

NYL Investors LLC

Fixed Income Investors

May 2021

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Fixed Income Investors

Summary - as of May 31, 2021

- Increased consumer demand combined with rising commodity prices has strained supply chains, but economists are still optimistic on future U.S. growth.
- Growth estimates (Real GDP QoQ%) for the second quarter are as high as 13% with the consensus coming in above 9% and most economists expecting growth of 6 - 7% for the full year.
- Factors that could derail the elevated growth picture include a resurgence of COVID-19 cases leading to restrictions and shutdowns and the overheating of the economy borne from rising prices and supply constraints.
- According to the “Our World in Data” COVID-19 dataset, over 50% of the U.S. population has received at least one dose of the COVID-19 vaccine. The percentage of the world population that has received at least one dose of the COVID-19 vaccine is much lower at slightly over 10%.
- The ISM Manufacturing Index, driven by an uptick in new orders and building price pressures, came in at 61.2 in May. The Services Index came in at 64, a record high dating back to 1997.
- Core PCE Deflator (YoY) came in at 3.1% for the month of April, the largest increase since the first quarter of 1992, which was well above the Federal Reserve’s (“the Fed’s”) 2% target.
- Expectations are for future inflation readings to fall back toward 2% as supply chains are repaired and base effects from the depths of the pandemic are passed through the data.
- In May, the economy gained 559k jobs, lower than the 675k expected, with prior month job gains being revised up from 266k to 278k. The below-consensus print was likely due to supply constraints and labor shortages.
- The largest payroll increase was concentrated in the restaurant/bar sector, likely reflecting the rapid pace of reopening in the service industry.
- The unemployment rate fell from 6.1% to 5.8% while average hourly earnings came in at 2.0% (YoY), above the 1.6% consensus expectation.
- Investment Grade Credit registered its eighth straight month of positive excess returns in May. Investor demand for the asset class remains high, and issuance volumes were well within expectations.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 43 bps of excess return.
- The Industrial and Financial sectors modestly outpaced the broader market with 52 bps and 44 bps of positive excess returns, respectively. The Utility and Non-corporate sectors lagged with 22 bps and 18 bps of excess returns, respectively.
- The new issue calendar for the month was \$141 billion in gross issuance. Year-to-date volumes are 33% behind last year’s pace and are expected to moderate further into the year.
- Long duration credit and triple-B rated issuers continue to perform well in this low rate and low volatility environment.
- CMBS continued the outperformance with 37 bps of excess return, and ABS, yet again, had underwhelming but positive excess return of 13 bps.
- MBS struggled immensely on weakening fundamentals and lackluster demand with -36 bps of excess return with the brunt of the underperformance in higher coupons and Ginnie Mae Securities (“Ginnies”).

Source: Bloomberg, NYL Investors, Barclays – June 2021.

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 May 31, 2021

Continued optimism on the future of the U.S. economy continued to percolate as the calendar turned from April to May. While increased consumer demand combined with rising commodity prices has strained supply chains, economists are still optimistic on future U.S. growth. Growth estimates (Real GDP QoQ%) for the second quarter are as high as 13% with the consensus coming in above 9%. For full-year 2021, most economists expect growth of 6 - 7%. If realized, this would be the strongest year of GDP growth since 1984. Factors most often cited which could derail the elevated growth picture include a resurgence of COVID-19 cases leading to restrictions and shutdowns as well as an overheating of the economy borne from rising prices and supply constraints. According to the "Our World in Data" COVID-19 dataset, over 50% of the U.S. population has received at least one dose of the COVID-19 vaccine. The percentage of the world population that has received at least one dose of the COVID-19 vaccine is much lower at slightly over 10%. This is likely driven by the difficulties developing countries are having sourcing the much-needed vaccines. Global growth will likely continue to run below pre-pandemic levels until vaccine distribution in developing countries is accelerated.

Source: Bloomberg, NYL Investors, Barclays – June 2021.

