NYL Investors LLC
Fixed Income Investors

June 2019

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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

Fixed Income Investors

Summary - as of June 30, 2019

- The second quarter was dominated by numerous geopolitical disruptions and conflicts with the most impactful one being the ongoing dispute between the U.S. and China.
- The quarter ended with President Trump and President Xi agreeing to a truce at the G20 meeting in Japan. U.S. and Chinese officials will restart talks in the coming weeks as they work toward a resolution to the latest trade impasse.
- The Federal Open Market Committee (FOMC) met twice in the quarter, and at their June meeting, they left rates unchanged but made several dovish adjustments to the accompanying statement and dot plot.
- The FOMC's economic projections reflected a weaker inflation picture, though the longer run inflation forecast was unchanged at 2%.
- The unemployment rate remains close to a 50-year low and average hourly earnings continue to grow at 3% or higher.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 91 bps of excess return.
- The Bloomberg Barclays Credit Index was just 4 bps tighter during the quarter, but traded in a 19 bps range throughout the period, as investor positioning reacted to market conditions.
- Industrial and Financial sector performance outpaced the broader market once again, returning 113 bps and 99 bps, respectively.
- Utility and Non-corporate sub-sectors lagged, returning 46 bps and 23 bps of excess returns, respectively.
- The new issue calendar was active during the quarter with $339 billion in fixed rate supply, but year-to-date volumes are still 7% below 2018 levels.
- CMBS finished the quarter with excess returns of 31 bps as a result of April price action (+31 bps).
- ABS returned +11 bps in the quarter, weighed down by June's underperformance.
- The -39 bps of underperformance in MBS relative to Treasuries was largely due to the 50 bps rally in ten-year notes.

Source: Bloomberg, NYL Investors, Barclays – July 2019.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
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Market Review - as of June 30, 2019

The second quarter was dominated by numerous geopolitical disruptions and conflicts. Early in the quarter, President Trump announced his decision to withdraw from the Iran Nuclear agreement, reinstating sanctions affecting 80% of the Iranian economy. The President's "maximum pressure" campaign has enraged Iranian authorities, increasing the already heightened tensions between the two nations.

The most impactful drama playing out on the geopolitical stage continues to be the ongoing trade dispute between the U.S. and China. Early in the quarter, it seemed as if the two superpowers were very close to finalizing a comprehensive trade deal. Hopes for a trade deal were quickly dashed when President Trump tweeted his displeasure with the state of negotiations. Shortly thereafter, the U.S. hiked tariff rates from 10% to 25% on more than $200 billion of Chinese goods. They also announced their intention to move forward with tariffs on an additional $325 billion of Chinese goods. The quarter ended with President Trump and President Xi agreeing to a truce at the G20 meeting in Japan. U.S. and Chinese officials will restart talks in the coming weeks as they work toward a resolution to the latest trade impasse.

The Federal Open Market Committee (FOMC) met twice during the quarter. In April, they kept the Federal Funds range unchanged, instead making only a technical adjustment to front-end interest rates. At their June meeting, they left rates unchanged but made several dovish adjustments to their accompanying statement and dot plot. They dropped their "patient" stance and acknowledged increased uncertainties will need to be "closely monitored." The updated dot plot showed a clear split in the FOMC with seven officials calling for 50 bps of cuts this year, one official calling for 25 bps of cuts, eight expecting no interest rate cuts in 2019 and one expecting 25 bps of rate hikes this year. The FOMC's economic projections reflected a weaker inflation picture, though the longer run inflation forecast was unchanged at 2%. For the first time since 2012, the Federal Reserve is projecting the long-term neutral rate to move lower. The 2019 Median Federal Funds rate was unchanged from March at 2.4%, while the projected median Federal Funds rate for 2020 was revised from 2.6% to 2.1%.

