NYL Investors LLC
Fixed Income Investors

September 2020

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New York Life Fixed Income Investors

Fixed Income Investors

Summary - as of September 30, 2020

- The third quarter was marked by the continued ebb and flow of coronavirus hotspots across the United States and worldwide.
- In August, President Trump partially reinstated certain consumer benefits, but without a comprehensive fiscal stimulus package, the U.S. is in danger of reversing the positive gains the economy experienced in the third quarter.
- The economy added 661k jobs, below the expected 859k in September, with the decrease being driven by a larger-than-expected seasonally adjusted decrease in state and local education employment.
- The unemployment rate dropped to 7.9% from 8.4% due to the decline in labor force participation, which fell to 61.4.
- The Citi Economic Surprise Index has risen from -144 on April 30th to 172 on September 30th, showing a dramatic increase in positive data surprises.
- The ISM Manufacturing and Non-Manufacturing Indices for September came in at 55.4 and 57.8, respectively. Both indices were above 50, signaling expansion, and are now above their pre COVID-19 levels.
- The Federal Reserve ("the Fed") met twice during the third quarter, holding the target range for the federal funds rate steady at 0.00% - 0.25%, anchoring the front end of the curve for the foreseeable future.
- In late August, Chair Powell announced the adoption of a new inflation framework which "seeks inflation that averages 2% over time." He also announced the new inflation policy will be tied to the Fed's forward guidance message.
- The Barclays Investment Grade Credit index tightened 14 bps during the third quarter, generating 136 bps of excess return, but performance in the period was driven by July's outsized move tighter.
- Although inflows into Investment Grade Credit have moderated, the market has witnessed over twenty straight weeks of positive flows to the asset class.
- The Industrial sector was the only component which managed to outpace the broader market with 150 bps of excess return.
- The Utility, Financial, and Non-corporate sectors generated 128 bps, 124 bps, and 111 bps, respectively.
- There has been a significant increase in early tender offers and debt exchanges as companies actively manage their maturity profile and seek to decrease their weighted average cost of capital.
- CMBS, ABS, and MBS had excess returns of 146 bps, 65 bps, and -7 bps, respectively.
- The Fed has purchased over $1.1 trillion in MBS since the start of its historic Quantitative Easing 4 (QE4) program in March, $300 billion of which took place during the third quarter, while the sector faces unprecedented headwinds which are weighing down returns.

Source: Bloomberg, NYL Investors, Barclays – October 2020.
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 September 30, 2020

The third quarter was marked by the continued ebb and flow of coronavirus hotspots across the United States and worldwide. As of October 2nd, there were over 600 companies working on a potential COVID-19 vaccine. Several companies such as Sorrento Therapeutics, GlaxoSmithKline, and AstraZeneca are in the process of developing multiple vaccines to fight the virus. As the summer progressed and restrictions were loosened, social gatherings became a breeding ground for a resurgence of the virus. Several states including Florida, Texas, and California saw record breaking daily case totals culminating on July 16th when over 75,000 cases were reported in the U.S., a one-day record. Fortunately, reported deaths for the virus have not spiked to levels seen in April when daily deaths in the U.S. routinely exceeded 2,000. The drop in daily reported deaths can be attributed to several factors, the most notable being increased testing allowing for earlier detection and treatment of the virus. As of October 1st, there have been over 7.3 million confirmed cases in the U.S. with over 200,000 deaths led by New York, New Jersey, California, and Texas. Worldwide, the death total is now over 1 million with over 34 million confirmed cases. While millions of Americans are still suffering economic hardship, the CARES act, enacted in late March to combat the fallout from the virus, expired on July 31st. Since then, Democrats and Republicans in Congress have been unable to reach an agreement on another fiscal stimulus package. Several contentious issues remain between the two parties including the total size of the stimulus as well as the amount of aid allocated to state and local governments. A series of executive orders in August by President Trump partially reinstated certain consumer benefits, but without a comprehensive fiscal stimulus package, the U.S. is in danger of reversing the positive gains the economy experienced in the third quarter.

