NYL Investors LLC
Fixed Income Investors

July 2019

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NEW YORK LIFE FIXED INCOME INVESTORS

Fixed Income Investors

Summary - as of July 31, 2019

- Risk assets opened the month of July on a positive note as the market digested the recently announced trade truce between the US and China.
- The truce that was negotiated by President Trump and President Xi at the G20 meeting was torn apart in the early days of August resulting in the two superpowers even further away from a trade agreement.
- At the conclusion of the July monetary policy meeting, the FOMC reduced the target range for the federal funds rate to 2.0% - 2.25%. This was the first rate cut from the Fed in over a decade.
- The market interpreted the Fed's rate cut as an insurance cut to prolong the expansion and not the start of a massive easing cycle.
- The Citi Economic Surprise Index for the US, which measures data surprises relative to market expectations, increased from -65 at the beginning of July to -33 at month end.
- The advanced release of 2Q GDP came in at 2.1%, stronger than the 1.8% consensus estimate. Stronger than expected consumer and government spending more than offset the decline in business fixed income and net exports.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 63 bps of excess return.
- Within securitized products, MBS produced 43 bps of excess return, outperforming both CMBS and ABS.
- The Bloomberg Barclays Credit Index tightened 6 bps in July, closing at 103 bps, the tightest monthly close in 2019.
- The utility and industrial sub-sectors outpaced the broader market, returning 125 bps and 61 bps of excess return respectively.
- The financial and non-corporate sub-sectors lagged the broader market returning 51 bps and 37 bps.
- The new issue calendar was active during the month totaling nearly $105 billion in fixed rate supply, higher than market expectations.

Source: Bloomberg, NYL Investors, Barclays – August 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 July 31, 2019

Risk assets opened the month of July on a positive note as the market digested the recently announced trade truce between the US and China. The truce was negotiated by President Trump and President Xi at the G20 meeting in Osaka, Japan. Subsequent events in the early days of August have torn this truce apart and put the two superpowers even further away from a trade agreement.

At the conclusion of their July monetary policy meeting, the FOMC reduced the target range for the federal funds rate to 2.0% - 2.25%. This was the first rate cut from the Fed in over a decade. They also announced the earlier than expected ending of their balance sheet normalization. Two FOMC members, Eric Rosengren and Esther George, dissented from the rate cut decision. Their dissention was not a surprise to the market, as both are well known hawks. Overall, the interest rate cut and accompanying statement was mostly in-line with market expectations.

It was during Chair Powell's press conference where volatility increased, and the market interpreted the interest rate cut as "hawkish". While answering a reporter's question, Chair Powell described the rate cut as a "mid cycle adjustment". The market interpreted this as a sign the rate cut was an insurance cut to prolong the expansion and not the start of a massive easing cycle. The equity market sold off on fears the Fed would no longer be supporting investors. Several times during the press conference Chair Powell tried to walk back this statement but the market was unconvinced. While Chair Powell's message was muddled and lacked any real direction, we still believe the FOMC will cut interest rates by 25 bps at their September meeting.

Economic data in the US improved during the month of July. The Citi Economic Surprise Index for the United States, which measures data surprises relative to market expectations, increased from -65 at the beginning of July to -33 at month end. The job market continues to prove resilient, adding 224,000 jobs during the month of June while notching a 12th straight month of average hourly growth (YoY) above 3%. Furthermore, the advanced release of 2Q GDP came in at 2.1%, stronger than the 1.8% consensus estimate. Stronger than expected consumer and government spending more than offset the decline in business fixed income and net exports.

