the "medium" term. They also maintained their language on asset purchases, saying they will continue to expand holdings of U.S. Treasuries and Agency MBS in the System Open Market Account (SOMA) "to support the smooth functioning of markets for these securities." They essentially confirmed they would be maintaining a flexible quantitative easing (QE) approach where future purchases would not be on a defined schedule. As of this writing, the Fed has purchased approximately $1.5 trillion in U.S. Treasuries and nearly $500 billion in Agency MBS, thereby increasing its balance sheet to over $6 trillion.

During the month of April, the interest rate curve steepened, led by the front end. The two-year part of the curve moved 5 bps lower, and the ten-year part of the curve moved 3 bps lower. High Grade Credit was the best sector in the Bloomberg Barclays U.S. Aggregate Index during the month. Within securitized products, ABS produced 117 bps of excess return, outperforming both MBS and CMBS.

US Treasury Yields

Term	4/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.14%	-1	-128	-142	-223
2Y	0.20%	-5	-112	-137	-207
3Y	0.24%	-5	-105	-136	-199
5Y	0.36%	-2	-95	-133	-192
7Y	0.53%	-1	-89	-130	-185
10Y	0.64%	-3	-87	-128	-186
30Y	1.28%	-4	-71	-110	-164
2s10s	44	2	25	10	21
10s30s	65	-1	15	17	22

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High Grade Credit staged an impressive rally in April, recovering from the depths of the sell-off in March. Investor sentiment turned more optimistic as previously announced Fed interactions provided more support for the corporate market and liquidity returned in dramatic fashion. The Bloomberg Barclays Credit Index generated 391 bps of excess return as spreads tightened 64 bps, closing at 191 bps. The Utility and Industrial sectors outpaced the broader market, generating 796 bps and 469 bps, respectively. The Finance and Non-corporate sectors lagged, returning 346 bps and 53 bps, respectively. Performance across sectors essentially reversed March's unwinding of spreads as last month's underperformers became this month's outperformers. Despite historical volatility during the month of March and elevated uncertainty surrounding the potential economic impact, market participants are still searching for yield in this historically low rate environment. High Grade spreads offered investors incremental yield in this environment with a perceived Fed "backstop" now being priced into the market. Although both the Primary and Secondary Corporate credit facilities are still not operational as of this writing, the Fed continues to reassure the market of their intent to purchase both ETFs and individual corporate bonds.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.65%	-1.52%	-1.77%	-1.32%
Credit Aa	1.80%	-5.60%	-6.14%	-5.18%
Credit A	3.65%	-5.87%	-6.74%	-4.92%
Credit Baa	5.25%	-11.43%	-12.62%	-10.07%
Finance	3.46%	-6.56%	-7.15%	-4.87%
Industrial	4.69%	-9.15%	-10.46%	-8.25%
Utility	7.96%	-6.92%	-7.77%	-6.33%
Supranational	0.24%	-0.41%	-0.40%	-0.27%
Sovereign	-0.69%	-14.13%	-15.59%	-13.76%

4/30/2020

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Market Review - as of April 30, 2020

The Fed's corporate purchase programs have resulted in considerably tighter spreads but, perhaps more importantly, a return of liquidity for issuers via the new issue calendar. April fixed-rate issuance surpassed $290 billion, easily eclipsing the prior month's record volume. Corporations have seized on the opportunity afforded them, again primarily due to Fed intervention, to bring record-setting issuance at a breakneck pace. 2020 year-to-date volumes are now 86% higher than 2019's pace. Essentially, the High Grade market has priced 66% of 2019's total volume in just four months! This is a truly remarkable feat given the transition by both bank and buyside participants transitioning to work-from-home arrangements beginning in the month of March. In April, as has been the case for the year, Industrial issuers comprised more than half of the issuance volume. The sector remains focused on shoring up balance sheets and improving liquidity profiles by terming out commercial paper and pre-funding near-term maturities. Given the economic uncertainty, it is likely this will continue in the near term.