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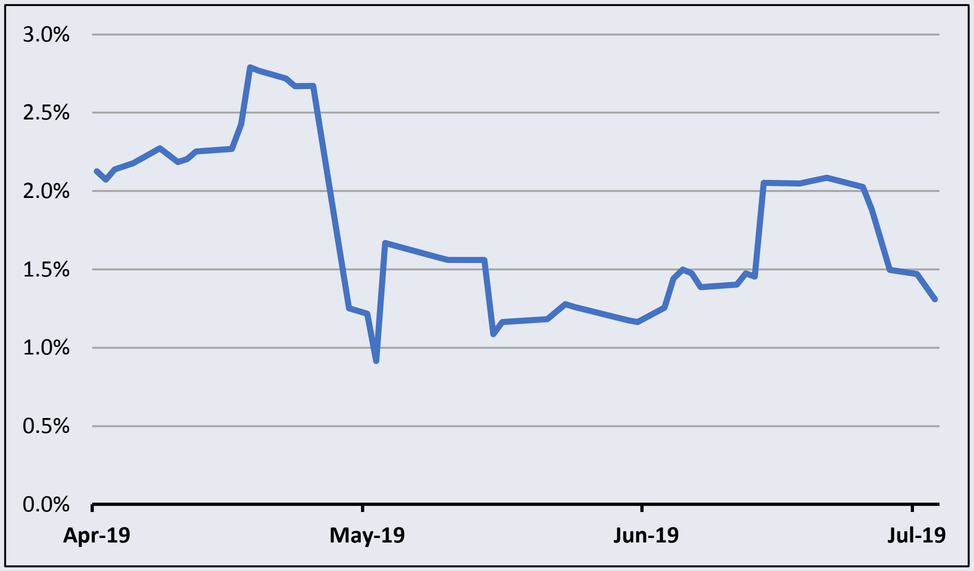
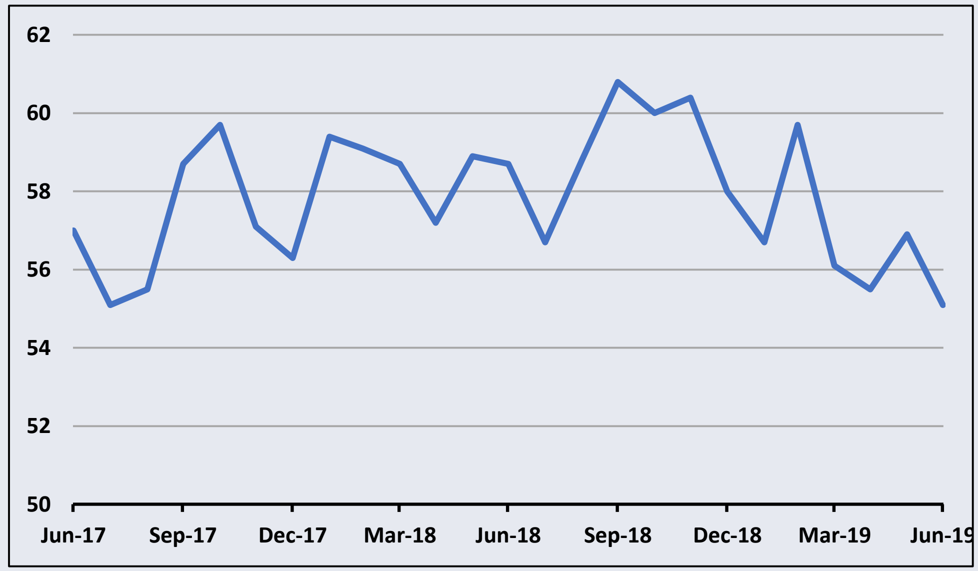
Economic data in the U.S. slowed in the second quarter as tariff uncertainty combined with the waning effects of the President's tax cut began to take hold. The Atlanta Fed GDPNow Forecast, which attempts to forecast real GDP growth, fell from 2.77% in April to 1.33% in June. In addition, the ISM Non-Manufacturing Index, which represents the service side of the economy, fell to 55.1% in June, a two-year low. While the job market remains strong, the labor market has showed signs of slowing with only 75k of additional jobs added in May. The unemployment rate remains close to a 50-year low and average hourly earnings continue to grow at 3% or higher.

