NYL Investors LLC
Fixed Income Investors

January 2021

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Fixed Income Investors

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Summary - as of January 31, 2021

- Rising COVID cases combined with the slow vaccine rollout have many economists fearing the much anticipated "reopening" of the U.S. economy could be delayed further as restrictions remain in place.
- President Biden has introduced a $1.9 trillion fiscal stimulus package aimed to combat the pandemic which includes one-time checks to families under certain income thresholds, aid to small businesses, and an infusion of cash to help facilitate the rollout of vaccine.
- The stimulus package also includes several items not supported by Republicans, such as a federal minimum wage increase and direct aid to state and local governments.
- Fourth quarter 2020 GDP came in at 4%, slightly below the 4.2% consensus. 2020 GDP (YoY %) came in at -3.5%, higher than initial estimates from several months ago but still the largest annual contraction since 1946.
- The IMF recently upgraded their projection for 2021 U.S. GDP from 4.0% to 5.1% with the expectation a large fiscal stimulus package and increased vaccinations will lead to higher growth.
- While retail sales contracted during the month of December, durable goods and industrial production were positive, printing above consensus expectations.
- ISM Manufacturing and Services remained in expansionary territory during the month of January with both indices coming in at 58.7 (A reading above 50 signals expansion in the industry).
- The unemployment rate fell from 6.7% to 6.3% while average hourly earnings surprised to the upside coming in at 5.4% (YoY) versus the 5.0% (YoY) consensus.
- Core PCE Deflator (YoY) came in at 1.5% for the month of December, a slight uptick from November's 1.3% reading.
- The Federal Reserve's first meeting of the year was devoid of any major surprises with the federal funds rate remaining steady at 0.00% - 0.25%. The committee's belief is that rising inflation expectations are not a near-term concern.
- The Bloomberg Barclays Credit Index generated just 6 bps in excess return during the month, its worst performance since September.
- The Industrial and Financial sectors experienced just 1 bp and -3 bps in excess returns, respectively. The Utility and Non-corporate sectors outpaced the broader market with 36 bps and 27 bps of excess returns, respectively.
- New issue volumes surpassed $130 billion, but unlike previous months, the composition was heavily skewed toward financial issuers and less than ten years to maturity.
- High Grade Credit continues to benefit from heavy investor inflows, resulting in limited needs to sell secondary paper to fund new issues.
- CMBS was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 47 bps of excess return.
- MBS generated 24 bps of outperformance, and the ABS sub-component outperformed Treasuries by 17 bps.

Source: Bloomberg, NYL Investors, Barclays – February 2021.
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 January 31, 2021

While the calendar turned to a new year, the issues facing markets in 2020 remain front and center. Rising COVID cases combined with the slow vaccine rollout have many economists fearing the much anticipated "reopening" of the U.S. economy could be delayed further as restrictions remain in place on businesses and gatherings. While recent case data has been encouraging, showing a downtrend in confirmed COVID infections, authorities are weary of moving too fast against a virus which has already claimed over 450k lives in the U.S. alone. In Washington, President Biden has introduced a $1.9 trillion fiscal stimulus package aimed to combat the ongoing pandemic. The package includes, among other items, one-time checks to families under certain income thresholds, aid to small businesses, and an infusion of cash to help facilitate the rollout of vaccines. The package also includes several items not supported by Republicans, such as a federal minimum wage increase and direct aid to state and local governments. The inclusion of these "hot button" items makes a bipartisan passing of the full package very unlikely. While President Biden has expressed his desire to pass this legislation in a bipartisan way, Democrats in Congress have already moved forward with using their slim majority to pass the full package without Republican support through the budget reconciliation process. A budget resolution has recently been passed in the Senate and the House, providing a pathway for the reconciliation. Under the resolution instructions, the Democrats have until February 16th to present fiscal stimulus legislation. While the reconciliation process is the best chance for Democrats to pass many of their initiatives, there are limits to what can be included.

