NYL Investors LLC
Fixed Income Investors

December 2018

NYL Investors LLC is a wholly owned subsidiary of New York Life Insurance Company.
Please see the last page for important disclosures regarding the information contained herein.

Fixed Income Investors

Summary - as of December 31, 2018

- The 4th quarter began with some positive developments on the geopolitical front. Negotiations between U.S., Canada, and Mexico led to an updated trade agreement that has yet to be ratified.
- U.S. and China administrations have agreed to a three-month truce with the hopes of negotiating a finalized bilateral trade pact between the superpowers.
- GDP growth for the 4th quarter is estimated to come in between 2.5% and 3.0%. Full year growth for 2018 should come in above 3% for the first time since 2005.
- Unemployment remains historically low at 3.9%. The rate has fallen close to levels not seen in over 40 years.
- Inflation, as measured by the Federal Reserve's preferred indicator (Core PCE), is consistently just below the Federal Reserve's 2% symmetric target.
- Toward the end of the quarter, the Federal Open Market Committee (FOMC) used their December meeting to raise the target Federal Funds rate 25 bps to a level between 2.25% and 2.50%.
- The Federal Reserve also scaled back the median number of rate increases officials expect in 2019 from three to two.
- High Grade credit experienced a significant re-pricing during the 4th quarter as volatility accelerated.
- The Bloomberg Barclays Credit index widened 43 bps, resulting in -285 bps of excess return.
- The Non-corporate and Financial sectors outpaced the broader market generating -152 bps and -233 bps, respectively.
- The Industrial and Utility sectors lagged with -350 bps and -325 bps, respectively.
- The Energy sector experienced the most significant spread volatility as oil traded to its lowest point since 2016.
- 2018 total Investment Grade Credit volumes came in slightly above $1.2 trillion, nearly an 18% decline from the prior year with Industrial issuance comprising over 40% of the volume.
- Agency MBS, CMBS, and ABS generated -53 bps, -112 bps, and -16 bps in excess returns, respectively.

Source: Bloomberg, NYL Investors, Barclays – January 2019.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset –Backed Securities

Fixed Income Investors

Market Review - as of December 31, 2018

The 4th quarter began with some positive developments on the geopolitical front. Negotiations between the U.S., Canada, and Mexico eventually led to an updated trade agreement that has not yet been ratified. Oil prices fell dramatically during November, driven by an overabundance in supply as well as a softening of global demand which sent risk assets sharply lower. At its lowest point, crude oil dropped by more than 40% from over $76 a barrel in early October to less than $43 a barrel toward the end of December.

Throughout the quarter, the trade war between the U.S. and China intensified with both sides blaming the other for the deteriorating relationship. This culminated in a dramatic meeting between President Trump and President Xi on Saturday, December 1st on the sidelines of the G-20 meeting in Argentina. Consequently, the Trump Administration agreed to delay, for 3 months, raising tariffs from 10% to 25%. In exchange, the Chinese administration agreed to purchase more U.S. agricultural and industrials goods as well as strengthen regulation around synthetic opioids. During the three-month delay, both administrations hope to work out an agreement on some of the more difficult topics such as IP theft, cyberespionage, and forced transfer of technology. Our concern around the trade war has always been the longer-term impact of an "economic cold war" between the world's two largest superpowers. Most economists estimated the cost of retaliatory tariffs in 2018 would be relatively minor for both domestic and global growth, but the drag on future growth could be far greater depending on how long the trade war lingers on.

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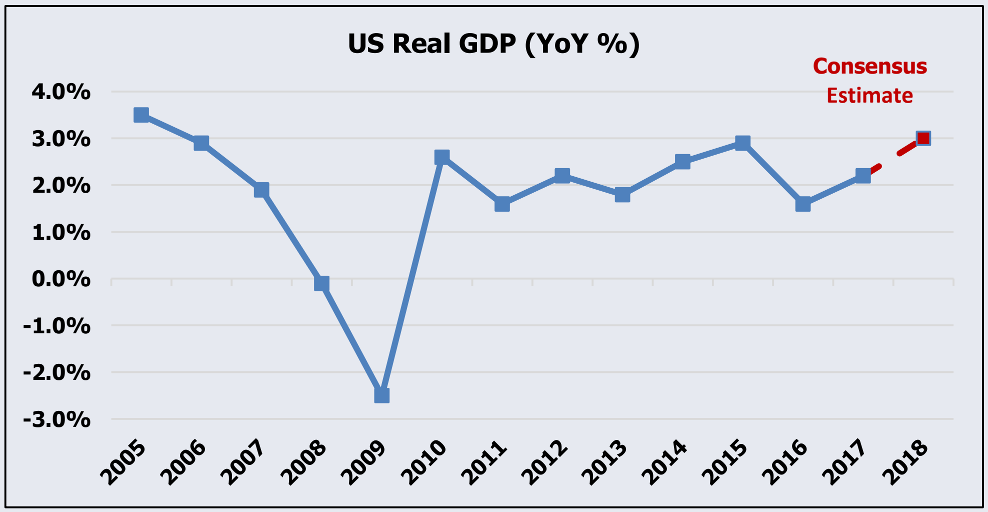
Market Review - as of December 31, 2018