Atlanta Fed GDPNow Forecast



Source: Bloomberg, July 2019; Federal Reserve Bank of Atlanta
Note: GDPNow is a nowcasting model created by the Federal Reserve Bank of Atlanta that forecasts real GDP growth by aggregating 13 components that make up GDP with the chain-weighting methodology used by the U.S. Bureau of Economic Analysis.

ISM Non-Manufacturing NMI



Source: Bloomberg, July 2019
Note: The Non-Manufacturing Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment, and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy.

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During the second quarter, interest rates moved lower and the curve steepened, led by two-year notes which rallied 51 bps while ten-year notes finished 40 bps lower. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 91 bps of excess return. Within securitized products, CMBS produced 31 bps of excess return during the quarter, outperforming both the MBS and ABS sectors. The S&P 500 was up 4.3% for the quarter.

High Grade credit performance was heavily influenced by geopolitical issues and shifting central bank policy. May's negative performance was quickly reversed in June as investors focused on the improving trade relations and heightened probability of accommodative central bank policy, specifically by the Federal Reserve. The Bloomberg Barclays Credit Index was just 4 bps tighter during the quarter but traded in a 19 bps range throughout the period, as investor positioning reacted to market conditions. Industrial and Financial sector performance outpaced the broader market once again, returning 113 bps and 99 bps, respectively. As has been the case in 2019, the Utility and Non-corporate sectors lagged, returning 46 bps and 23 bps. Credit fundamentals remain intact for the moment, but investors will be keenly focused on second quarter corporate results and the effects of lingering trade tensions and potential impacts for corporate earnings. Furthermore, forward-looking statements by management teams will be parsed by the investor base to gauge any impending slowdown for topline revenue growth for the balance of 2019.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.29%	0.23%	0.73%	0.72%
Credit Aa	0.66%	0.37%	1.89%	1.54%
Credit A	1.17%	0.76%	3.11%	1.93%
Credit Baa	1.65%	1.28%	4.83%	2.97%
Finance	1.08%	0.99%	3.68%	2.70%
Industrial	1.68%	1.13%	4.25%	2.60%
Utility	0.93%	0.46%	2.11%	0.21%
Supranational	0.01%	0.12%	0.30%	0.46%
Sovereign	2.08%	0.90%	4.51%	4.06%

6/30/2019

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The new issue calendar was active during the quarter with $339 billion in fixed rate supply, but year-to-date volumes are still 7% below 2018 levels. Issuance by sector has been relatively stable throughout the year, with the Industrial sector comprising more than 40% of year-to-date volumes. Demand for the asset class has been robust, resulting in only marginal new issue concessions. Secondary performance has been strong, with just two weeks of instability in the second half of May. Street inventory levels remain light, leading to a strong technical backdrop. Bouts of heightened volatility have resulted in wider bid-ask spreads, not necessarily active customer selling.

Credit curves flattened as the desire for incremental yield drove investor demand for longer duration corporate exposure. Investors moved further down the quality spectrum, again driven by the shift toward more accommodative central bank policy and the desire to add yield in this low rate environment. Spreads are approaching the tights of April, which could result in a range bound spread environment in the near term, but prone to heightened volatility as more information on trade and Federal Reserve policy become clearer.

Performance within the Structured Products component of the index was mixed during the second quarter. Broadly, the reach for spread and yield assisted CMBS's outperformance, while front-end swap spread compression weighed on ABS, and fears of skyrocketing prepayments and deteriorating supply technicals pushed MBS excess returns into negative territory for the quarter. CMBS finished with excess returns of 31 bps for the quarter. The performance was a result of April price action (+31 bps excess returns), as a dovish tone from the Federal Reserve generated a risk-on sentiment that pushed spreads tighter. Excess returns in May and June were unchanged - weighed down by macro and geopolitical headwinds, tightening swap spreads, and unfavorable supply technicals. Longer duration and subordinate tranche sub-sectors outperformed during the second quarter as investors continue to reach for spread and yield in this lower for longer environment. The 8.5+ year WAL sub-component generated excess returns of 52 bps during the quarter, while the A and Baa components had excess returns of 80 bps and 300 bps, respectively.

