

# NYL Investors LLC

## Fixed Income Investors

December 2019

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# Fixed Income Investors

## Summary - as of December 31, 2019

- Positive developments on several geopolitical issues drove market volatility lower as we moved through the fourth quarter.
- Brexit uncertainty, Hong Kong protests, and most notably the U.S.-China trade war all saw improvements as we closed out 2019.
- After several starts and stops, it appears that the U.S. and China have completed a phase one trade agreement but the exact text has not been revealed.
- The November non-farm payroll report came in at 266k, the highest monthly total since January and stronger than expectations of 180k.
- The unemployment rate came in at 3.5%, the lowest since 1969, and the U-6 underemployment rate (part-time and marginal workers) came in at 6.9%, a 20-year low.
- The ISM Manufacturing Index came in at 47.2 for the month of December, the fifth straight month of contraction and the lowest reading since June 2009.
- The ISM Non-Manufacturing Index, which represents approximately two-thirds of U.S. GDP, is still in expansionary territory and continues to be the engine driving growth in the U.S. economy.
- The Bloomberg Barclays Credit Index generated 221 bps in excess returns, while total returns were just 105 bps as higher rates offset spread tightening.
- The Industrial sector outpaced the broader market once again with 262 bps in excess return.
- The Utility, Financial, and Non-corporate sectors all lagged returning 213 bps, 211 bps, and 109 bps, respectively.
- As expected, the new issue calendar subsided in the fourth quarter, declining by nearly 40% from third-quarter volumes.
- Fixed-rate supply surpassed \$1 trillion for the eighth straight year but has declined from 2017's peak by approximately 12%.
- The Securitized sub-component of the Bloomberg Barclays U.S. Aggregate Bond Index generated excess returns of 57 bps across ABS, CMBS, and MBS, with the lion's share coming from MBS (62 bps) in the last two months of the quarter.

Source: Bloomberg, NYL Investors, Barclays – January 2020.

Past performance is not indicative of future results.

MBS – Mortgage-Backed Securities

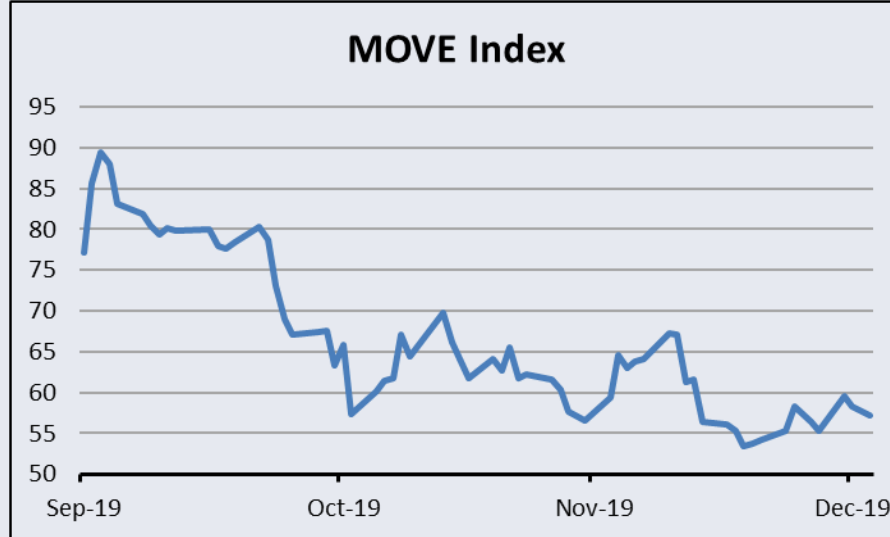
CMBS – Commercial Mortgage-Backed Securities

ABS – Asset-Backed Securities

# Fixed Income Investors

## Market Review - as of December 31, 2019

Positive developments on several geopolitical issues drove market volatility lower as we moved through the fourth quarter. Brexit uncertainty, Hong Kong protests, and most notably the U.S.-China trade war all saw improvements as we closed out 2019. Despite the continued animosity between Boris Johnson and his peers in the European Union, both parties have agreed to a new Brexit deadline of January 31, 2020. After several starts and stops, it appears that the U.S. and China have completed a phase one trade agreement. The exact text of the deal has not been revealed but it is expected the U.S. will roll back some of the current tariffs in place while also canceling the proposed December 15th tariffs. In return, the Chinese administration has agreed to increased purchases of U.S. agricultural goods along with limited improvements around currency manipulation, IP theft, and forced technology transfers. The deal is expected to be signed on January 15th at the White House.