GDP growth for the 4th quarter is estimated to come in between 2.5% and 3.0%. Full year growth for 2018 should come in above 3% for the first time since 2005. Underpinning the economy has been the strength of the consumer. Buoyed by the tax cuts enacted in 2017, household net worth continues to reach all-time highs. Personal income and personal spending continue to remain at elevated levels, helping to push growth higher. Unemployment remains historically low at 3.9%. The rate has fallen close to levels not seen in over 40 years. Inflation, as measured by the Federal Reserve's preferred indicator (Core PCE), is consistently just below the Federal Reserve's 2% symmetric target. We expect inflation to move to between 2.0% and 2.25% as the job market continues to tighten into the new year. Toward the end of the quarter, the Federal Open Market Committee (FOMC) used their December meeting to raise the target Federal Funds rate 25 bps to a level between 2.25% and 2.50%. The Federal Reserve also scaled back the median number of rate increases officials expect in 2019 from three to two.



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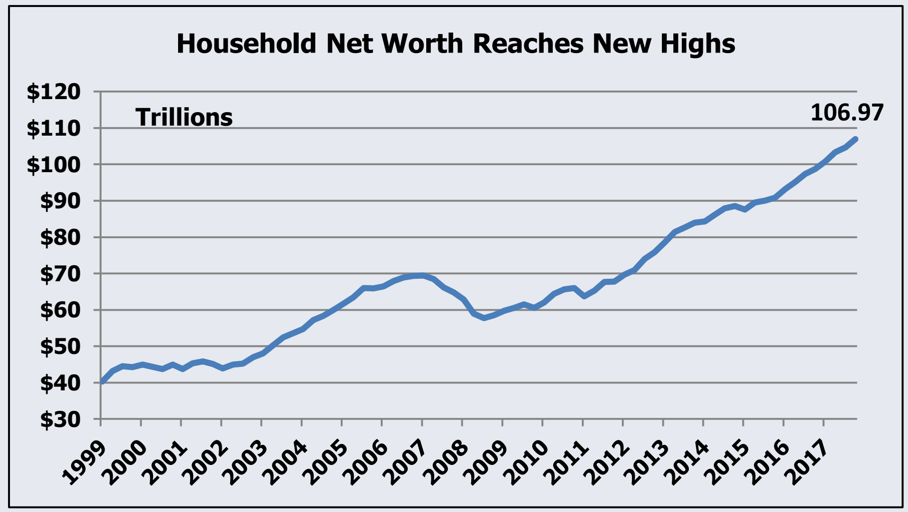

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Market Review - as of December 31, 2018

During the quarter, interest rates moved lower as volatility increased significantly, sending investors fleeing for the safety of U.S. Treasury securities. Two-year notes rallied 33 bps while ten-year notes finished 38 bps lower. Asset-backed securities were the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing -16 bps of excess return. The Credit sector generated the worst performance during the 4th quarter, returning -285 bps of excess return. Within securitized products, MBS outperformed the CMBS sector. The S&P 500 was down approximately 14% in the 4th quarter, bringing the year-to-date return for the index to -6.2%.

US Treasury Yields

Term	12/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	2.60%	-8	3	86	86
2Y	2.49%	-30	-33	60	60
3Y	2.46%	-34	-43	49	49
5Y	2.51%	-30	-44	30	30
7Y	2.59%	-31	-43	25	25
10Y	2.68%	-30	-38	28	28
30Y	3.01%	-28	-19	27	27
2s10s	20	0	-5	-33	-33
10s30s	33	3	19	0	0

Source: Bloomberg, NYL Investors, Barclays – January 2019.
Past performance is not indicative of future results.
CMBS – Commercial Mortgage-Backed Securities

