NYL Investors LLC
Fixed Income Investors

March 2021

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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

Summary - as of March 31, 2021

- Coming into 2021, most economists expected growth to rebound sharply from the pandemic-induced plunge of 2020, but those expectations have easily been exceeded driven by increased vaccinations and fiscal stimulus.
- At the latest monetary policy meeting on March 16th-17th, the Federal Reserve ("the Fed") upgraded their projection of U.S. growth to 6.5% from 4.2% from their December meeting. If realized, the 6.5% (Annual YoY) growth would be the strongest since 1984.
- With more than 56 million (16.9%) people in the U.S. fully vaccinated, herd immunity could be reached by the fall of this year.
- The Biden administration used the budget reconciliation process to pass an additional $1.9 trillion stimulus package toward the end of the first quarter.
- The Biden administration is planning a pair of proposals targeting infrastructure and education that could add another $3+ trillion in stimulus.
- Economic data releases in March continued to exceed market expectations as evidenced by the Citi Economic Surprise Index, which remains firmly in positive territory.
- The ISM Services Index, which accounts for approximately two-thirds of U.S. GDP, came in at 63.7 for the month of March, the highest print on record going back to 1997.
- The ISM Manufacturing Index beat expectations, registering at 64.7 for the highest reading since December 1983 and showing continued strength in the manufacturing industry.
- The unemployment rate fell from 6.2% to 6.0% while labor force participation remained steady at 61.5%.
- Core PCE, which is the Fed's preferred inflation indicator, is seen as rising to 2.2% by the end of 2021.
- With close to 9 million Americans still unemployed, the Fed made it very clear they will remain accommodative for the foreseeable future and do not anticipate raising rates or tapering bond purchases anytime soon at their March meeting.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 93 bps of excess return.
- Within Securitized Products, CMBS produced 46 bps of excess return, outperforming the MBS (15 bps) and ABS (15 bps) sectors for the quarter.
- The Bloomberg Barclays Credit Index closed the quarter at 86 bps and traded in a narrow 10-bp range during the period.
- The Industrial sector was the clear outperformer during the first quarter, generating 124 bps of excess return. The Utility, Non-corporate, and Financial sectors registered 90 bps, 82 bps, and 36 bps, respectively.
- Although first quarter gross issuance is down 12% year-over-year, the $442 billion priced during the period still represents an aggressive pace.
- Issuance volume continues to skew towards the Industrial sector as well as BBB-rated entities while longer duration deals remain topical as corporations remain focused on extending debt maturity profiles.

Source: Bloomberg, NYL Investors, Barclays – April 2021.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset-Backed Securities

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Market Review - as of March 31, 2021

Coming into 2021, most economists expected growth to rebound sharply from the pandemic-induced plunge of 2020. Driven by increased vaccinations and fiscal stimulus, those expectations have been easily exceeded thus far. At their December 2020 monetary policy meeting, the Federal Reserve ("the Fed") projected 2021 U.S. growth of 4.2%. At their latest meeting on March 16th-17th, the projection was upgraded to 6.5%. If realized, the 6.5% (Annual YoY) growth would be the strongest since 1984. Breakthroughs in the fight against COVID-19 have enabled corporations to get back to production much sooner than initially expected. There are currently three vaccines, Pfizer-BioNTech, Moderna, Johnson & Johnson, authorized and recommended for use by the FDA in the U.S. With more than 56 million (16.9%) people in the U.S. fully vaccinated, herd immunity could be reached by the fall of this year. Looking to build on the $900 billion aid package passed in December, the Biden administration used the budget reconciliation process to pass an additional $1.9 trillion stimulus package toward the end of the first quarter. Among other components, stimulus checks & extended unemployment benefits have allowed consumers to continue spending while still recovering from the pandemic. In addition, the Biden administration is planning a pair of proposals targeting infrastructure and education that could add another $3+ trillion in stimulus spending. While the proposed spending should fuel short-term growth, it has led to some concern over what the long-term damage of the seemingly unlimited spending will be on the economy. One of the most vocal critics of the Biden administration's fiscal plan has been Larry Summers. Previously an advocate of Democratic administrations, Summers has called Biden's plan "the least responsible fiscal macroeconomic policy we've had for the last 40 years." His major concern is inflation will accelerate to undesirable levels eventually leading to stagflation in the U.S. economy. While actual inflation continues to remain well below the Fed's 2% average inflation target, it is certainly something we will be monitoring as we move through the year.