Source: Bloomberg, January 2020

ICE Bank of America Merrill Lynch MOVE Index – This is a yield curve weighted index of the normalized implied volatility on 1-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30 (weighted average of 1m2y, 1m5y, 1m10y, and 1m30y Treasury implied volatilities with weights 0.2/0.2/0.4/0.2).



Source: Bloomberg, January 2020

Cboe Volatility Index (VIX) is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500 Index (SPX) call & put options (SPX & SPX Weeklys options with >23 days & <37 days to expiration).

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The November non-farm payroll report came in at 266k, the highest monthly total since January and stronger than expectations of 180k. The unemployment rate came in at 3.5%, the lowest since 1969. The U-6 underemployment rate, which includes part-time and marginal workers, came in at 6.9%, a 20-year low. While the labor market remains a positive influence on the U.S. economy, the manufacturing sector continues to be negatively affected by the ongoing feud between the U.S. and China. The ISM Manufacturing Index came in at 47.2 for the month of December, the fifth straight month of contraction and the lowest reading since June 2009. Manufacturing as a percentage of U.S. GDP has steadily decreased to 11% over the past three decades. Even though the GDP impact of the sector has decreased, it is still an important global indicator because of the interconnectedness of manufacturing supply chains. The ISM Non-Manufacturing Index, which represents approximately two-thirds of U.S. GDP, is still in expansionary territory and continues to be the engine driving growth in the U.S. economy.

During the fourth quarter, interest rates moved higher and the curve steepened, led by the long end. The three-year part of the curve moved 5 bps higher while the thirty-year bond closed 28 bps higher, finishing the quarter at the steepest point since the end of July. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter. Within securitized products, MBS produced 62 bps of excess return, outperforming both CMBS and ABS.

US Treasury Yields

Term	12/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	1.57%	-2	-18	-103	-103
2Y	1.57%	-4	-5	-92	-92
3Y	1.61%	0	5	-85	-85
5Y	1.69%	7	15	-82	-82
7Y	1.83%	10	22	-75	-75
10Y	1.92%	14	25	-77	-77
30Y	2.39%	18	28	-62	-62
2s10s	35	18	31	15	15
10s30s	47	4	3	14	14

Source: Bloomberg, NYL Investors, Barclays – January 2020.

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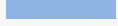
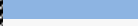
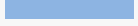
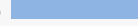
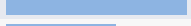
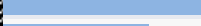
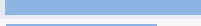
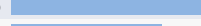




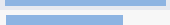
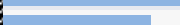
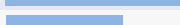
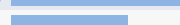
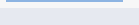
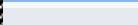
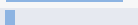
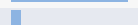


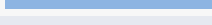
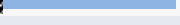
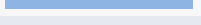
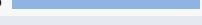
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# Fixed Income Investors

## Market Review - as of December 31, 2019

The rally in High Grade Credit accelerated in the fourth quarter as numerous risk factors to asset performance waned. Investors became increasingly confident as trade tensions subsided, expectations of a recession declined, and future monetary policy became clearer. The Bloomberg Barclays Credit Index tightened 19 bps, closing at 90 bps, the tightest level since February 2018. The index generated 221 bps in excess returns while total returns were just 105 bps as higher rates offset spread tightening. The Industrial sector outpaced the broader market once again with 262 bps in excess return. The Utility, Financial, and Non-corporate sectors all lagged returning 213 bps, 211 bps, and 109 bps, respectively. The fundamental backdrop within the Industrial sector remains stable and stands to benefit from any trade resolution. The most impactful determinant of spread performance remains the pristine technical backdrop within the asset class. Heightened fund inflows, a manageable new issue calendar, and light dealer balance sheets remain strong tailwinds to the technical picture. Yield-sensitive buyers were particularly active during the quarter as rates moved toward the upper end of the recent range.