The shift in sentiment towards risk-on in April resulted in outsized excess returns for lower quality credit and longer duration paper. That said, credit curves began to normalize as the Fed programs will be largely focused on the front end of the Investment Grade market. Credit curves had inverted in March as forced selling put an unprecedented amount of pressure on shorter duration paper. These dislocations began to dissipate in April as investors seized an opportunity to purchase a segment of the market the Fed would be actively buying at some point. Although the market has moved toward normalization on the front end, it continues to trade with a relatively wide bid-ask spread as the dealer community remains unwilling to clog their balance sheets with shorter term maturities.

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Market Review - as of April 30, 2020

Fed sponsorship, or the prospect of Fed sponsorship, drove spreads tighter across securitized products. The Fed bought nearly $300 billion in Agency MBS and $6.5 billion of Agency CMBS during the month of April. Furthermore, on April 9th, the Fed announced outstanding AAA conduit CMBS would be included among the asset classes eligible for Term Asset-Backed Securities Loan Facility (TALF) 2.0. This provided a strong tailwind for AAA Last Cash Flow spreads and drove them 50-60 bps tighter from end of March levels to around S+150. The MBS component generated 48 bps of excess return, underperforming ABS with 117 bps in excess return and CMBS with 80 bps in excess return.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.27%	-2.46%	-2.87%	-2.13%
Agency	0.16%	-0.87%	-0.90%	-0.70%
Credit	3.91%	-8.09%	-9.02%	-7.02%
MBS	0.48%	0.20%	-0.35%	-0.04%
ABS	1.17%	-2.36%	-2.06%	-1.90%
CMBS	0.80%	-5.34%	-5.08%	-5.07%
USD EM	2.00%	-14.55%	-15.70%	-14.52%

4/30/2020

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MBS spreads tightened 14 bps on a zero-volume and OAS basis, and both TBA and specified pool liquidity improved dramatically over the course of the month. Specified pool pay-ups increased anywhere from 1-3 points depending on the call-protection story as investors continue to face faster speeds despite increasing forbearance utilization and social distancing. Within MBS, higher coupons underperformed as Fed sponsorship was much more limited in coupons not being originated in the primary market. Additionally, the 15-year sector outperformed the 30-year sector by 22 bps as the curved steepened, and GNMAs modestly outperformed conventionals by 4 bps.

In consumer ABS, spreads rallied in April after setting lows near the end of March, and the retracement was led by Prime Autos and Cards. As the quarter turned, fixed income outflows subsided, dealer balance sheets regained capacity, and the new issue market was still relatively quiet, which, combined, drove spreads on prime paper 90 bps tighter from around S+150 to S+60. While TALF 2.0 has still yet to get off the ground, the new issue market did open back up with around $10 billion in deals pricing skewed toward Prime Auto transactions. ABS new issue volumes for 2020 are down almost 30% year over year. If current valuations hold, TALF 2.0 subscription rates are likely to be on the lower end as yields on several sectors are out of the money versus all-in funding costs of a TALF 2.0 loan.

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Supplemental Data - as of April 30, 2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.78%	3.00%	4.98%	10.84%
Treasury	0.64%	6.29%	8.89%	14.27%
Agency	0.51%	3.09%	4.67%	8.80%
Credit	4.58%	-1.03%	1.29%	9.37%
MBS	0.63%	2.75%	3.47%	7.77%
ABS	1.34%	0.13%	1.12%	3.89%
CMBS	1.23%	-0.06%	2.42%	7.21%
USD EM	2.60%	-8.54%	-7.13%	-0.76%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.05%	3.33%	5.06%	9.83%
Credit Aa	2.50%	1.48%	4.07%	10.72%
Credit A	4.35%	1.36%	3.82%	11.85%
Credit Baa	5.93%	-4.13%	-1.89%	7.04%
Finance	3.97%	-0.75%	1.18%	8.53%
Industrial	5.45%	-1.42%	0.93%	9.85%
Utility	8.92%	2.50%	6.34%	16.04%
Supranational	0.49%	3.10%	4.31%	7.76%
Sovereign	0.15%	-5.66%	-3.07%	6.10%