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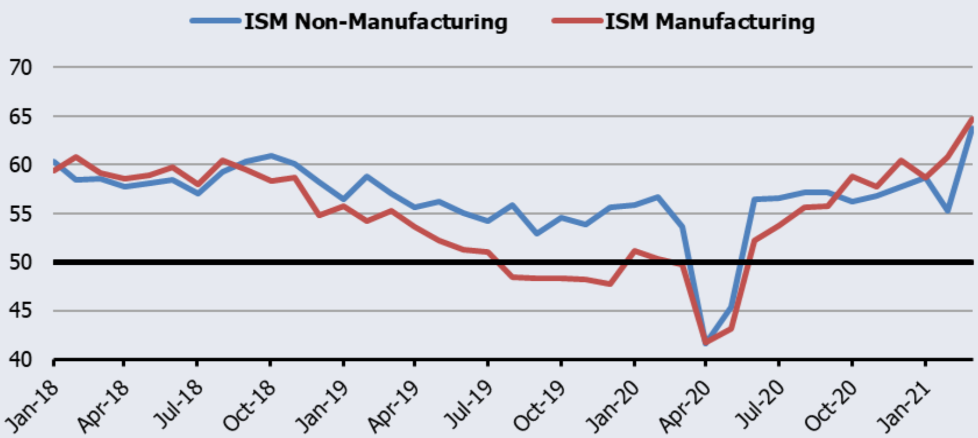
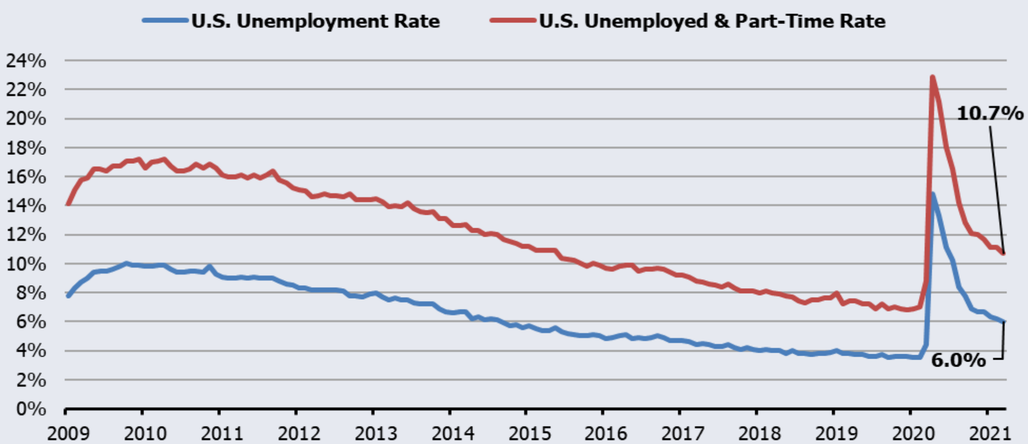
Economic data releases in March continued to exceed market expectations as evidenced by the Citi Economic Surprise Index, which remains firmly in positive territory. The ISM Services Index, which accounts for approximately two-thirds of U.S. GDP, came in at 63.7 for the month of March, the highest print on record going back to 1997. All eighteen service industries included in the survey reported growth in March driven by record highs in new orders and business activity. The recovery of the Services Index, which has lagged manufacturing since the onset of the pandemic, shows the economy is healing at a rapid pace. The ISM Manufacturing Index also beat expectations, showing continued strength in the manufacturing industry. The 64.7 reading was the highest since December 1983. One area which saw weakness toward the end of the quarter was retail sales. The retail sales control group, which feeds directly into the GDP calculation, declined 3.5% MoM for February. While the reading was below consensus, the pullback was likely driven by the inclement weather experienced in large parts of the country during the month. On the employment front, during the month of March, the economy gained 916k jobs, easily beating expectations of 660k, with prior month job gains being revised up from 379k to 468k. The gains in employment were broad based with the largest increases in leisure and hospitality as well as construction and education employment. The unemployment rate fell from 6.2% to 6.0% while labor force participation remained steady at 61.5%.



