

NYL Investors LLC

Fixed Income Investors

July 2020

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Fixed Income Investors

Summary - as of July 31, 2020

- During the month of July, the U.S. recorded 1.9 million new cases of the coronavirus, nearly double the previous record, while parts of Europe and Asia have seen confirmed cases fall drastically.
- The spike in virus cases can be partly attributed to increased testing as well as larger group gatherings but is still a major concern as we move toward the fall and winter flu season.
- While Democrats and Republicans in Congress have been debating legislation to provide additional aid to families, they still appear to be trillions of dollars apart with neither side willing to compromise.
- In July, the unemployment rate dropped to 10.2% from 11.1%, partly due to the drop in labor force participation, which fell to 61.4%.
- The ISM Service and Manufacturing Indices printed at 58.1 and 54.2, respectively, for the month of July, which was stronger than expected.
- Within the Service Index, strength in orders and business activity drove the higher-than-expected reading while the employment component of the Index continued to lag.
- The first reading of second quarter GDP was released, contracting -32.9% on an annualized basis. The plunge in GDP represented the largest quarterly contraction on record, dating back over two centuries.
- As expected, the Federal Reserve (“the Fed”) held the target range for the federal funds rate steady at 0.00% - 0.25% while also maintaining their current forward guidance and making no changes to their asset purchase program.
- At the press conference at the end of July, Chair Powell was very direct and candid about the urgency of fiscal stimulus to support the recovery and prevent a double-dip recession. Past Fed chairs have tended to shy away from making such direct statements.
- The Fed Chair’s overall assessment of the economy is that it has stalled somewhat and is highly dependent on arresting the spread of the virus.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during July.
- The Bloomberg Barclays Credit Index tightened 16 bps, generating 167 bps in excess return.
- The Utility and Industrial sectors outpaced the broader market with 265 bps and 186 bps of excess return, respectively, while the Financial and Non-corporate sectors returned 138 bps and 103 bps, respectively.
- The positive technical backdrop improved as the Fed continued its purchases of front-end corporate bonds through its Secondary Market Corporate Credit Facility, fund inflows in the asset class remained elevated, and new issue volumes moderated.
- Within Securitized Products, excess returns were -2 bps for MBS, 25 bps for ABS, and 63 bps for CMBS. The biggest headwind for MBS remains prepayments and supply.
- High Grade corporate issuance slowed dramatically from the record volumes experienced in the second quarter. Volumes reached \$67 billion across the corporate landscape between the Financial and Industrial sectors.

Source: Bloomberg, NYL Investors, Barclays – August 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 July 31, 2020

The month of July was notable for the continued rise in coronavirus cases across much of the U.S. While parts of Europe and Asia have seen confirmed cases fall drastically, the U.S. continues to set new records. During the month of July, the U.S. recorded 1.9 million new cases of the virus, nearly double the previous record. While many experts believed the hot summer months would help to suppress the virus, the opposite has occurred. Since July 1st, 22 states have set daily coronavirus records led by Florida which recorded 15,300 new cases on July 12th, the highest single-day total for any state. From Arkansas to Oklahoma to Alaska, the rise in confirmed cases has been widespread with only the Northeast seemingly spared. The spike in cases can be partly attributed to increased testing as well as larger group gatherings but is still a major concern as we move toward the fall and winter flu season. The recent expiration of several federal aid programs that have helped to keep families afloat during the crisis is complicating matters even further. The most notable program, the additional \$600 in weekly unemployment insurance, expired on July 31st and seems unlikely to be extended in its current form. While Democrats and Republicans in Congress have been debating legislation to provide additional aid, they still appear to be trillions of dollars apart with neither side willing to compromise. If Congress cannot come together on a comprehensive bill, which seems more likely each day, President Trump could take unilateral action to suspend payroll taxes. The additional cash should provide consumers with some relief but will not be a substitute for comprehensive legislation from Congress.