4/30/2020

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Fixed Income Investors

Supplemental Data - as of April 30, 2020

US Fixed Income Spreads

Index	4/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	74	-21	30	35	30
Agency	32	-17	22	22	19
Credit	191	-64	93	101	87
MBS	39	-21	-9	0	-2
ABS	159	-54	128	115	121
CMBS	172	-16	104	100	107
USD EM	619	-38	299	318	330

US Fixed Income Spreads

Index	4/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	38	-12	20	21	19
Credit Aa	122	-32	65	70	63
Credit A	152	-55	75	82	68
Credit Baa	268	-92	132	143	123
Finance	203	-65	116	123	102
Industrial	207	-69	97	108	91
Utility	168	-86	66	71	60
Supranational	23	-9	15	15	13
Sovereign	262	2	148	158	142

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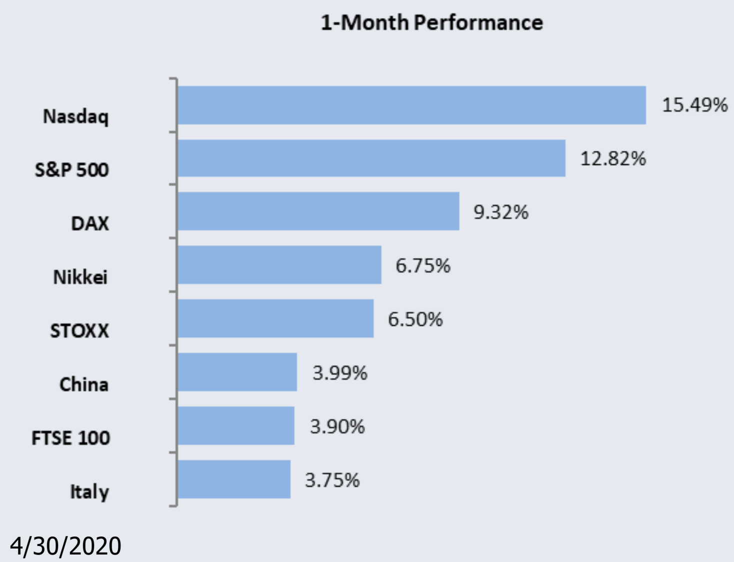
Supplemental Data - as of April 30, 2020

Global Equity Returns

Stock Index	4/30/2020	1-Month	3-Month	YTD	1-Year
S&P 500	2912	12.82%	-9.26%	-9.29%	0.86%
Nasdaq	8890	15.49%	-2.60%	-0.63%	10.99%
STOXX	340	6.50%	-16.55%	-17.53%	-10.82%
FTSE 100	5901	3.90%	-18.12%	-20.87%	-17.14%
DAX	10862	9.32%	-16.33%	-18.02%	-12.01%
Italy	17690	3.75%	-23.87%	-24.74%	-19.15%
Nikkei	20194	6.75%	-12.10%	-13.78%	-7.23%
China	2860	3.99%	-3.91%	-6.23%	-7.09%



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Fixed Income Investors

Supplemental Data - as of April 30, 2020

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	340	6.50%	-16.55%	-17.53%	-10.82%
FTSE 100	5901	3.90%	-18.12%	-20.87%	-17.14%
DAX	10862	9.32%	-16.33%	-18.02%	-12.01%
CAC 40	4572	4.05%	-21.07%	-23.25%	-16.45%
Portugal	4284	5.27%	-18.43%	-17.84%	-20.52%
Italy	17690	3.75%	-23.87%	-24.74%	-19.15%
Ireland	5603	9.01%	-18.98%	-21.06%	-11.57%
Greece	628	12.53%	-30.98%	-31.04%	-15.96%
Spain	6922	2.39%	-25.73%	-26.96%	-25.59%
Russia	2651	5.65%	-13.85%	-12.98%	3.57%

4/30/2020

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1658	6.46%	-16.09%	-17.84%	-11.34%
MSCI EM	925	9.16%	-12.52%	-16.60%	-12.00%
MSCI FM	449	6.74%	-21.60%	-21.65%	-13.64%
MSCI FM100	984	6.28%	-22.53%	-22.02%	-14.30%

4/30/2020

Source: Bloomberg, NYL Investors, Barclays – May 2020.
Last represents month-end close of business for April.
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