NYL Investors LLC
Fixed Income Investors

February 2021

Fixed Income Investors

Summary - as of February 28, 2021

- After spiking to record levels at the start of 2021, the rate of daily COVID-19 infections in the U.S. has come down steadily, primarily the result of a more efficient vaccine rollout than seen earlier in the year.
- On February 27th, the FDA issued emergency use authorization for Johnson & Johnson’s single-dose vaccine which should help to continue the downward trend we have seen in daily infections.
- The amended stimulus bill is widely expected to pass again in the House along party lines and should be signed into law by the President shortly thereafter with the most contentious item in the bill being the $350 billion in funding for state and local governments.
- The stimulus bill includes $1,400 direct payments for Americans under certain income thresholds, extended unemployment insurance, expanded family tax credits, funding for small business, and COVID testing and vaccine distribution.
- Economic data releases in February continued to exceed market expectations. After three straight months of negative readings, retail sales were up 5.3% (MoM), well above the consensus expectation of 1.1% (MoM).
- Consensus expectation is now for growth of 5% in 2021 with several institutions, such as JPMorgan and Bank of America, as high as 6%.
- On the employment front in February, the economy gained +379k jobs, much higher than the +200k that was expected, with prior month job gains being revised up from +49k to +166k. The strength in the jobs number was driven by the leisure and hospitality sectors.
- Core PCE Deflator (YoY) came in at 1.5% for the month of January, flat from December’s reading. While the actual realized inflation remains stuck below 2%, inflation expectations continue to rise.
- February was notable for the pickup in interest rate volatility. The MOVE Index, which measures implied volatility across the Treasury yield curve, ended February at 75.7, the highest level since April of last year.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 55 bps of excess return.
- Investment Grade Credit was largely rangebound throughout the month of February while posting modestly positive excess returns for the second month in a row.
- The Industrial and Utility sectors outpaced the broader market with 72 bps and 61 bps of excess returns, respectively, while the Financial and Non-corporate sectors lagged with 54 bps and -4 bps of excess returns, respectively.
- Within Securitized Products, CMBS produced 5 bps of excess return while ABS had a modest excess return of 3 bps and MBS struggled into the backup in rates to finish the month with -26 bps in excess return.
- Fixed-rate issuance topped $115 billion during the month, but the supply was easily absorbed. New issue concessions remain slim, and competition for higher coupon deals persisted throughout the month.
- The improving macroeconomic backdrop encouraged investors to move down the quality spectrum once again, and excess returns in the triple-B category outpaced up-in-quality paper throughout the month.

Source: Bloomberg, NYL Investors, Barclays – March 2021.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
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After spiking to record levels at the start of 2021, the rate of daily COVID-19 infections in the U.S. has come down steadily. According to the CDC, the seven-day moving average of COVID cases in the U.S. was 63,938 as of March 2nd. While still elevated, it is far from the record high seven-day moving average of over 247,000 seen in mid-January. The drop in infections can be partially attributed to better adherence to social distancing practices but is primarily the result of a more efficient vaccine rollout than seen earlier in the year. As of March 2nd, 15.9% of the U.S. population has received at least one dose of a COVID vaccination. On February 27th, the FDA issued emergency use authorization for Johnson & Johnson's single-dose vaccine. This was the third vaccine approved by the FDA and should help to continue the downward trend we have seen in daily infections. While the progress on the vaccine front is certainly a welcoming sign for the economy, unemployment remains well above pre-pandemic levels. With federal unemployment benefits running out on March 14th, Congress needs to move quickly on the latest fiscal stimulus bill to prevent a lapsing of benefits. The $1.9 trillion fiscal stimulus bill was passed in the House of Representatives ("the House") on February 27th, and an amended bill was then passed in the Senate on March 6th. The next steps are for the amended bill to be sent back to the House for another vote before the finalized legislation goes to President Biden. The amended bill is widely expected to pass again in the House along party lines and should be signed into law by the President shortly thereafter. The bill includes $1,400 direct payments for Americans under certain income thresholds, extended unemployment insurance, expanded family tax credits, funding for small business, and COVID testing and vaccine distribution. The most contentious item included in the bill is the $350 billion in funding for state and local governments. Republicans have long argued the cash infusion is not directly related to the pandemic and instead is a bailout for states that have spent years mismanaging their finances. Since the bill was passed along party lines, Republicans are unable to prevent the state and local government funding from being included in the bill.

