New York Life MainStay Investments®

INSIGHTS SERIES

Q1 | January | 2016

Top five municipal market insights for 2016

LIQUIDITY WARS

Liquidity in the municipal market has changed, and we believe a key to managing municipal portfolios in 2016 is to understand the factors that influence municipal liquidity and to position portfolios accordingly. In 2016, suppressed broker/dealer capital commitment, more aggressive cash flow demands on municipal mutual funds, and the credit implications of issuer liquidity will, in our opinion, impact trading behavior. We believe that our approach to managing liquidity in 2016 will create investment opportunities.

1

Market disruptions likely—both the probability and severity will be elevated.

Active management of municipal assets will be essential, as we expect market volatility to rise. We believe uncertainty tied to the timing and degree of the Federal Reserve Board's policy adjustments will cause disruptions along the yield curve. Global economic conditions will likely blur the outlook in the United States and further contribute to market dislocations. In our view, selected credit events in the municipal market, while anticipated, will generate incremental volatility.

2

Market technicals to drive returns—technical conditions to play a greater role.

We believe supply, demand, and bond structure will impact returns to a much greater degree than in the recent past. We expect the municipal market to feel the effects of technical conditions in other markets, as investors react to changing conditions across their entire portfolios.

3

Revenue bonds outperform—defined revenue streams preferred over pension uncertainty.

We believe investor preference will gravitate to the well-defined cash flow streams securing revenue bonds and away from general obligation debt. Pension issues will likely continue to cause uncertainty over the fiscal health of general obligation issuers. New Governmental Accounting Standards Board reporting standards may reveal that state and local governments, even those that have previously addressed their pension issues, still face risks or remain underfunded.

4

Transportation sector outperforms—spending and usage to increase.

The 2015 Federal Transportation Bill provides five years of funding for much-needed infrastructure programs. Election-year positioning should motivate Congressional support for legislation that promotes job-heavy projects. In addition, we believe continued economic growth and low energy prices will lead to higher usage of toll roads, airports, and other port facilities.

5

High-yield municipals to SPRING ahead, but then investors should FALL back to investment grade.

We believe high-yield municipal bonds should outperform during the first half of the year as investor demand for yield continues. However, in the latter part of the year, we believe investment grade should outperform, as the flattening yield curve causes refundings to accelerate. Active management will be essential to capturing the performance in the relative-value shift.

MacKay Shields

MacKay Municipal Managers™

Definitions

Flattening yield curve occurs when yields on long-term Treasury bonds are falling faster than yields on short-term Treasury bonds. The area between the yields on short-term bonds and long-term bonds decreases, making the yield curve appear less steep.

Yield curve is a line that plots the interest rates of bonds with equal credit quality, but different maturity dates.

Active management is the use of a human element, such as a single manager, co-managers or a team of managers, to actively manage a fund's portfolio. Active management strategies typically have higher fees then passive management.

Revenue bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source.

General obligation bond is a municipal bond backed by the credit and "taxing power" of the issuing jurisdiction rather than the revenue from a given project.

Before you invest

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

A portion of a municipal 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. High-yield securities (commonly referred to as "junk bonds") are generally considered speculative because they present a greater risk of loss than higher-quality debt securities and may 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.

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For more information

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MainStay Investments®

July 2016

2016 Municipal Bond Market Insights: Mid-Year Update

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 in the mutual funds they manage, 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.

Insights from:

