NYL Investors LLC
Fixed Income Investors

March 2019

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Please see the last page for important disclosures regarding the information contained herein.
NYL Investors affiliates may develop and publish research that is independent of, and different than, the views expressed.

Fixed Income Investors

Summary - as of March 31, 2019

- The first quarter of 2019 began with financial markets still reeling from the partial government shutdown and the weakening trend in domestic economic data.
- Market consensus for Q1 growth has dropped to 1.5% from as high as 2.30% to start the year, approximately equal to the Q1 GDP average over the last five years.
- The Non-Farm Payrolls number for February was only 20k; however, the overall strength of the jobs market remains firm with average hourly earnings growing at the fastest pace since April 2009.
- Further progress was made on a trade deal between the U.S. and China with most experts believing a comprehensive deal should be completed during the first half of 2019.
- The Federal Open Market Committee (FOMC) laid out a dovish stance in their March meeting, resetting investors' monetary policy expectations.
- The Federal Reserve dropped the 2019 median rate hike projection from two to zero, with only one hike expected in 2020 and none in 2021.
- The FOMC announced they will begin reducing the tapering of the balance sheet in May and fully halt the operation by the end of September 2019, earlier than expected.
- The High Grade Credit sector was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 252 bps of excess return.
- Lower quality credit outperformed during the first quarter as investors searched for incremental yield.
- Both the Industrial and Financial sectors outpaced the broader market, generating 295 bps and 256 bps of excess returns, respectively.
- The Utility and Non-corporate sectors returned 156 bps and 145 bps of excess returns, respectively.
- Fixed rate issuance ended March at $390 billion with the Industrial sector comprising over 40% of the volume compared to 28% in the Financial sector.
- CMBS produced 119 bps of excess return, while ABS and MBS returned a more modest 40 bps and 28 bps, respectively.

Source: Bloomberg, NYL Investors, Barclays – April 2019.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset-Backed Securities

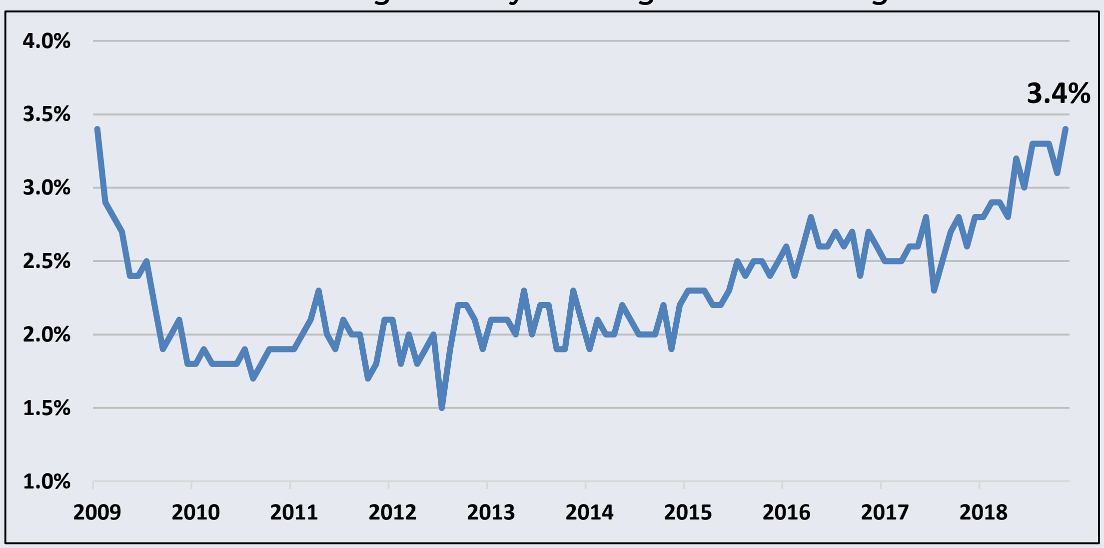
Fixed Income Investors

Market Review - as of March 31, 2019

The first quarter of 2019 began with financial markets still reeling from the partial government shutdown as well as the weakening trend in domestic economic data. The government was re-opened on January 25th, ending the longest U.S. government shutdown in history. The overall negative impact of the shutdown is unclear but will likely be less than 0.5% of GDP. Economists are much more concerned with the weakening domestic data and whether a recession is on the horizon. Market consensus for Q1 growth has dropped to 1.5% from as high as 2.30% to start the year. While concerning, this growth level would be approximately equal to the Q1 GDP average over the last five years.