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ABS returned +11 bps in the second quarter, weighed down by June's underperformance. Swap spreads in the two to three-year part of the curve tightened from approximately +10 bps in the middle of May, to +0 bps toward the end of June, hurting ABS Treasury breakevens at the prior month's valuation levels. Furthermore, as two-year yields stabilized in the 1.80 -1.90% range at the beginning of June, the need for ABS spread duration diminished and investors sought more attractive all-in yields via front-end corporates and commercial paper. Second quarter excess returns for the Auto, Card, and Utility sub-sectors were 11 bps, 12 bps, and 20 bps, respectively.

The -39 bps of underperformance in MBS relative to Treasuries was largely due to the 50 bps rally in ten-year notes. Over this same time frame, the Freddie Mac Survey Rate for primary 30-year mortgage rates declined by approximately 65 bps and MBA's refi index reached levels not seen since Brexit. This resulted in concerns over elevated prepayments on mortgages and the MBS basis to trade shorter in duration versus the Treasury curve throughout its rally. Additionally, lower primary mortgage rates heading into summer seasonals would mean higher MBS origination volumes which the market would have to absorb in the wake of deteriorating fundamentals. Breaking performance down by sub-component, GNMAs outperformed Conventionals by 12 bps, with excess returns of -30 bps during the second quarter. This outperformance was driven by a combination of relative cheapness to Conventionals on a historical spread basis, demand from overseas investors, and fears of a deteriorating TBA deliverable in Conventionals relative to GNMAs. Within Conventionals, the 15-year sector outperformed 30-years by 15 bps, primarily due to the steepening yield curve.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.38%	0.17%	1.04%	0.56%
Agency	-0.04%	0.05%	0.26%	0.22%
Credit	1.27%	0.91%	3.57%	2.27%
MBS	0.02%	-0.39%	-0.12%	-0.49%
ABS	-0.13%	0.11%	0.52%	0.68%
CMBS	-0.01%	0.31%	1.54%	1.22%
USD EM	1.72%	0.71%	4.18%	3.40%

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Supplemental Data - as of June 30, 2019

US Treasury Yields

Term	6/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	1.93%	-27	-46	-67	-39
2Y	1.75%	-17	-51	-73	-77
3Y	1.71%	-17	-50	-75	-92
5Y	1.77%	-14	-47	-74	-97
7Y	1.88%	-14	-44	-71	-95
10Y	2.01%	-12	-40	-68	-86
30Y	2.53%	-4	-29	-49	-46
2s10s	25	5	11	5	-8
10s30s	52	8	11	19	40

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.26%	3.08%	6.11%	7.87%
Treasury	0.92%	3.01%	5.18%	7.24%
Agency	0.70%	2.32%	4.17%	6.13%
Credit	2.26%	4.27%	9.35%	10.34%
MBS	0.72%	1.96%	4.17%	6.22%
ABS	0.42%	1.67%	3.17%	4.98%
CMBS	1.00%	3.28%	6.62%	8.95%
USD EM	2.71%	3.75%	9.39%	10.95%

6/30/2019

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Fixed Income Investors

Supplemental Data - as of June 30, 2019

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.09%	2.74%	5.02%	7.04%
Credit Aa	1.59%	3.50%	7.27%	9.06%
Credit A	2.17%	4.16%	8.99%	10.12%
Credit Baa	2.68%	4.80%	10.90%	11.39%
Finance	2.00%	3.92%	8.71%	10.01%
Industrial	2.73%	4.75%	10.51%	11.18%
Utility	2.06%	4.67%	9.45%	9.93%
Supranational	0.72%	2.17%	3.76%	5.92%
Sovereign	3.19%	4.81%	11.33%	13.28%