Source: Bloomberg, April 2021
Note: The Manufacturing & Non-Manufacturing ISM is calculated by Bloomberg by applying the real value added by the manufacturing industry by year to the manufacturing index and giving the remaining percent to the non-manufacturing index.



Source: Bloomberg, April 2021
Unemployment rate measures the total unemployed as a percent of the civilian labor force (official unemployment rate).

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The Fed held their second meeting of 2021 on March 16th-17th. In addition to the Fed statement and ensuing press conference, the Fed also released their updated Statement of Economic Projections ("SEP"). The committee made some slight adjustments in their statement to reflect the pickup in the economy. The stronger economy was also evident in the updated economic projections. 2021 Real GDP was revised up from 4.2% to 6.5% while the Fed now sees unemployment continuing to fall further, ending 2023 at 3.5%. Core PCE is the Fed's preferred inflation indicator and is seen as rising to 2.2% by the end of 2021. Overall, the tone of the statement and press conference continues to be dovish with the Fed still very accommodative. Chair Powell reiterated that the economy is on the right path, and he expects to see even stronger growth once the $1.9 trillion stimulus package trickles through the economy. On the employment front, with close to 9 million Americans still unemployed, the Fed made it very clear they will remain accommodative for the foreseeable future and do not anticipate raising rates or tapering bond purchases any time soon.

Interest rates moved higher and the curve steeper during the first quarter, led by the long end. The two-year part of the curve moved 4 bps higher while the ten-year part of the curve moved 83 bps higher. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 93 bps of excess return. Within Securitized Products, CMBS produced 46 bps of excess return, outperforming the MBS and ABS sectors.

US Treasury Yields

Term	3/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.06%	-1	-5	-5	-10
2Y	0.16%	3	4	4	-9
3Y	0.35%	7	18	18	5
5Y	0.94%	21	58	58	56
7Y	1.42%	30	78	78	88
10Y	1.74%	34	83	83	107
30Y	2.41%	26	77	77	109
2s10s	158	30	79	79	116
10s30s	67	-8	-6	-6	2

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Market Review - as of March 31, 2021

Despite the heightened rate volatility in the first quarter, Investment Grade Credit has performed well and in line with our initial expectations. The Bloomberg Barclays Credit Index closed the quarter at 86 bps and traded in a narrow 10-bp range during the period. The Industrial sector was the clear outperformer during the first quarter, generating 124 bps of excess return. The Utility, Non-corporate, and Financial sectors registered 90 bps, 82 bps, and 36 bps of excess returns, respectively. Despite valuations, tailwinds remain for the asset class. As discussed in nearly every monthly and quarterly piece in recent memory, the technical backdrop for the sector remains pristine. Inflows into the asset class remain robust and should remain so given the shape and nominal level of yields. Flow activity has acted as a ballast for corporate credit in the face of an active new issue calendar. Furthermore, street positioning remains prudent, and there have been nearly no instances of sustained volatility in the first quarter, a stark comparison to first quarter 2020. The fundamental backdrop continues to improve and will likely benefit from the better macroeconomic data cited previously. The reopening has become more broad based, touching even the most severely impacted sectors. Activity for some sectors like hospitality and airlines are still not close to pre-COVID levels, but the sectors are seeing increased demand, which will likely continue. The near-term earnings backdrop is positive, and as always, we are keenly interested in forward-looking statements from management teams and future guidance as well as confidence levels in the C-suite about the future of the economy.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.18%	0.39%	0.39%	2.64%
Credit Aa	0.52%	1.06%	1.06%	8.67%
Credit A	0.08%	0.52%	0.52%	10.95%
Credit Baa	0.54%	1.31%	1.31%	19.05%
Finance	-0.15%	0.36%	0.35%	12.20%
Industrial	0.55%	1.24%	1.23%	15.86%
Utility	-0.03%	0.90%	0.90%	15.69%
Supranational	0.07%	0.12%	0.12%	0.78%
Sovereign	1.57%	0.37%	0.37%	14.12%

