NYL Investors LLC
Fixed Income Investors

October 2019

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FIXED INCOME INVESTORS

Fixed Income Investors

Summary - as of October 31, 2019

- The month of October began with another solid jobs report signaling continued strength in the labor market.
- Inflation continues to languish even as the labor market continues to tighten. Core PCE (YoY) came in at 1.7%, the twelfth straight month below the Federal Reserve's 2% inflation target.
- The manufacturing sector continues to be negatively affected by trade war uncertainty. The ISM Manufacturing index printed at 48.3, the third straight month in the contraction territory.
- The ISM Non-Manufacturing index, which represents over two-thirds of U.S. Real GDP, is still printing above 50, signaling expansion in the largest portion of the economy.
- Annual GDP is now tracking 2.3% for 2019, driven by the strong labor market and resilient consumer.
- The Federal Open Market Committee (FOMC) used their October meeting to reduce the target range for the federal funds rate by 25 bps to between 1.50% - 1.75%.
- The Federal Reserve also cut the interest on excess reserves (IOER) rate by 25 bps to 1.55% in October.
- Chair Powell essentially confirmed that monetary policy actions from the Federal Reserve, both easing and tightening, are effectively on hold for the foreseeable future.
- High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 55 bps of excess return.
- The Utility, Financial, and Industrial sectors outpaced the broader market generating 72 bps, 63 bps, and 57 bps, respectively.
- The Non-corporate sector lagged the broader market with a modest 26 bps.
- Structured products experienced modest positive performance of 9 bps during the month of October.
- Fixed rate issuance registered at $107 billion bringing year-to-date totals to $1.2 trillion with the mix between industrial and financial issuers being more balanced.

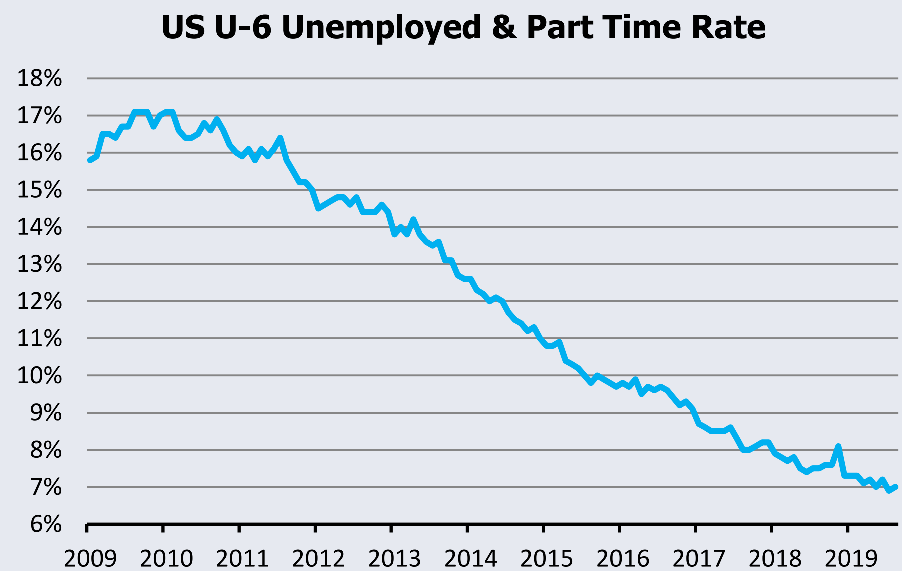
Source: Bloomberg, NYL Investors, Barclays – November 2019.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset-Backed Securities

Fixed Income Investors

Market Review - as of October 31, 2019

The month of October began with another solid jobs report. The economy added 136k jobs in September versus a consensus estimate of 145k. The prior month non-farm payroll number was revised higher by 89k, signaling continued strength in the labor market. Average Hourly Earnings (YoY) printed at 2.9%, the first print below 3% since July 2018 but still above the 2.5% historical average. The unemployment rate ticked down to a multi-decade low of 3.5%. Labor market slack, always a monetary policy concern, also moved lower as the underemployment rate (U-6) dropped to 6.9%. Inflation continues to languish even as the labor market continues to tighten. Core PCE (YoY) came in at 1.7%, the twelfth straight month below the Federal Reserve's 2% inflation target.

