MAINSTAY INVESTMENTS℠

January 2013

MacKay Municipal Managers™

Top Five Municipal Market Insights for 2013 – The Year of Income

1. Credit cycle has troughed – fundamentals begin uptrend.

As we focus on credit analysis, we believe state and local municipal budgets have been approved with more realistic assumptions, which reflect limited growth, less reliance on one-time fixes, and smaller payrolls. With growing unfunded liabilities, pension reform has begun to take hold in several states. Across the country, tax revenues have begun to recover slowly and shown positive year-over-year growth for 10 consecutive quarters (source: Rockefeller Institute, October 2012).

Those issuers that have made the difficult budgetary decisions will benefit from an economic recovery. The State of California has worked hard to reform its state budget with major expenditure cuts, smaller debt offerings, and a voter-approved tax increase. We believe California is positioned for a ratings upgrade in 2013. Unfortunately, headlines will still reflect those issuers that have not had the political will to reform their governments and will miss the uptrend. After recent years of more ratings agency downgrades versus upgrades, we expect the trend in the municipal market to stabilize.

2. Remain "long" spread duration, but shift to defensive interest rate posture – income will drive returns.

With interest rates at historic lows, fundamental credit improving, and municipal high-grade correlations to U.S. Treasury rates rising, we believe interest rate risk has become a much greater concern than we have seen in many years. We would recommend investors reduce exposure to securities that possess heightened sensitivity to rates, and hold onto securities that offer incremental yield, especially due to spread duration. We believe this approach will provide the most attractive risk-adjusted returns for 2013.

3. Municipal to Treasury yield ratio reverts back toward 2008 pre-crisis historical averages.

AAA municipal-to-Treasury yield ratios have been wide on a historical basis over the past few years as Treasury rates have declined dramatically. With Treasury rates at extremely low levels, there is an increased probability of interest rates rising in 2013, as much of the negative economic news (i.e., European sovereigns and banks, fiscal cliff) has been priced into the market. Historical averages could be the norm in 2013 based on several factors including: (1) improving municipal fundamentals, (2) increased demand for tax-exempt bonds as a result of higher tax rates, and (3) U.S. Treasury yields losing their flight-to-quality bid. We believe this will allow municipal bonds to perform well on a relative basis.

AAA Municipal / Treasury Yield Ratios

Current / 2008 Pre-Crisis 25 Historical Average

3 Year:	131% / 75%	10 Year:	93% / 79%
5 Year:	103% / 74%	30 Year:	89% / 78%

Source: Thomas Reuters – The Municipal Market Monitor data from 12/31/85-12/31/08.

4. Advance refunding will accelerate in 2013.

We believe that the environment is heading to an advance refunding cycle in A/AA rated municipal bonds. Issuers with high coupon debt issued in vintage years 2008 and 2009 will likely capitalize on their "one-time" opportunity to lower costs by issuing new debt at a favorable rate and advance refunding their older, more expensive debt. As a result, proceeds of the new bonds are used to purchase Treasury securities that become the security for the old debt. The old bonds will likely be accelerated to the first call date.

The distinct combination of a shorter maturity and the security backing of higher-quality Treasury bonds may result in an immediate and, in some cases, dramatic increase in value of the existing bond.

5. Health care and airport sectors outperform.

Following up on our insight that the credit cycle has troughed, we feel that the health care and airport sectors are poised to outperform in 2013. Highly rated, not-for-profit health care organizations have some of the strongest balance sheets and operating margins in the municipal market today while still continuing to offer additional yield over comparably rated sectors. Lower-rated hospitals will continue to benefit from affiliations and acquisitions by higher rated, not-for-profit systems as well as interest from other non-traditional buyers such as insurance companies, hedge funds, and for-profit health care chains.

We are even beginning to see privatization in the airport sector, as well as a recovery in passenger traffic. Another driver for the sector will be from the improvement in corporate airline issuers. Airline issuers are now showing signs of increased profitability and are reducing leverage. In addition, we expect American Airlines to emerge from bankruptcy which will promote continued confidence and spread tightening in the airport sector.

Treasury securities, when held to maturity, are backed by the full faith and credit of the United States government as to timely payment of principal and interest. Interest income on these securities is exempt from state and local taxes.

Bond ratings are evaluations of a bond issuer's financial strength, or its ability to pay a bond's principal and interest as agreed upon. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade.

Past performance is no guarantee of future results.

Before you invest

All mutual funds are subject to market risk and will fluctuate in value.

A portion of a municipal's fund's income may be subject to state and local taxes or the alternative minimum tax. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner, or that negative perception of the issuer's ability to make such payments may cause the price of that bond to decline. High-yield securities (sometimes called "junk bonds") are sometimes considered speculative because they present a greater risk of loss than higher-quality debt securities, may be less liquid, and can also be subject to greater price volatility. High-yield municipal bonds may be subject to increased liquidity risk as compared to other high-yield debt securities.

Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. Such uncertainties could cause increased volatility in the municipal securities market and could negatively impact the Fund's net asset value and/or the distributions paid by the Fund. Securities purchased by the Fund that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions, or investor perceptions.

Please call 800-MAINSTAY (624-6782) for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.

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NEW YORK LIFE MAINSTAY INVESTMENTS®

2013 Municipal Bond Market Insights – Mid-Year Update

MACKAY SHIELDS
MacKay Municipal Managers™

MacKay Municipal Managers™ employs a relative value investment approach across all of their municipal strategies, with a focus on total return. The team seeks to capitalize on opportunities created by the mispricing of securities and will move along the credit curve based on where they find the best relative value. An emphasis is placed on risk management, and they currently do not employ leverage, which can increase volatility. The team's active research-driven process and keen emphasis on risk control may benefit investors seeking attractive tax-free income.

Top Five Municipal Market Insights for 2013 – The Year of Income

Theme	Rationale	Portfolio in Action	Mid-Year Status
1. Credit cycle has troughed – fundamentals begin uptrend.	State and local municipal issuers that have made the difficult budgetary decisions will benefit from an economic recovery.	Own bonds where improvement in credit fundamentals is anticipated. Despite uptrend in credit fundamentals at the macro level, avoid isolated cases of downgrades/defaults through deep credit research. Security selection matters.	**On Target:** State budget gaps are narrowing, and the Rainy Day funds are projected, to be on average, up to 6% of operating budgets. California was upgraded, and margins in the health care sector are higher.
2. Remain "long" spread duration, but shift to a defensive interest rate posture – income will drive returns.	Recommend reduced exposure to securities that possess heightened sensitivity to rates, and hold on to securities that offer incremental yield, especially due to spread duration.	Reduce duration generally and perhaps to 10% below benchmark duration. Capture "spread duration" where there is value within the A and BBB parts of the credit spectrum.	**Developing:** While a defensive interest rate posture was beneficial to a limited extent, spread duration widened dramatically in June. We expect spread duration to revert back over the next six months.
3. Municipal to Treasury yield ratio reverts back toward 2008 pre-crisis historical averages.	Historical averages could be the norm in 2013 based on several factors, including: (1) improving municipal fundamentals, (2) increased demand for tax-exempt bonds as a result of higher tax rates, and (3) U.S. Treasury yields losing their flight-to-quality bid.	Through deep credit analysis and a relative value approach, we continue to capitalize on the overall "cheapness" of the market.	**Delayed:** With the backup in municipal bonds in June, the ratios have actually dropped to cheaper levels. We expect ratios to move back toward 2008 pre-crisis historical averages by year end.
4. Advance refunding will accelerate in 2013.	Issuers with high coupon debt, issued in vintage years 2008 and 2009 will likely capitalize on their "one-time" opportunity to lower costs by issuing new debt at a favorable rate and advance refunding their older, more expensive debt.	Own what we believe are advance refunding candidates in the portfolio, which are largely high coupon debt issued in 2008 and 2009. When this occurs, existing bondholders may benefit from a significant increase in prices due to the bond being escrowed in Treasuries to the first call date.	**On Target:** Advance refundings are up 13.6% vs. the same period in 2012 and expectations are for them to accelerate moving forward.
5. Health care and airport sectors outperform.	Highly rated, not-for-profit health care organizations have some of the strongest balance sheets and operating margins. Airline issuers are now showing signs of increased profitability and are reducing leverage.	Focusing on these characteristics through deep credit analysis, we believe we own the right bonds within the health care and airport sectors, which may ultimately result in overweights in these sectors.	**Developing:** Health care sector performance was among the top three segments along with housing and electric; however, transportation (including airports) is middle of the pack so far this year.

Definitions
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Bond ratings are evaluations of a bond issuer's financial strength, or its ability to pay a bond's principal and interest as agreed upon. Ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade.

Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices. The bigger the duration number, the greater the interest-rate risk or reward for bond prices.

Before You Invest

Past performance is no guarantee of future results.

A portion of the Fund's income may be subject to state and local taxes or the alternative minimum tax. The Fund may invest in derivatives, which may increase the volatility of the Fund's net asset value and may result in a loss to the Fund. Funds that invest in bonds are subject to interest-rate risk and can lose principal value when interest rates rise. Bonds are also subject to credit risk, in which the bond issuer may fail to pay interest and principal in a timely manner, or that negative perception of the issuer's ability to make such payments may cause the price of that bond to decline. The Fund may experience a portfolio turnover rate of over 100% and may generate short-term capital gains which are taxable.

For more information about MainStay Funds, call 800-MAINSTAY (624-6782) for a prospectus or summary prospectus. Investors are asked to consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus or summary prospectus contains this and other information about the investment company. Please read the prospectus or summary prospectus carefully before investing.

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