6/30/2019

US Fixed Income Spreads

Index	6/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	46	-3	2	-8	2
Agency	14	2	1	-2	0
Credit	109	-11	-4	-34	-7
MBS	46	2	11	11	18
ABS	41	9	2	-12	-6
CMBS	69	2	0	-17	-1
USD EM	291	-25	-1	-52	-9

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Fixed Income Investors

Supplemental Data - as of June 30, 2019

US Fixed Income Spreads

Index	6/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	19	-1	-2	-7	-7
Credit Aa	62	-6	0	-19	-8
Credit A	87	-11	-3	-31	-14
Credit Baa	151	-15	-6	-46	-6
Finance	103	-13	-6	-44	-15
Industrial	120	-16	-5	-37	-6
Utility	115	-7	-1	-29	-3
Supranational	9	1	-2	-4	-7
Sovereign	122	-20	-5	-39	-22

Global Equity Returns

Stock Index	6/30/2019	1-Month	3-Month	YTD	1-Year
S&P 500	2942	7.05%	4.30%	18.54%	10.42%
Nasdaq	8006	7.51%	3.87%	21.33%	7.78%
STOXX	385	4.47%	3.04%	16.46%	4.28%
FTSE 100	7426	3.97%	3.33%	13.14%	1.56%
DAX	12399	5.73%	7.57%	17.42%	0.75%
Italy	21235	7.23%	-0.24%	15.88%	-1.81%
Nikkei	21276	3.52%	0.57%	7.50%	-2.56%
China	2979	2.77%	-3.62%	19.45%	4.62%

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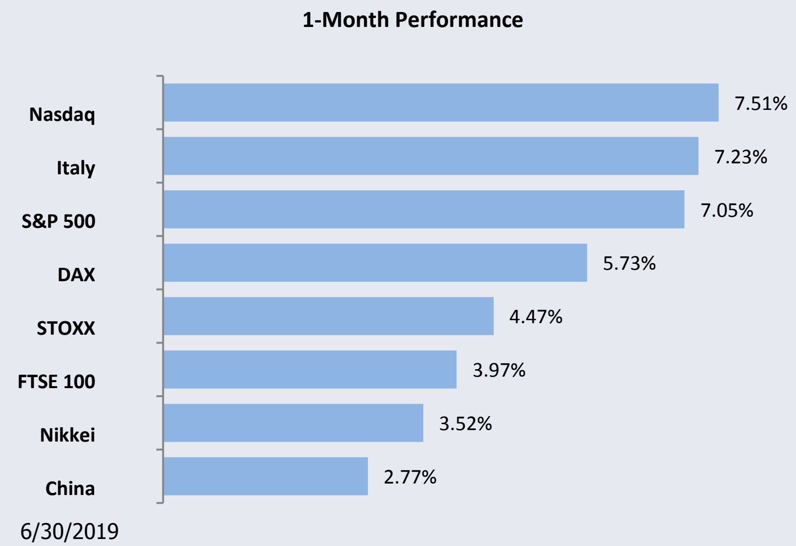
Supplemental Data - as of June 30, 2019



Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	385	4.47%	3.04%	16.46%	4.28%
FTSE 100	7426	3.97%	3.33%	13.14%	1.56%
DAX	12399	5.73%	7.57%	17.42%	0.75%
CAC 40	5539	6.69%	5.40%	19.42%	6.53%
Portugal	5137	1.85%	-1.33%	8.58%	-7.07%
Italy	21235	7.23%	-0.24%	15.88%	-1.81%
Ireland	6153	1.21%	0.92%	13.96%	-10.11%
Greece	868	5.60%	21.69%	43.13%	16.48%
Spain	9199	2.78%	0.97%	9.82%	-1.11%
Russia	2766	3.77%	10.76%	17.27%	20.47%

6/30/2019

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Supplemental Data - as of June 30, 2019

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1922	5.93%	3.68%	14.03%	1.08%
MSCI EM	1055	6.24%	0.61%	10.59%	1.21%
MSCI FM	560	2.30%	4.69%	11.88%	4.92%
MSCI FM100	1252	3.90%	5.94%	14.26%	7.01%

6/30/2019

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