### US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
<b>Credit Aaa</b>	0.24% 	0.41% 	1.17% 	1.17% 
<b>Credit Aa</b>	0.59% 	1.07% 	3.17% 	3.17% 
<b>Credit A</b>	0.92% 	1.97% 	5.29% 	5.29% 
<b>Credit Baa</b>	1.51% 	2.95% 	8.52% 	8.52% 
<b>Finance</b>	0.92% 	2.11% 	6.23% 	6.23% 
<b>Industrial</b>	1.35% 	2.62% 	7.27% 	7.27% 
<b>Utility</b>	0.98% 	2.13% 	4.73% 	4.73% 
<b>Supranational</b>	0.00%	-0.03%	0.39% 	0.39% 
<b>Sovereign</b>	1.75% 	2.48% 	7.68% 	7.68% 

12/31/2019

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# Fixed Income Investors

## Market Review - as of December 31, 2019

As expected, the new issue calendar subsided in the fourth quarter, declining by nearly 40% from third-quarter volumes. Fixed-rate supply surpassed \$1 trillion for the eighth straight year but has declined from 2017's peak by approximately 12%. The Industrial sector remains the largest component of the calendar as it represented nearly 43% of total volumes in 2019. Investor demand for the calendar remained exceptionally strong in the fourth quarter, as has been the case for all of 2019. Oversubscribed order books and a lack of secondary paper resulted in nearly no new issue concessions and ultimately drove spreads tighter as the quarter progressed. Finally, customer sales versus the calendar has been limited as fund inflows remain strong enough to absorb any new issue volumes.

As risk appetite turned more aggressive during the quarter, investors moved further out the curve into longer duration securities, thereby materially flattening credit curves. Lower quality credit also outperformed higher quality credit, particularly within the Industrial sector as investor sentiment became more constructive. We expect investor demand for corporate credit to remain strong as we head into 2020 but we also recognize valuations could become challenging at current levels.

Structured Products had rather lackluster performance compared to U.S. Credit in the fourth quarter despite a more constructive macro and rate environment. The Securitized sub-component of the Bloomberg Barclays U.S. Aggregate Bond Index generated excess returns of 57 bps across ABS, CMBS, and MBS, with the lion's share coming from MBS (62 bps) in the last two months of the quarter. The underwhelming performance of ABS (-5 bps of excess return) and CMBS (6 bps of excess return) for the quarter was largely a story of relatively stagnant bond spreads in the face of swap spread widening across the curve, thereby weighing on treasury-based performance.

**US Fixed Income Excess Returns**

Index	1-Month	3-Month	YTD	1-Year
<b>Agg</b>	0.42%	0.83%	2.01%	2.01%
<b>Agency</b>	0.01%	0.10%	0.55%	0.55%
<b>Credit</b>	1.11%	2.21%	6.21%	6.21%
<b>MBS</b>	0.34%	0.62%	0.59%	0.59%
<b>ABS</b>	-0.05%	-0.05%	0.71%	0.72%
<b>CMBS</b>	0.02%	0.06%	1.81%	1.80%
<b>USD EM</b>	2.00%	2.85%	6.39%	6.39%

12/31/2019

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## Market Review - as of December 31, 2019

Supply also played a factor within CMBS. Private label CMBS supply was up nearly 30% versus 2018 volumes at \$114.1 billion, most of which came in the fourth quarter and did not slow down into year end. Single-asset single borrower (mostly floating and non-index eligible) saw the largest increase at \$44.4 billion (+33% YoY), while conduit (index eligible) was up roughly 20% versus 2018 at \$48.3 billion. AAA last cashflow spreads in conduit space tightened 8-10 bps over the course of the quarter to Swaps +82-85, most of which occurred in December. However, swap spreads also widened by about the same amount across the curve, washing out the spread duration component of excess returns on a treasury basis. CMBS excess returns finished the year at 181 bps, the majority of which was generated in the first half of the year.

ABS spreads suffered a similar fate in the fourth quarter, despite more favorable supply technicals into year end. ABS saw just over \$4 billion of issuance in December — versus \$21.2 billion in November and \$33 billion in October. ABS issuance registered at \$248.3 billion, essentially flat versus 2018 volumes. Spreads of higher quality paper remained relatively stagnant over the course of the quarter. With the still very limited carry and roll offered in the front end, higher quality ABS (cards/autos) remains largely an instrument for parking cash while adding limited duration. Investors concerned about adding risk at even tighter valuations into 2020 looked to allocate capital to higher yielding fixed income asset classes with more perceived upside. Excess returns for ABS finished the year at 71 bps and, like CMBS, were largely driven by performance in the first half of 2019.