Source: Bloomberg, November 2019



Source: Bloomberg, November 2019

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Fixed Income Investors

Market Review - as of October 31, 2019

The manufacturing sector continues to be negatively affected by trade war uncertainty. The ISM Manufacturing index printed at 48.3 for the month of October, in contraction territory for the third straight month. While the U.S. manufacturing sector has shrank significantly over the past several years, it still represents an important global bellwether because of how intertwined manufacturing supply chains are. The ISM Non-Manufacturing index, which represents over two-thirds of U.S. Real GDP, is still printing above 50, signaling expansion in the largest portion of the economy. Toward the end of the month, the advanced 3Q19 GDP print came in at 1.9%, better than the 1.6% consensus estimate. Annual GDP is now tracking 2.3% for 2019, driven by the strong labor market and resilient consumer.

The Federal Open Market Committee (FOMC) used their October meeting to reduce the target range for the federal funds rate by 25 bps to between 1.50% - 1.75%. The Federal Reserve also cut the interest on excess reserves (IOER) rate by 25 bps to 1.55%. This change, like last month's reduction, is more of a technical adjustment to keep the Effective Fed Funds Rate (EFFR) in the middle of the Federal Reserve's desired range. They also made changes to their statement to reflect their more balanced view on monetary policy. During the ensuing press conference, Chair Powell essentially confirmed that monetary policy actions from the Federal Reserve, both easing and tightening, are effectively on hold for the foreseeable future. At the conclusion of the meeting, markets reacted quickly pricing out any further interest rate reductions from the Federal Reserve for the remainder of the year.

During the month of October, interest rates moved lower and the curve steepened, led by the front end. The one-year part of the curve moved 25 bps lower while the ten-year note closed 3 bps higher. High Grade Credit was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month, producing 55 bps of excess return. Within securitized products, MBS produced 9 bps of excess return, outperforming both CMBS and ABS.

High grade credit spreads traded with a firm tone as the Bloomberg Barclays Credit Index tightened 4 bps during the month of October. The Utility, Financial, and Industrial sectors outpaced the broader market generating 72 bps, 63 bps, and 57 bps, respectively. The Non-corporate sector lagged the broader market with a modest 26 bps. Rate stability in the intermediate part of the yield curve resulted in continued inflows into the asset class. The technical backdrop remains strong as street inventory remains light and market participants continue to search for incremental yield. Third quarter earnings came in better across most sectors, outperforming reduced expectations from the investor base. The manufacturing sector, and specifically those companies with elevated international exposure, experienced continued softness, but not to the detriment of credit quality.

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

Market Review - as of October 31, 2019

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.03%	-0.09%	0.77%	0.57%
Credit Aa	0.24%	-0.11%	2.28%	1.31%
Credit A	0.53%	-0.09%	3.71%	1.71%
Credit Baa	0.72%	0.20%	6.04%	3.06%
Finance	0.63%	0.26%	4.62%	2.67%
Industrial	0.57%	-0.07%	5.00%	2.37%
Utility	0.72%	-0.40%	3.17%	0.14%
Supranational	-0.08%	-0.04%	0.33%	0.43%
Sovereign	0.38%	-0.11%	5.33%	3.82%

10/31/2019

The new issue calendar was relatively modest during the month as issuers were in blackout periods for the first few weeks in October. Fixed rate issuance registered at $107 billion bringing year-to-date totals to $1.2 trillion. The mix between industrial and financial issuers was more balanced during the month as banks were active post earnings season. Investor appetite for the calendar remains strong, culminating in relatively narrow concessions versus secondary levels.

The last two months of the year will likely be met with modest issuance which should be easily absorbed given the strong technical backdrop and continued demand from the investor base. Trade issues and economic data on both the domestic and international front could be market signposts for spread directionality in the near term.

Structured products experienced modest positive performance of 9 bps during the month of October. ABS was the only sector within structured products which suffered negative excess returns (-5 bps), as unfavorable supply technicals coupled with curve steepening weighed on front end/higher quality spreads. October was the highest month of ABS new issue supply in 2019 at $32.7 billion. Autos comprised 40% of the issuance at $13.3 billion and was the second highest monthly supply figure for the sector in 2019. Excess returns in the auto sector came in at -3 bps, outperforming credit cards which retuned -7 bps versus Treasuries. While supply in credit cards was just over 50% lower than September at $2.1 billion, the re-steepening of the Treasury curve led by the front end put immense pressure on all-in yield levels for shorter paper.