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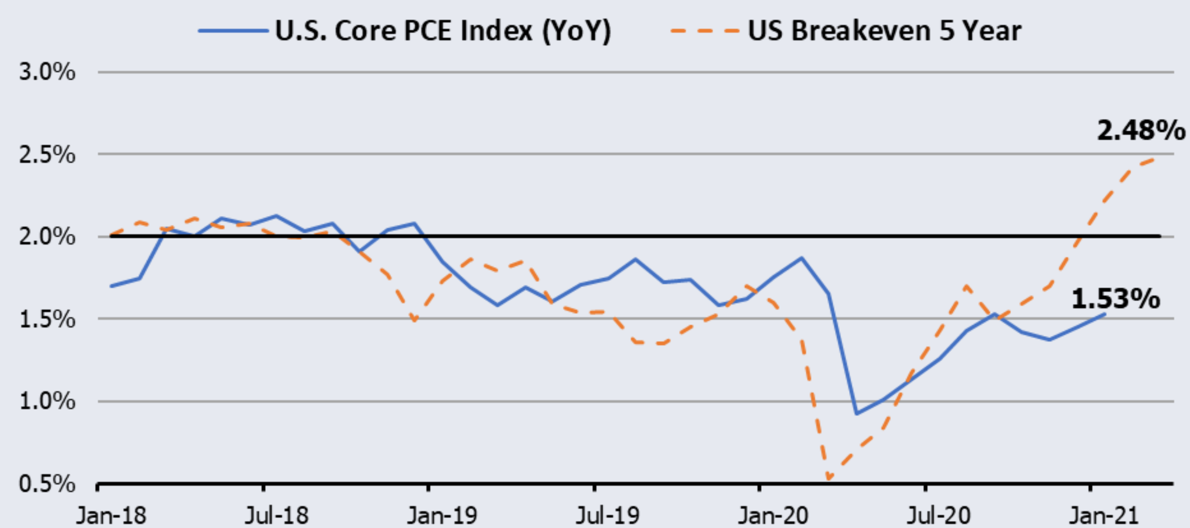
Economic data releases in February continued to exceed market expectations. After three straight months of negative readings, retail sales were up 5.3% (MoM), well above the consensus expectation of 1.1% (MoM). The better-than-expected reading was mostly attributable to the $600 stimulus checks distributed in January. Durable goods orders were also stronger than expected during the month of January, rising well above pre-pandemic levels. The strong data prints combined with the pending fiscal stimulus bill have led several institutions to increase their GDP projections for 2021. Consensus expectation is now for growth of 5% in 2021 with several institutions, such as JPMorgan and Bank of America, as high as 6%. On the employment front during the month of February, the economy gained +379k jobs, much higher than the +200k that was expected, with prior month job gains being revised up from +49k to +166k. The strength in the jobs number was driven by the leisure and hospitality sector. The sector saw a gain of 355,000 on the back of recent reopenings within the service industry. The unemployment rate fell from 6.3% to 6.2% while average hourly earnings came in at 5.3% (YoY), flat to the consensus expectation. Core PCE Deflator (YoY) came in at 1.5% for the month of January, flat from December's reading. While actual realized inflation remains stuck below 2%, inflation expectations continue to rise. The five-year breakeven rate closed February near 2.50%, the highest level in over a decade.