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

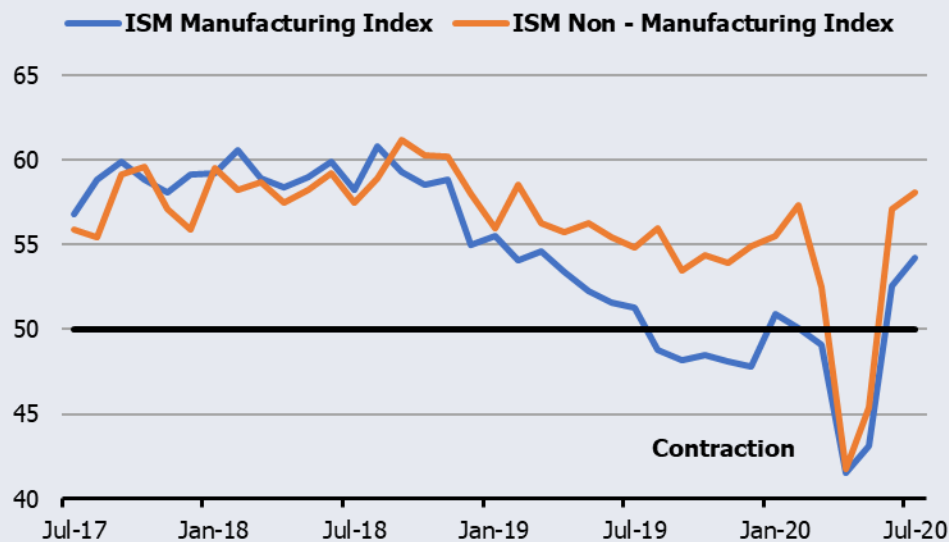
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Market Review - as of July 31, 2020

During the month of July, the economy added 1.76 million jobs, above the 1.48 million that was expected. The unemployment rate dropped to 10.2% from 11.1%, partly due to the drop in labor force participation, which fell to 61.4%. Average hourly earnings surprised to the upside, increasing 0.2% (MoM) versus the -0.5% consensus view. Estimates of both manufacturing and service activity in July came in stronger than expected. The ISM Service and Manufacturing Indices printed at 58.1 and 54.2, respectively, for the month of July. Within the Service Index, strength in orders and business activity drove the higher-than-expected reading while the employment component of the Index continued to lag. The much-anticipated first reading of second quarter GDP was also released, contracting -32.9% on an annualized basis during the quarter. The plunge in GDP was slightly better than expected but still represented the largest quarterly contraction on record, dating back over two centuries.

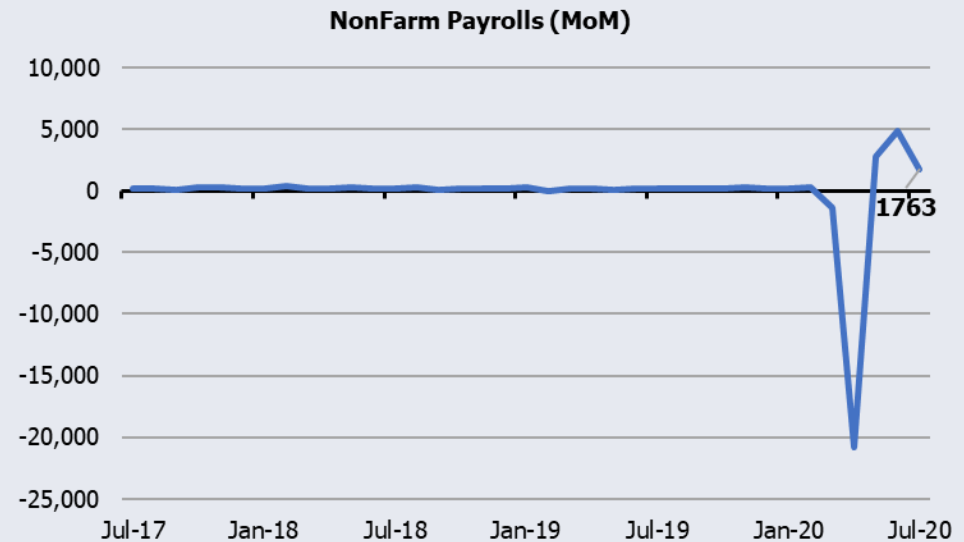


Source: Bloomberg, August 2020

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

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Source: Bloomberg, August 2020

This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

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Market Review - as of July 31, 2020

