NYL Investors LLC
Fixed Income Investors

September 2019

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New York Life Fixed Income Investors

Fixed Income Investors

Summary - as of September 30, 2019

- The third quarter was marked by a notable increase in volatility, driven by escalating trade tensions and weakening global economic data, and the Merrill Option Volatility Estimate (MOVE) Index reached its highest level since early 2016.
- High-level trade discussions between the U.S. and China are scheduled to resume in Washington on October 10th and 11th.
- The Federal Open Market Committee (FOMC) reduced the target range for the federal funds rate to 1.75% - 2.0%, the second rate cut in the quarter.
- The FOMC also cut the interest rate on excess reserves (IOER) rate by 30 bps, so that at 1.8%, it now sits only 5 bps above the floor of the federal funds target range.
- Federal Reserve officials see stronger economic growth as their base case scenario, meaning any further rate cuts will most likely be limited.
- The ISM Non-Manufacturing index, which covers approximately 70% of the U.S. economy, finished the third quarter at 52.6, the lowest reading since 2016.
- The Barclays Credit Index traded in a 16 bp range during the quarter, closing at 109 bps.
- The best performing sector during the period was the Non-corporate sector with 34 bps of excess return, as the space benefitted from a tilt toward quality as uncertainty peaked.
- The Financial and Utility sectors each generated 14 bps of excess return while the Industrial sector lagged during the period with -3 bps of excess return.
- September was the busiest September on record for High Grade fixed rate issuance with a total of $385 billion of supply for the quarter, which was easily absorbed.
- There was limited differentiation of returns across credit quality as Baa issuers generated slightly more attractive excess returns given the carry advantage.
- Performance within Structured Products was volatile during the third quarter and was largely levered to what transpired in the rates market with respect to the level and shape of the yield curve.
- ABS outperformed with excess returns of 21 bps, followed by CMBS and MBS with 18 bps and 5 bps, respectively.

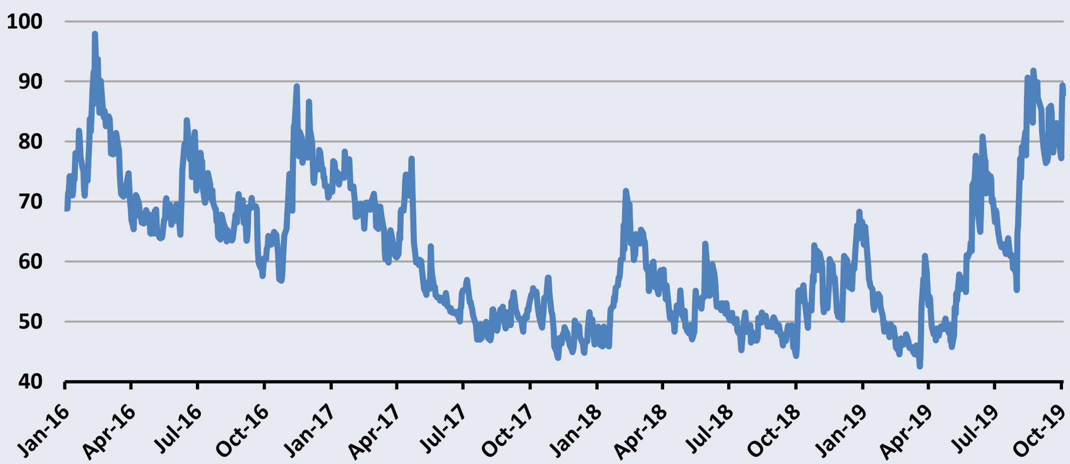
Source: Bloomberg, NYL Investors, Barclays – October 2019.
Past performance is not indicative of future results.
MBS – Mortgage-Backed Securities
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset-Backed Securities