Source: Bloomberg, March 2021

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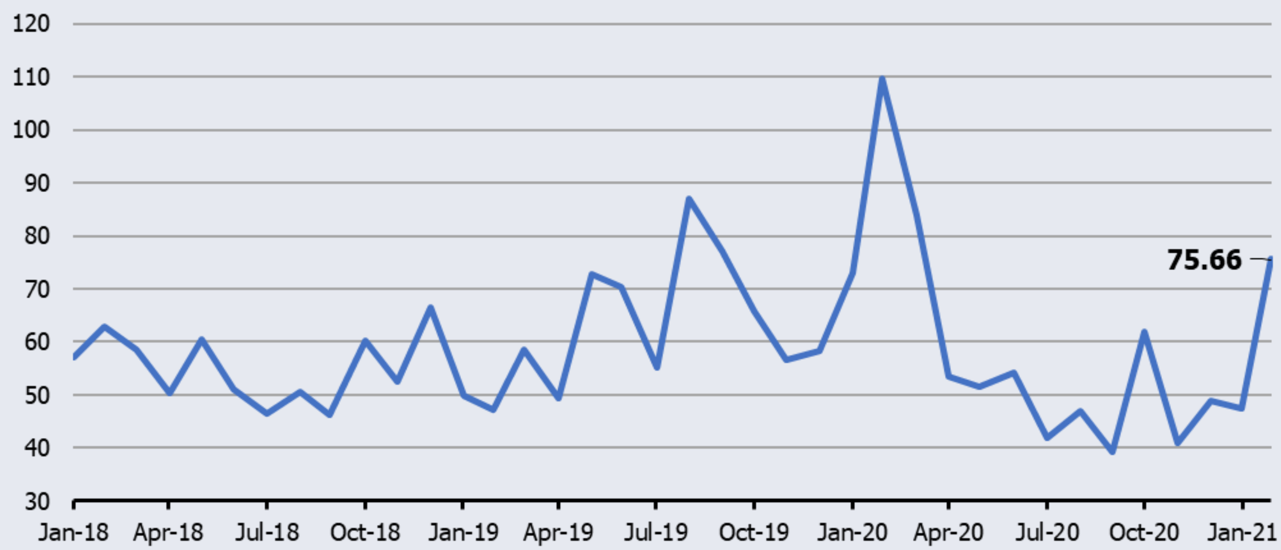
The month of February was also notable for the pickup in interest rate volatility experienced toward the end of the month. Initially driven by rising inflation concerns overseas and compounded further by the largest tail on record for a seven-year Treasury auction, interest rates moved markedly higher. The sharp rise in rates led to a jump in interest rate volatility. The MOVE Index, which measures implied volatility across the Treasury yield curve, ended February at 75.7, the highest level since April of last year.

Merrill Option Volatility Estimate (MOVE) Index



Source: Bloomberg, March 2021
NOTE: The MOVE Index is a yield curve-weighted index of the normalized implied volatility on one-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. "MOVE" is a trademark product of Merrill Lynch.

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Interest rates moved higher and the curve steeper during February, led by the long end. The two-year part of the curve moved 2 bps higher while the 20-year part of the curve moved 40 bps higher. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 55 bps of excess return. Within Securitized Products, CMBS produced 5 bps of excess return, outperforming both MBS and ABS.

US Treasury Yields

Term	2/28/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.07%	-1	-4	-4	-94
2Y	0.13%	2	-2	1	-79
3Y	0.28%	11	9	11	-62
5Y	0.73%	31	37	37	-20
7Y	1.12%	36	51	47	6
10Y	1.40%	34	57	49	26
30Y	2.15%	32	58	51	48
2s10s	128	32	59	49	104
10s30s	75	-2	2	1	22

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Investment Grade Credit was largely rangebound throughout the month of February while posting modestly positive excess returns for the second month in a row. Bloomberg Barclays Credit Index spreads tightened by 6 bps with relatively uniform performance across the sub-sectors. The Industrial and Utility sectors outpaced the broader market with 72 bps and 61 bps of excess returns, respectively, while the Financial and Non-corporate sectors lagged with 54 bps and -4 bps of excess returns, respectively. Investor sentiment in the asset class remained constructive throughout the month, especially as increased success on the vaccination front resulted in better expectations for growth and possibly improved top-line performance in the coming quarters. Most of this month's attention was focused on the rate market, but the abrupt move higher did not deter investor appetite for the sector. Higher all-in yields continue to garner yield-sensitive buyer interest as coupons look attractive versus recent history. The fundamental story continues to improve across many sectors, once again supporting current spread valuations.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.14%	0.36%	0.22%	0.69%
Credit Aa	0.41%	1.20%	0.57%	2.18%
Credit A	0.55%	0.98%	0.45%	3.14%
Credit Baa	0.65%	1.88%	0.80%	3.75%
Finance	0.54%	1.15%	0.51%	3.65%
Industrial	0.72%	1.57%	0.72%	3.72%
Utility	0.61%	1.44%	0.95%	3.24%
Supranational	-0.02%	0.07%	0.05%	0.03%
Sovereign	-0.95%	0.53%	-1.14%	1.98%

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Trends in the new issue market remain steady as issuers actively look to tap the debt market. Fixed-rate issuance topped $115 billion during the month, but the supply was easily absorbed. New issue concessions remain slim, and competition for higher coupon deals persisted throughout the month. Discussions around upward pressure on inflation, and the subsequent impact on the rate market, likely accelerated a portion of future issuance as corporate treasurers continue to take advantage of attractive financing while it lasts. The mix of issuance adjusted as the attention turned toward the Industrial sectors and away from the Banking issuance seen in January. Fund flows continue to create strong tailwinds for the corporate sector as investors allocate new capital in the primary market, leading to limited need for secondary sales, a dynamic which has been in place for several months now. Market participants continue to monitor issuer activity to assess if heightened volumes could impact this positive technical backdrop.