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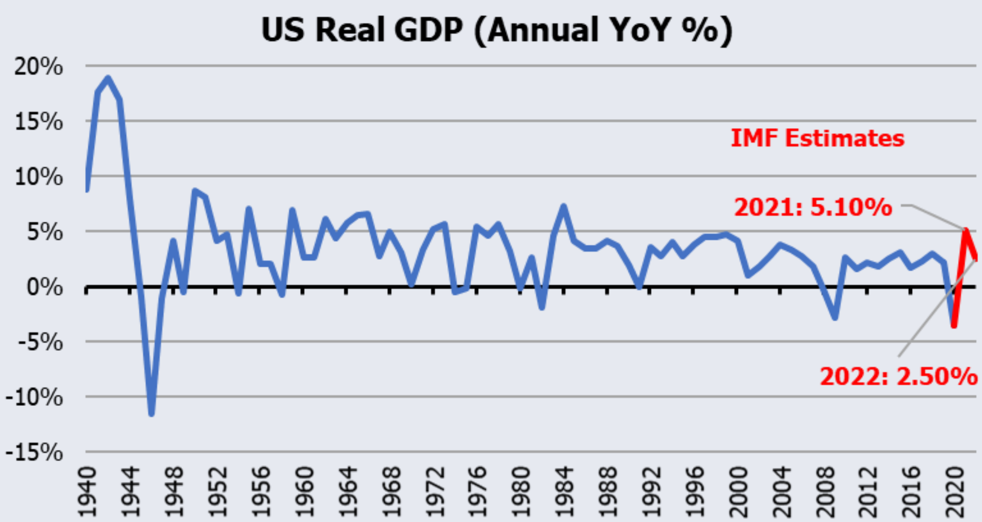
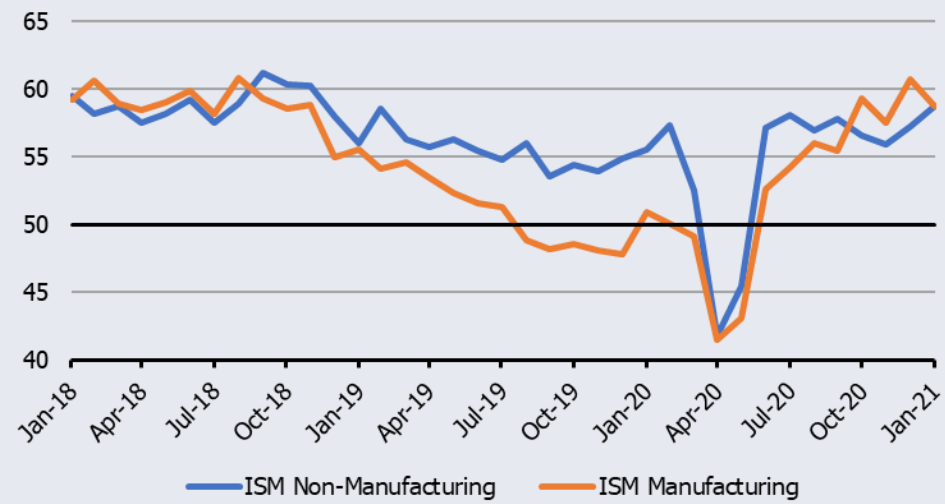
Market Review - as of January 31, 2021