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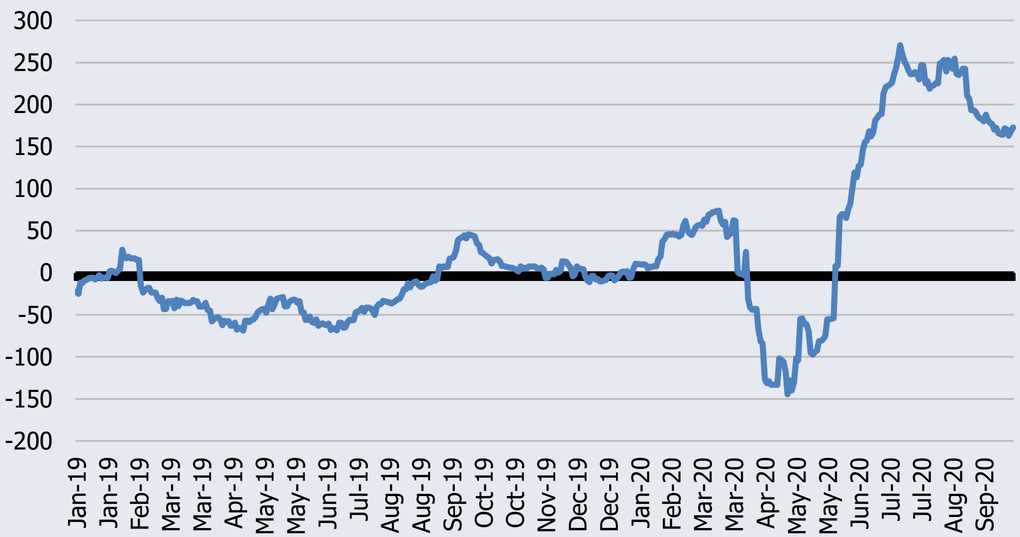
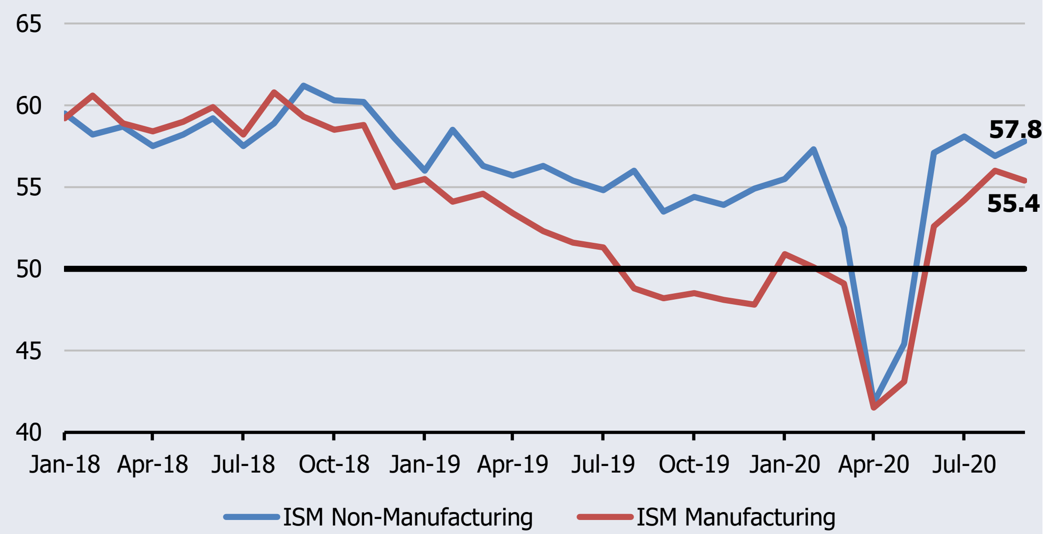
During the month of September, the economy added 661k jobs, below the expected 859k. The below-consensus jobs number was driven by a larger-than-expected seasonally adjusted decrease in state and local education employment. The drop was larger than in past years due to budget cuts and a switch to virtual education for many school districts across the country. The unemployment rate dropped to 7.9% from 8.4% due to the decline in labor force participation, which fell to 61.4. Other areas of the economy have held up surprisingly well as evidenced by the continued rise in the Citi Economic Surprise Index. The Citi Economic Surprise Index, which measures data surprises relative to market expectations, has risen from -144 on April 30th to 172 on September 30th, showing a dramatic increase in positive data surprises. The ISM manufacturing and Non-Manufacturing Indices for September came in at 55.4 and 57.8, respectively. Both indices were above 50, signaling expansion, and are now above their pre COVID-19 levels.