3/31/2021

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Market Review - as of March 31, 2021

Although first quarter gross issuance is down 12% YoY, the $442 billion priced during the period still represents an aggressive pace. Corporations continue to view the current environment as favorable given tighter credit spreads and still historically low yields. Furthermore, with the move higher and steeper in yields, many companies have likely accelerated issuance plans to mitigate the risk of rates moving even higher in the coming months. The volume continues to skew towards the Industrial sector as well as BBB-rated entities while longer duration deals remain topical as corporations remain focused on extending debt maturity profiles. Issuance was met with strong demand during the quarter with brief moments of indigestion. New fund flows are leading to oversubscribed deals and limited concessions versus secondary paper, as has been the case for some time now. Issuance is likely to moderate during April but pick up in May as is typically the case.

Demand for BBB industrial credit and longer duration maturities remains firmly in place. Investors continue to search for incremental yield within the BBB category, and the sector outperformed its higher rated counterparts during the period. Credit curve compression, specifically 10/30s credit curves, was prevalent during the first quarter driven by higher and steeper yields and strong demand from overseas investors. Market participants remain constructive and their willingness to invest down in credit quality and longer duration assets is likely to persist. That said, we remain vigilant for possible flow shifts as the quarter produced significantly negative total returns for the first time in years. This dynamic could impact retail investors more so than institutional investors, but it bears monitoring.

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Market Review - as of March 31, 2021

Within Securitized Products, the rate volatility and ensuing sell-off which began in the latter half of February ignited fireworks in the MBS market. This story is most simply told by isolating excess returns for the MBS component of the Bloomberg Barclays U.S. Aggregate Index for each month of 2021. Based on durations computed by the Bloomberg Barclays prepayment model (BAM) for the Index constituents, excess returns were 24 bps in January, -26 bps in February, and 17 bps in March, finishing the quarter with 15 bps in excess returns.

Unsurprisingly, the dispersion of returns across coupons and amortization schedules was quite dramatic. The bear steepening on expectations for increased fiscal stimulus drove a strong shift in demand up the coupon stack in both 30s and 15s, which persisted throughout the quarter as the bid for extension protection remained strong. In pure dollar price terms, Fannie Mae ("FN") 3.5s finished the first quarter roughly unchanged from their January 1st levels while 4.0s and 4.5s were both higher by approximately a half basis point. This occurred in the backdrop of a three-year UST that was 20 bps higher in yield, or almost 0.625 pts lower in price. FN 3.0s began to trade with some positive duration as primary mortgage rates broke 3% and finished the first quarter down almost 20 ticks in price.