The Federal Reserve ("the Fed") held their fifth monetary policy meeting of 2020 on July 28th - 29th. As expected, they held the target range for the federal funds rate steady at 0.00% - 0.25% while also maintaining their current forward guidance and making no changes to their asset purchase program. Chair Powell did use his press conference to address possible future changes to both forward guidance and asset purchase programs. On forward guidance, Chair Powell mentioned "a number of participants spoke favorably of forward guidance tied to inflation." Our expectation is that the Fed will change their forward guidance to reflect some degree of inflation targeting either in September or November at the latest. As far as asset purchases, which have been across the maturity curve, we still expect the Fed to extend the duration of purchases later this year, shifting to more long-duration Treasuries, similar to past Quantitative Easing (QE) strategies.

There were no major changes in the Fed's statement though they did insert a new line stating that the "path of the economy will depend significantly on the course of the virus." Something which was slightly surprising in the press conference was how forceful Chair Powell was in his plea to Congress for additional fiscal support for the economy. He was very direct and candid about the urgency of fiscal stimulus to support the recovery and prevent a double-dip recession. Past Fed chairs have tended to shy away from making such direct statements. Lastly, the overall assessment of the economy from Chair Powell is an economy which appears to have stalled somewhat and is highly dependent on arresting the spread of the virus.

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

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Market Review - as of July 31, 2020

During the month of July, the interest rate curve flattened, led by the long end. The two-year part of the curve moved 4 bps lower while the ten-year part of the curve moved 13 bps lower. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month. Within securitized products, CMBS produced 63 bps of excess return, outperforming both MBS and ABS.

US Treasury Yields

Term	7/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.11%	-4	-4	-146	-188
2Y	0.11%	-4	-9	-146	-177
3Y	0.11%	-6	-13	-149	-171
5Y	0.20%	-8	-16	-149	-162
7Y	0.38%	-11	-15	-145	-153
10Y	0.53%	-13	-11	-139	-149
30Y	1.19%	-22	-9	-120	-133
2s10s	42	-8	-2	7	28
10s30s	66	-9	2	19	15

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

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Market Review - as of July 31, 2020

After perhaps the most volatile six-month period in the history of financial markets, spread volatility declined significantly, and High Grade Credit continued its move tighter in July. The Bloomberg Barclays Credit Index tightened 16 bps, generating 167 bps in excess returns. The Utility and Industrial sectors outpaced the broader market with 265 bps and 186 bps of excess return, respectively, while the Financial and Non-corporate sectors returned 138 bps and 103 bps, respectively. The positive technical backdrop improved as the Fed continued its purchases of front-end corporate bonds through its Secondary Market Corporate Credit Facility, fund inflows in the asset class remained elevated, new issue volumes moderated, and dealer balance sheets remained light. Furthermore, second quarter earnings were largely better than the draconian estimates feared earlier in the quarter as corporations adjusted to the economic reality of the pandemic and consumption was buffeted by government stimulus checks. That said, the forward-looking statements remain cautious across most industries as future fiscal stimulus remains uncertain and the outlook for unemployment is still unclear.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.29%	0.91%	-0.83%	-0.52%
Credit Aa	1.07%	3.83%	-2.24%	-1.46%
Credit A	1.59%	4.45%	-2.21%	-0.72%
Credit Baa	2.08%	7.41%	-5.51%	-2.96%
Finance	1.38%	5.17%	-1.99%	-0.13%
Industrial	1.86%	6.01%	-4.54%	-2.42%
Utility	2.65%	4.51%	-3.09%	-1.95%
Supranational	0.05%	0.25%	-0.14%	-0.13%
Sovereign	2.85%	10.25%	-5.89%	-3.77%

7/31/2020

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Market Review - as of July 31, 2020

High Grade corporate issuance slowed dramatically from the record volumes experienced in the second quarter. Volumes reached \$67 billion across the corporate landscape and were evenly split between the Financial and Industrial sectors. Elevated inflows into the asset class enabled the calendar to be absorbed with relative ease and little to no concession versus the secondary market. Despite all-in yields breaking to historical lows, investors remain active on the new issue calendar in order to deploy capital. Issuers remain focused on using the access to capital to further improve balance sheet liquidity and pre-fund near-term debt maturities or retire commercial paper. Volumes are likely to remain steady or decline modestly in August as both issuers and market participants step back from market activity and look forward to re-engaging come September.