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## Market Review - as of December 31, 2019

MBS finished the year on a high note with excess returns of 62 bps — the sector's best-performing quarter of 2019. However, this was not achieved without high spread volatility in the sector throughout the year and entering the fourth quarter at extremely attractive valuations on a historical basis. At the end of August, zero-volume spreads over treasuries on current coupon mortgages reached 104 bps — the widest level since U.S. federal debt was downgraded to AA+ by S&P in the summer of 2011 (a period in which the Federal Reserve was not buying MBS). They tightened modestly to the tune of 7 bps upon entering the fourth quarter. There were several factors which drove this widening, but convexity-related concerns across the mortgage universe were the primary driver. HPA of nearly 5% per annum over the past five years resulted in weighted average loan sizes on newly originated mortgages going from approximately 275-300k to 350-375k, thereby increasing the monthly dollar savings per 1 bp decrease in mortgage rates. Additionally, gross WAC (Weighted Average Coupon) spreads on pools nearly doubled from 2017 levels at north of 100 bps, resulting in an even higher rate incentive for the underlying borrowers in a given pool. Finally, model-based innovations in the underwriting process such as Property Inspection Waivers (PIWs) dramatically reduced cost and time to close for borrowers. These factors combined with an 80-bp rally in interest rates meant skyrocketing prepayments earlier and longer across the loan age curve for mortgages, and MBS valuations suffered accordingly. Seasoned vintage pools, low loan balance, and 100% NY issues with enhanced call protection massively outperformed the broader MBS universe. While many of the themes in 2019 remain the same as we head into 2020, we begin the year at a period which is seasonally more constructive for prepayments and supply, and at valuations which are attractive when compared to corporate credit. The relative value versus corporate credit is likely the largest tailwind for MBS going forward.

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# Fixed Income Investors

Supplemental Data - as of December 31, 2019

## US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
<b>Agg</b>	-0.07%	0.18%	8.72%	8.72%
<b>Treasury</b>	-0.56%	-0.79%	6.86%	6.86%
<b>Agency</b>	-0.21%	-0.09%	5.89%	5.89%
<b>Credit</b>	0.29%	1.05%	13.80%	13.80%
<b>MBS</b>	0.28%	0.71%	6.35%	6.35%
<b>ABS</b>	0.11%	0.39%	4.53%	4.53%
<b>CMBS</b>	-0.25%	-0.33%	8.29%	8.29%
<b>USD EM</b>	1.52%	2.09%	13.11%	13.11%

12/31/2019

## US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
<b>Credit Aaa</b>	-0.08%	0.04%	6.92%	6.92%
<b>Credit Aa</b>	-0.22%	-0.04%	10.28%	10.28%
<b>Credit A</b>	0.05%	0.73%	13.01%	13.01%
<b>Credit Baa</b>	0.63%	1.69%	16.46%	16.46%
<b>Finance</b>	0.43%	1.43%	12.84%	12.84%
<b>Industrial</b>	0.36%	1.20%	15.48%	15.48%
<b>Utility</b>	-0.47%	0.03%	14.38%	14.38%
<b>Supranational</b>	0.02%	0.13%	5.08%	5.08%
<b>Sovereign</b>	0.59%	0.81%	16.55%	16.55%




































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


































# Fixed Income Investors

## Supplemental Data - as of December 31, 2019

### US Fixed Income Spreads

Index	12/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	39 	-5 	-7 	-15 	-15 
Agency	10 	1 	-1 	-6 	-6 
Credit	90 	-10 	-19 	-53 	-53 
MBS	39 	-6 	-7 	4 	4 
ABS	44 	6 	7 	-9 	-9 
CMBS	72 	2 	2 	-14 	-14 
USD EM	301 	-26 	-23 	-42 	-42 

### US Fixed Income Spreads

Index	12/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	17 	0 	-1 	-9 	-9 
Credit Aa	52 	-5 	-7 	-29 	-29 
Credit A	70 	-9 	-18 	-48 	-48 
Credit Baa	125 	-15 	-27 	-72 	-72 
Finance	80 	-11 	-23 	-67 	-67 
Industrial	99 	-12 	-22 	-58 	-58 
Utility	97 	-8 	-16 	-47 	-47 
Supranational	8 	1 	2 	-5 	-5 
Sovereign	104 	-14 	-19 	-57 	-57 

Source: Bloomberg, NYL Investors, Barclays – January 2020.  
Past performance is not indicative of future results.