Citi Economic Surprise Index - U.S.



Source: Bloomberg, October 2020

ISM Manufacturing & Non-Manufacturing Indices



Source: Bloomberg, October 2020

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While the COVID-19 pandemic has created an environment of unparalleled uncertainty, one constant has been the overly aggressive dovish stance by the Federal Reserve ("the Fed"). The Fed met twice during the third quarter, holding the target range for the federal funds rate steady at 0.00% - 0.25%, anchoring the front end of the curve for the foreseeable future. In addition to the two scheduled meetings, Chair Powell spoke at the Jackson Hole Economic Symposium in late August. He used his speech to announce the adoption of a new inflation framework which "seeks inflation that averages 2% over time." He also announced the new inflation policy will be tied to the Fed's forward guidance message, tying any future rate increases to a sustained move higher in inflation and inflation expectations.

During the third quarter, the interest rate curve steepened, led by the long end. The two-year part of the curve moved 2 bps lower while the 30-year part of the curve moved 4 bps higher. CMBS was the best performing sector in the Bloomberg Barclays U.S. Aggregate Index during the month. High Grade Credit outperformed both the MBS and ABS sectors.

US Treasury Yields

Term	9/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	0.12%	1	-3	-145	-163
2Y	0.13%	0	-2	-144	-149
3Y	0.16%	1	-2	-145	-140
5Y	0.28%	1	-1	-141	-127
7Y	0.47%	-2	-2	-136	-114
10Y	0.68%	-2	3	-123	-98
30Y	1.46%	-2	4	-93	-66
2s10s	56	-2	5	21	51
10s30s	77	0	2	30	33

Source: Bloomberg, NYL Investors, Barclays – October 2020.
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Market Review - as of September 30, 2020

The Barclays Investment Grade Credit Index tightened 14 bps during the third quarter generating 136 bps of excess return, but performance in the period was driven by July's outsized move tighter. Spreads leaked wider in September due to a persistent new issue calendar and moderating fund inflows. Sector performance was relatively consistent, but the Industrial sector was the only component which managed to outpace the broader market with 150 bps of excess return. The Utility, Financial, and Non-corporate sectors generated 128 bps, 124 bps, and 111 bps, respectively. Investor sentiment was stable throughout the period as the technical backdrop continues to dominate spread directionality. Although inflows into the asset class have moderated, the market has witnessed over twenty straight weeks of positive flows to the asset class. Dealer inventories were consistent throughout the period as new issue purchases have largely been funded through inflows as opposed to secondary sales. Finally, although the Fed's Secondary Credit Facility purchase activity has steadily declined since its inception, they remain a constant presence in the market with weekly purchases, a clear signal of their commitment to the sector and ability to provide a backstop should volatility return.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.02%	0.27%	-0.85%	-0.41%
Credit Aa	-0.23%	0.74%	-2.54%	-1.36%
Credit A	-0.41%	1.00%	-2.79%	-0.63%
Credit Baa	-0.45%	1.97%	-5.53%	-2.37%
Finance	-0.42%	1.24%	-2.13%	0.13%
Industrial	-0.37%	1.50%	-4.81%	-1.96%
Utility	-0.52%	1.28%	-4.45%	-2.03%
Supranational	-0.03%	0.07%	-0.12%	-0.15%
Sovereign	-0.99%	2.87%	-5.71%	-2.97%