Fixed Income Investors

Market Review - as of December 31, 2018

High Grade credit experienced a significant re-pricing during the 4th quarter as volatility accelerated. The Bloomberg Barclays Credit index widened 43 bps, resulting in -285 bps of excess return. Each sub-sector generated significant negative excess returns. The Non-corporate and Financial sectors outpaced the broader market generating -152 bps and -233 bps, respectively, whereas the Industrial and Utility sectors lagged with -350 bps and -325 bps, respectively. The technical backdrop within credit remains stubbornly weak, as investor demand failed to materialize in the final quarter as rates moved lower, oil plunged, and concerns over growth escalated. Industrial earnings in the 3rd quarter were strong, but concerns over future margin compression due to the lingering trade wars sent equities lower and credit spreads wider. The Energy sector experienced the most significant spread volatility as oil traded to its lowest point since 2016. Volumes declined into December, as most investors lacked the conviction to meaningfully change portfolio positioning, leading to wider bid-ask spreads and less than optimal liquidity.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.14%	-0.38%	-0.23%	-0.23%
Credit Aa	-0.41%	-1.35%	-1.03%	-1.03%
Credit A	-0.86%	-2.58%	-3.00%	-3.00%
Credit Baa	-1.29%	-3.87%	-3.50%	-3.50%
Finance	-0.83%	-2.33%	-2.63%	-2.63%
Industrial	-1.19%	-3.50%	-3.35%	-3.35%
Utility	-0.98%	-3.25%	-3.95%	-3.95%
Supranational	0.03%	0.05%	0.23%	0.23%
Sovereign	-0.77%	-3.37%	-2.57%	-2.57%

12/31/2018

Source: Bloomberg, NYL Investors, Barclays – January 2019.
Past performance is not indicative of future results.

Fixed Income Investors

Market Review - as of December 31, 2018

New issue volumes in the 4th quarter were lower than expectations, as issuers were forced to sideline deals as volatility increased. December was decidedly slow, with just $12 billion in fixed rate issuance. 2018 total volumes came in slightly above $1.2 trillion, nearly an 18% decline from the prior year. Industrial issuance comprised over 40% of the total volume for 2018, leading to a softer technical backdrop, specifically in the 4th quarter.

The new issue calendar is expected to resume in January, but visibility is extremely low as market conditions will dictate what type of issuers and volume are able to be printed. Credit investors have been looking for stability and will likely require tangible evidence the volatility has abated in order to participate in the new issue calendar in a meaningful way. New deals will require wider concessions, which is likely to pressure secondary spreads in the near term.

Spreads widened across structured products during the 4th quarter due to elevated interest rate volatility. Agency MBS, CMBS, and ABS generated -53 bps, -112 bps, and -16 bps in excess returns. Coupons along the agency MBS stack had negative excess returns; however, lower coupons outperformed premium coupons. Prepayment risk remains benign, despite lower rates for the quarter. Thirty-year fixed rate mortgages ended the quarter at 4.55%. New mortgage origination decreased for the quarter declining 12% over the prior period. Lower seasonal housing activity for the late fall/early winter cycle and higher cost of financing led to the decline. The Federal Reserve continues to reduce its MBS position, letting cashflow run off without reinvesting the proceeds. Cashflow from prepayments have been below the $20 billion hurdle which would trigger the Fed to invest MBS proceeds. CMBS spreads widened as well, even though commercial real estate fundamentals remain solid. The fundamental backdrop for both CMBS and ABS remain strong despite the higher spread volatility in the 4th quarter.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.33%	-1.01%	-1.00%	-1.00%
Agency	-0.07%	-0.15%	-0.04%	-0.04%
Credit	-0.95%	-2.85%	-2.81%	-2.81%
MBS	-0.15%	-0.53%	-0.58%	-0.58%
ABS	-0.08%	-0.16%	0.12%	0.12%
CMBS	-0.40%	-1.12%	-0.41%	-0.41%
USD EM	-0.72%	-2.91%	-3.47%	-3.47%

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Fixed Income Investors

Supplemental Data - as of December 31, 2018

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.84%	1.64%	0.01%	0.01%
Treasury	2.15%	2.57%	0.86%	0.86%
Agency	1.42%	1.90%	1.34%	1.34%
Credit	1.50%	0.01%	-2.11%	-2.11%
MBS	1.81%	2.08%	0.99%	0.99%
ABS	0.79%	1.25%	1.77%	1.77%
CMBS	1.62%	1.72%	0.78%	0.78%
USD EM	1.37%	-0.18%	-2.46%	-2.46%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.58%	1.86%	0.90%	0.90%
Credit Aa	1.86%	1.30%	-0.25%	-0.25%
Credit A	1.67%	0.35%	-2.35%	-2.35%
Credit Baa	1.28%	-0.90%	-2.92%	-2.92%
Finance	1.22%	0.27%	-1.68%	-1.68%
Industrial	1.50%	-0.46%	-2.81%	-2.81%
Utility	2.34%	0.20%	-3.75%	-3.75%
Supranational	1.31%	1.98%	1.65%	1.65%
Sovereign	2.20%	-0.11%	-2.13%	-2.13%

