NYL Investors LLC
Fixed Income Investors

October 2018

NYL Investors LLC is a wholly owned subsidiary of New York Life Insurance Company.
Please see the last page for important disclosures regarding the information contained herein.

FIXED INCOME INVESTORS

Fixed Income Investors

Summary - as of October 31, 2018

- October began with positive momentum on the geopolitical front with the US and Canada coming to a full agreement to update the trade pact known as USMCA.
- US-China trade relations remain tense but the upcoming meeting between President Trump and President Xi Jinping could provide the catalyst for a trade agreement.
- The advanced 3rd quarter GDP came in at an annualized rate of 3.5%, above the 3.3% consensus the market was expecting.
- One area of concern in the advanced 3rd quarter GDP report was the 4% contraction in residential investment which is the third consecutive quarterly decline in this segment.
- The unemployment rate fell to 3.7%, equaling the lowest reading in 49 years.
- The Conference Board Consumer Confidence Index rose to 137.9 in October, the highest level since September 2000.
- Core PCE is expected to grind higher into 2019 as companies look to pass through higher input costs to the consumer.
- Volatility returned in October, putting pressure on asset prices across both Equities and Investment Grade Credit.
- The Bloomberg Barclays Credit Index closed the month at 112 bps, generating negative 80 bps in excess return.
- The Industrial sector underperformed the broader market widening 14 bps, resulting in 104 bps of negative excess return.
- The Financial, Utility, and Non-corporate sub-sectors outpaced the broader market returning -48 bps, -51 bps, and -70 bps respectively.
- CMBS and Agency MBS returned -44 bps and -37 bps respectively, while ABS returned just -6 bps of excess return.
- New issue volumes declined in October as wider spreads and higher rates forced some issuers to the sidelines. Industrial issuance comprised nearly 50% of the total volume.

Source: Bloomberg, NYL Investors, Barclays – November 2018.
Past performance is not indicative of future results.
CMBS – Commercial Mortgage-Backed Securities
ABS – Asset –Backed Securities