Fourth quarter 2020 GDP came in at 4%, slightly below the 4.2% consensus. 2020 GDP (YoY %) came in at -3.5%, higher than initial estimates from several months ago but still the largest annual contraction since 1946. Economists are more bullish on U.S. GDP growth in 2021, believing the eventual reopening of the economy will unleash pent-up demand driving growth higher. The International Monetary Fund ("IMF") recently upgraded their projection for 2021 U.S. GDP from 4.0% to 5.1% with the expectation that a large fiscal stimulus package and increased vaccinations will lead to higher growth. Economic data released during the month of January remained resilient despite the continued struggle to control the pandemic. While retail sales contracted during the month of December, durable goods and industrial production were positive, printing above consensus expectations. ISM Manufacturing and Services remained in expansionary territory during the month of January with both indices coming in at 58.7 (A reading above 50 signals expansion in the industry). The economy gained 49k jobs during January, lower than the 105k gain that was expected, with prior month job losses being revised from -140k to -227k. The weakness in the jobs number was felt across multiple industries and not concentrated in the leisure and hospitality sector like was seen in the month of December. While the below-average jobs number was a disappointment, there were still positive aspects in the report. The unemployment rate fell from 6.7% to 6.3% while average hourly earnings surprised to the upside coming in at 5.4% (YoY) versus the 5.0% (YoY) consensus. Core PCE Deflator (YoY) came in at 1.5% for the month of December, a slight uptick from November's 1.3% reading.



Source: Bloomberg, February 2021



Source: Bloomberg, February 2021
Note: The Manufacturing & Non-Manufacturing ISM is calculated by Bloomberg by applying the real value added by the manufacturing industry by year to the manufacturing index and giving the remainder percent to the non-manufacturing index.

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The Federal Reserve ("the Fed") held their first meeting of 2021 on January 26th - 27th. The meeting was devoid of any major surprises, the federal funds rate remained steady at 0.00% - 0.25%, and the statement was largely unchanged. During the ensuing press conference, Chair Powell reiterated the committee's belief that rising inflation expectations are not a near-term concern while also downplaying any talk of tapering asset purchases any time soon. Our expectation is for the Fed to remain highly accommodative in 2021 as the economy slowly recovers from the pandemic.

Interest rates moved higher and the curve steeper during the month of January, led by the long end. The two-year part of the curve moved 1 bp lower while the 30-year part of the curve moved 18 bps higher. CMBS was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 47 bps of excess return.

US Treasury Yields

Term	1/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.08%	-3	-4	-3	-135
2Y	0.11%	-1	-4	-1	-120
3Y	0.17%	1	-3	1	-112
5Y	0.42%	6	3	6	-89
7Y	0.75%	11	11	11	-67
10Y	1.07%	15	19	15	-44
30Y	1.83%	18	17	18	-17
2s10s	96	16	24	16	76
10s30s	76	3	-2	3	27

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Market Review - as of January 31, 2021

The Bloomberg Barclays Credit Index reached its tightest level in 12 months but came under pressure in the final weeks to end unchanged in January. The Index generated just 6 bps in excess return during the month, its worst performance since September. The Utility and Non-corporate sectors outpaced the broader market with 36 bps and 27 bps of excess returns, respectively. The Industrial and Financial sectors experienced just 1 bp and -3 bps in excess returns, respectively. Volatility was subdued throughout the month as investors settled into the new year. The strong technical backdrop and positive start to fourth quarter earnings supported valuations and resulted in a largely rangebound environment for the asset class. Despite shifting pandemic dynamics and a slower-than-desired vaccine rollout, investor sentiment remains optimistic for a wider reopening and increased demand, which will likely lead to better top- and bottom-line results as the year progresses.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.08%	0.69%	0.08%	0.26%
Credit Aa	0.17%	2.47%	0.17%	0.80%
Credit A	-0.09%	2.20%	-0.09%	1.23%
Credit Baa	0.16%	4.01%	0.16%	0.93%
Finance	-0.03%	2.31%	-0.03%	1.86%
Industrial	0.01%	3.47%	0.01%	1.02%
Utility	0.36%	3.39%	0.36%	1.14%
Supranational	0.07%	0.18%	0.07%	0.10%
Sovereign	-0.21%	3.09%	-0.21%	0.36%

1/31/2021

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Market Review - as of January 31, 2021

As expected, issuers wasted no time in tapping the market as the calendar turned to 2021. New issue volumes surpassed $130 billion, but unlike previous months, the composition was heavily skewed toward financial issuers and less than ten years to maturity. This was no surprise as banks are typically very active issuers to start the year and the first to exit blackout periods post-earnings. Investor demand for issuance was strong throughout the month, resulting in limited new issue concessions and a highly competitive allocation process for most new deals. High Grade Credit continues to benefit from heavy investor inflows, resulting in limited needs to sell secondary paper to fund new issues. This dynamic seems unlikely to change given the macroeconomic backdrop and a more attractive rate backdrop. Performance divergence across credit quality and maturity profile was extremely limited during the month.

