NYL Investors LLC
Fixed Income Investors

February 2020

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NYL Investors affiliates may develop and publish research that is independent of, and different than, the views expressed.

Fixed Income Investors

Summary - as of February 29, 2020

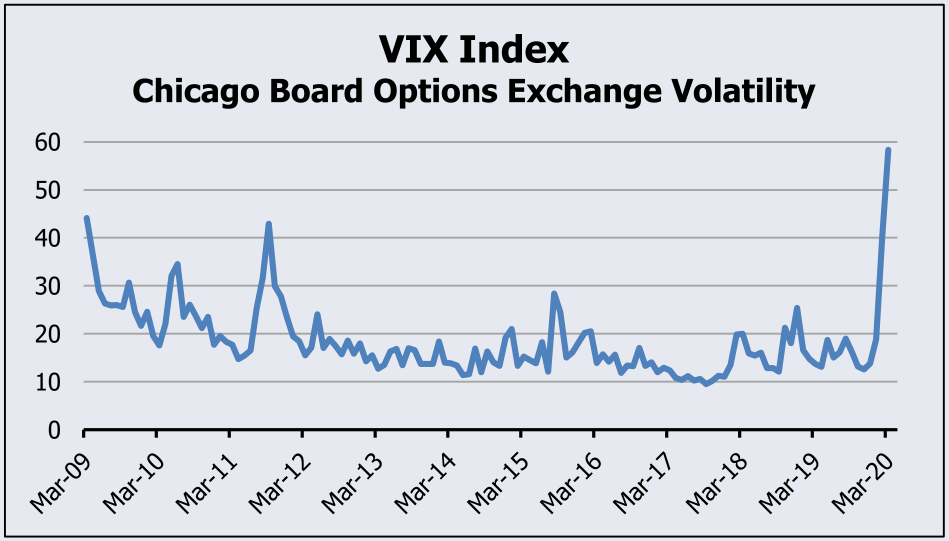
- February was dominated by the emergence of the deadly coronavirus COVID-19. Initially identified in the city of Wuhan, the virus quickly spread reaching Europe, the Middle East, and North America.
- Equity and fixed income markets have seen volatility jump to multi-year highs while Treasury rates have plummeted to the lowest levels in their 150-year history.
- Capital Economics estimate that a severe coronavirus epidemic that lasted 12 months could reduce annualized U.S. GDP by as much as 3% while a more modest outbreak scenario could reduce annualized GDP by 0.8%.
- January non-farm payroll report came in at 225k, well above the 165k that was expected. The unemployment rate came in at 3.6%, close to the lowest levels in 50 years.
- The ISM Non-Manufacturing Index, which covers approximately two-thirds of the U.S. economy came in at 57.3 during the month of February. This marked a 13-month high for the index and confirmed that the economy is functioning despite the widespread panic over the coronavirus.
- The Federal Reserve cut interest rates by 50 bps in early March, taking the federal funds target range from 1.50% - 1.75% to 1.00% - 1.25%, to combat the risks associated with the spread of the coronavirus.
- High Grade Credit was the worst performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month.
- The Bloomberg Barclays Credit Index suffered its second consecutive month of negative excess returns as spreads widened 19 bps and underperforming duration weighted Treasuries by 166 bps.
- The Industrial sector led the spread widening in the month of February returning -203 bps in excess return.
- The Non-corporate, Financial, and Utility sectors outpaced the broader market returning -107 bps, -129 bps, and -160 bps, respectively.
- ABS and MBS faired the best with excess returns of -6 bps and -7 bps, respectively, as the sectors benefited from an up in quality bias.
- Within Structured Products, CMBS was the clear underperformer in the month of February with excess returns of -25 bps.
- There was $97 billion in fixed-rate supply bringing the year-to-date total to $269 billion, just modestly slower than 2019's pace.