We believe fears of a recession are overdone and would point to the continued strength in the jobs market as evidence this current expansion will continue into 2020. While the Non-Farm Payrolls number for February was only 20k, the overall strength of the jobs market remains firm. Average hourly earnings (YoY%) rose 3.4%, marking the fastest pace of growth since April 2009. Throughout the quarter, further progression was made on a trade deal between the U.S. and China. Most experts believe a comprehensive deal is within reach and should be completed during the first half of 2019.

U.S. Average Hourly Earnings YoY% Change



Source: Bloomberg, March 2019

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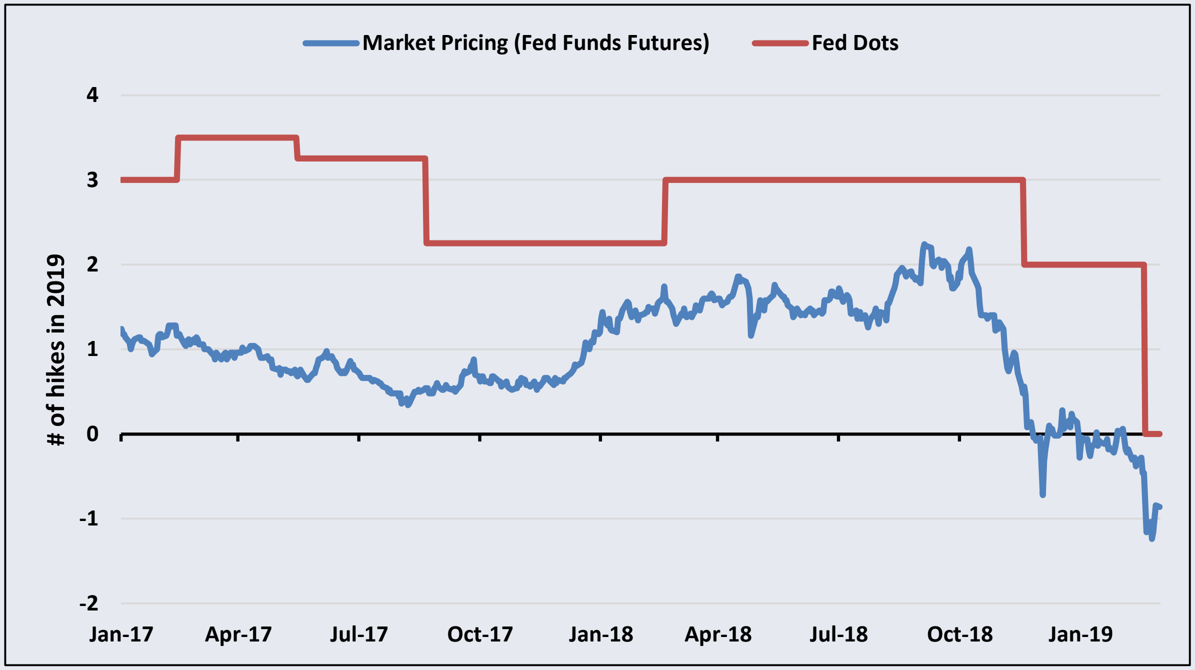
Fixed Income Investors

Market Review - as of March 31, 2019

The Federal Open Market Committee (FOMC) used their January meeting to inject confidence into the market after a volatile end to 2018. In their March meeting, they laid out a dovish stance, resetting investors' monetary policy expectations. The market expected a dovish Federal Reserve going into the meeting, and Jerome Powell and company were able to surpass even those heightened expectations. The updated dot plot dropped the 2019 median rate hike projection from two to zero, with only one hike expected in 2020 and none in 2021. In addition, they also provided an extremely accommodative stance on their balance sheet. The FOMC announced they will begin reducing the tapering of the balance sheet in May and fully halt the operation by the end of September 2019, earlier than expected. They also announced the size of the balance sheet will end slightly above $3.5 trillion, much larger than originally expected.



Source: Citigroup, April 2019

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Market Review - as of March 31, 2019

Interest rates moved lower and the curve moved flatter during the quarter led by ten-year notes, which rallied 28 bps while two-year notes finished 23 bps lower. The High-Grade Credit sector was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 252 bps of excess return. Within securitized products, CMBS produced 119 bps of excess return, outperforming both the MBS and ABS sectors. The S&P 500 was up 13% during the first quarter of 2019.