For the first time in quite a while, Securitized Products managed to outperform High Grade Credit on a monthly basis with excess returns of 26 bps. MBS drove the lion's share of the outperformance given its dominant portion of the benchmark, generating 24 bps of outperformance. CMBS generated the highest level of excess return with 47 bps for the month of January, and the ABS sub-component outperformed Treasuries by 17 bps. Within MBS, the main story was the outperformance of up-in coupon with 3.0s-4.0s outperforming 2.0s and 2.5s by approximately 30-40 bps on an excess return basis within the 30-year conventional coupon stack. This theme was even more prevalent within the 15-year sector as outperformance from 2.5s and higher was closer to 50 bps versus 2.0s and 1.5s. Investors, particularly money managers, continue to position themselves for a continued bear steepening and the prospect of burnout finally manifesting in this backdrop as the vast majority of cashflows in these coupons are negative current carry. GNMAs struggled during the month as market participants await further clarity on a possible cut to the mortgage insurance premium under the Biden administration and Housing and Urban Development Secretary Marcia Fudge.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.10%	1.11%	0.10%	0.72%
Agency	0.15%	0.39%	0.15%	0.11%
Credit	0.06%	2.94%	0.06%	0.96%
MBS	0.24%	0.45%	0.24%	0.61%
ABS	0.17%	0.43%	0.17%	0.89%
CMBS	0.47%	1.85%	0.47%	0.61%
USD EM	0.07%	4.62%	0.07%	-0.29%

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The technical backdrop in CMBS remains incredibly favorable, especially as all-in yields in higher quality 7-10-year Investment Grade Credit continue to decline despite rate selloffs and investors look for diversification. Just under $6 billion in private-label CMBS priced in January versus $12.4 billion during the same period last year, down 52.4% YoY. CMBS AAA last-cashflows are trading at S+60 bps, a little more than 5 bps through the post-Global Financial Crisis ("GFC") tights. Within ABS, technicals also remain strong with only $13.9 billion new issue pricing in January, down over 30% YoY. Investors continue to find value within shorter duration ABS as all-in coupons look relatively more attractive when pricing versus swaps than lower yield Treasuries. This phenomenon has pushed spreads inside the post-GFC tights across most ABS sub-sectors.

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Supplemental Data - as of January 31, 2021

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.72%	0.40%	-0.72%	4.72%
Treasury	-0.96%	-0.84%	-0.96%	4.42%
Agency	-0.16%	0.18%	-0.16%	3.72%
Credit	-1.19%	1.79%	-1.19%	5.58%
MBS	0.08%	0.36%	0.08%	3.23%
ABS	0.14%	0.49%	0.14%	3.63%
CMBS	-0.03%	1.49%	-0.03%	5.45%
USD EM	-0.85%	3.74%	-0.85%	4.01%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.55%	0.20%	-0.55%	4.18%
Credit Aa	-1.23%	1.19%	-1.23%	5.08%
Credit A	-1.36%	1.03%	-1.36%	5.93%
Credit Baa	-1.15%	2.80%	-1.15%	5.70%
Finance	-0.86%	1.60%	-0.86%	6.31%
Industrial	-1.47%	2.09%	-1.47%	5.77%
Utility	-1.47%	1.65%	-1.47%	6.53%
Supranational	-0.14%	0.11%	-0.14%	3.68%
Sovereign	-1.87%	1.52%	-1.87%	5.36%

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

Supplemental Data - as of January 31, 2021

US Fixed Income Spreads

Index	1/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	36	-6	-18	-6	-8
Agency	7	-3	-6	-3	-3
Credit	92	0	-27	0	-6
MBS	18	-21	-34	-21	-30
ABS	26	-7	-13	-7	-5
CMBS	72	-9	-32	-9	4
USD EM	280	-1	-60	-1	-40