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

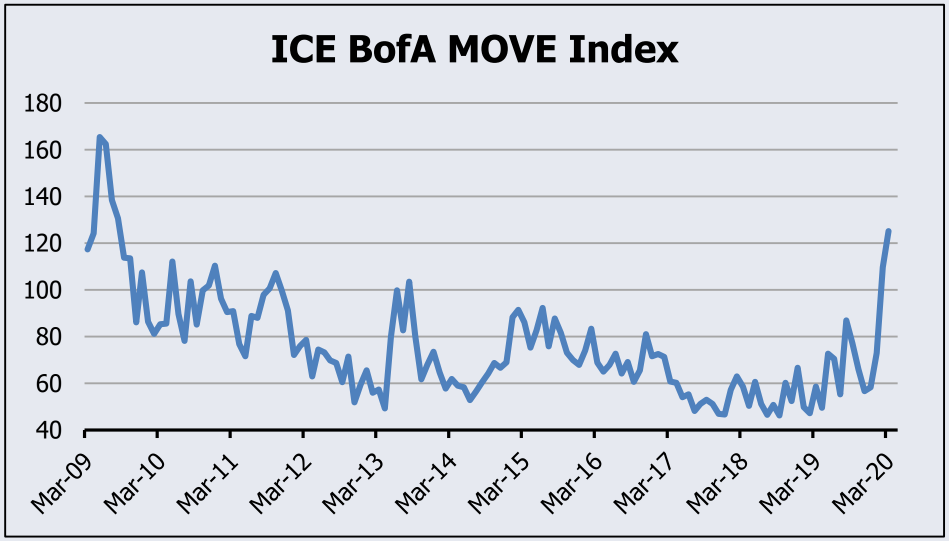
Fixed Income Investors

Market Review - as of February 29, 2020

The month of February was dominated by the emergence of the deadly coronavirus COVID-19. Initially identified in late December in the city of Wuhan, the virus quickly spread across the globe reaching Europe, the Middle East, and North America. With over 110,000 cases confirmed and 3,000 lives already lost, the coronavirus has created panic across the globe. Financial markets have certainly not been immune to the damaging effects of the virus. Equity and fixed income markets have seen volatility jump to multi-year highs while Treasury rates have plummeted to the lowest levels in their 150-year history. While the effects of the virus on the global economy are still unknown, it is expected to be more severe than what was seen during the SARS epidemic, being that China now accounts for approximately 33% of World GDP growth compared to only 3% in 2000. Capital Economics estimate that a severe coronavirus epidemic that lasted 12 months could reduce annualized U.S. GDP by as much as 3% while a more modest outbreak scenario could reduce annualized GDP by 0.8%. We believe it is still too early to determine if the coronavirus outbreak ultimately will push the economy into a recession, but we recognize the magnitude and length of this reaction could increase the probability of a recession.



Source: Bloomberg, March 2020
Note: 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.



Source: Bloomberg, March 2020
Note: 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 vols with weights 0.2/0.2/0.4/0.2, respectively).

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Market Review - as of February 29, 2020

The January non-farm payroll report came in at 225k, well above the 165k that was expected. Average hourly earnings (YoY) came in at 3.1%, with an upward revision to the prior month's print. The unemployment rate came in at 3.6%, close to the lowest levels in 50 years. The labor force participation rate ticked up to 63.4%, a multi-year high. Inflation continues to remain well below the Federal Reserve's 2% target. Core PCE Deflator (YoY) came in at 1.6%, the 16th straight month that the Federal Reserve's preferred inflation measure came in below 2%. The ISM Non-Manufacturing Index, which covers approximately two-thirds of the U.S. economy, came in at 57.3 during the month of February. This marked a 13-month high for the index and confirmed that the economy is functioning despite the widespread panic over the coronavirus.

The Federal Open Market Committee (FOMC) did not hold a monetary policy meeting during the month of February. In early March, to combat the risks associated with the spread of the coronavirus, the Federal Reserve cut interest rates by 50 bps, taking the federal funds target range from 1.50% - 1.75% to 1.00% - 1.25%. The inter-meeting cut was viewed as an emergency move, raising market expectations for even further cuts at their March 17th-18th meeting. This was the Federal Reserve's largest one-time cut since 2008 when they were slashing interest rates to combat the onset of the Great Recession.

During February, interest rates moved lower and the curve steepened, led by the front end. The one-year part of the curve moved 41 bps lower while the ten-year part of the curve moved 36 bps lower. The ten-year treasury note finished the month at 1.15%, the lowest level on record. The massive interest rate rally was driven by heightened fears over the spreading of the coronavirus epidemic. High Grade Credit was the worst performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month. Within securitized products, ABS produced -6 bps of excess return, outperforming both CMBS and MBS.

