NYL Investors LLC
Fixed Income Investors

March 2020

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Fixed Income Investors

Summary - as of March 31, 2020

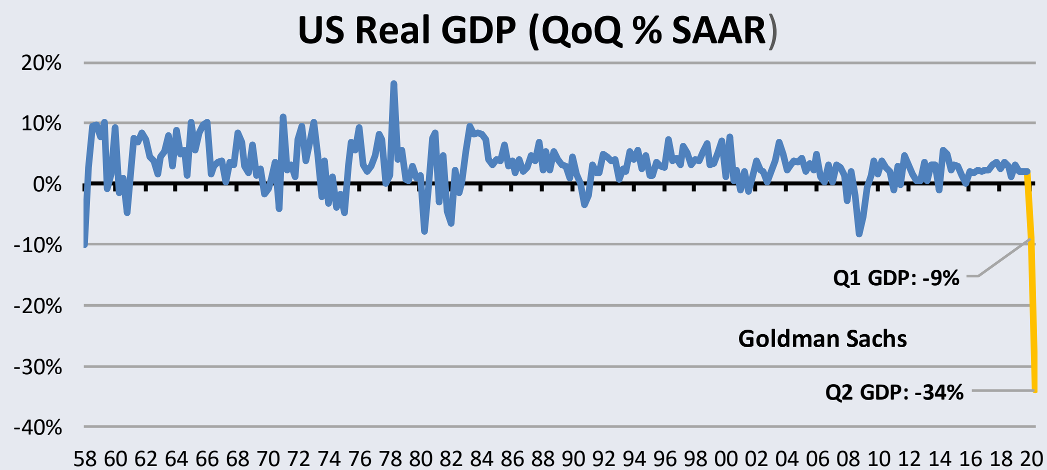
- The first quarter of 2020 was dominated by the emergence of the deadly COVID-19 which has developed into a global pandemic, spreading to over 171 countries.
- With most states issuing stay-at-home orders and the closure of all non-essential businesses, the U.S. economy has come to a grinding halt.
- Projections for second quarter growth range from -15.0% to -35.0%, most likely marking the worst quarterly growth on record dating back to 1947.
- The VIX index, measuring equity volatility, rose to its highest level on record while the MOVE index, measuring bond market volatility, hit a multi-year high.
- The unemployment rate jumped from 3.5% to 4.4%, the highest since August 2017, and most economists believe this will continue to rise.
- The NFIP Small Business Index for March came in at 96.4, an 8.1 point drop from the prior month and the lowest level since November 2016.
- The Federal Reserve (“the Fed”) reduced the federal funds rate to between 0.00% - 0.25% and announced an unprecedented buying spree meant to curtail the adverse economic impact of the virus.
- The Fed purchased $600 billion of Treasuries and Mortgages during the first week of their current operation. Analysts at Citigroup believe this number will only increase and we could see the Fed’s balance sheet rise to a record $10 trillion.
- The Fed announced the opening of nine emergency facilities set up to support various asset classes such as Corporate Bonds, Commercial Paper, and Asset-Backed Securities.
- The Fed ultimately approved a $2+ trillion stimulus package that includes, but is not limited to, direct payments to individuals, small business loans, increased unemployment benefits, and loans for distressed companies.
- U.S. Treasury rates are now at their lowest level in their 150+ year history.
- High Grade Credit was the worst performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter.
- Bloomberg Barclays Credit Index widened 165 bps during the first quarter, resulting in 1,273 bps of negative excess return.
- The Utility and Industrial sectors faced significant headwinds throughout the quarter, generating 1,539 bps and 1,484 bps in negative excess returns, respectively.
- The Financial sector lagged duration-matched Treasuries by 1,047 bps while the Non-corporate sector lagged by 858 bps for the quarter.
- March now marks the single busiest month of corporate bond issuance on record, pricing over $270 billion of fixed-rate supply, essentially in a three-week time span.
- MBS produced 84 bps of negative excess return during the first quarter, outperforming both ABS and CMBS.
- CMBS and ABS experienced their worst performance since the financial crisis with negative excess returns of -586 bps and -322 bps, respectively, during the quarter.
- Investment Grade CLO tranche trading volumes set a record of just under $30 billion for the quarter.