Fixed Income Investors

Market Review - as of September 30, 2019

The third quarter was marked by a notable increase in volatility. Driven by escalating trade tensions, weakening global economic data, and an uneven outlook from the Federal Reserve, the Merrill Option Volatility Estimate (MOVE) Index reached its highest level since early 2016. The quarter started off on a positive tone as a negotiated truce between President Trump and President Xi seemed to put trade negotiations back on track. The truce was short lived with the U.S. accusing Chinese officials of backtracking on agreed-upon terms and Chinese officials demanding all tariffs be removed from Chinese goods before negotiations could move forward. Toward the end of the quarter, trade positions softened as the Chinese administration exempted certain American made products from scheduled tariffs. In return, President Trump delayed an increase in tariffs from 25% to 30% on $250 billion worth of Chinese goods from October 1st to October 15th. The delayed increase allows the People’s Republic of China to celebrate their 70th anniversary without increasing tariffs as a backdrop. High-level trade discussions between the U.S. and China are scheduled to resume in Washington on October 10th and 11th.

Merrill Option Volatility Estimate Index



Source: Bloomberg, October 2019
Note: This is a yield curve weighted index of the normalized implied volatility on one-month Treasury options. It is the weighted average of volatilities on the CT2, CT5, CT10, and CT30. “MOVE” is a trademark product of Merrill Lynch (weighted average of 1m2y, 1m5y, 1m10y and 1m30y Treasury implied vols with weights 0.2/0.2/0.4/0.2, respectively).

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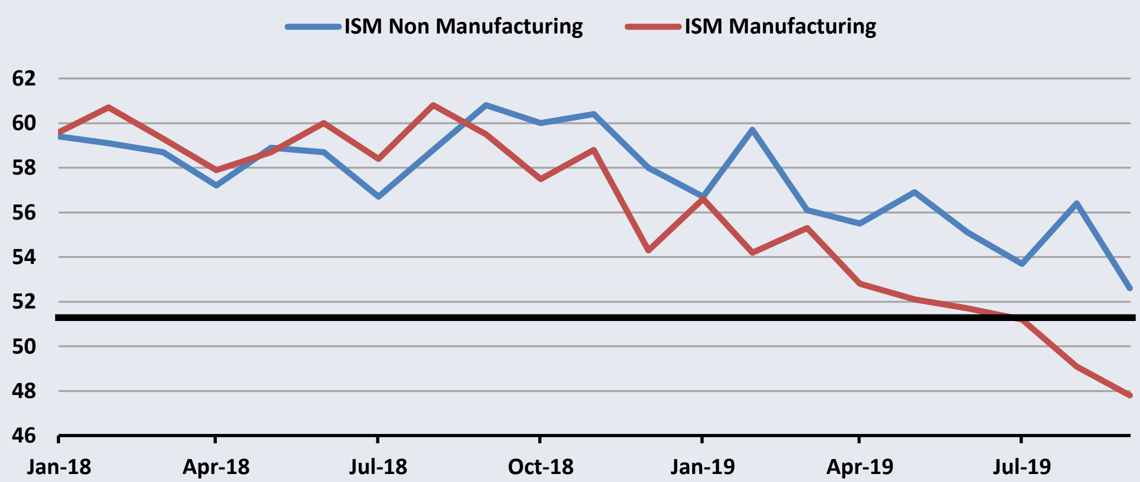
Market Review - as of September 30, 2019

At their most recent meeting in mid-September, the Federal Reserve's actions can most accurately be described as a hawkish cut. The Federal Open Market Committee (FOMC) reduced the target range for the federal funds rate to 1.75% - 2.0%, the second rate cut this quarter. They also cut the interest on excess reserves (IOER) rate by 30 bps, so that at 1.8%, it now sits only 5 bps above the floor of the federal funds target range. This was more of a technical adjustment to bring the effective fed funds rate back to the middle of the desired range. The effective fed funds rate was elevated due to recent pressure in the repo market. The Federal Reserve statement was largely unchanged from July, while the updated economic projections showed only a slight upgrade for 2019 growth from 2.1% to 2.2%. These factors suggest that Federal Reserve officials see stronger economic growth as their base case scenario, meaning any further rate cuts will most likely be limited.

