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BlackRock
Market Outlook
Navigating the Late Cycle Environment
Key themes for markets

Interest Rates

US Treasury Yield Curve

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Source: Bloomberg as of October 24, 2019. Past performance is not a guarantee of future results.

Asset Performance and Volatility

Source: Refinitiv Datastream, chart by BlackRock as of October 22, 2019. Note: The bars show the total return in local currency terms except for currencies, gold and copper which are the spot returns. Government bonds are 10-year benchmark issues. Index returns are shown for illustrative purposes only. It is not possible to invest directly in an index. Past performance is not indicative of future results.
Economic Surprise Indices

The Bloomberg ECO Surprise Index shows the degree to which economic analysts under- or over-estimate the trends in the business cycle. The surprise element is defined as the percentage (or percentage point) difference between analyst forecasts and the published value of economic data releases.

The Citi Economic Surprise Indices measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.
Surprise, Surprise

US Unemployment

![Graph showing Non Farm Payrolls and US Unemployment Rate]

Source: Bloomberg; as of October 6, 2019

Consumer Sentiment

![Graph showing University of Michigan Consumer Sentiment (lhs) and Conference Board Index (rhs)]

Source: Conference Board, Bloomberg; BlackRock as of October 24, 2019

New Home Sales

![Graph showing Thousands of New Home Sales]

Source: Bloomberg; BlackRock as of October 24, 2019
Small Business

NFIB Small Business Optimism Index

Source for all charts: Bloomberg, BlackRock, October 8, 2019
The Fed

Fed Dot Plot and Market Pricing

Central Bank Balance Sheets in U.S. dollars

Source both charts: Federal Reserve, Bloomberg; as of October 24, 2019
Yields

Unadjusted Yields

Capital Adjusted Yields

Corporates

Issuance

Leverage

Gross Leverage – ex Utilities and Commodities

A-rated

BBB-rated

Source: JP Morgan September 26, 2019

Spreads and Credit Quality

BBB vs A OAS

Average BBB v A OAS

Source: Bloomberg, BlackRock as of October 23, 2019. Data derived from the Bloomberg Barclays Corporate Credit Index. Past performance is not a guarantee of future results. High Quality denotes A rated and above.
Credit Stress Migration

**Background and Methodology:** Insurers have been adding corporate credit and NAIC 2+ rated credit in search of yield. However, the early 2000’s recession drove the worst recent period of Moody’s credit rating downgrades.

The 2001-2003 ratings migration experience anchors a stress of YE2018 public and private credit to answer “what happens to credit quality” and “what are the implications for risk-based capital?” We observe:

- NAIC 1, A3-rated bond is 5.4x more likely to get downgraded to NAIC 2 vs. an NAIC 1, A1-rated bond (31.7% vs. 5.9%)
- NAIC 2, Baa3-rated bond is 3.4x more likely to get downgraded to NAIC 3 vs. a NAIC 2, Baa1-rated bond (22.7% vs. 6.6%)

BlackRock’s insurer portfolio stress model:

a) analyzes portfolio impact – ratings migration and expected losses
b) assess implications to RBC, including regulatory intervention
c) estimate capital infusion needed to restore pre-stress RBC

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Source: Moody’s Annual Default Study; Corporate Default and Recovery Rates 1983-2001/2002/2003, BlackRock analysis. Assumes no change in price as a result of the downgrade; had price impacts been included the post-stress ratings mix would have changed, so the net change by rating would have changed.
Agency MBS

Bloomberg Barclays MBS Index Convexity

% Mortgages in the money

Source: Bloomberg as of October 3, 2019

Agency MBS spreads vs AA Corporates

Source: Bloomberg as of October 8, 2019

TBAs vs. Specified Pools

Source: Bloomberg as of October 8, 2019

Mortgage rate

Source: Bloomberg as of August 2, 2019. Red line represents proportion of mortgages in the money (lhs)
CLOs

Historical US Loan Default Rates

Loan new issue leverage at all-time highs

CLO CCC Exposure