Source: Bloomberg, NYL Investors, Barclays – April 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 March 31, 2020

The first quarter of 2020 was dominated by the emergence of the deadly COVID-19 virus. The first case of the novel coronavirus was confirmed by Chinese health officials in Wuhan, Hubei Province on January 7th. Since then, the virus has developed into a global pandemic, spreading to over 171 countries and affecting hundreds of thousands of people across the globe. While paling in comparison to the profound effect the virus has had on society, financial markets have also been rocked by the global pandemic. With most states issuing stay-at-home orders and the closure of all non-essential businesses, the U.S. economy has come to a grinding halt. Projections for second quarter growth range from -15.0% to -35.0%, most likely marking the worst quarterly growth on record going back to 1947. Bond and equity market volatility spiked in March as the number of people infected by the virus rapidly grew. The VIX index, measuring equity volatility, rose to its highest level on record while the MOVE index, measuring bond market volatility, hit a multi-year high. Unfortunately, it appears the global pandemic will only intensify in the near term with experts warning the virus should peak in the U.S sometime in the next two weeks.



Source: Bloomberg, April 2020

Source: Bloomberg, NYL Investors, Barclays – April 2020.
SAAR: Seasonally-adjusted annual rate
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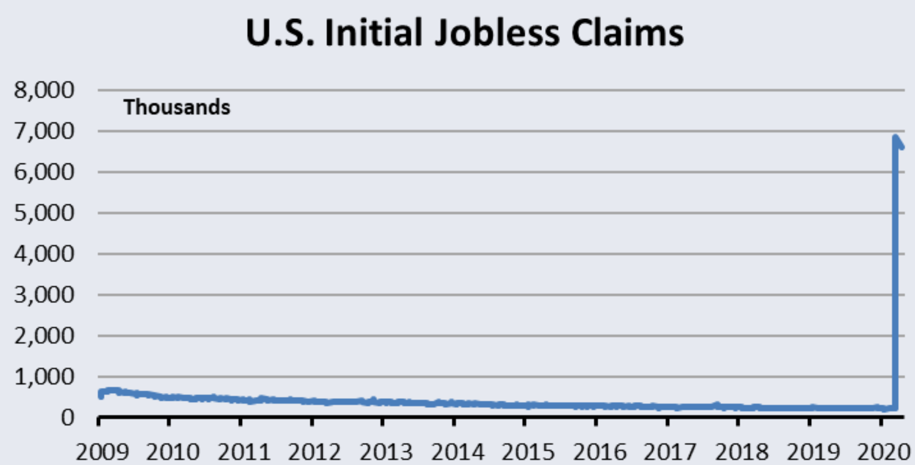
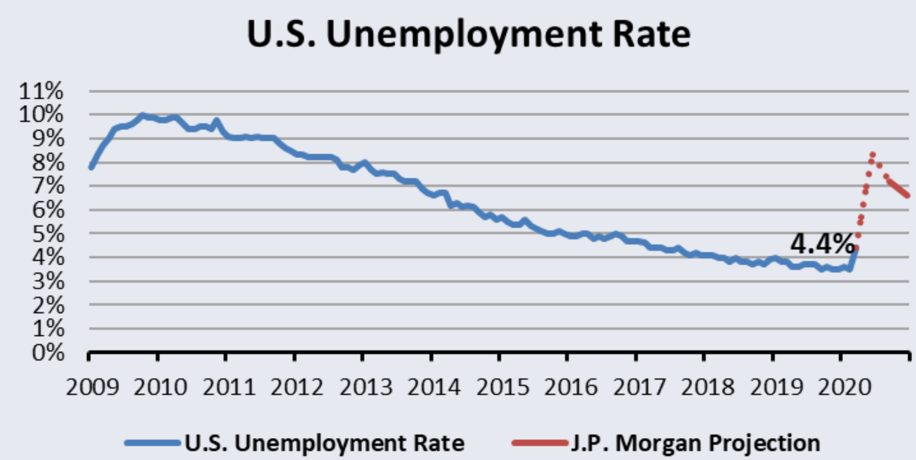
Fixed Income Investors