For more information on the "Our World in Data" COVID-19 dataset, please see the following link: <https://ourworldindata.org/coronavirus>.

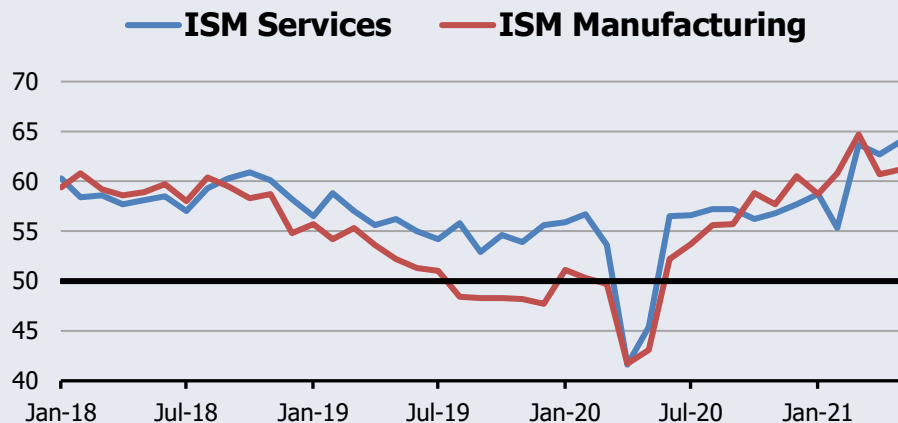
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Market Review - as of May 31, 2021

Recent economic data releases have been uneven but still point to a robust economy driven in large part by unprecedented fiscal and monetary support. The Retail sales control group, which is fed directly into GDP, was down 1.5% (MoM) during the month of April, below consensus expectations of a 0.2% drop. The drop in April retail sales was somewhat offset by the upward revision of the March print. Both the ISM Manufacturing and Service Indices continue to remain firmly in expansionary territory. The Manufacturing Index, driven by an uptick in new orders and building price pressures, came in at 61.2 in May. The Services Index came in at 64, a record high dating back to 1997. Core PCE Deflator (YoY) came in at 3.1% for the month of April, the largest increase since the first quarter of 1992. While the increase was well above the Federal Reserve's ("the Fed's") 2% target, most Fed officials and economists alike believe the recent rise in inflation will be transitory. Expectations are for future inflation readings to fall back toward 2% as supply chains are repaired and base effects from the depths of the pandemic are passed through the data. On the employment front, during the month of May, the economy gained 559k jobs, lower than the 675k expected, with prior month job gains being revised up from 266k to 278k. The below-consensus print was likely due to supply constraints and labor shortages. The largest payroll increase was concentrated in the restaurant/bar sector, likely reflecting the rapid pace of reopening in the service industry. The unemployment rate fell from 6.1% to 5.8% while average hourly earnings came in at 2.0% (YoY), above the 1.6% consensus expectation.



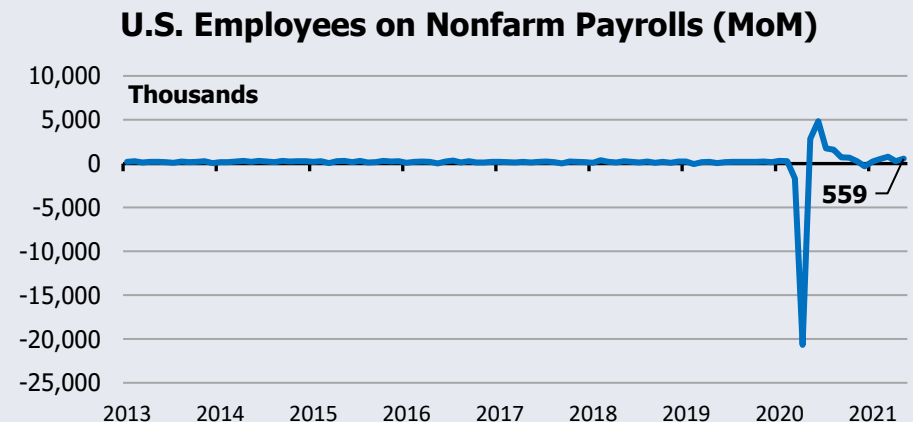
Source: Bloomberg, June 2021

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, NYL Investors, Barclays – June 2021.