The global manufacturing recession that began to take hold in the U.S. during the second quarter intensified as we moved through the summer months. The ISM Manufacturing index for September came in at 47.8, the first contraction in this index since August 2016. While the manufacturing sector constitutes approximately 11% of the domestic economy, it is seen as a bellwether for global trade due to the interconnectedness of the various supply chains. Other areas of the economy have proven to be more resilient but are beginning to show signs of weakness. The ISM Non-Manufacturing index, which covers approximately 70% of the U.S. economy, finished the third quarter at 52.6. While still in expansionary territory, this was the lowest reading since 2016. The labor market continues to provide a positive backdrop for the domestic economy, as the most recent three-month average of 156,000 jobs added should be enough to keep the unemployment rate close to 50-year lows.



Source: Bloomberg, October 2019

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Market Review - as of September 30, 2019

During the third quarter, interest rates moved lower and the curve flattened, led by the thirty-year bond which moved 42 bps lower while two-year notes finished 13 bps lower. ABS was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the quarter, producing 21 bps of excess return. MBS was the worst performing sector during the quarter, followed by High Grade Credit and CMBS, respectively. The S&P 500 finished the quarter up 1.18%, bringing the year-to-date performance to 18.74%.

US Treasury Yields

Term	9/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	1.74%	-2	-18	-85	-82
2Y	1.62%	12	-13	-87	-120
3Y	1.56%	13	-15	-90	-132
5Y	1.54%	16	-22	-97	-141
7Y	1.61%	16	-26	-97	-141
10Y	1.66%	17	-34	-102	-140
30Y	2.11%	15	-42	-90	-110
2s10s	4	5	-21	-15	-20
10s30s	45	-2	-8	12	30

Source: Bloomberg, NYL Investors, Barclays – October 2019.
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Market Review - as of September 30, 2019

High Grade credit was rangebound during the third quarter. Spreads came under pressure during the month of August as the trade tensions between the U.S. and China escalated and investors turned cautious. Uncertainty among market participants resulted in a meager 8 bps of excess return during the period. The Barclays Credit Index traded in a 16 bp range during the quarter, closing at 109 bps. The best performing sector during the period was the Non-corporate sector with 34 bps of excess return as the space benefitted from a tilt towards quality as uncertainty peaked. The Financial and Utility sectors each generated 14 bps of excess return while the Industrial sector lagged during the quarter with -3 bps of excess return. The fundamental backdrop within corporate credit remains benign but concerns over global growth have brought forth consternation around potential future margin compression. Robust inflows into the sector improved an already strong technical dynamic, likely mitigating more severe spread widening.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.05%	-0.01%	0.74%	0.35%
Credit Aa	0.22%	0.07%	2.02%	0.59%
Credit A	0.23%	-0.08%	3.12%	0.32%
Credit Baa	0.58%	0.22%	5.22%	0.94%
Finance	0.24%	0.14%	3.91%	1.41%
Industrial	0.54%	-0.03%	4.35%	0.49%
Utility	0.21%	0.14%	2.35%	-1.29%
Supranational	0.01%	0.11%	0.42%	0.48%
Sovereign	-0.06%	0.20%	4.89%	1.15%

9/30/2019

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Fixed Income Investors

Market Review - as of September 30, 2019

The new issue calendar was extremely active during the third quarter as issuers rushed to bring deals during August as rates rallied to multi-year lows. September issuance surprised to the upside as well, marking the busiest September on record for High Grade fixed rate issuance. There was $385 billion of supply during the period, but given the strong demand, the issuance was absorbed with ease. Issuers benefitted, as most were able to price deals with little to no concessions. Many companies took this opportunity to enact liability management trades, essentially printing deals to term out commercial paper or call near dated maturities, thereby extending their maturity profile. Industrial issuers comprised the majority of issuance once again, a common theme throughout 2019.

The strong rally across the rate curve resulted in steeper credit curves throughout the quarter. Demand for the front end remains robust, while the long end continues to struggle as all-in yield buyers balk at extending duration. There was limited differentiation of returns across credit quality as Baa issuers generated slightly more attractive excess returns given the carry advantage.

Investors now turn toward third quarter results looking for insight into top line growth, margin compression, and management commentary surrounding business confidence, especially as growth is showing signs of deceleration. Furthermore, spread directionality will be driven by Federal Reserve policy and any successes or failures on the trade front. We remain cautious around corporate credit in the near term due to tight valuations, compressed all-in yields, and the potential for investor sentiment to shift if risks deteriorate.