As spreads grinded tighter during the month of July, credit curves steepened as the front end outperformed due to the presence of the Fed's purchasing program. Although the Fed's pace slowed as the month progressed, it became increasingly challenging to source short-duration credit with spreads approaching the tight end of their historical range. Lower-quality credit remains well bid in this yield-starved environment, and the dispersion between triple-B- and single-A-rated credit narrowed further. It has become increasingly evident that market participants truly view the Fed as the buyer of last resort or a "backstop" for credit spreads and have become comfortable moving down the quality spectrum in the search for incremental yield.

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Market Review - as of July 31, 2020

Spread performance within Securitized Products showed signs of fatigue during the month of July. Excess returns were -2 bps for MBS, 25 bps for ABS, and 63 bps for CMBS. The biggest headwind for MBS remains prepayments and supply. At the beginning of the month, investors received the June prepayment report which showed speeds up another 10% versus street expectations in the low single digits, making it the fifth straight speed report to surprise to the fast side. At these elevated dollar prices, faster speeds mean more premium being called at par on a monthly basis, diminishing carry for investors that do not roll TBA contracts (like the MBS Index). Primary mortgage rates have now reached 2.88%, resulting in even borrowers in 2.5% coupon pools being able to refinance. Mortgage investors are by no means out of the woods as it pertains to elevated prepayments. Furthermore, given the elevated securitization rate and housing market activity, MBS originations have picked up dramatically. Average daily origination increased from \$5.7 billion in June to \$8.3 billion in July, and July passed June's all-time gross issuance record of over \$250 billion.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.54%	1.72%	-1.09%	-0.47%
Agency	-0.04%	0.25%	-0.64%	-0.43%
Credit	1.67%	5.42%	-3.65%	-1.82%
MBS	-0.02%	-0.12%	-0.47%	-0.23%
ABS	0.25%	2.31%	0.27%	0.38%
CMBS	0.63%	3.06%	-1.99%	-2.17%
USD EM	2.23%	9.60%	-6.94%	-6.20%

7/31/2020

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For ABS and CMBS, the excess return story is one which reflects valuations within arm's length of pre-COVID levels. The option-adjusted spread (OAS) on the ABS sub-component of the Bloomberg Barclays U.S. Aggregate Index stood at 60 bps at the end of July, in line with its level at the beginning of March before the widening took place. In the case of the CMBS sub-component, the OAS at the Index level closed the month at 120 bps, similarly close to first half of March levels. Overall limited issuance, Fed purchase programs in the corporate sector, and in-the-money Term Asset-Backed Securities Loan Facility (TALF) spreads for CMBS have kept investors chasing these asset classes. However, the depressed all-in level of yields will be the greatest headwind going forward.

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Supplemental Data - as of July 31, 2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.49%	2.61%	7.72%	10.12%
Treasury	1.14%	0.98%	9.96%	11.84%
Agency	0.44%	0.81%	5.52%	7.24%
Credit	3.08%	6.67%	8.05%	11.86%
MBS	0.18%	0.21%	3.69%	5.43%
ABS	0.42%	2.60%	3.75%	5.14%
CMBS	1.22%	3.95%	6.47%	7.91%
USD EM	3.12%	10.56%	2.68%	5.13%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.10%	1.75%	6.90%	8.83%
Credit Aa	2.65%	5.17%	9.45%	12.12%
Credit A	3.07%	5.73%	9.77%	13.28%
Credit Baa	3.52%	8.70%	6.65%	11.24%
Finance	2.36%	6.19%	7.45%	11.07%
Industrial	3.50%	7.39%	8.39%	12.63%
Utility	4.77%	6.11%	12.85%	16.47%
Supranational	0.40%	0.82%	5.17%	6.59%
Sovereign	4.66%	11.74%	8.31%	12.66%




































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Fixed Income Investors

Supplemental Data - as of July 31, 2020

US Fixed Income Spreads

Index	7/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	60 	-8 	-14 	21 	18 
Agency	22 	1 	-10 	12 	9 
Credit	126 	-16 	-65 	36 	23 
MBS	58 	-12 	19 	19 	20 
ABS	60 	-8 	-99 	16 	21 
CMBS	120 	-12 	-52 	48 	56 
USD EM	376 	-32 	-243 	75 	98 