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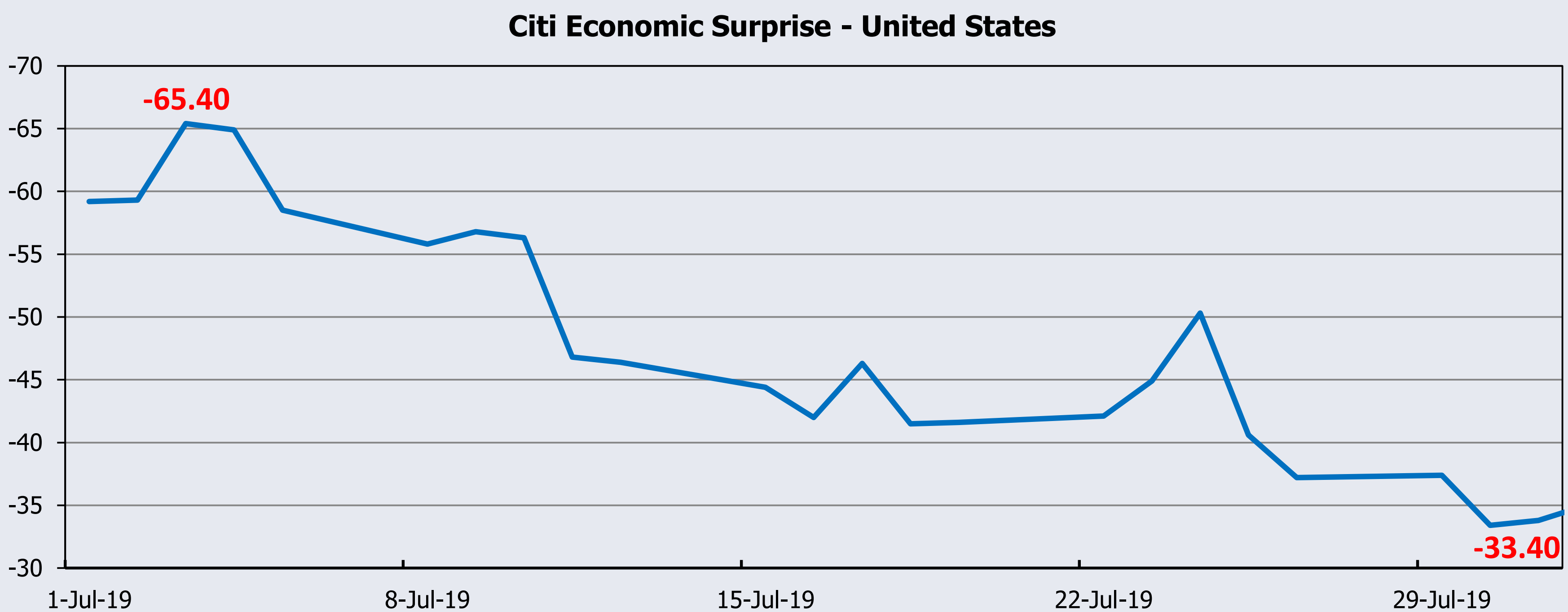
Market Review - as of July 31, 2019



Source: Bloomberg, August 2019
The Citi Economic Surprise Indices measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.

During the month of July, interest rates moved higher and the curve flattened, led by two-year notes which moved 12 bps higher while ten-year notes finished 1 bp higher. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 63 bps of excess return. Within securitized products, MBS produced 43 bps of excess return, outperforming both CMBS and ABS.

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Investment Grade credit spreads tightened as heightened market expectations for Fed rate cuts at the July meeting resulted in bullish price action for the sector. The Bloomberg Barclays Credit Index tightened 6 bps in July, closing at 103 bps, the tightest monthly close in 2019. Tighter spreads resulted in 59 bps of excess return, bringing year-to-date excess returns to 421 bps. The utility and industrial sub-sectors outpaced the broader market, returning 125 bps and 61 bps of excess return respectively. The financial and non-corporate sub-sectors lagged the broader market returning 51 bps and 37 bps. Fundamentals remain intact and 2nd quarter earnings came in better than expectations across most sectors.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.11%	0.19%	0.85%	0.54%
Credit Aa	0.42%	0.45%	2.34%	1.32%
Credit A	0.54%	0.65%	3.70%	1.25%
Credit Baa	0.74%	0.72%	5.64%	2.09%
Finance	0.51%	0.74%	4.23%	2.16%
Industrial	0.61%	0.67%	4.92%	1.58%
Utility	1.25%	0.74%	3.47%	0.44%
Supranational	0.07%	0.12%	0.37%	0.47%
Sovereign	0.68%	0.75%	5.27%	2.82%