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

Market Review - as of October 31, 2019

In CMBS, except for the Baa sub-component, spreads tightened during the month of October, resulting in excess returns of 8 bps. While total private label new issue supply was the second highest monthly volume of 2019 at $14.3 billion, it was predominately concentrated in single-asset single-borrower deals (57% supply, non-index eligible). The conduit calendar was relatively light with four transactions totaling just $3.7 billion. In addition to a relatively light primary calendar, conduit secondary Bid Wanted In Competition (BWIC) supply in AAAs was subdued, keeping spreads well bid. Longer duration bonds outperformed, as the front-end driven curve steepening strengthened relative value out the spread curve. Bonds with a greater than 6-year WAL had excess returns of 10-12 bps, while 1-3.5-year WAL bonds outperformed Treasuries by 1 bp.

While MBS modestly outperformed CMBS with excess returns of 9 bps, performance was somewhat volatile as spreads widened during the first half of the month before finishing unchanged to modestly tighter depending on the sector/coupon. For example, in FNMA 3.0s, heavy supply from originators provided a strong headwind for performance and drove zero-volatility spreads 4 bps wider in the first half of the month, before ultimately finishing 3 bps tighter. As the 10-year yields went from 1.50% to 1.85%, the majority of origination shifted from 2.5s to 3.0s and saw daily averages of upwards of $3.5 billion in supply. Higher yields and wider spreads brought in substantial real money sponsorship in the second half of the month. Breaking down by subsector, GNMAs (16 bps) outperformed conventionals (7 bps) on the back of sponsorship from both overseas and domestic real money investors. Furthermore, the shorter Weighted Average Maturity (WAM) securities outperformed 30-years (6 bps) into the steepening — the 15-year and 20-year sectors produced excess returns of 9 bps and 12 bps, respectively.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.19%	-0.06%	1.32%	0.65%
Agency	-0.02%	0.09%	0.42%	0.31%
Credit	0.55%	0.04%	4.39%	2.22%
MBS	0.09%	-0.30%	0.02%	-0.14%
ABS	-0.05%	0.08%	0.69%	0.60%
CMBS	0.08%	-0.12%	1.85%	1.18%
USD EM	0.43%	-1.62%	3.74%	1.80%

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Supplemental Data - as of October 31, 2019

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.30%	2.35%	8.85%	11.51%
Treasury	0.07%	2.59%	7.79%	11.08%
Agency	0.19%	1.92%	6.18%	8.36%
Credit	0.57%	3.04%	13.25%	14.88%
MBS	0.35%	1.32%	5.97%	8.87%
ABS	0.27%	1.21%	4.41%	5.63%
CMBS	0.33%	2.02%	9.00%	11.50%
USD EM	0.53%	0.82%	11.38%	12.73%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.21%	1.99%	7.10%	9.52%
Credit Aa	0.26%	2.75%	10.61%	13.12%
Credit A	0.53%	2.99%	12.78%	14.70%
Credit Baa	0.72%	3.31%	15.35%	16.36%
Finance	0.77%	2.70%	12.10%	13.33%
Industrial	0.54%	3.23%	14.72%	16.26%
Utility	0.51%	3.71%	14.93%	17.10%
Supranational	0.22%	1.44%	5.18%	7.24%
Sovereign	0.29%	3.48%	15.94%	19.08%

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US Treasury Yields

Term	10/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	1.49%	-25	-49	-110	-116
2Y	1.52%	-10	-35	-96	-134
3Y	1.52%	-4	-31	-94	-141
5Y	1.52%	-2	-31	-99	-146
7Y	1.60%	-1	-31	-98	-146
10Y	1.69%	3	-32	-99	-145
30Y	2.18%	7	-35	-84	-121
2s10s	17	12	2	-3	-11
10s30s	49	4	-2	16	24

Source: Bloomberg, NYL Investors, Barclays – November 2019.
Past performance is not indicative of future results.