9/30/2020

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Market Review - as of September 30, 2020

These market dynamics have enabled corporate issuers nearly unlimited access to the new issue market. As volatility continued to abate in the third quarter and spreads compressed, all-in yields bounced along historic lows providing companies access to the cheapest financing levels on record. Corporate cash positions have moved steadily higher as management teams looked to bolster liquidity should the economy endure further pandemic-induced stress. That said, the third quarter witnessed another intriguing phenomenon as companies are actively terming out commercial paper and pre-funding upcoming debt maturities by issuing longer-dated debt. There has been a significant increase in early tender offers and debt exchanges as companies actively manage their maturity profile and seek to decrease their weighted average cost of capital. Demand for new issues was robust as investors remain yield starved in this lower-for-longer environment. New issue concessions have compressed steadily throughout the year, and third quarter issuance came nearly on top of secondary spread levels. Visibility on the forward calendar remains somewhat low as earnings season and the upcoming election could impact issuer access to the market.

Throughout this Fed-induced rally, lower quality credit has compressed versus higher quality credit, and the third quarter was no different, although September's modestly weaker backdrop witnessed a slight unwind of that dynamic. Credit curves remain relatively steep in the front-to-intermediate part of the curve as the Fed's purchases and issuer-induced tender offers keep front end spreads anchored. Meanwhile, 30-year credit has struggled to catch a meaningful bid as investors remain apprehensive about all-in yields. With rates oscillating in a very narrow range throughout the period and potentially for the foreseeable future, it is hard to envision a scenario in which credit curves deviate meaningfully from their current points.

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Market Review - as of September 30, 2020

Performance within Securitized Products was mixed during the third quarter, with CMBS and ABS continuing to see healthy spread tightening while MBS struggled in the wake of a challenging fundamental and technical backdrop. Excess returns were 146 bps, 65 bps, and -7 bps for these sectors, respectively. Fiscal stimulus, varying degrees of economic re-openings, and support from property sponsors and special servicers continued to provide investors with comfort regarding near-term CMBS fundamentals. Furthermore, with YTD private label CMBS supply finishing the quarter down 36% YoY and AAA last cashflows trading 20-25 bps wider to their pre-COVID tights of S+75-80, favorable supply-demand dynamics remained in flux. Within ABS, delinquencies in the Auto sector began to tick up modestly as fiscal stimulus and payment deferral plans expired but remain below pre-COVID figures. The spread tightening in Auto ABS continued during the quarter, generating 81 bps of excess returns, more than doubling the performance of Credit Cards, a sector which began the quarter at pre-COVID spread levels. Technicals remain favorable in the ABS market with YTD issuance ($158 billion) down 17% YoY at the conclusion of the quarter.

Moving on to MBS, while the Fed has purchased over $1.1 trillion in MBS since the start of its historic Quantitative Easing 4 (QE4) program in March, $300 billion of which took place during the third quarter, the sector faces unprecedented headwinds which are weighing down returns. These headwinds can be broken down into three components: prepayments, lack of comfort around realized yields and spreads (model uncertainty), and historic levels of supply.