7/31/2019

The new issue calendar was active during the month totaling nearly $105 billion in fixed rate supply, higher than market expectations. Market technicals remained strong throughout the month, culminating in strong demand for the calendar and modest new issue concessions. Issuance was evenly split between non-financial and financial issuers. Year-to-date issuance is down only modestly as activity has remained elevated into the summer months as rates and spreads remain attractive to corporate issuers. The continued need for incremental yield led to further spread compression in Baa rated issuers, but credit curves were unchanged during the month, likely driven by the compressed rate environment.

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Market Review - as of July 31, 2019

All three sectors within structured products generated positive excess returns in July, following suit of broader risk assets. Agency MBS led the outperformance with excess returns of 43 bps, as investors reduced underweights and sought relative value given the significant lag versus IG credit and agency CMBS over the last several months. Additionally, all else equal, the prospect of lower short rates on the back of interest rate cuts would translate into an improved MBS carry profile in the coming months. The conventional space outperformed GNMA by roughly 15 bps, with excess returns of 49 bps. The 15yr sector lagged the 30yr sector by about 35 bps with excess returns of 18 bps due to the rally in rates and ultimate curve flattening over the course of the month.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.30%	0.21%	1.35%	0.43%
Agency	0.06%	0.01%	0.32%	0.29%
Credit	0.59%	0.63%	4.21%	1.61%
MBS	0.43%	0.06%	0.33%	-0.25%
ABS	0.08%	0.10%	0.60%	0.65%
CMBS	0.37%	0.37%	1.93%	1.31%
USD EM	1.11%	1.20%	5.39%	2.38%

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CMBS moderately lagged MBS with excess returns of 37 bps as swap spread compression across the curve weighed on the sector. Longer duration (8.5+yr) bonds and below AAA rated tranches outperformed, mirroring the curve move and gravitation towards higher beta sectors during the month. The 8.5+yr sub component returned +49 bps, while below AAA securities had excess returns of 60-70 bps.

ABS was the laggard with excess returns of 8 bps as the lack of spread duration in the space coupled with front end swap spread compression weighed on the asset class during the risk on move and interest rate rally. Credit Cards led the outperformance with excess returns of 11 bps, while Autos and the Utility sub-sector lagged with returns of 6 bps and -8 bps, respectively. Swap spread compression and continued front end curve inversion (negative rolldown) will be the predominant headwind for ABS going forward.

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Supplemental Data - as of July 31, 2019

US Treasury Yields

Term	7/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year A
1Y	1.99%	6	-39	-61	-42
2Y	1.87%	12	-39	-62	-80
3Y	1.83%	12	-41	-63	-94
5Y	1.83%	6	-45	-68	-102
7Y	1.91%	4	-47	-67	-101
10Y	2.01%	1	-49	-67	-95
30Y	2.52%	0	-40	-49	-56
2s10s	14	-11	-9	-5	-15
10s30s	51	-1	8	18	39

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.22%	3.28%	6.35%	8.08%
Treasury	-0.12%	3.17%	5.06%	7.56%
Agency	0.01%	2.27%	4.18%	6.33%
Credit	0.52%	4.30%	9.92%	10.12%
MBS	0.40%	2.43%	4.59%	6.76%
ABS	-0.02%	1.38%	3.16%	4.85%
CMBS	0.21%	3.27%	6.84%	9.21%
USD EM	1.00%	4.37%	10.48%	10.24%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.00%	2.68%	5.01%	7.02%
Credit Aa	0.35%	3.86%	7.65%	9.24%
Credit A	0.47%	4.39%	9.51%	9.91%
Credit Baa	0.68%	4.61%	11.65%	11.00%
Finance	0.41%	3.77%	9.16%	9.75%
Industrial	0.56%	4.74%	11.13%	10.71%
Utility	1.24%	5.72%	10.82%	10.95%
Supranational	-0.07%	1.93%	3.69%	5.92%
Sovereign	0.64%	5.23%	12.05%	12.69%