US Treasury Yields

Term	2/29/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	1.01%	-41	-58	-56	-153
2Y	0.91%	-40	-70	-66	-160
3Y	0.90%	-40	-71	-71	-160
5Y	0.94%	-38	-69	-76	-158
7Y	1.06%	-36	-67	-77	-156
10Y	1.15%	-36	-63	-77	-157
30Y	1.68%	-32	-53	-71	-141
2s10s	24	4	7	-11	3
10s30s	53	3	10	5	16

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Market Review - as of February 29, 2020

The Bloomberg Barclays Credit Index suffered its second consecutive month of negative excess returns as spreads widened 19 bps and underperforming duration weighted treasuries by 166 bps. Given the potential impact of the virus on economic activity, the Industrial sector led the spread widening in the month of February returning -203 bps in excess return. Oil declined over 13% during the month leading to substantial spread widening in the Energy sub-sector. The Non-corporate, Financial, and Utility sectors outpaced the broader market returning -107 bps, -129 bps, and -160 bps, respectively. Domestic Banks and REITs proved resilient during the market volatility as investors continue to find the benefits of domestically focused segments of the market. Although the fundamental backdrop in credit has not changed materially in the first two months of the year, thoughts around possible declines in economic activity began to affect risk taking and ultimately led to a decline in the technical backdrop. The rapid decline in interest rates will remain a near-term headwind for spreads across corporate credit.

Despite increasing volatility throughout the month, corporate issuers took advantage of stints of stability to access the corporate bond market. There was $97 billion in fixed-rate supply bringing the year-to-date total to $269 billion, just modestly slower than 2019's pace. The Industrial sector remains active and outpaced Financial issuers during the month. New issue concessions became more attractive as secondary spreads widened and participants required higher spread compensation for new deals. Demand for the calendar remains robust but faces near-term headwinds of historically low rates and unprecedented uncertainty.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.30%	-0.27%	-0.52%	0.19%
Credit Aa	-1.03%	-0.81%	-1.44%	0.32%
Credit A	-1.42%	-1.18%	-2.16%	0.75%
Credit Baa	-2.20%	-1.55%	-3.14%	2.08%
Finance	-1.29%	-0.81%	-1.77%	1.81%
Industrial	-2.03%	-1.69%	-3.12%	1.15%
Utility	-1.60%	-1.15%	-2.22%	1.08%
Supranational	0.05%	0.07%	0.07%	0.33%
Sovereign	-2.70%	-1.94%	-3.80%	0.09%

2/29/2020

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Market Review - as of February 29, 2020

While outperforming investment grade credit, Structured Products were not immune to the macro volatility induced by escalating concerns over the coronavirus. ABS and MBS faired the best with excess returns of -6 bps and -7 bps, respectively, as the sectors benefited from an up in quality bias. There were heightened concerns over elevated prepays heading into spring seasonals as rates breached all-time lows, but MBS was supported by a relative attractiveness to corporate credit as the MBS Index option-adjusted spread (OAS) stood at multi-year wides of 54 bps. Within MBS, the 30-year GNMA sector (-11 bps of excess return) underperformed Conventionals by about 9 bps, as GNMAs saw less sponsorship from banks and overseas investors into the rate rally. Similarly, with banks largely on the sidelines, 15-years (-28 bps of excess return) underperformed 30-years by 26 bps. CMBS was the clear underperformer within Structured Products in the month of February with excess returns of -25 bps. The higher beta nature of the asset class drove it more in line with high grade credit as spreads on 10-year AAA last cashflows widened from Swaps+75 to Swaps+90 over the course of the month, reaching levels we have not seen since mid-December of 2019.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.52%	-0.44%	-0.88%	0.28%
Agency	-0.05%	-0.06%	-0.07%	0.39%
Credit	-1.66%	-1.25%	-2.42%	1.27%
MBS	-0.07%	-0.26%	-0.61%	-0.45%
ABS	-0.06%	0.21%	0.26%	0.60%
CMBS	-0.25%	0.15%	0.13%	0.75%
USD EM	-2.77%	-1.66%	-3.71%	-1.61%

2/29/2020

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Supplemental Data - as of February 29, 2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.80%	3.69%	3.76%	11.68%
Treasury	2.65%	4.57%	5.16%	12.15%
Agency	1.57%	2.92%	3.13%	8.76%
Credit	1.36%	4.03%	3.73%	15.30%
MBS	1.04%	2.02%	1.74%	7.45%
ABS	0.89%	2.00%	1.90%	5.71%
CMBS	1.91%	4.19%	4.45%	11.48%
USD EM	-0.20%	2.88%	1.34%	10.21%