US Fixed Income Excess Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.15%	0.46%	-1.17%	-0.27%
Agency	0.15%	0.19%	-0.40%	-0.29%
Credit	-0.38%	1.36%	-3.90%	-1.50%
MBS	-0.14%	-0.07%	-0.52%	0.12%
ABS	0.10%	0.65%	0.69%	0.66%
CMBS	0.28%	1.46%	-1.09%	-1.03%
USD EM	-1.42%	2.26%	-6.84%	-3.88%

9/30/2020

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Regarding the first and second components, record-low mortgage rates (sub-3% during the quarter) have caused a surge in refinance activity. As a result, prepays are at levels not seen since the early 2000s across seasoning curves and have come in at higher-than-market consensus in all but two speed reports (August and July) since the Fed began buying MBS in March. Even more concerning, by historical measures, mortgage rates could potentially decline by an additional 40-50 bps. Traditionally, the primary mortgage rate has stood at only 175 bps above the ten-year note yield (currently around 215 bps), but refinance demand has caused closing timelines to extend as originators have reached their capacity limits. This has left the primary-secondary spread wide and caused uncertainty around when it might compress and push prepays even higher. Mortgage fintech has undoubtedly aided in alleviating some of these capacity constraints but certainly has not made it any easier for market participants to accurately model prepayments. Property inspection waivers (PIWs) are being granted on almost two-thirds of refinance loans, with recent gains coming in cash-out refinance loans. Around 30% of cash-out refinance loans are being underwritten with PIWs, up from around 10% pre-COVID. With MBS dollar prices and prepayments near all-time highs and mortgage fintech impeding burnout, you have what is close to a worst-case scenario in terms of the ability to generate positive carry and price appreciation in cash MBS pass-throughs.

Unfortunately, even with the Fed's involvement, the supply-demand dynamics in MBS are equally unfavorable due to the strength of the U.S. housing market. In this historically low mortgage rate environment and with an emphasis on single-family over multi-family living in the wake of COVID-19, it is not surprising the recovery in U.S. housing has been incredibly robust since May. Applications for purchase, home sales (new and existing), and home price appreciation are all healthily above pre-COVID levels. This wave of housing and mortgage activity coupled with a 20-percentage point increase in the securitization rate has resulted in unprecedented levels of MBS supply. Q3 2020 issuance was the highest on record at $917 billion, $172 billion more than Q2 2020 at $745 billion, which is now the second highest on record. While this issuance has come at a time when banks have accrued deposits at four-to-five times above historical averages, it is still an insurmountable amount of gross supply which needs to be digested, even considering the Fed bought $300 billion (gross) during the period. When a glut of origination of this magnitude is combined with a large amount of uncertainty regarding realizable valuations, it becomes an incredibly challenging value proposition for many investors who can look to other spread product alternatives.

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Supplemental Data - as of September 30, 2020

US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.05%	0.62%	6.79%	6.98%
Treasury	0.14%	0.17%	8.90%	8.04%
Agency	0.20%	0.36%	5.44%	5.34%
Credit	-0.27%	1.50%	6.39%	7.50%
MBS	-0.11%	0.11%	3.62%	4.36%
ABS	0.13%	0.80%	4.14%	4.55%
CMBS	0.34%	1.71%	6.98%	6.63%
USD EM	-1.26%	2.37%	1.93%	4.06%

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US Fixed Income Total Returns

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	0.04%	0.45%	6.21%	6.25%
Credit Aa	-0.13%	0.86%	7.54%	7.49%
Credit A	-0.29%	1.14%	7.72%	8.51%
Credit Baa	-0.34%	2.10%	5.19%	6.97%
Finance	-0.33%	1.41%	6.45%	7.97%
Industrial	-0.25%	1.63%	6.43%	7.70%
Utility	-0.38%	1.38%	9.20%	9.23%
Supranational	0.01%	0.28%	5.04%	5.18%
Sovereign	-0.87%	2.95%	6.54%	7.40%

9/30/2020

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

Supplemental Data - as of September 30, 2020

US Fixed Income Spreads

Index	9/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	60	3	-8	21	14
Agency	16	-1	-5	6	5
Credit	128	6	-14	38	19
MBS	61	5	-9	22	15
ABS	41	-5	-27	-3	4
CMBS	106	-5	-26	34	36
USD EM	349	0	-59	48	25