Market Review - as of March 31, 2020

So far, we have a limited number of data releases which reflect the economic impact of the virus. What we do have shows an economy that has come to an abrupt stop. During the month of March, the economy shed 701k jobs versus a consensus estimate of 100k lost jobs. This was the largest nonfarm payroll decrease since the depths of the great recession in March 2009. The unemployment rate jumped from 3.5% to 4.4%, the highest since August 2017. Most economists believe this number will continue to rise as the full brunt of the economic shutdown is realized. We expect the unemployment rate to peak in the middle of the year and slowly move down as the economy re-opens in the second half of the year. One of the most daunting labor market releases has been the jump in weekly jobless claims. For the last two weeks of March, claims jumped to 3307k and 6648k, respectively. These are the two largest weekly jobless claims on record dating back to 1967. Unfortunately, the impact to small businesses due to the economic shutdown will be severe. With over 30 million small businesses operating in the U.S., comprising nearly 45% of GDP, they are of vital importance to the health of the U.S. economy. The NFIP Small Business Index for March came in at 96.4, an 8.1 point drop from the prior month and the lowest level since November 2016. We believe this index will continue to drop as the economic impact of the virus becomes clearer.



Source: Bloomberg, April 2020



Source: Bloomberg, April 2020

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Market Review - as of March 31, 2020

The Federal Reserve ("the Fed") was scheduled to meet on March 17th - 18th. Instead, on Sunday, March 15th, they met via teleconference to discuss their response to the growing pandemic. It was their first emergency meeting since October 2008. In addition to reducing the federal funds rate to between 0.00% - 0.25%, they announced an unprecedented buying spree meant to curtail the adverse economic impact of the virus. To put the Fed's buying into perspective, during Quantitative Easing 2 (QE2), the Fed purchased $600 billion over several months to help support the economy. The Fed purchased $600 billion of Treasuries and Mortgages during the first week of their current operation! Analysts at Citigroup believe this number will only increase, and we could see the Fed's balance sheet rise to a record $10 trillion. In the days after their emergency meeting, the Fed announced the opening of nine emergency facilities set up to support various asset classes such as Corporate Bonds, Commercial Paper, and Asset-Backed Securities. The Fed did not release an updated dot plot or economic projections. On the fiscal policy side, the government did not act as quickly as the Fed but ultimately approved a $2+ trillion stimulus package that includes, but is not limited to, direct payments to individuals, small business loans, increased unemployment benefits, and loans for distressed companies.

During the first quarter, interest rates moved lower and the curve steepened, led by the front end. The two-year part of the curve moved 132 bps lower while the ten-year part of the curve moved 125 bps lower. U.S. Treasury rates are now at their lowest level in their 150+ year history. High Grade Credit was the worst performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter. Within securitized products, MBS produced 84 bps of negative excess return, outperforming both ABS and CMBS.

US Treasury Yields

Term	3/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.15%	-85	-141	-141	-223
2Y	0.25%	-67	-132	-132	-201
3Y	0.29%	-60	-132	-132	-191
5Y	0.38%	-56	-131	-131	-185
7Y	0.54%	-52	-129	-129	-177
10Y	0.67%	-48	-125	-125	-174
30Y	1.32%	-35	-107	-107	-149
2s10s	42	19	8	8	28
10s30s	65	13	18	18	24

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Fixed Income Investors

Market Review - as of March 31, 2020

Investment Grade Credit spreads could not escape the reality of perceived future economic hardship and volatility across financial instruments. The sector became a focal point as investors turned to High Grade corporate bonds in order to meet historical redemptions, essentially culminating in a significant unwind in the ownership of the asset class. The Bloomberg Barclays Credit Index widened 165 bps during the first quarter, resulting in 1,273 bps of negative excess return. Technical pressure peaked in March as spreads widened 138 bps, generating -986 bps, the worst month of negative excess returns in the history of the Index. The speed and violence of the move wider surpassed even the worst month of the Great Financial Crisis, eclipsing September 2008's negative performance by more than 200 bps. Spread widening was exacerbated as the majority of the financial industry transitioned to work at home and increased regulatory oversight at banks resulted in significantly lower tolerance for risk taking, thereby removing an important shock absorber in episodes of volatility.