Fixed Income Investors

Supplemental Data - as of October 31, 2019

US Fixed Income Spreads

Index	10/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	46	0	4	-8	2
Agency	12	1	-1	-4	-1
Credit	105	-4	2	-38	-7
MBS	49	3	11	14	15
ABS	41	4	2	-12	-2
CMBS	70	0	6	-16	0
USD EM	326	2	48	-17	27

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US Fixed Income Spreads

Index	10/31/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	20	2	3	-6	-5
Credit Aa	59	0	2	-22	-6
Credit A	84	-4	2	-34	-12
Credit Baa	146	-6	3	-51	-6
Finance	98	-5	1	-49	-14
Industrial	117	-4	3	-40	-5
Utility	108	-5	4	-36	-4
Supranational	10	4	3	-3	-5
Sovereign	122	-1	7	-39	-17

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

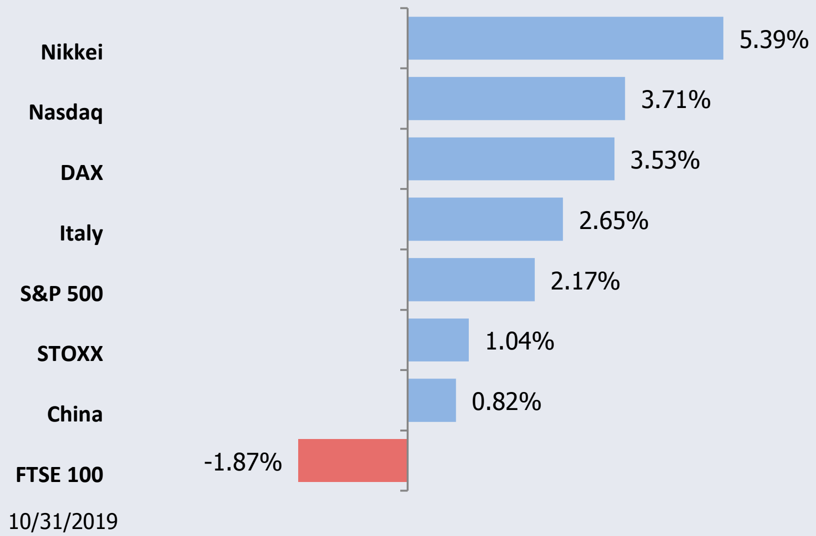
Supplemental Data - as of October 31, 2019

Global Equity Returns

Stock Index	10/31/2019	1-Month	3-Month	YTD	1-Year
S&P 500	3038	2.17%	2.43%	23.16%	14.33%
Nasdaq	8292	3.71%	1.71%	26.06%	14.77%
STOXX	397	1.04%	3.36%	20.75%	13.04%
FTSE 100	7248	-1.87%	-3.07%	12.12%	6.47%
DAX	12867	3.53%	5.56%	21.86%	12.40%
Italy	22694	2.65%	6.05%	23.85%	19.13%
Nikkei	22927	5.39%	7.39%	16.79%	6.86%
China	2929	0.82%	-0.12%	17.45%	12.54%

10/31/2019

1-Month Performance



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

Supplemental Data - as of October 31, 2019

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	397	1.04%	3.36%	20.75%	13.04%
FTSE 100	7248	-1.87%	-3.07%	12.12%	6.47%
DAX	12867	3.53%	5.56%	21.86%	12.40%
CAC 40	5730	0.92%	3.93%	23.73%	15.18%
Portugal	5120	2.93%	2.17%	8.20%	1.77%
Italy	22694	2.65%	6.05%	23.85%	19.13%
Ireland	6540	4.79%	7.43%	21.63%	8.48%
Greece	883	1.63%	-1.83%	47.68%	41.92%
Spain	9258	0.61%	3.69%	11.50%	7.78%
Russia	2894	5.34%	5.64%	22.70%	23.01%

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International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1955	3.59%	3.80%	16.86%	11.04%
MSCI EM	1042	4.22%	1.03%	10.36%	11.86%
MSCI FM	555	0.81%	-2.73%	11.56%	10.64%
MSCI FM100	1221	0.71%	-4.05%	12.10%	10.68%

10/31/2019

Source: Bloomberg, NYL Investors, Barclays – November 2019.
Last represents month-end close of business for October.
Past performance is not indicative of future results.

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