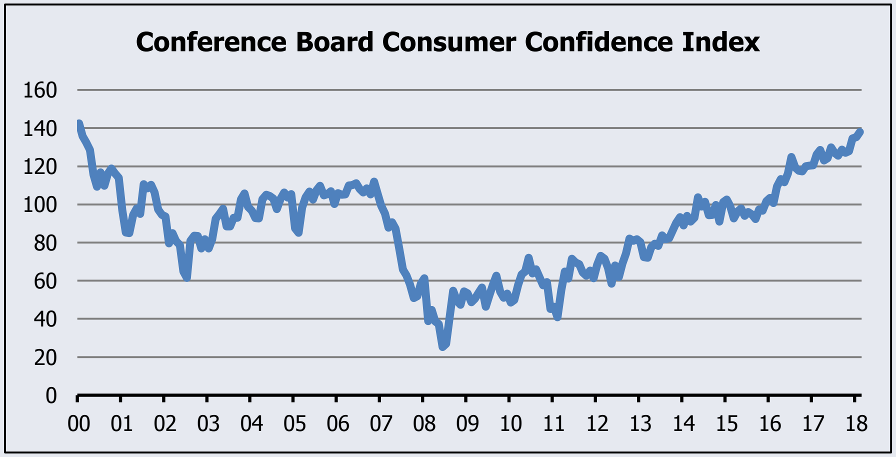
Fixed Income Investors

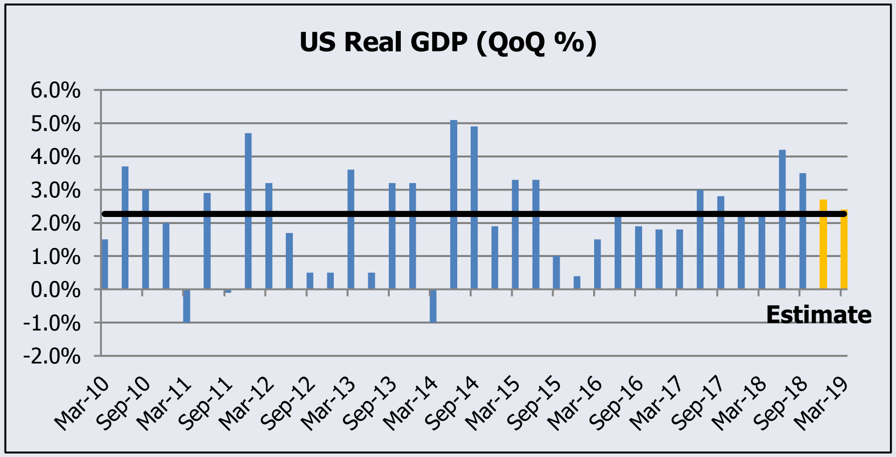
Market Review - as of October 31, 2018

The month of October began with positive momentum on the geopolitical front. The US and Canada came to a full agreement, moving forward the updated trade pact known as USMCA. Towards the middle of the month, it was announced that President Trump and President Xi Jinping are planning to meet during the G20 summit scheduled to take place November 30th – December 1st. Although US-China trade relations remain tense, this meeting could provide the catalyst for a trade agreement. Overseas, the tension continues to mount between the EU Commission and the Italian government over an appropriate deficit plan. U.S. markets have been largely unaffected by the noise around Italy but bear watching as we move through the 4th quarter.

The advanced 3rd quarter GDP came in at an annualized rate of 3.5%, above the 3.3% consensus the market was expecting. The stronger than expected reading was driven by increased personal consumption as well as an acceleration in government spending. One area of concern in the report was the 4% contraction in residential investment. This is the third consecutive quarterly decline in this segment.

The unemployment rate fell to 3.7%, equaling the lowest reading in 49 years. The September non-farm payrolls came in at +134,000, a below consensus number (+185,000) most likely reflecting a disruption from Hurricane Florence. Average hourly earnings were up 2.8% (YoY), a slight downtick from the prior months 2.9% (YoY) reading. A strong employment picture continues to be the backbone of the economic recovery. Driven by an optimistic employment outlook, the Conference Board Consumer Confidence Index rose to 137.9 in October, the highest level since September 2000. Core PCE is expected to grind higher into 2019 as companies look to pass through higher input costs to the consumer. We don't believe the U.S. Federal Reserve will react overly hawkish to a rise in inflation as they have stated their 2% Core PCE target is symmetric in nature.





10/27/2018

Source: Bloomberg, NYL Investors, Barclays – November 2018.
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Fixed Income Investors

Market Review - as of October 31, 2018

Interest rates moved higher during the month led by the back end of the curve. Two-year notes rose 5 bps while ten-year notes finished the month 8 bps higher. The S&P 500 was down approximately 7% in October bringing the year-to-date return for the index to 1.4%.

US Treasury Yields

Term	10/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
1Y	2.65%	9	25	92	123
2Y	2.87%	5	20	98	127
3Y	2.92%	4	16	95	120
5Y	2.97%	2	13	77	96
7Y	3.06%	4	14	73	83
10Y	3.14%	8	18	74	76
30Y	3.39%	19	31	65	51
2s10s	28	3	-1	-25	-50
10s30s	25	10	13	-9	-25

Volatility returned in October, putting pressure on asset prices across both Equities and Investment Grade Credit. A spike in rates and concerns over forward looking statements on third quarter earnings calls unsettled markets. Investment Grade credit outperformed the move in equities but experienced a correction nonetheless. The Bloomberg Barclays Credit Index closed the month at 112 bps, generating negative 80 bps in excess return. The industrial sector underperformed the broader market widening 14 bps, resulting in 104 bps of negative excess return. The Financial, Utility, and Non-corporate sub-sectors outpaced the broader market returning -48 bps, -51 bps, and -70 bps respectively.

US Fixed Income Excess Returns 10/31/2018

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.17%	-0.11%	-0.03%	0.09%
Credit Aa	-0.40%	-0.06%	-0.11%	0.12%
Credit A	-0.68%	-0.43%	-1.14%	-0.72%
Credit Baa	-1.11%	-0.57%	-0.81%	-0.30%
Finance	-0.48%	-0.14%	-0.80%	-0.38%
Industrial	-1.04%	-0.68%	-0.95%	-0.50%
Utility	-0.51%	-0.11%	-1.28%	-0.82%
Supranational	-0.03%	0.01%	0.15%	0.13%
Sovereign	-1.84%	-0.82%	-1.09%	-0.56%

Source: Bloomberg, NYL Investors, Barclays – November 2018.
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Fixed Income Investors

Market Review - as of October 31, 2018

Third quarter earnings were the primary determinant of spread performance during the month. Domestic bank earnings exceeded expectations once again, as companies delivered solid revenue growth and well-disciplined expense control. Asset quality improved further during the quarter and bank capital ratios remain steady at elevated levels. Management teams remain constructive over the coming quarters, as banks continue to benefit from the health of the U.S. consumer amidst a strong unemployment backdrop. Although expectations for growth have been tamped down somewhat, bank management teams are not signaling significant concerns just yet. Investor focus quickly shifted to industrial issuers following banks earnings. Although third quarter earnings were relatively strong across multiple industrial sub-sectors, concerns about rising input costs and potential margin compression in the future came to the forefront of investor's minds. This scenario is much more impactful for equity investors than creditors for now, but spreads widened nonetheless to reflect this increased uncertainty.