The Utility and Industrial sectors faced significant headwinds throughout the quarter, generating 1,539 bps and 1,484 bps in negative excess returns, respectively. The Financial sector lagged duration-matched treasuries by 1,047 bps while the Non-corporate sector lagged by 858 bps. The Energy sub-sector faced significant volatility during the quarter, more specifically in March, after Russia and Saudi Arabia engaged in an oil price war. Investors are struggling to identify which companies will be able to service debt if oil continues to trade around $20 to $25 per barrel and the Investment Grade Energy sector has already faced numerous downgrades, with several companies migrating to below investment grade. The Airline, Leisure, and Automotive sub-sectors also experienced significant spread widening in March as those sectors are directly impacted by the COVID-19 virus and subsequent decline in economic activity.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-1.84%	-2.43%	-2.43%	-1.85%
Credit Aa	-6.15%	-7.92%	-7.92%	-6.69%
Credit A	-7.75%	-10.30%	-10.30%	-8.04%
Credit Baa	-13.67%	-17.36%	-17.36%	-13.92%
Finance	-8.39%	-10.47%	-10.47%	-7.63%
Industrial	-11.19%	-14.84%	-14.84%	-11.88%
Utility	-12.30%	-15.39%	-15.39%	-13.51%
Supranational	-0.70%	-0.65%	-0.65%	-0.45%
Sovereign	-10.46%	-14.80%	-14.80%	-11.97%

3/31/2020

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Fixed Income Investors

Market Review - as of March 31, 2020

The new issue calendar began to seize up during the month of March as volatility peaked. That said, after the Fed announced their intention to buy both new issue and secondary bonds, the new issue machine kicked off in earnest. Essentially, issuers reacted swiftly by bringing deals to term out commercial paper and secure permanent financing and capital in this uncertain environment. Furthermore, multiple issuers looked to shore up balance sheets as they prepare for the uncertainty which lies ahead. March now marks the single busiest month of corporate bond issuance on record, pricing over $270 billion of fixed-rate supply, essentially in a three-week time span. Year-to-date volumes now sit at $541 billion, nearly 39% higher than 2019's pace. As of this writing, the calendar has priced nearly $100 billion of additional supply, leading to a 60% increase over last year's pace. The first companies to price deals printed new issues with new issue concessions 75 – 100 bps wider than outstanding paper. As the month progressed and investor sentiment turned, those concessions began to regress but still offered investors attractive entry points to the corporate credit market.

As is often the case, volatility results in credit dispersion between high and low beta companies, and the first quarter of 2020 was no different. There was acute pressure on mid- and low-BBB issuers as investors assign a higher probability of a migration to junk. The front end of the market also came under significant pressure as managers used 1-3yr credit as a tool to meet a wave of redemptions, which resulted in the inversion of credit curves all the way to 30-year credit. The Fed's bond buying program was a direct response to the liquidity crunch in the front end of the curve but still has not completely resulted in curve normalization.

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Fixed Income Investors

Market Review - as of March 31, 2020

While healthily outperforming Investment Grade Credit, Securitized Products were by no means insulated from technical pressures felt throughout fixed income markets. Retail fund flows drove forced selling across MBS, CMBS, and ABS, which in turn tapped levered players like REITs and hedge funds as they had to liquidate assets to meet margin calls. The Fed came to the rescue for Agency MBS, and the enactment of unlimited quantitative easing (QE) was the sole driver of the asset class's relative outperformance, but the returns were still subject to immense volatility during the quarter. Case in point, year-to-date MBS Index excess returns were -275 bps as of Friday, March 20 before unlimited QE was announced the following Monday. The Index finished the month of March with negative excess returns of only -22 bps, outpacing January's performance (-53 bps) by 21 bps. In spread terms, MBS zero-volatility spread to treasuries tightened from 95 bps to 60 bps over the course of the month, but got as wide as 175 bps, recovering 3-4 points in dollar price from the lows. The widening was driven by a lack of liquidity due to constrained dealer balance sheets in the wake of heavy selling of early settle bonds (T+1 versus reg. 04/15/20), as money managers and ETF products needed to raise cash to meet redemptions. BlackRock's iShares MBS ETF saw $604 million in outflows in the first two weeks of March, which were the largest drawdowns the fund had seen since it started trading in 2007. The negative feedback loop from large price declines in short order caused further unwinds and selling primarily from REITs as they sought to meet margin calls, and this was a phenomenon across securitized products (ABS, RMBS, CMBS, and CLOs) that burdened all levered investors.