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Market Review - as of September 30, 2019

Performance within Structured Products was volatile during the third quarter and was largely levered to what transpired in the rates market with respect to the level and shape of the yield curve. Nonetheless, all three sub-sectors managed to generate at least modest excess returns, the bulk of which came in July due to limited interest rate volatility and macro-related concerns remaining subdued. ABS outperformed with excess returns of 21 bps, followed by CMBS and MBS with 18 bps and 5 bps, respectively. The outperformance of ABS was largely driven by demand for high quality, low spread duration assets in this period of heightened uncertainty. Additionally, attractive risk adjusted yields and breakeven spreads due to the flat yield curve provided support for the sector. Credit Cards outperformed Autos by 8 bps during the quarter, with excess returns of 25 bps.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	0.18%	0.05%	1.12%	0.04%
Agency	-0.02%	0.17%	0.44%	0.29%
Credit	0.38%	0.09%	3.77%	0.67%
MBS	0.24%	0.05%	-0.07%	-0.63%
ABS	-0.02%	0.21%	0.74%	0.59%
CMBS	0.03%	0.18%	1.76%	0.59%
USD EM	0.80%	-0.93%	3.26%	0.12%

9/30/2019

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Excess returns within CMBS came almost entirely in the month of July (37 bps). The sector suffered returns of -23 bps in August and was essentially unchanged versus equivalent duration Treasuries in September (3 bps). Increasingly negative swap spreads in the 10-year part of the curve helped buoy CMBS performance throughout the quarter. 10-year swap spreads tightened from -4 bps to -10.25 bps during the quarter, while new-issue AAA last cashflow spreads hovered around 10-year swaps at 90-95 bps. Unsurprisingly, the longer duration subcomponents (>6yr WAL) outperformed as a result of the flattening of the yield curve. Additionally, lower rated tranches continue to be well bid as yield sensitive investors remain especially challenged in this rate environment. The below-AAA sub-components outperformed AAAs by 80-90 bps during the quarter.

The third quarter was especially volatile for MBS, which ultimately finished with excess returns of 5 bps. The sector got off to a strong start in July, generating returns of 43 bps. Investors reduced underweights in MBS and sought relative value versus investment grade credit and agency CMBS given the underperformance over previous months. The lack of rate volatility was also supportive for mortgages with the 10-year trading in a tight 10 bp range. The 50 bps rate rally and risk off tone fueled by heightened trade tensions between the U.S. and China punished MBS in August, and the sector underperformed Treasuries by 63 bps. Mortgages were able to regain some of the lost ground in September as a 20 bp selloff from the lows in the 10-year note, the re-steepening in the two-years/10-years curve from negative territory, and the cooling of the refi index provided support for the market. These factors drove excess returns of 24 bps during the final month of the quarter. The GNMA space underperformed conventionals by 24 bps, with negative returns of -11 bps, largely as a result of trading with approximately one year less of effective duration to their Fannie Mae/Freddie Mac counterparts. 15-year/30-year performance mirrored the flattening in the curve, and the shorter Weighted Average Maturity (WAM) bonds underperformed 30-years by 41 bps with returns of -21 bps.

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Supplemental Data - as of September 30, 2019

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.53%	2.27%	8.52%	10.30%
Treasury	-0.85%	2.40%	7.71%	10.48%
Agency	-0.46%	1.74%	5.98%	7.99%
Credit	-0.65%	2.98%	12.61%	12.63%
MBS	0.07%	1.37%	5.60%	7.80%
ABS	-0.15%	0.92%	4.13%	5.42%
CMBS	-0.68%	1.90%	8.64%	10.51%
USD EM	0.04%	1.28%	10.79%	10.60%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.56%	1.77%	6.88%	8.86%
Credit Aa	-0.76%	2.84%	10.32%	11.76%
Credit A	-0.84%	2.93%	12.18%	12.58%
Credit Baa	-0.51%	3.26%	14.52%	13.49%
Finance	-0.55%	2.33%	11.25%	11.54%
Industrial	-0.62%	3.26%	14.11%	13.58%
Utility	-1.29%	4.47%	14.34%	14.57%
Supranational	-0.33%	1.14%	4.95%	7.02%
Sovereign	-1.38%	3.85%	15.61%	15.49%