High Grade credit performance surpassed all expectations in the first quarter of the year, recouping nearly all the losses of 2018 in just three months. The risk-on scenario began in earnest as January generated most excess returns in the quarter. The Bloomberg Barclays Credit Index tightened 30 bps to close the quarter at 113 bps. Both the Industrial and Financial sectors outpaced the broader market, generating 295 bps and 256 bps of excess returns, respectively. The Utility and Non-corporate sectors returned 156 bps and 145 bps of excess returns, respectively. The shift in investor sentiment was driven by the improvement in the macro backdrop and compelling valuations after the December selloff. Rate stability reduced spread volatility throughout the quarter, and investors took their cue from a more accommodative Federal Reserve. Liquidity conditions experienced a substantial improvement from December, and the technical backdrop remains supportive of valuations.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.05%	0.49%	0.49%	0.44%
Credit Aa	0.15%	1.46%	1.46%	0.72%
Credit A	0.07%	2.24%	2.23%	0.14%
Credit Baa	0.42%	3.35%	3.35%	0.26%
Finance	0.12%	2.56%	2.56%	0.89%
Industrial	0.30%	2.95%	2.95%	0.15%
Utility	0.25%	1.56%	1.56%	-1.70%
Supranational	0.04%	0.17%	0.17%	0.41%
Sovereign	0.13%	3.42%	3.42%	1.23%

3/31/2019

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Market Review - as of March 31, 2019

The risk-on sentiment culminated in a resurgence in the new issue calendar after a historically light fourth quarter. Fixed rate issuance ended March at $390 billion, running just one percent below 2018 volumes. The Industrial sector comprised over 40% of issuance in the quarter, compared to just 28% in the Financial sector. New issue concessions were healthy to start the year. After investors experienced market dislocations in December, participants required wider spreads to participate in new transactions. Concessions declined in February and March, but demand remained robust and the calendar was easily absorbed. Street inventory was balanced amidst strong two-way flow, creating a benign technical backdrop.

Lower quality credit outperformed during the first quarter as investors searched for incremental yield. The Baa component of the index returned 335 bps of excess returns, whereas single-A credit returned 224 bps. Investors gravitated toward the short to intermediate part of credit curves, while eschewing 30yr issues, likely due to the flatness of the yield curve. Investors now shift their focus toward first quarter earnings which could provide the next catalyst for spread directionality.

The first quarter rally in spreads filtered through the structured products sector as well. CMBS experienced price action like corporate credit during the quarter, as the Baa segment of the sub-sector outperformed higher quality credit CMBS. The technical backdrop of the CMBS market was supportive of the tighter spread environment as issuance was down approximately 20% from 2018 volumes and is expected to be light in coming months. ABS and MBS returned a more modest 40 bps and 28 bps, respectively. ABS spreads experienced modestly tighter spreads during the period as investors continue to view the asset class favorably. The new issue calendar in ABS was active, but supply was easily absorbed by investors looking for shorter duration, higher quality assets. MBS spreads traded in a narrow range throughout the quarter as rates were stable and investors devoted attention to assets with more attractive incremental spread opportunities.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.04%	0.84%	0.84%	0.13%
Agency	0.11%	0.20%	0.20%	0.02%
Credit	0.24%	2.52%	2.52%	0.29%
MBS	-0.11%	0.28%	0.28%	0.09%
ABS	0.02%	0.40%	0.40%	0.73%
CMBS	0.02%	1.19%	1.19%	0.86%
USD EM	-0.46%	3.34%	3.34%	-0.02%

3/31/2019

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Fixed Income Investors

Supplemental Data - as of March 31, 2019

US Treasury Yields

Term	3/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	2.39%	-15	-21	-21	31
2Y	2.26%	-25	-23	-23	-1
3Y	2.20%	-29	-25	-25	-18
5Y	2.23%	-28	-28	-28	-33
7Y	2.31%	-31	-27	-27	-37
10Y	2.41%	-31	-28	-28	-33
30Y	2.81%	-27	-20	-20	-16
2s10s	15	-6	-5	-5	-33
10s30s	41	4	8	8	17

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	1.92%	2.94%	2.94%	4.48%
Treasury	1.91%	2.11%	2.11%	4.22%
Agency	1.40%	1.81%	1.81%	3.73%
Credit	2.44%	4.87%	4.87%	4.89%
MBS	1.46%	2.17%	2.17%	4.42%
ABS	0.72%	1.48%	1.48%	3.68%
CMBS	1.75%	3.24%	3.24%	5.43%
USD EM	1.37%	5.43%	5.43%	4.38%