US Fixed Income Spreads

Index	7/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	26 	-3 	-12 	9 	9 
Credit Aa	79 	-9 	-43 	27 	22 
Credit A	98 	-15 	-54 	28 	16 
Credit Baa	176 	-21 	-92 	51 	33 
Finance	122 	-17 	-81 	42 	25 
Industrial	138 	-18 	-69 	39 	24 
Utility	130 	-16 	-38 	33 	26 
Supranational	15 	-2 	-8 	7 	8 
Sovereign	169 	-27 	-93 	65 	54 

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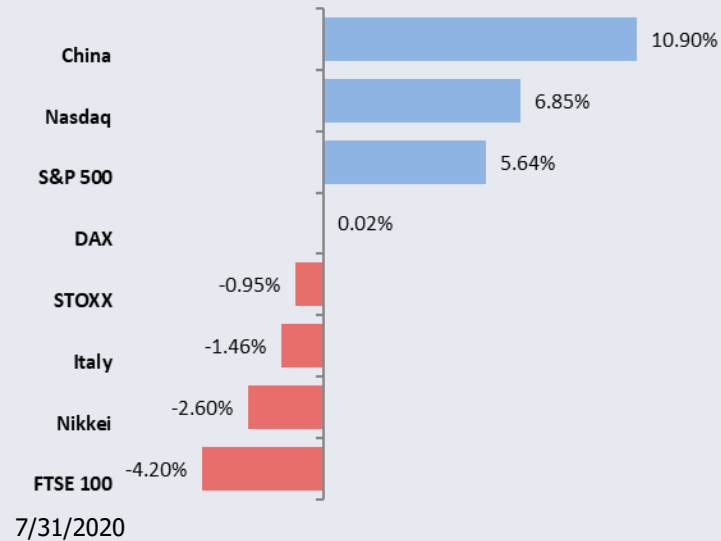
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Global Equity Returns

Stock Index	7/31/2020	1-Month	3-Month	YTD	1-Year
S&P 500	3271	5.64%	12.87%	2.38%	11.96%
Nasdaq	10745	6.85%	21.16%	20.40%	32.78%
STOXX	356	-0.95%	5.55%	-12.96%	-5.51%
FTSE 100	5898	-4.20%	0.64%	-20.36%	-19.23%
DAX	12313	0.02%	13.37%	-7.06%	1.02%
Italy	19092	-1.46%	7.92%	-18.78%	-10.78%
Nikkei	21710	-2.60%	7.64%	-7.19%	3.03%
China	3310	10.90%	15.73%	8.52%	12.87%

1-Month Performance






















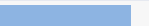
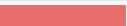


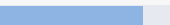
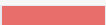



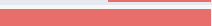
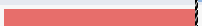


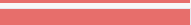
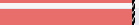
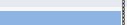
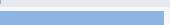




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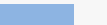


Supplemental Data - as of July 31, 2020

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	356	-0.95% 	5.55% 	-12.96% 	-5.51% 
FTSE 100	5898	-4.20% 	0.64% 	-20.36% 	-19.23% 
DAX	12313	0.02% 	13.37% 	-7.06% 	1.02% 
CAC 40	4784	-2.77% 	5.73% 	-18.85% 	-11.91% 
Portugal	4296	-2.15% 	0.27% 	-17.61% 	-14.27% 
Italy	19092	-1.46% 	7.92% 	-18.78% 	-10.78% 
Ireland	6100	2.12% 	8.65% 	-14.23% 	1.23% 
Greece	618	-2.30% 	0.39% 	-30.77% 	-29.29% 
Spain	6877	-4.50% 	0.53% 	-26.58% 	-21.03% 
Russia	2912	6.14% 	9.85% 	-4.41% 	6.28% 

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1820	2.33% 	10.42% 	-9.28% 	-1.67% 
MSCI EM	1079	8.94% 	17.84% 	-1.72% 	6.55% 
MSCI FM	475	-0.69% 	6.76% 	-16.35% 	-13.95% 
MSCI FM100	1033	-0.18% 	6.23% 	-17.16% 	-15.73% 

7/31/2020

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

Fixed Income Investors

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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