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Source: Bloomberg, June 2021

Note: Nonfarm payrolls is the measure of the number of workers in the U.S. excluding farm workers and workers in a handful of other job classifications.

Fixed Income Investors

Market Review - as of May 31, 2021



Source: Bloomberg, June 2021

Interest rates moved slightly lower during May, led by the belly of the curve. The seven-year part of the curve moved 5 bps lower while the 30-year part of the curve moved 1 bp lower. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 43 bps of excess return. CMBS was the second-best performing sector during the month, outpacing both ABS and MBS.

US Treasury Yields

Term	5/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.03%	-2	-3	-7	-12
2Y	0.14%	-2	1	2	-2
3Y	0.30%	-3	2	13	10
5Y	0.80%	-5	7	44	50
7Y	1.26%	-5	14	62	76
10Y	1.59%	-3	19	68	94
30Y	2.28%	-1	13	64	88
2s10s	145	-1	18	66	96
10s30s	69	2	-6	-4	-7

Source: Bloomberg, NYL Investors, Barclays – June 2021.

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Market Review - as of May 31, 2021

Investment Grade Credit registered its eighth straight month of positive excess returns in May. The Bloomberg Barclays Credit Index was 6 bps tighter during the period. The constructive sentiment was supported by a lack of volatility in both credit and rate markets as participants digested incoming data points in stride. Performance dispersion across sectors was limited once again as the Industrial and Financial sectors modestly outpaced the broader market with 52 bps and 44 bps of positive excess returns, respectively. The Utility and Non-corporate sectors lagged with 22 bps and 18 bps of excess returns, respectively. As discussed in previous updates, and at the risk of being repetitive, the technical backdrop remains pristine. Investor demand for the asset class remains high, and issuance volumes were well within expectations. Furthermore, the fundamental backdrop improved during the month as first quarter earnings continued to impress, and management outlooks remain constructive. Even anecdotal episodes of increasing input prices did little to deter positive investor sentiment, perhaps a nod to the overly accommodative tone which the Fed continues to emphatically communicate to the market. Spreads remain at multi-year tightness and questions around valuations have begun to creep into market commentary, but one cannot ignore the fact that the economy and policy support could justify these current spread levels for the foreseeable future.

US Fixed Income Spreads

Index	5/31/2021	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	30	1	-4	-12	-46
Agency	2	-2	-2	-8	-21
Credit	79	-6	-7	-13	-85
MBS	16	9	-4	-23	-57
ABS	25	-6	-4	-8	-86
CMBS	58	-7	-12	-23	-100
USD EM	267	-6	-5	-14	-181

Source: Bloomberg, NYL Investors, Barclays – June 2021.

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The new issue calendar was busy throughout the month with \$141 billion in gross issuance. Year-to-date volumes are 33% behind last year's pace and are expected to moderate further into the year. Investor participation remains high, culminating in oversubscribed order books and little to no concession versus secondary paper, a common theme for multiple quarters. Industrial and financial issuers comprised the majority of issuance, and issuance was evenly split between the sectors. Unlike prior months, issuance was skewed toward the five- to ten-year part of the curve and only modest long dated issuance. Long duration credit and triple-B rated issuers continue to perform well in this low rate and low volatility environment.