US Fixed Income Spreads

Index	1/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	18	-1	-7	-1	0
Credit Aa	60	-1	-18	-1	3
Credit A	76	2	-18	2	-1
Credit Baa	123	-1	-39	-1	-13
Finance	84	1	-28	1	-3
Industrial	102	1	-29	1	-8
Utility	103	-3	-28	-3	1
Supranational	10	-2	-3	-2	2
Sovereign	127	3	-25	3	13

Source: Bloomberg, NYL Investors, Barclays – February 2021.
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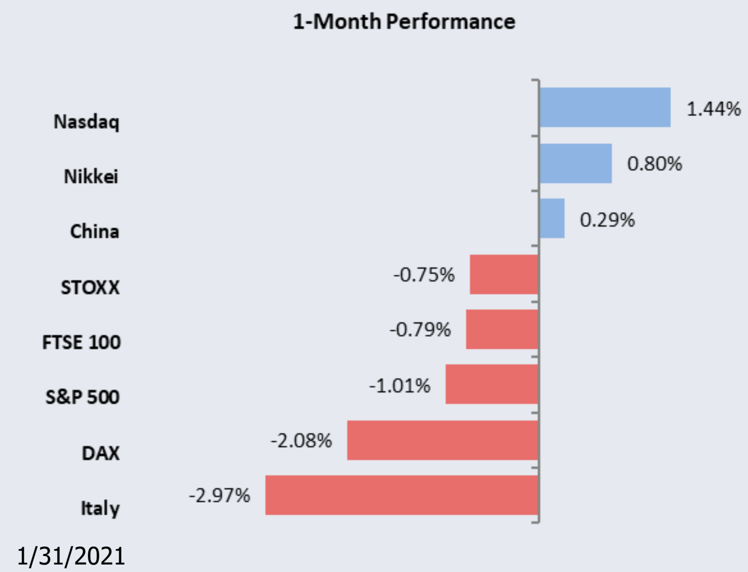
Supplemental Data - as of January 31, 2021

Global Equity Returns

Stock Index	1/31/2021	1-Month	3-Month	YTD	1-Year
S&P 500	3714	-1.01%	14.05%	-1.01%	17.25%
Nasdaq	13071	1.44%	20.00%	1.44%	44.09%
STOXX	396	-0.75%	15.90%	-0.75%	-1.57%
FTSE 100	6407	-0.79%	15.47%	-0.79%	-9.20%
DAX	13433	-2.08%	16.24%	-2.08%	3.47%
Italy	21573	-2.97%	20.23%	-2.97%	-7.16%
Nikkei	27663	0.80%	20.56%	0.80%	21.52%
China	3483	0.29%	8.02%	0.29%	17.02%



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

Supplemental Data - as of January 31, 2021

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	396	-0.75%	15.90%	-0.75%	-1.57%
FTSE 100	6407	-0.79%	15.47%	-0.79%	-9.20%
DAX	13433	-2.08%	16.24%	-2.08%	3.47%
CAC 40	5399	-2.64%	17.78%	-2.64%	-5.46%
Portugal	4795	-2.12%	21.53%	-2.12%	-8.71%
Italy	21573	-2.97%	20.23%	-2.97%	-7.16%
Ireland	7047	-4.45%	9.72%	-4.45%	2.18%
Greece	749	-7.36%	31.83%	-7.36%	-15.65%
Spain	7758	-3.67%	21.14%	-3.67%	-14.99%
Russia	3277	-0.36%	21.80%	-0.36%	6.51%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	2124	-1.07%	19.58%	-1.07%	8.94%
MSCI EM	1330	3.07%	20.88%	3.07%	27.90%
MSCI FM	573	0.38%	10.46%	0.38%	1.87%
MSCI FM100	1293	2.84%	14.19%	2.84%	4.06%

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