The road was much rockier for lower coupons. Heading into February, demand from banks and the Fed consistently absorbed record MBS supply, keeping MBS near the post-March 2020 tights. However, February's choppy sell-off reduced the frequency of bank demand, as this investor base waited for signs of stability in yields and lower coupon dollar prices. With banks largely sidelined and the money manager community wary of already tight valuations, lower coupon MBS traded to longer hedge ratios than model durations would imply amidst healthy origination volumes ($305 billion). However, the first sign of rate stability, which happened to coincide with the last few trading hours before month end, brought heavy money manager and bank demand as the market rebounded off 1.5% on the 10-year note. By Thursday, February 25th's close, Uniform Mortgage-Backed Securities (UMBS) 30-year 2.0s had underperformed their Treasury hedges by nearly a point that month, before finishing the month roughly unchanged. The MBS component of the Bloomberg Barclays U.S. Aggregate Index generated 27 bps of excess return on that Friday alone. Although rates continued to sell off in March and the curve continued to steepen, the velocity of the moves was much more orderly, which facilitated more consistent demand from various account types as volatility subsided. Going forward, MBS performance will continue to be a function of bank and Fed demand versus supply. This technical backdrop should remain supportive for MBS as Fed paydowns remain elevated with their aging portfolio, origination volumes trend lower at higher rate levels, and banks are more incentivized to buy MBS with the expiration of Treasuries being included in the Supplementary Leverage Ratio (SLR) calculation.

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As for CMBS and ABS, the story of their performance during the first quarter was far less eventful. Excess returns for CMBS and ABS were 46 bps and 15 bps, respectively, and were entirely driven by January performance for both sectors, 47 bps and 17 bps, respectively. In CMBS, AAA last-cashflow spreads continue to be "stuck in the mud" in the 65-75-bp range, and the same can be said for index-eligible AAA credit card and Auto ABS at spreads wrapped around +10 to interpolated swaps. Therefore, spread compression on a U.S. Treasury basis is largely driven by swap spread movements, which have proven to be quite volatile as of late. Private label CMBS issuance remains slightly below (-3.4%) 2020 levels at $24.8 billion while ABS has surpassed the 2020 equivalent YTD volumes at $51.2 billion (+33% YoY). Naturally, the issuance drought which followed the outbreak of the COVID-19 pandemic should help CMBS easily surpass last year's primary volumes.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.15%	0.35%	0.35%	4.50%
Agency	-0.02%	0.14%	0.14%	1.08%
Credit	0.34%	0.93%	0.92%	13.61%
MBS	0.17%	0.15%	0.15%	0.78%
ABS	-0.04%	0.15%	0.16%	4.45%
CMBS	-0.04%	0.46%	0.47%	6.66%
USD EM	0.33%	0.79%	0.79%	17.95%

3/31/2021

Source: Bloomberg, NYL Investors, Barclays – April 2021.
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ABS – Asset-Backed Securities
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Supplemental Data - as of March 31, 2021

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-1.25%	-3.37%	-3.37%	0.71%
Treasury	-1.54%	-4.25%	-4.25%	-4.43%
Agency	-0.68%	-1.59%	-1.59%	-0.32%
Credit	-1.59%	-4.45%	-4.45%	7.88%
MBS	-0.51%	-1.10%	-1.10%	-0.09%
ABS	-0.16%	-0.16%	-0.16%	4.57%
CMBS	-1.12%	-2.32%	-2.32%	4.36%
USD EM	-1.25%	-3.48%	-3.48%	13.58%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.92%	-2.61%	-2.61%	-0.23%
Credit Aa	-1.57%	-4.78%	-4.78%	2.32%
Credit A	-1.86%	-4.91%	-4.91%	5.14%
Credit Baa	-1.49%	-4.32%	-4.32%	13.06%
Finance	-1.56%	-3.52%	-3.52%	8.37%
Industrial	-1.66%	-4.95%	-4.95%	9.14%
Utility	-2.69%	-6.56%	-6.56%	7.35%
Supranational	-0.55%	-1.40%	-1.40%	-0.22%
Sovereign	-0.90%	-6.53%	-6.53%	6.54%

3/31/2021

Source: Bloomberg, NYL Investors, Barclays – April 2021.
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Fixed Income Investors