Following an active new issue calendar in September, volumes declined in October as wider spreads and higher rates forced some issuers to the sidelines. Industrial issuance comprised nearly 50% of the total volume, putting further pressure on secondary spreads. Conversely, bank issuance was decidedly lighter than expectations and in shorter maturities than the market had anticipated, which ultimately offered support to the secondary market. Year-to-date issuance is down 16% from 2017 volumes but has already surpassed the $1 trillion mark for the seventh straight year.

As rate volatility increased during the month, shorter duration maturities outperformed the back end, thereby steepening credit curves. Spread volatility resulted in better performance in the higher quality segment of the market as investors eschewed higher beta credit.

Like credit, heightened spread volatility resulted in negative excess returns across structured products in October. CMBS and Agency MBS returned -44 bps and -37 bps respectively, while ABS returned just -6 bps of excess return. October's early spike in interest rate volatility was the primary culprit for the underperformance in Agency MBS. Lower coupon MBS underperformed higher coupons given their longer duration profile. Gross issuance in MBS declined month-over-month as housing activity declined due to seasonal factors. Within CMBS, lower quality and longer duration issues underperformed as risk appetite declined throughout the month. ABS managed to outperform all other asset classes given the shorter duration and superior credit quality of the sector. Investor appetite for the sector remains robust, especially in times of increased volatility.

US Fixed Income Excess Returns 10/31/2018

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.35%	-0.24%	-0.35%	-0.16%
Agency	-0.04%	0.07%	0.07%	0.10%
Credit	-0.80%	-0.44%	-0.81%	-0.39%
MBS	-0.37%	-0.40%	-0.42%	-0.23%
ABS	-0.06%	0.13%	0.22%	0.33%
CMBS	-0.44%	0.03%	0.24%	0.47%
USD EM	-1.06%	-1.01%	-1.64%	-1.40%

Source: Bloomberg, NYL Investors, Barclays – November 2018.
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Fixed Income Investors

Supplemental Data - as of October 31, 2018

US Fixed Income Total Returns 10/31/2018

Index	1-Month	3-Month	YTD	1-Year
Agg	-0.79%	-0.79%	-2.38%	-2.05%
Treasury	-0.48%	-0.65%	-2.14%	-1.97%
Agency	-0.15%	0.01%	-0.69%	-0.72%
Credit	-1.40%	-1.23%	-3.49%	-2.81%
MBS	-0.63%	-0.64%	-1.69%	-1.52%
ABS	0.07%	0.47%	0.59%	0.52%
CMBS	-0.56%	-0.08%	-1.48%	-1.52%
USD EM	-1.37%	-1.40%	-3.62%	-3.39%

US Fixed Income Total Returns 10/31/2018

Index	1-Month	3-Month	YTD	1-Year
Credit Aaa	-0.39%	-0.34%	-1.32%	-1.20%
Credit Aa	-0.95%	-0.77%	-2.46%	-1.99%
Credit A	-1.33%	-1.31%	-3.98%	-3.25%
Credit Baa	-1.76%	-1.45%	-3.77%	-2.97%
Finance	-0.82%	-0.55%	-2.74%	-2.29%
Industrial	-1.78%	-1.70%	-4.10%	-3.27%
Utility	-1.66%	-1.73%	-5.53%	-4.35%
Supranational	0.02%	0.19%	-0.30%	-0.56%
Sovereign	-2.74%	-2.07%	-4.71%	-3.71%

Source: Bloomberg, NYL Investors, Barclays – November 2018.
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Fixed Income Investors

Supplemental Data - as of October 31, 2018

US Fixed Income Spreads

Index	10/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Agg	44	5	4	8	9
Agency	13	1	-1	-1	0
Credit	112	12	9	23	21
MBS	34	6	7	9	13
ABS	43	5	1	7	5
CMBS	70	10	4	8	7
USD EM	299	14	27	73	61

US Fixed Income Spreads

Index	10/31/2018	Change vs. 1 Month Ago	Change vs. 3 Months Ago	Change YTD	Change vs. 1 Year Ago
Credit Aaa	25	3	3	1	1
Credit Aa	65	6	2	10	7
Credit A	96	11	7	23	22
Credit Baa	152	16	11	28	27
Finance	112	10	7	27	25
Industrial	122	14	11	24	23
Utility	112	6	3	20	18
Supranational	15	1	1	-2	-1
Sovereign	139	22	13	34	29