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Source: Bloomberg, NYL Investors, Barclays – January 2019.
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Fixed Income Investors

Supplemental Data - as of December 31, 2018

US Fixed Income Spreads

Index	12/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	54	4	15	18	18
Agency	16	1	4	2	2
Credit	143	14	43	54	54
MBS	35	0	7	10	10
ABS	53	6	15	17	17
CMBS	86	9	26	24	24
USD EM	343	19	58	117	117

US Fixed Income Spreads

Index	12/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	26	1	4	2	2
Credit Aa	81	7	22	26	26
Credit A	118	9	33	45	45
Credit Baa	197	20	61	73	73
Finance	147	15	45	62	62
Industrial	157	16	49	59	59
Utility	144	12	38	52	52
Supranational	13	-1	-1	-4	-4
Sovereign	161	12	44	56	56

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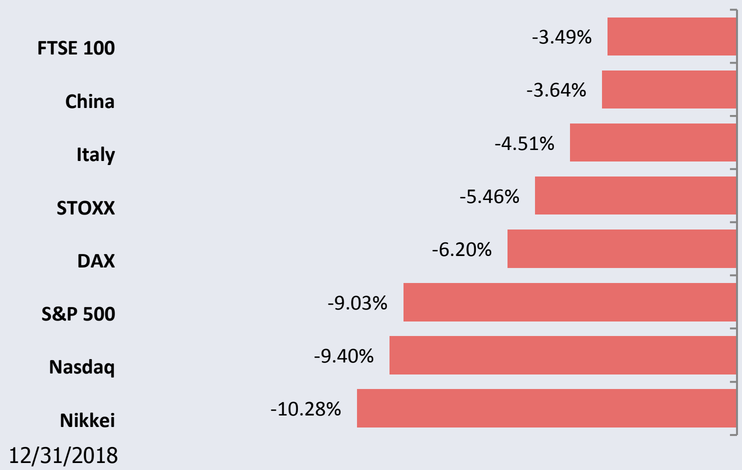
Fixed Income Investors

Supplemental Data - as of December 31, 2018

Global Equity Returns

Stock Index	12/31/2018	1-Month	3-Month	YTD	1-Year
S&P 500	2507	-9.03%	-13.52%	-4.38%	-4.38%
Nasdaq	6635	-9.40%	-17.29%	-2.84%	-2.84%
STOXX	338	-5.46%	-11.57%	-10.77%	-10.77%
FTSE 100	6728	-3.49%	-9.64%	-8.73%	-8.73%
DAX	10559	-6.20%	-13.78%	-18.26%	-18.26%
Italy	18324	-4.51%	-11.53%	-16.15%	-16.15%
Nikkei	20015	-10.28%	-16.78%	-10.29%	-10.29%
China	2494	-3.64%	-11.61%	-24.59%	-24.59%

1-Month Performance



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Fixed Income Investors

Supplemental Data - as of December 31, 2018

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	338	-5.46%	-11.57%	-10.77%	-10.77%
FTSE 100	6728	-3.49%	-9.64%	-8.73%	-8.73%
DAX	10559	-6.20%	-13.78%	-18.26%	-18.26%
CAC 40	4731	-5.29%	-13.65%	-8.88%	-8.88%
Portugal	4731	-3.72%	-11.71%	-12.19%	-12.19%
Italy	18324	-4.51%	-11.53%	-16.15%	-16.15%
Ireland	5480	-5.82%	-15.91%	-20.78%	-20.78%
Greece	613	-2.39%	-11.00%	-21.97%	-21.97%
Spain	8540	-5.51%	-8.18%	-12.17%	-12.17%
Russia	2359	-1.42%	-4.72%	11.79%	11.79%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1720	-4.85%	-12.54%	-13.79%	-13.79%
MSCI EM	966	-2.66%	-7.47%	-14.58%	-14.58%
MSCI FM	516	-2.93%	-4.33%	-16.41%	-16.41%
MSCI FM100	1131	-3.36%	-5.00%	-16.98%	-16.98%

12/31/2018

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