Supplemental Data - as of March 31, 2021

US Fixed Income Spreads

Index	3/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	31	-3	-11	-11	-64
Agency	4	0	-6	-6	-45
Credit	86	0	-6	-6	-169
MBS	12	-8	-27	-27	-48
ABS	35	6	2	2	-178
CMBS	71	1	-10	-10	-117
USD EM	279	7	-2	-2	-378

US Fixed Income Spreads

Index	3/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	15	-2	-4	-4	-35
Credit Aa	52	-4	-9	-9	-102
Credit A	71	2	-3	-3	-136
Credit Baa	114	-2	-10	-10	-246
Finance	84	7	1	1	-184
Industrial	93	-2	-8	-8	-183
Utility	99	2	-7	-7	-155
Supranational	9	-1	-3	-3	-23
Sovereign	123	-11	-1	-1	-137

Source: Bloomberg, NYL Investors, Barclays – April 2021.
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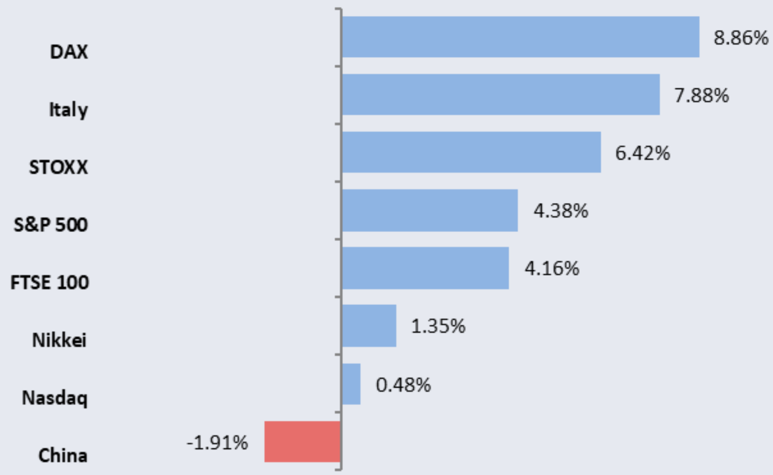
Fixed Income Investors

Supplemental Data - as of March 31, 2021

Global Equity Returns

Stock Index	3/31/2021	1-Month	3-Month	YTD	1-Year
S&P 500	3973	4.38%	6.17%	6.17%	56.35%
Nasdaq	13247	0.48%	2.95%	2.95%	73.40%
STOXX	430	6.42%	8.20%	8.20%	36.95%
FTSE 100	6714	4.16%	4.97%	4.97%	21.91%
DAX	15008	8.86%	9.40%	9.40%	51.05%
Italy	24649	7.88%	10.87%	10.87%	44.56%
Nikkei	29179	1.35%	7.02%	7.02%	56.68%
China	3442	-1.91%	-0.90%	-0.90%	25.15%

1-Month Performance



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Fixed Income Investors

Supplemental Data - as of March 31, 2021

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	430	6.42%	8.20%	8.20%	36.95%
FTSE 100	6714	4.16%	4.97%	4.97%	21.91%
DAX	15008	8.86%	9.40%	9.40%	51.05%
CAC 40	6067	6.48%	9.51%	9.51%	40.19%
Portugal	4930	4.84%	0.64%	0.64%	21.13%
Italy	24649	7.88%	10.87%	10.87%	44.56%
Ireland	8084	10.64%	10.14%	10.14%	58.46%
Greece	865	9.17%	6.93%	6.93%	58.73%
Spain	8580	4.36%	6.60%	6.60%	29.68%
Russia	3542	5.83%	7.68%	7.68%	41.17%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	2208	2.30%	3.48%	3.48%	44.57%
MSCI EM	1316	-1.51%	2.29%	2.29%	58.39%
MSCI FM	573	0.29%	0.81%	0.81%	39.28%
MSCI FM100	1288	1.00%	3.17%	3.17%	43.21%

3/31/2021

Source: Bloomberg, NYL Investors, Barclays – April 2021.
Last represents month-end close of business for March.
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