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

Fixed Income Investors

Supplemental Data - as of September 30, 2019

US Fixed Income Spreads

Index	9/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	46	-2	0	-8	7
Agency	11	1	-3	-5	-1
Credit	109	-5	0	-34	9
MBS	46	-1	0	11	18
ABS	37	3	-4	-16	-1
CMBS	70	0	1	-16	10
USD EM	324	-11	33	-19	39

US Fixed Income Spreads

Index	9/30/2019	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	18	-1	-1	-8	-4
Credit Aa	59	-4	-3	-22	0
Credit A	88	-3	1	-30	3
Credit Baa	152	-6	1	-45	16
Finance	103	-4	0	-44	1
Industrial	121	-7	1	-36	13
Utility	113	-3	-2	-31	7
Supranational	6	-1	-3	-7	-8
Sovereign	123	1	1	-38	6

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

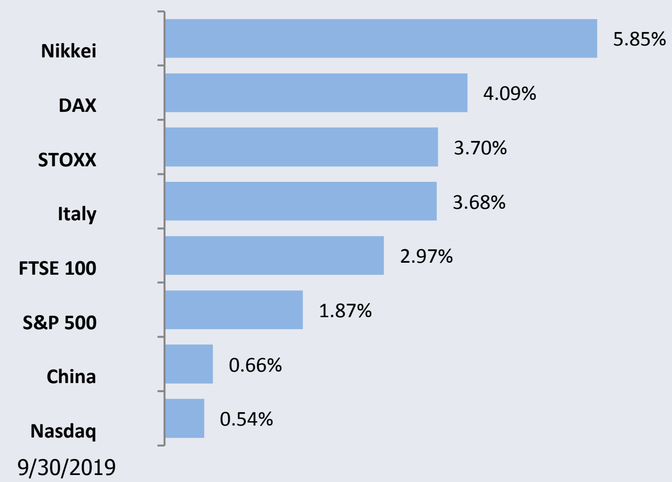
Fixed Income Investors

Supplemental Data - as of September 30, 2019

Global Equity Returns

Stock Index	9/30/2019	1-Month	3-Month	YTD	1-Year
S&P 500	2977	1.87%	1.70%	20.55%	4.25%
Nasdaq	7999	0.54%	0.18%	21.54%	0.52%
STOXX	393	3.70%	2.62%	19.51%	5.68%
FTSE 100	7408	2.97%	0.98%	14.25%	3.23%
DAX	12428	4.09%	0.24%	17.70%	1.48%
Italy	22108	3.68%	4.11%	20.65%	6.74%
Nikkei	21756	5.85%	3.09%	10.82%	-7.77%
China	2905	0.66%	-2.47%	16.49%	2.97%

1-Month Performance



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Fixed Income Investors

Supplemental Data - as of September 30, 2019

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	393	3.70%	2.62%	19.51%	5.68%
FTSE 100	7408	2.97%	0.98%	14.25%	3.23%
DAX	12428	4.09%	0.24%	17.70%	1.48%
CAC 40	5678	3.70%	2.66%	22.61%	5.87%
Portugal	4974	1.76%	-3.19%	5.12%	-7.19%
Italy	22108	3.68%	4.11%	20.65%	6.74%
Ireland	6244	6.51%	1.85%	16.08%	-2.39%
Greece	868	0.04%	1.52%	45.31%	29.33%
Spain	9245	4.91%	0.91%	10.82%	1.76%
Russia	2747	0.26%	-0.68%	16.48%	10.98%

9/30/2019

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1889	2.87%	-1.07%	12.80%	-1.34%
MSCI EM	1001	1.91%	-4.25%	5.90%	-2.02%
MSCI FM	550	-1.95%	-1.10%	10.66%	5.87%
MSCI FM100	1213	-1.56%	-2.58%	11.31%	5.75%

9/30/2019

Source: Bloomberg, NYL Investors, Barclays – October 2019.
Last represents month-end close of business for September.
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