MacKay Shields

MacKay Municipal Managers™

Top Five Municipal Market Insights for 2016: Liquidity Wars

Theme	Rationale	Portfolio in Action	Mid-Year Status
1. Market disruptions likely – both the probability and severity will be elevated	Active management of municipal assets will be essential, as we expect market volatility to rise. We believe uncertainty, tied to the timing and degree of the Federal Reserve Board's policy adjustments, will cause disruptions along the yield curve. Global economic conditions will likely blur the outlook in the United States and further contribute to market dislocations. In our view, selected credit events in the municipal market, while anticipated, will generate incremental volatility.	With market disruptions likely to continue, an active approach is employed to navigate and capitalize on opportunities that volatility may bring. While not immune to volatility, MacKay Municipal Managers believes maintaining liquidity at the portfolio level, where possible (no leverage, liquid names, some mutual fund cash), mitigates the risk of forced selling and, by contrast, creates an opportunity to actively capitalize on market mispricings.	**On Target:** The year began with heightened market volatility in January and February of 2016. Consensus views of future rate moves have been fluid and inconsistent this year, due to mixed economic data. The Brexit referendum lifted economic uncertainty further, perpetuating volatility in global markets.
2. Market technicals to drive returns – technical conditions to play a greater role	We believe supply, demand, and bond structure will impact returns to a much greater degree than in the recent past. We expect the municipal market to feel the effects of technical conditions in other markets, as investors react to changing conditions across their entire portfolios.	To position the portfolios for these favorable market technicals, the team has maintained a constructive view and overweight position in the lower investment-grade and high-yield segments of the market. At the same time, having a longer bias to capitalize on a steep yield curve has been an integral part of the portfolios we manage. With the strong performance seen on the long end and in credit, the team has taken a slightly defensive posture by increasing credit quality on the margin and moving down the yield curve slightly, with added focus on 10- to 20-year maturities.	**On Target:** We believe technical factors have played a heightened role in driving returns in 2016. Demand in the municipal market has been significant with year-to-date mutual fund inflows of $33 billion through June.[1] So far this year, there has been $221 billion in new issuance through June 2016; 60% of that new issuance represents refinancings and advanced refundings in our market.[2]
3. Revenue bonds outperform – defined revenue streams preferred over pension uncertainty	We believe investor preference will gravitate to the well-defined cash flow streams securing bonds and away from general obligation debt. Pension issues will likely continue to cause uncertainty over the fiscal health of general obligation issuers. New Governmental Accounting Standards Board reporting standards may reveal that state and local governments, even those that have previously addressed their pension issues, still face risks or remain underfunded.	We have an increased allocation to revenue bonds as the team believes the market would favor bonds with well-defined cash flow streams. At the same time, deep credit research and market analysis selectively drives exposures within the general obligation segment of the municipal market.	**On Target:** Through June, the revenue bond segment of the Barclays Municipal Bond Index returned 4.82%, outperforming the general obligation segment by 86 basis points, which returned 3.96% during the same period. Through June, the Barclays Municipal Bond Index returned 4.33%.

4. **Transportation sector outperforms – spending and usage to increase**	The 2015 Federal Transportation Bill provides five years of funding for much needed infrastructure programs. Election year positioning should motivate Congressional support for legislation that promotes job-heavy projects. In addition, we believe continued economic growth and low energy prices will lead to higher usage of toll roads, airports, and other port facilities.	Consistent with our theme related to revenue bonds, we have an increased allocation to the transportation sector, as the team believes lower energy prices pave the way for higher usage fees related to toll roads, airports, and other port facilities.	**On Target:** Through June, the transportation segment (a sector within the Barclays Municipal Bond Index) returned 4.95%, outperforming the Barclays Municipal Bond Index by 62 basis points, which returned 4.33%.
5. **High-yield municipals to SPRING ahead, but then investors should FALL back to investment grade**	We believe high-yield municipal bonds should outperform during the first half of the year, as investor demand for yield continues. However, in the latter part of the year, we believe investment grade should outperform, as the flattening yield curve causes refundings to accelerate. Active management will be essential to capturing the performance in the relative-value shift.	For some time, MacKay Municipal Managers recommended a 70% allocation to investment grade and 30% to high-yield municipals, as a starting point for the average moderate investor. This represented a constructive view on high-yield municipals since an 80% investment-grade/20% high-yield allocation indicates the team's neutral position. In light of strong performance within the high-yield segment of the market, the base case allocation has been revised to 75% investment grade/25% high yield, an increase in credit quality, while maintaining a constructive view on high yield.	**On Target:** Through June, the Barclays High Yield Municipal Bond Index has returned 7.98%, outperforming the Barclays Municipal Bond Index by 365 basis points, which has returned 4.33%.

[1] Source: J.P. Morgan Municipal Research sourcing Lipper U.S. Fund Flows – Year to Date, as of 6/30/2016; Lipper, A Thomson Reuters Company. Lipper data and information are for informational purposes only, and do not constitute investment advice or an offer to sell or the solicitation of an offer to buy any security of any entity in any jurisdiction. In addition, Lipper, a Thomson Reuters Company, will not be liable for any loss or damage resulting from information obtained from Lipper or any of its affiliates.

[2] Source: Barclays Municipal Strategy Monthly – June 2016.

The Barclays Municipal Bond Index is an unmanaged index that includes approximately 15,000 municipal bonds, rated Baa or better by Moody's, with a maturity of at least two years.

The Barclays High Yield Municipal Bond Index covers the high-yield portion of the USD-denominated, long-term, tax-exempt bond market.

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Past performance is no guarantee of future results. It is not possible to invest directly in an index.

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