Source: Bloomberg, NYL Investors, Barclays – November 2018.
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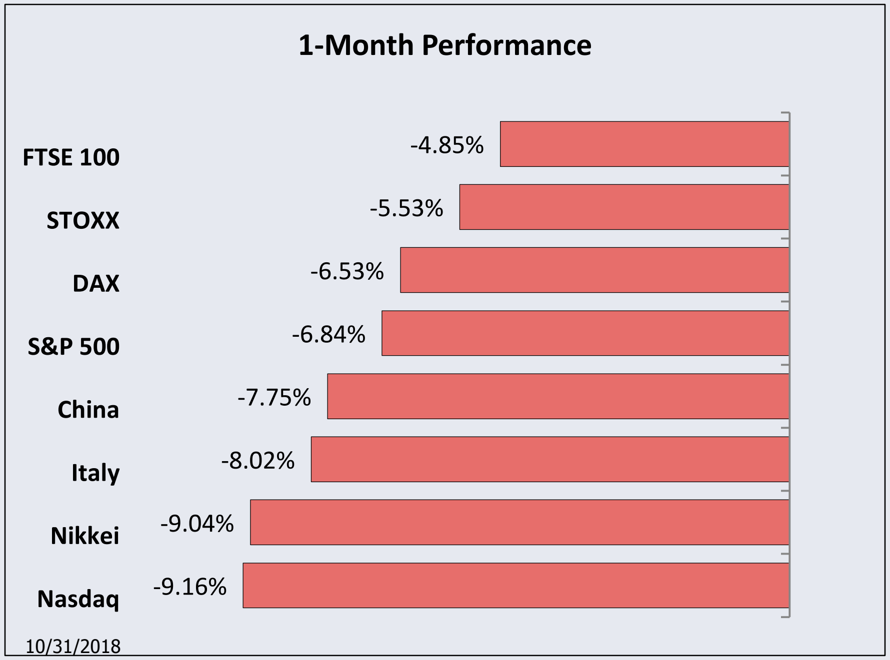
Fixed Income Investors

Supplemental Data - as of October 31, 2018

Global Equity Returns

Stock	10/31/2018	1-Month	3-Month	YTD	1-Year
S&P 500	2712	-6.84%	-3.25%	3.01%	7.35%
Nasdaq	7306	-9.16%	-4.52%	6.71%	9.74%
STOXX	362	-5.53%	-7.25%	-4.68%	-5.93%
FTSE 100	7128	-4.85%	-6.89%	-3.89%	-0.86%
DAX	11448	-6.53%	-10.60%	-11.38%	-13.47%
Italy	19050	-8.02%	-14.25%	-12.83%	-16.42%
Nikkei	21920	-9.04%	-2.04%	-1.95%	1.57%
China	2603	-7.75%	-9.51%	-21.30%	-23.30%



Source: Bloomberg, NYL Investors, Barclays – November 2018.
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Fixed Income Investors

Supplemental Data - as of October 31, 2018

Europe 10/31/2018

Stock	Last	1-Month	3-Month	YTD	1-Year
STOXX	362	-5.53%	-7.25%	-4.68%	-5.93%
FTSE 100	7128	-4.85%	-6.89%	-3.89%	-0.86%
DAX	11448	-6.53%	-10.60%	-11.38%	-13.47%
CAC 40	5093	-7.24%	-7.45%	-2.12%	-5.33%
Portugal	5031	-6.13%	-10.48%	-6.64%	-8.13%
Italy	19050	-8.02%	-14.25%	-12.83%	-16.42%
Ireland	6148	-5.71%	-9.63%	-11.17%	-10.29%
Greece	640	-7.38%	-15.82%	-18.80%	-13.66%
Spain	8894	-5.01%	-9.63%	-9.14%	-12.93%
Russia	2353	-4.95%	1.36%	11.52%	13.97%

International 10/31/2018

Stock	Last	1-Month	3-Month	YTD	1-Year
MSCI EAFE	1815	-7.96%	-8.95%	-9.28%	-6.85%
MSCI EM	956	-8.71%	-11.65%	-15.72%	-12.52%
MSCI FM	521	-3.53%	-8.79%	-15.72%	-12.07%
MSCI FM100	1147	-3.78%	-8.36%	-15.92%	-11.24%

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