3/31/2019

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Fixed Income Investors

Supplemental Data - as of March 31, 2019

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	1.52%	2.22%	2.22%	4.28%
Credit Aa	2.17%	3.65%	3.65%	5.06%
Credit A	2.33%	4.64%	4.64%	4.80%
Credit Baa	2.75%	5.82%	5.82%	4.99%
Finance	1.92%	4.61%	4.61%	5.18%
Industrial	2.73%	5.50%	5.50%	4.96%
Utility	3.27%	4.57%	4.57%	3.62%
Supranational	1.08%	1.56%	1.56%	3.86%
Sovereign	2.86%	6.22%	6.22%	6.36%

3/31/2019

US Fixed Income Spreads

Index	3/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	44	-1	-10	-10	3
Agency	13	-1	-3	-3	1
Credit	113	-1	-30	-30	10
MBS	35	0	0	0	6
ABS	39	2	-14	-14	-9
CMBS	69	1	-17	-17	2
USD EM	292	12	-51	-51	52

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

Supplemental Data - as of March 31, 2019

US Fixed Income Spreads

Index	3/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	21	1	-5	-5	-5
Credit Aa	62	0	-19	-19	-3
Credit A	90	0	-28	-28	0
Credit Baa	157	-4	-40	-40	20
Finance	109	-1	-38	-38	3
Industrial	125	-2	-32	-32	14
Utility	116	-2	-28	-28	12
Supranational	11	0	-2	-2	-6
Sovereign	127	-2	-34	-34	9

Global Equity Returns

Stock Index	3/31/2019	1-Month	3-Month	YTD	1-Year
S&P 500	2834	1.94%	13.65%	13.65%	9.50%
Nasdaq	7729	2.70%	16.81%	16.81%	10.63%
STOXX	379	2.06%	13.02%	13.02%	5.22%
FTSE 100	7279	3.29%	9.49%	9.49%	7.69%
DAX	11526	0.09%	9.16%	9.16%	-4.72%
Italy	21286	3.03%	16.17%	16.17%	-5.02%
Nikkei	21206	-0.03%	6.89%	6.89%	2.33%
China	3091	5.09%	23.93%	23.93%	-2.21%

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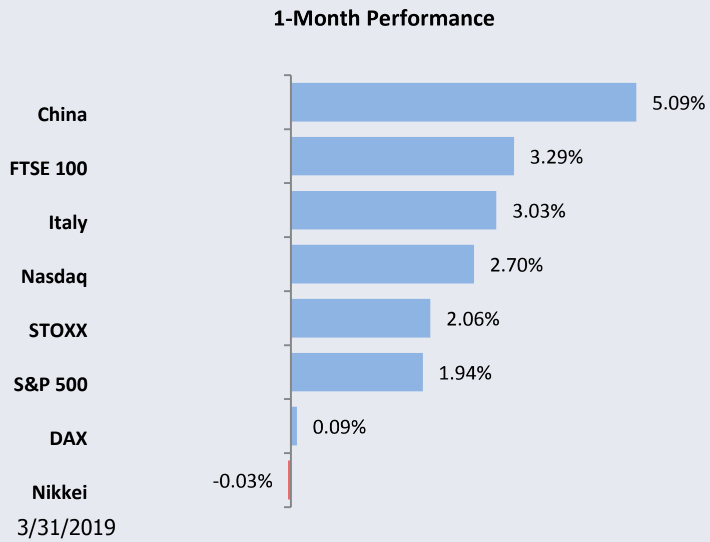

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	379	2.06%	13.02%	13.02%	5.22%
FTSE 100	7279	3.29%	9.49%	9.49%	7.69%
DAX	11526	0.09%	9.16%	9.16%	-4.72%
CAC 40	5351	2.25%	13.31%	13.31%	5.98%
Portugal	5207	0.41%	10.04%	10.04%	-3.68%
Italy	21286	3.03%	16.17%	16.17%	-5.02%
Ireland	6139	1.17%	12.93%	12.93%	-5.15%
Greece	721	1.96%	17.62%	17.62%	-5.82%
Spain	9240	-0.33%	8.76%	8.76%	-0.49%
Russia	2497	0.48%	5.88%	5.88%	9.78%

3/31/2019

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

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1875	0.63%	9.98%	9.98%	-3.55%
MSCI EM	1058	0.84%	9.93%	9.93%	-7.28%
MSCI FM	548	1.21%	6.87%	6.87%	-14.90%
MSCI FM100	1213	1.35%	7.85%	7.85%	-14.04%

3/31/2019

Source: Bloomberg, NYL Investors, Barclays – April 2019.
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