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Fixed Income Investors

Market Review - as of March 31, 2020

While outperforming corporates, CMBS and ABS spreads experienced their worst performance since the financial crisis in Q1 2020, almost all of which occurred in March. These two sectors saw negative excess returns of -586 bps and -322 bps during the quarter, respectively. Conduit CMBS AAAs ended March at S+175a, retracing two-thirds of the move to S+375a from the February tights of S+75a. The prospect of AAA CMBS being included in TALF 2.0 coupled with the announcement of the Fed’s numerous liquidity facilities served as a tailwind to spreads in the last two weeks of the quarter. As one would expect, credit curves have steepened dramatically in CMBS, as subordinate BBB- bonds that are 13-14x levered in the structure finished the quarter intermittently trading around S+1100, only about 100 bps tighter from the March wides. These tranches were trading as tight as S+300a in February. Credit-related concerns at the forefront of investors’ minds remain focused on deals with higher exposures to hospitality and retail properties, both of which are expected to see a large spike in delinquencies in the coming months’ remittance reports. Private label CMBS managed to squeeze out $3.44 billion in issuance in March, but only two out of six transactions priced after March 1.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-3.14%	-4.16%	-4.16%	-3.21%
Agency	-0.96%	-1.06%	-1.06%	-0.76%
Credit	-9.86%	-12.73%	-12.73%	-10.09%
MBS	-0.22%	-0.84%	-0.84%	-0.57%
ABS	-3.42%	-3.22%	-3.22%	-3.01%
CMBS	-5.74%	-5.86%	-5.86%	-5.56%
USD EM	-13.42%	-17.41%	-17.41%	-15.71%

3/31/2020

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Like Agency MBS and Investment Grade Credit, the lack of liquidity drove even the highest quality AAA Credit Cards and Autos from S+20a to S+300-400, and then back to the S+80-90 range as the prospect of infinite fiscal and monetary stimulus allowed spreads to retrace about 80% of the widening. Into the widening, money managers used these low (<2-year) spread duration assets for liquidity purposes as they sought to sell bonds with the least amount of dollar price volatility in their portfolios to meet redemptions. Nonetheless, the moves in these sectors which make up the largest portion of the ABS portion of the index resulting in -322 bps of excess returns for the quarter. Less liquid sectors not included in the index like Dealer Floorplan, Rental Cars, Private Student loans, Timeshares, and Whole business Securitizations saw spreads gap from the S+70-90 range, all the way to S+500-700 depending on the asset class, and now sit in the S+250-500 context. CLOs, which are also not included in the index, saw immense price volatility despite their robust structures viewed by many as "recession proof" in the more senior parts of the capital structure. Like most markets, investors sold AAAs to quickly raise proceeds so much so that spreads touched 2009 wides of approximately 450DM, down 12-15 points to $85-$88 from the end of February ($99-$100, 130DM). Additionally, due to all the selling, Investment Grade CLO tranche trading volumes set a record of just under $30 billion for the quarter. While price data points were more sporadic, AA spreads gapped out to the 600-650DM context ($82-85) from 170DM ($99-$100) at the end of February. AAA and AA CLOs closed the quarter at spreads in the 250-275DM and 350-375DM context.

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Fixed Income Investors

Supplemental Data - as of March 31, 2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.59%	3.15%	3.15%	8.93%
Treasury	2.89%	8.20%	8.20%	13.23%
Agency	0.98%	4.14%	4.14%	8.31%
Credit	-6.63%	-3.14%	-3.14%	5.10%
MBS	1.06%	2.82%	2.82%	7.03%
ABS	-2.07%	-0.21%	-0.21%	2.79%
CMBS	-3.13%	1.18%	1.18%	6.13%
USD EM	-10.68%	-9.48%	-9.48%	-2.89%

3/31/2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.52%	3.96%	3.96%	8.74%
Credit Aa	-2.91%	1.54%	1.54%	8.03%
Credit A	-4.46%	-0.50%	-0.50%	7.46%
Credit Baa	-10.34%	-7.39%	-7.39%	1.92%
Finance	-5.62%	-2.69%	-2.69%	4.97%
Industrial	-7.70%	-4.28%	-4.28%	4.77%
Utility	-8.19%	-2.36%	-2.36%	6.79%
Supranational	1.14%	3.81%	3.81%	7.41%
Sovereign	-6.72%	-3.21%	-3.21%	6.21%

3/31/2020

Source: Bloomberg, NYL Investors, Barclays – April 2020.
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Fixed Income Investors