US Fixed Income Spreads

Index	9/30/2020	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	26	0	-3	9	8
Credit Aa	81	4	-7	29	22
Credit A	103	6	-10	33	15
Credit Baa	176	7	-21	51	24
Finance	126	9	-13	46	23
Industrial	140	5	-16	41	19
Utility	141	7	-5	44	28
Supranational	15	1	-2	7	9
Sovereign	167	7	-29	63	44

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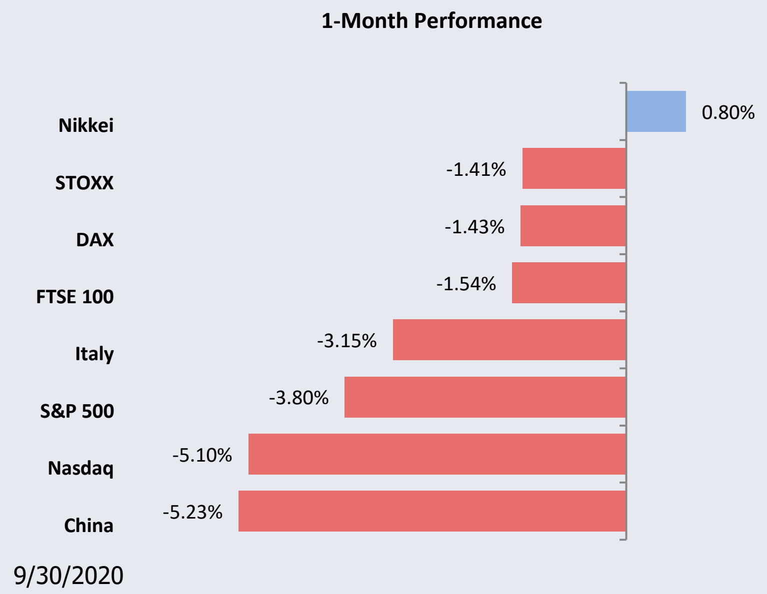
Fixed Income Investors

Supplemental Data - as of September 30, 2020

Global Equity Returns

Stock Index	9/30/2020	1-Month	3-Month	YTD	1-Year
S&P 500	3363	-3.80%	8.93%	5.57%	15.15%
Nasdaq	11168	-5.10%	11.24%	25.33%	40.96%
STOXX	361	-1.41%	0.64%	-11.56%	-6.15%
FTSE 100	5866	-1.54%	-4.02%	-20.21%	-18.07%
DAX	12761	-1.43%	3.65%	-3.69%	2.68%
Italy	19015	-3.15%	-1.86%	-19.11%	-13.99%
Nikkei	23185	0.80%	4.69%	-0.24%	8.67%
China	3218	-5.23%	7.82%	5.51%	10.77%



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Fixed Income Investors

Supplemental Data - as of September 30, 2020

Europe

Stock Index	Last	1-Month	3-Month	YTD	1-Year
STOXX	361	-1.41%	0.64%	-11.56%	-6.15%
FTSE 100	5866	-1.54%	-4.02%	-20.21%	-18.07%
DAX	12761	-1.43%	3.65%	-3.69%	2.68%
CAC 40	4803	-2.76%	-2.21%	-18.39%	-13.98%
Portugal	4067	-5.44%	-7.36%	-22.00%	-18.23%
Italy	19015	-3.15%	-1.86%	-19.11%	-13.99%
Ireland	6381	-0.70%	7.21%	-9.96%	3.66%
Greece	625	-1.45%	-1.03%	-29.87%	-25.85%
Spain	6717	-3.62%	-6.72%	-28.29%	-25.16%
Russia	2906	-2.04%	5.93%	-4.60%	5.77%

9/30/2020

International

Stock Index	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1855	-2.60%	4.80%	-7.09%	0.49%
MSCI EM	1082	-1.60%	9.56%	-1.16%	10.54%
MSCI FM	516	0.74%	8.29%	-8.79%	-2.74%
MSCI FM100	1123	0.43%	9.14%	-9.42%	-3.30%

9/30/2020

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