Benign fundamentals and higher rates dictated credit quality and maturity performance during the month. The improving macroeconomic backdrop encouraged investors to move down the quality spectrum once again, and excess returns in the triple-B category outpaced up-in-quality paper throughout the month. Furthermore, as rates moved higher, overseas activity started to pick up in the back end of the maturity spectrum, compressing curves during the period. Investors continue to monitor rates though as more significant moves higher will ultimately lead to near-term negative total returns, a dynamic which could unsettle certain portions of the investor community.

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Apart from MBS, it was a rather sleepy month in Securitized Products. In addition to the front end of the curve being extremely anchored (2s/10s are 50 bps steeper YTD), high quality two-to-three-year duration ABS spreads remain firm. Primary market volumes accelerated in the month of February and now stand down 4% YoY versus down 30% as of Jan 31st. The supply has been easily absorbed by market participants given ample cash and the draw to limited duration securities which offer a means of capital preservation in the current rate environment. Excess return for Bloomberg Barclays U.S. Aggregate Index-eligible ABS were a modest 3 bps during the month. In CMBS, it was a similar theme despite the back up in rates and private label issuance being down 40%. AAA last cashflow CMBS spreads remain wrapped around S+60 bps on new issues, and 60-70 bps for secondary paper. Within the agency complex, Freddie Mac K-Deal A2s remain wrapped around S+15 bps as they have for the better part of this year.

MBS struggled into the backup in rates and finished the month with -26 bps in excess return. In terms of coupon stack positioning, the motto was "follow the Fed" in 2020. In February 2021, it was "don't follow the Fed." In looking at the 30-year conventional coupon stack, 2.0s and 2.5s underperformed Treasuries by nearly 100 bps while 3.0s-4.0s were flat to +65 bps on an excess return basis. Such dislocations in performance were not a function of duration shedding or convexity selling from servicers and REITs, but rather a lack of natural buyer into the backup in rates amid healthy origination as rates consistently sold off toward 1.5%. While being extremely flush with cash, banks were hesitant to step in and add into the backup in yields until interest rates stabilized. Money Managers were cautious as well and struggled with the immensely tight valuations (-25 option-adjusted spreads on TBA) at which the basis was trading prior to the selloff as well as deteriorating hedge-adjusted carry amidst the yield curve steepening. The outperformance of higher coupons was driven by a demand for extension protection MBS risk into the backup in rates as well as negative key rate duration exposure to long-end Treasuries. The dynamics which played out in the MBS market during February are likely to persist in a continued bear steepening curve environment.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.11%	0.53%	0.21%	1.32%
Agency	0.01%	0.30%	0.16%	0.17%
Credit	0.55%	1.37%	0.60%	3.13%
MBS	-0.26%	0.20%	-0.02%	0.40%
ABS	0.03%	0.35%	0.20%	0.98%
CMBS	0.05%	1.27%	0.51%	0.90%
USD EM	0.41%	2.20%	0.48%	2.91%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-1.44%	-2.02%	-2.15%	1.38%
Treasury	-1.81%	-2.98%	-2.75%	-0.13%
Agency	-0.75%	-0.80%	-0.91%	1.35%
Credit	-1.74%	-2.46%	-2.90%	2.36%
MBS	-0.67%	-0.38%	-0.59%	1.49%
ABS	-0.14%	0.20%	0.01%	2.58%
CMBS	-1.19%	-0.49%	-1.22%	2.24%
USD EM	-1.42%	-0.78%	-2.26%	2.73%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-1.16%	-1.67%	-1.70%	1.23%
Credit Aa	-2.06%	-3.00%	-3.26%	0.93%
Credit A	-1.77%	-2.91%	-3.10%	2.35%
Credit Baa	-1.74%	-2.12%	-2.87%	2.90%
Finance	-1.14%	-1.52%	-1.99%	3.90%
Industrial	-1.90%	-2.88%	-3.34%	2.44%
Utility	-2.55%	-4.00%	-3.98%	1.28%
Supranational	-0.71%	-0.80%	-0.85%	1.47%
Sovereign	-3.88%	-4.45%	-5.67%	0.29%