Performance for Securitized Products was mixed for the month of May. CMBS continued the outperformance (37 bps of excess return) it has produced all year, ABS yet again had underwhelming but positive excess returns (13 bps of excess return), and MBS struggled immensely on weakening fundamentals and lackluster demand (-36 bps of excess return). In CMBS, the themes remain the same as the bid for duration and higher up-in-quality spread kept investors attracted to the sector, especially as the economy reopens and commercial real estate fundamentals improve. Recent-vintage AAAs ended May around S+62-53, about 5 bps tighter versus the beginning of the month, which was in line with the move in Investment Grade corporates. In terms of issuance volumes, private-label volumes were \$11.8 billion in May, bringing YTD supply to \$49.2 billion — 24% higher than 2019 volumes. In consumer ABS, there is not much of note to report, particularly in higher quality sectors like cards, autos, floorplans, and auto loan revolvers, where spreads still range anywhere from 2-20 bps for two- to three-year paper. There is much more supply in non-traditional sectors than prior years, including railcar, container, solar, aviation, and whole business. Spreads here are in the 115-135 bps context, about unchanged from the beginning of 2021. ABS issuance stands at \$27.4 billion YTD, about 35% higher versus the same period in 2019.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.05%	0.28%	0.48%	2.79%
Agency	0.02%	0.02%	0.18%	0.81%
Credit	0.43%	0.89%	1.46%	8.31%
MBS	-0.36%	-0.08%	-0.10%	0.03%
ABS	0.13%	0.13%	0.33%	2.38%
CMBS	0.37%	0.72%	1.22%	5.75%
USD EM	0.54%	1.44%	1.88%	12.06%

5/31/2021

Source: Bloomberg, NYL Investors, Barclays – June 2021.

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In MBS, performance across the coupon stack mirrored the 10-bp rate rally in the second half of the month below 1.6% on 10s. FN 2s were roughly unchanged on the month with the curve flattening weighing on spreads. On average, TBA supply was \$7.3 billion per day versus \$7.6 billion in April, finishing 13% lower on the month and an unchanged primary rate. While yield-based demand from banks and overseas picked up mid-month leading the basis back to historical tightness, REIT and money manager selling offset this buying. In terms of Fed demand, conventional purchases were reduced \$4 billion to \$16.5 billion on May 15th due to lower paydowns from slower prepayments, which in turn weighed on performance.

However, the brunt of MBS underperformance was felt in higher coupons and Ginnie Mae Securities ("Ginnies"). Conventional 3.5-4.5s widened 15-25 bps in zero-volume spread on money manager selling driven by faster-than-expected speeds and exacerbated by Yield Book model changes. Conventional 3.0s also underperformed for similar reasons but to a lesser extent. Ginnies struggled across the coupon stack due to heavier origination and selling from money managers. Higher coupon Ginnies repriced meaningfully lower with G2 3.5-4.5s underperforming close to a point on the month. An uptick in higher coupon supply from originators, higher speeds, and model uncertainty drove the widening. The overall fundamental and technical backdrop is unlikely to improve for MBS in the coming months and could be further complicated by taper talk.

Source: Bloomberg, NYL Investors, Barclays – June 2021.

MBS – Mortgage-Backed Securities

































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








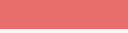

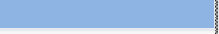


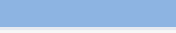




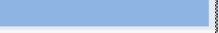


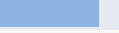












Supplemental Data - as of May 31, 2021

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.33% 	-0.14% 	-2.29% 	-0.40% 
Treasury	0.34% 	-0.46% 	-3.20% 	-3.75% 
Agency	0.27% 	0.00% 	-0.91% 	-0.32% 
Credit	0.72% 	0.17% 	-2.74% 	3.32% 
MBS	-0.18% 	-0.14% 	-0.73% 	-0.47% 
ABS	0.22% 	0.19% 	0.20% 	2.44% 
CMBS	0.71% 	0.52% 	-0.70% 	3.71% 
USD EM	0.92% 	0.98% 	-1.30% 	8.22% 