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

Supplemental Data - as of July 31, 2019

US Fixed Income Spreads

Index	7/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	42	-4	-2	-12	2
Agency	13	-1	0	-3	-1
Credit	103	-6	-1	-40	0
MBS	38	-8	-3	3	11
ABS	39	-2	1	-14	-3
CMBS	64	-5	-1	-22	-2
USD EM	278	-13	-11	-65	6

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US Fixed Income Spreads

Index	7/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	17	-2	-2	-9	-5
Credit Aa	57	-5	-2	-24	-6
Credit A	82	-5	-2	-36	-7
Credit Baa	143	-8	-2	-54	2
Finance	97	-6	-4	-50	-8
Industrial	114	-6	-2	-43	3
Utility	104	-11	-4	-40	-5
Supranational	7	-2	-3	-6	-7
Sovereign	115	-7	-5	-46	-11

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Supplemental Data - as of July 31, 2019

Global Equity Returns

Stock Index	7/31/2019	1-Month	3-Month	YTD	1-Year
S&P 500	2980	1.44%	1.69%	20.24%	7.99%
Nasdaq	8175	2.15%	1.27%	23.94%	7.74%
STOXX	386	0.31%	-0.38%	16.82%	1.43%
FTSE 100	7587	2.24%	3.24%	15.67%	2.28%
DAX	12189	-1.69%	-1.26%	15.44%	-4.81%
Italy	21398	0.77%	-2.21%	16.78%	-3.68%
Nikkei	21522	1.16%	-3.08%	8.75%	-2.52%
China	2933	-1.56%	-4.74%	17.59%	1.95%

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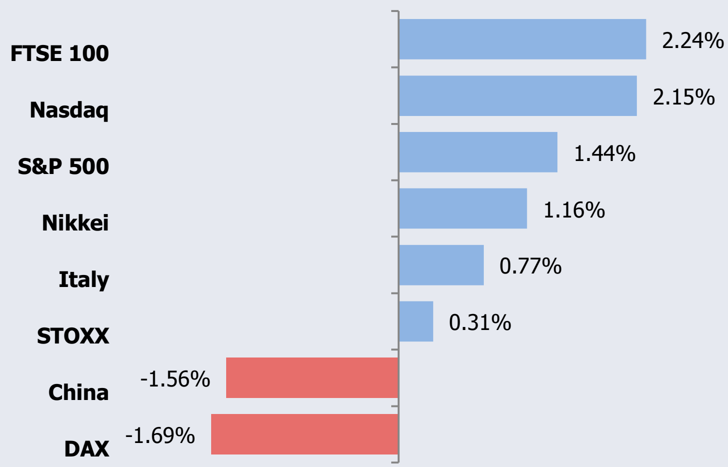
1-Month Performance



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Source: Bloomberg, NYL Investors, Barclays – August 2019.
Last represents month-end close of business for June.
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Supplemental Data - as of July 31, 2019

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	386	0.31%	-0.38%	16.82%	1.43%
FTSE 100	7587	2.24%	3.24%	15.67%	2.28%
DAX	12189	-1.69%	-1.26%	15.44%	-4.81%
CAC 40	5519	-0.31%	0.28%	19.06%	2.57%
Portugal	5011	-2.46%	-7.04%	5.91%	-10.83%
Italy	21398	0.77%	-2.21%	16.78%	-3.68%
Ireland	6111	-0.66%	-5.09%	13.21%	-8.75%
Greece	900	5.10%	19.32%	50.44%	21.70%
Spain	8971	-2.08%	-5.28%	7.53%	-6.07%
Russia	2740	-0.95%	7.04%	16.15%	18.03%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1897	-1.27%	-0.44%	12.58%	-2.60%
MSCI EM	1037	-1.22%	-2.67%	9.24%	-2.18%
MSCI FM	573	2.51%	7.13%	14.69%	3.75%
MSCI FM100	1279	2.25%	8.05%	16.83%	5.71%

7/31/2019

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