2/28/2021

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Fixed Income Investors

Supplemental Data - as of February 28, 2021

US Fixed Income Spreads

Index	2/28/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	34	-2	-14	-8	-16
Agency	4	-3	-9	-6	-9
Credit	86	-6	-14	-6	-31
MBS	20	2	-29	-19	-34
ABS	29	3	-7	-4	-8
CMBS	70	-2	-24	-11	-3
USD EM	272	-8	-31	-9	-93

US Fixed Income Spreads

Index	2/28/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	17	-1	-4	-2	-4
Credit Aa	56	-4	-10	-5	-14
Credit A	69	-7	-11	-5	-25
Credit Baa	116	-7	-20	-8	-45
Finance	77	-7	-16	-6	-30
Industrial	95	-7	-14	-6	-36
Utility	97	-6	-14	-9	-19
Supranational	10	0	-2	-2	3
Sovereign	134	7	-6	10	-8

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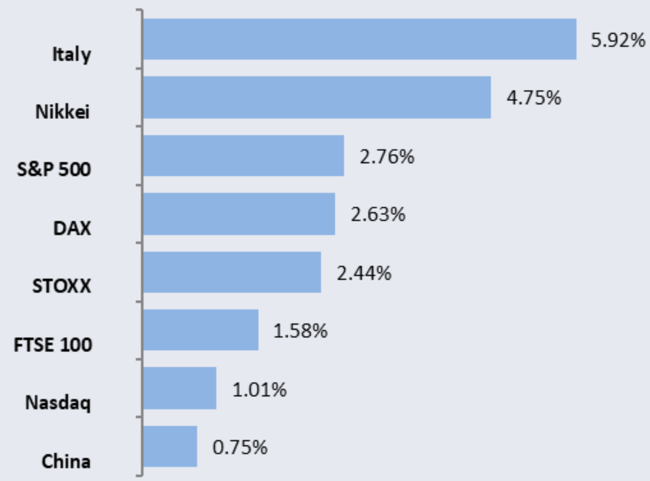
Supplemental Data - as of February 28, 2021

Global Equity Returns

Stock Index	2/28/2021	1-Month	3-Month	YTD	1-Year
S&P 500	3811	2.76%	5.63%	1.72%	31.29%
Nasdaq	13192	1.01%	8.32%	2.47%	55.27%
STOXX	405	2.44%	4.29%	1.67%	10.01%
FTSE 100	6483	1.58%	4.09%	0.78%	1.35%
DAX	13786	2.63%	3.73%	0.49%	15.95%
Italy	22849	5.92%	3.57%	2.77%	3.93%
Nikkei	28966	4.75%	9.77%	5.59%	39.61%
China	3509	0.75%	3.46%	1.04%	21.83%

1-Month Performance



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Source: Bloomberg, NYL Investors, Barclays – March 2021.
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Fixed Income Investors

Supplemental Data - as of February 28, 2021

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	405	2.44%	4.29%	1.67%	10.01%
FTSE 100	6483	1.58%	4.09%	0.78%	1.35%
DAX	13786	2.63%	3.73%	0.49%	15.95%
CAC 40	5703	5.63%	3.58%	2.84%	9.20%
Portugal	4702	-1.93%	2.12%	-4.00%	-1.33%
Italy	22849	5.92%	3.57%	2.77%	3.93%
Ireland	7341	4.18%	2.20%	-0.45%	16.42%
Greece	792	5.73%	7.71%	-2.05%	12.77%
Spain	8225	6.04%	2.51%	2.14%	-3.22%
Russia	3347	2.12%	7.69%	1.75%	20.16%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	2169	2.24%	5.86%	1.15%	22.46%
MSCI EM	1339	0.76%	11.49%	3.85%	36.05%
MSCI FM	574	0.13%	6.26%	0.51%	8.38%
MSCI FM100	1284	-0.68%	7.74%	2.15%	10.70%

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Source: Bloomberg, NYL Investors, Barclays – March 2021.
Last represents month-end close of business for February.
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Important Disclosures

The Barclays U.S. Aggregate Index is a representative measure of the investment-grade domestic bond market.

The Barclays Credit Index is a representative measure of the U.S. credit market, which includes publicly issued-U.S. corporate and specified foreign debentures and secured notes that meet specific maturity, liquidity, and quality requirements.

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