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.37% 	0.01% 	-1.70% 	-0.74% 
Credit Aa	0.64% 	0.24% 	-3.03% 	0.32% 
Credit A	0.66% 	-0.15% 	-3.25% 	1.54% 
Credit Baa	0.84% 	0.43% 	-2.45% 	6.15% 
Finance	0.72% 	0.11% 	-1.88% 	4.61% 
Industrial	0.82% 	0.24% 	-3.11% 	3.49% 
Utility	0.52% 	-0.55% 	-4.51% 	1.16% 
Supranational	0.32% 	0.15% 	-0.70% 	-0.23% 
Sovereign	0.65% 	0.73% 	-4.98% 	2.47% 

5/31/2021

Source: Bloomberg, NYL Investors, Barclays – June 2021.
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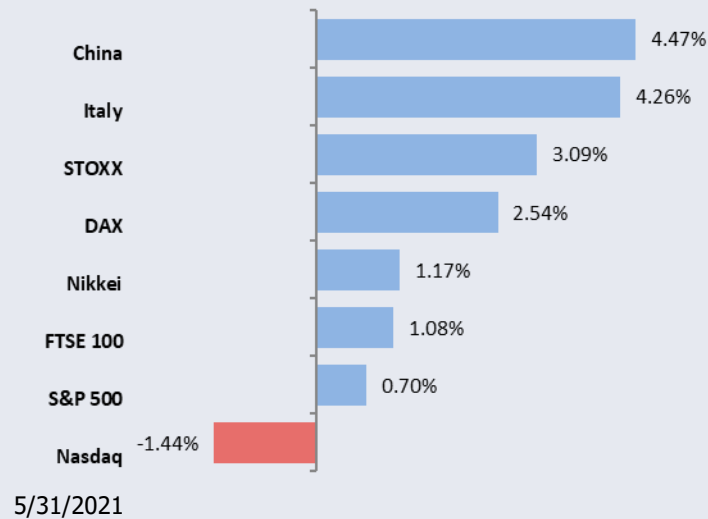
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Supplemental Data - as of May 31, 2021

Global Equity Returns

Stock Index	5/31/2021	1-Month	3-Month	YTD	1-Year
S&P 500	4204	0.70%	10.72%	12.62%	40.32%
Nasdaq	13749	-1.44%	4.41%	6.98%	45.95%
STOXX	449	3.09%	12.14%	14.02%	31.04%
FTSE 100	7023	1.08%	9.61%	10.46%	19.48%
DAX	15520	2.54%	12.58%	13.13%	33.94%
Italy	25169	4.26%	10.16%	13.21%	38.31%
Nikkei	29149	1.17%	1.25%	6.91%	35.34%
China	3601	4.47%	2.61%	3.68%	26.24%

1-Month Performance



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

Supplemental Data - as of May 31, 2021

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	449	3.09%	12.14%	14.02%	31.04%
FTSE 100	7023	1.08%	9.61%	10.46%	19.48%
DAX	15520	2.54%	12.58%	13.13%	33.94%
CAC 40	6484	4.30%	14.96%	18.23%	40.96%
Portugal	5242	3.79%	11.49%	7.02%	21.05%
Italy	25169	4.26%	10.16%	13.21%	38.31%
Ireland	8283	2.36%	13.65%	13.14%	42.40%
Greece	888	-2.41%	12.16%	9.85%	39.40%
Spain	9225	4.76%	12.62%	15.03%	33.25%
Russia	3731	5.26%	11.47%	13.42%	36.41%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	2341	3.59%	9.16%	10.42%	38.85%
MSCI EM	1361	1.15%	2.10%	6.03%	49.27%
MSCI FM	631	3.91%	11.35%	11.92%	37.02%
MSCI FM100	1399	3.56%	10.92%	13.30%	41.41%

5/31/2021

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

The ISM Manufacturing & Non-Manufacturing Indices are 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. The ISM Non-Manufacturing Index is also known as the ISM Services Index.

Investments cannot be made in an index.

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