Supplemental Data - as of March 31, 2020

US Fixed Income Spreads

Index	3/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	95	45	56	56	51
Agency	49	36	39	39	36
Credit	255	138	165	165	142
MBS	60	6	21	21	25
ABS	213	176	169	169	174
CMBS	188	115	116	116	119
USD EM	657	292	356	356	365

US Fixed Income Spreads

Index	3/31/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	50	29	33	33	29
Credit Aa	154	84	102	102	92
Credit A	207	113	137	137	117
Credit Baa	360	199	235	235	203
Finance	268	161	188	188	159
Industrial	276	145	177	177	151
Utility	254	138	157	157	138
Supranational	32	25	24	24	21
Sovereign	260	118	156	156	133

Source: Bloomberg, NYL Investors, Barclays – April 2020.
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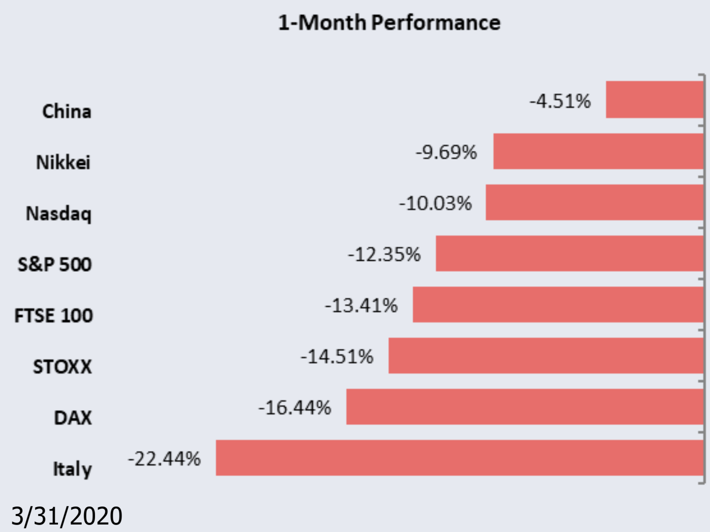
Fixed Income Investors
Supplemental Data - as of March 31, 2020

Global Equity Returns

Stock Index	3/31/2020	1-Month	3-Month	YTD	1-Year
S&P 500	2585	-12.35%	-19.60%	-19.60%	-6.98%
Nasdaq	7700	-10.03%	-13.95%	-13.95%	0.70%
STOXX	320	-14.51%	-22.57%	-22.57%	-13.11%
FTSE 100	5672	-13.41%	-23.84%	-23.84%	-18.39%
DAX	9936	-16.44%	-25.01%	-25.01%	-13.80%
Italy	17051	-22.44%	-27.46%	-27.46%	-19.90%
Nikkei	18917	-9.69%	-19.23%	-19.23%	-8.78%
China	2750	-4.51%	-9.83%	-9.83%	-11.02%



Source: Bloomberg, NYL Investors, Barclays – April 2020.
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Fixed Income Investors

Supplemental Data - as of March 31, 2020

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	320	-14.51%	-22.57%	-22.57%	-13.11%
FTSE 100	5672	-13.41%	-23.84%	-23.84%	-18.39%
DAX	9936	-16.44%	-25.01%	-25.01%	-13.80%
CAC 40	4396	-17.05%	-26.24%	-26.24%	-15.87%
Portugal	4070	-14.61%	-21.95%	-21.95%	-21.84%
Italy	17051	-22.44%	-27.46%	-27.46%	-19.90%
Ireland	5154	-18.71%	-27.58%	-27.58%	-14.31%
Greece	558	-22.44%	-38.72%	-38.72%	-19.95%
Spain	6785	-22.11%	-28.67%	-28.67%	-24.14%
Russia	2509	-9.92%	-17.63%	-17.63%	0.47%

3/31/2020

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1560	-13.35%	-22.83%	-22.83%	-14.38%
MSCI EM	849	-15.40%	-23.60%	-23.60%	-17.69%
MSCI FM	423	-21.96%	-26.59%	-26.59%	-18.96%
MSCI FM100	932	-21.93%	-26.63%	-26.63%	-19.15%

3/31/2020

Source: Bloomberg, NYL Investors, Barclays – April 2020.
Last represents month-end close of business for March.
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