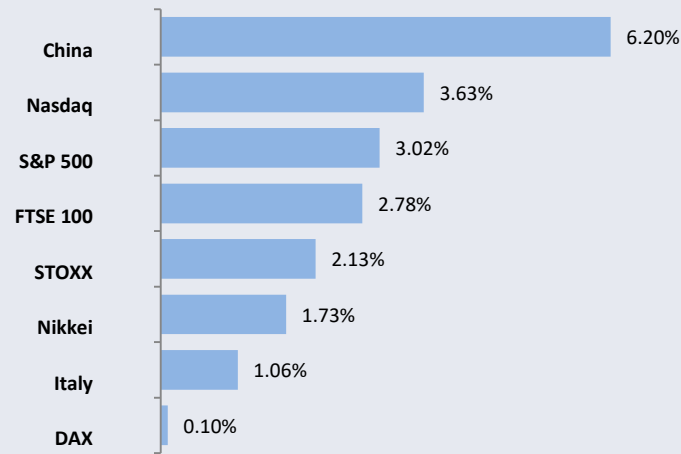
# Fixed Income Investors

## Supplemental Data - as of December 31, 2019

### Global Equity Returns

Stock Index	12/31/2019	1-Month	3-Month	YTD	1-Year
<b>S&amp;P 500</b>	3231	3.02%	9.07%	31.49%	31.49%
<b>Nasdaq</b>	8973	3.63%	12.47%	36.69%	36.69%
<b>STOXX</b>	416	2.13%	6.12%	26.82%	26.82%
<b>FTSE 100</b>	7542	2.78%	2.68%	17.32%	17.32%
<b>DAX</b>	13249	0.10%	6.61%	25.48%	25.48%
<b>Italy</b>	23506	1.06%	6.33%	28.28%	28.28%
<b>Nikkei</b>	23657	1.73%	8.93%	20.72%	20.72%
<b>China</b>	3050	6.20%	4.99%	22.30%	22.30%

### 1-Month Performance















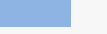












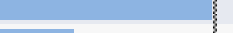




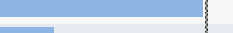
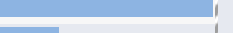




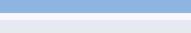
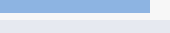
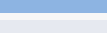
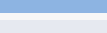
12/31/2019

Source: Bloomberg, NYL Investors, Barclays – January 2020.  
Past performance is not indicative of future results.

# Fixed Income Investors





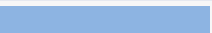
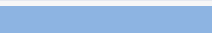
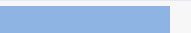
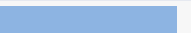
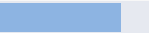
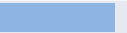
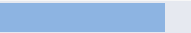
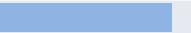
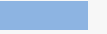
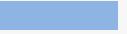
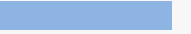
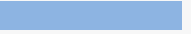
Supplemental Data - as of December 31, 2019

## Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	416	2.13% 	6.12% 	26.82% 	26.82% 
FTSE 100	7542	2.78% 	2.68% 	17.32% 	17.32% 
DAX	13249	0.10% 	6.61% 	25.48% 	25.48% 
CAC 40	5978	1.30% 	5.41% 	29.24% 	29.24% 
Portugal	5214	1.69% 	4.83% 	10.20% 	10.20% 
Italy	23506	1.06% 	6.33% 	28.28% 	28.28% 
Ireland	7183	2.65% 	15.12% 	33.63% 	33.63% 
Greece	917	1.75% 	5.73% 	53.64% 	53.64% 
Spain	9549	2.53% 	4.37% 	15.66% 	15.66% 
Russia	3046	3.76% 	10.87% 	29.14% 	29.14% 

12/31/2019

## International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	2037	3.25% 	8.17% 	22.01% 	22.01% 
MSCI EM	1115	7.46% 	11.84% 	18.44% 	18.44% 
MSCI FM	586	4.34% 	6.63% 	17.99% 	17.99% 
MSCI FM100	1293	3.15% 	6.76% 	18.84% 	18.84% 

12/31/2019

Source: Bloomberg, NYL Investors, Barclays – January 2020.  
 Last represents month-end close of business for December.  
 Past performance is not indicative of future results.

# Fixed Income Investors

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