2/29/2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.71%	3.34%	3.42%	9.82%
Credit Aa	1.98%	4.35%	4.58%	13.68%
Credit A	1.67%	4.20%	4.14%	15.09%
Credit Baa	0.94%	3.95%	3.29%	16.79%
Finance	1.15%	3.55%	3.11%	13.36%
Industrial	1.29%	4.08%	3.70%	16.61%
Utility	2.51%	5.85%	6.35%	20.13%
Supranational	1.44%	2.66%	2.64%	7.35%
Sovereign	0.99%	4.37%	3.76%	17.11%

2/29/2020

Source: Bloomberg, NYL Investors, Barclays – March 2020.
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Fixed Income Investors

Supplemental Data - as of February 29, 2020

US Fixed Income Spreads

Index	2/29/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	50	6	6	11	5
Agency	13	3	4	3	-1
Credit	117	19	17	27	3
MBS	54	6	9	15	19
ABS	37	6	-1	-7	0
CMBS	73	5	3	1	5
USD EM	365	45	38	64	85

US Fixed Income Spreads

Index	2/29/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	21	3	4	4	1
Credit Aa	70	13	13	18	8
Credit A	94	17	15	24	4
Credit Baa	161	25	21	36	0
Finance	107	20	16	27	-3
Industrial	131	21	20	32	4
Utility	116	14	11	19	-2
Supranational	7	-1	0	-1	-4
Sovereign	142	28	24	38	13

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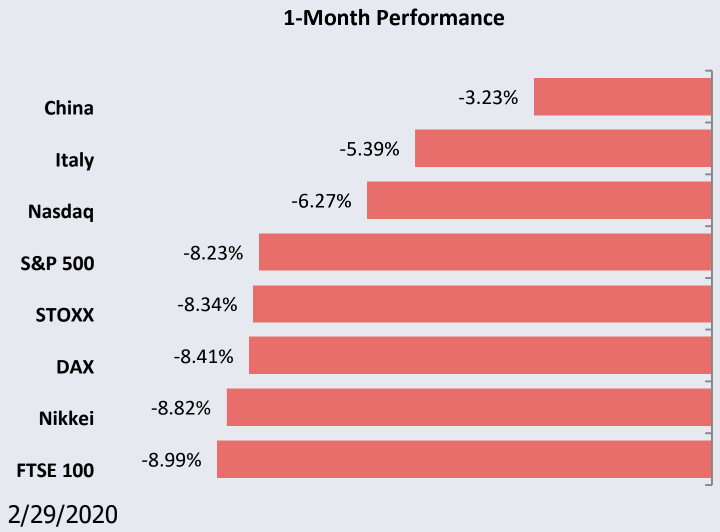
Supplemental Data - as of February 29, 2020

Global Equity Returns

Stock Index	2/29/2020	1-Month	3-Month	YTD	1-Year
S&P 500	2954	-8.23%	-5.50%	-8.27%	8.19%
Nasdaq	8567	-6.27%	-0.90%	-4.37%	14.94%
STOXX	376	-8.34%	-7.49%	-9.42%	3.73%
FTSE 100	6581	-8.99%	-9.60%	-12.04%	-2.66%
DAX	11890	-8.41%	-10.17%	-10.25%	3.25%
Italy	21984	-5.39%	-5.48%	-6.48%	6.41%
Nikkei	21143	-8.82%	-9.01%	-10.56%	0.98%
China	2880	-3.23%	0.29%	-5.57%	-2.06%



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Fixed Income Investors

Supplemental Data - as of February 29, 2020

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	376	-8.34%	-7.49%	-9.42%	3.73%
FTSE 100	6581	-8.99%	-9.60%	-12.04%	-2.66%
DAX	11890	-8.41%	-10.17%	-10.25%	3.25%
CAC 40	5310	-8.55%	-9.91%	-11.07%	3.71%
Portugal	4766	-9.26%	-7.05%	-8.60%	-8.09%
Italy	21984	-5.39%	-5.48%	-6.48%	6.41%
Ireland	6397	-8.56%	-8.55%	-10.91%	6.65%
Greece	720	-20.92%	-19.60%	-20.99%	5.23%
Spain	8723	-6.86%	-6.09%	-8.41%	-2.93%
Russia	2785	-9.48%	-5.12%	-8.56%	12.06%

2/29/2020

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1810	-9.04%	-8.05%	-10.94%	-0.57%
MSCI EM	1006	-5.27%	-2.95%	-9.69%	-1.88%
MSCI FM	551	-5.88%	-1.85%	-5.94%	5.11%
MSCI FM100	1215	-6.64%	-3.05%	-6.01%	4.95%

2/29/2020

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