MAINSTAY INVESTMENTS®

INSIGHTS SERIES

Q1 | January | 2017

Top five municipal market insights for 2017

REBUILDING AMERICA

New federal legislation expected to be proposed in 2017 that, if implemented, could impact the municipal market includes: tax reform, repatriation of corporate taxes, student loan financing, deregulation of corporate actions, and healthcare reform. Uncertainty regarding these changes and the resulting impact on state and local governments could delay the budget processes, capital projects, and debt issuance of many municipalities. State and local governments with strong budget controls, long-term capital planning processes, and accumulated reserves will remain strong during this time. We believe that value will rise to the top in this uncertain market. With these uncertainties in mind, our five annual insights are as follows:

1 Innovative Financing Accelerates

We believe Public-Private Partnerships (P3) projects, a popular infrastructure financing structure outside of the U.S., will gain increasing momentum. The faster development pace of P3 projects combined with tax credit incentives will align well with the new administration's infrastructure development agenda. While P3 financing may displace some traditional tax-exempt issuance, we believe that the acceptance of P3 projects will be a net positive for additional two-way flow in the municipal market. P3 projects should introduce a multitude of new entrants, including private equity, developers, and non-traditional buyers to the municipal market. We expect that these entities will be enticed by municipal financing attributes, including attractive yields (for both borrower and lender), exposure to long duration, low correlation, cash flow stability, and low default rates.

2 Liquidity Improves in the Municipal Market

We believe federal regulations and oversight of U.S. banking institutions will ease. As a result, we expect these entities will increase the amount of capital committed to trading activities, including the municipal bond market. However, we anticipate that a greater awareness of liquidity and capital costs will motivate those institutions to show greater preference for bonds rated by at least one rating agency. Therefore, we believe that the liquidity of non-rated municipal bonds will continue to decline.

3 High Tax States Outperform

We believe states with high income tax rates will outperform states with marginal to zero income tax. As federal tax rates are reduced, we expect municipal investors to become more keenly aware of the benefit of double exemption. We believe that demand for bonds in high income tax states will be even greater for those fiscally responsible state and local issuers that have maintained their credit strength. Outperformance of states benefiting from population growth momentum and underlying economic stability should protect investors against possible volatility from both legislative and market uncertainty.

4 Municipals Outperform Treasuries and Lower-Rated Credit Outperforms Investment Grade

We believe municipal to treasury yield ratios will decline during 2017, as tax policy uncertainty subsides. The relative value of municipal bonds, when compared to the taxable market, will move back to more normal historical levels. We expect that this outperformance will provide municipal bond investors with an offset against any negative impact of federal income tax rate reductions. Additionally, spread widening in the fourth quarter of 2016 in the BBB and lower-rated categories offers investors tremendous yield and potential total return opportunities in an uncertain market, where rates will likely be more volatile. Historically, lower-rated, revenue-backed bonds have outperformed general obligation and higher quality bonds in rising rate environments, as underlying fundamentals improve, spreads tighten, and ratings are upgraded.

5 Alpha Generation from Active Trading and Timely Execution

We believe the uncertainties of new legislation at the federal level will cause swings in perceived value across many sectors, especially healthcare and education. As such, we believe that security selection and buy/sell execution will be key to outperforming. In these types of markets, a nimble active management style should be better positioned to generate strong relative performance. Investors employing a buy and hold strategy or investments in funds that have become too large to maneuver effectively will not be able to adequately adjust to the market changes and may underperform in our view.

MACKAY SHIELDS

MacKay Municipal Managers™

Definitions

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.

Alpha measures a fund's risk-adjusted performance and is expressed as an annualized percentage.

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.

Credit Ratings: Standard & Poor's rates borrowers on a scale from AAA to D. AAA through BBB represent investment grade, while BB through D represent non-investment grade.

NEW YORK LIFE MAINSTAY INVESTMENTS®

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2017 Municipal Bond Market Insights: Mid-Year Update

July 2017

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 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.

Top Five Municipal Market Insights for 2017 – "Rebuilding America"

Theme		Rationale	Portfolio in Action	Mid-Year Status
1	**Innovative Financing Accelerates**	We believe Public-Private Partnerships (P3) projects will gain increasing momentum. The faster pace of P3 projects combined with tax credit incentives will align well with the new administration's infrastructure development agenda. While P3 financing may displace some traditional tax-exempt issuance, we believe the acceptance of P3 projects will be a net positive for additional two-way flow in the municipal market. P3 projects should introduce a multitude of new entrants, including private equity, developers, and non-traditional buyers to the municipal market. We expect that these entities will be enticed by municipal financing attributes.	MacKay Municipal Managers continues to seek strong relative-value opportunities stemming from the nuances related to P3 projects. Most municipal market participants are not equipped to assess and gain comfort in P3 structures, in light of their unique characteristics and early development within the United States. We believe we can capitalize on value, given the team's research proficiency and ability to accurately assess P3 projects.	**Pending:** As the administration and Washington, DC work through the agenda, MacKay Municipal Managers believes there will be more clarity and activity related to infrastructure spending in late 2017 and 2018. In the meantime, additional P3 projects continue to be developed in various stages, with over $25 billion of new projects being awarded and expected to begin construction within the next 12-24 months. These projects include I-66 expansion in northern Virginia, LAX Automated People Mover, I-64 Hampton Roads Bridge-Tunnel expansion, new Delta Terminal at LaGuardia and JFK Airport redevelopment.
2	**Liquidity Improves in the Municipal Market**	We believe federal regulations and oversight of U.S. banking institutions will ease. As a result, we expect these entities will increase the amount of capital committed to trading activities, including the municipal bond market. However, we anticipate that a greater awareness of liquidity and capital costs will motivate those institutions to show greater preference for bonds rated by at least one rating agency. Therefore, we believe that the liquidity of non-rated municipal bonds will continue to decline.	In a municipal market where bank and broker/dealer committed capital and liquidity have declined since 2008, MacKay Municipal Managers believes liquidity management is an integral part of a prudent investment process. When managing "daily access" mutual funds, the team seeks to maintain liquidity on a "local level" by maintaining some cash, avoiding leverage, and carrying modest levels of non-rated bonds, relative to many peers managing high-yield municipal portfolios. This positions the team well to effectively navigate and capitalize, particularly during steeper municipal market sell-offs and recoveries.	**On Target:** In 2017, MacKay Municipal Managers has observed improvement in liquidity, on the margin, for more liquid bonds. An increase in proprietary trading by certain members of the bank/broker dealer community has contributed to this. Stronger retail flows as well as growing interest and capital deployment by non-traditional investors, including foreign buyers have contributed to municipal liquidity. We believe the compelling municipal characteristics and investment profile, relative to other options, are adding to rising interest by non-traditional investors. While the easing of federal regulations and oversight of U.S. banking institutions is in the early stages, there is increased momentum on this topic in Washington, DC.

Top Five Municipal Market Insights for 2017 – "Rebuilding America"

Theme		Rationale	Portfolio in Action	Mid-Year Status
3	**High Tax States Outperform**	We believe states with high income tax rates will outperform states with marginal to zero income tax. As federal rates are reduced, we expect municipal investors to become more keenly aware of the benefit of double tax exemption. We believe demand for bonds in high income tax states will be even greater for those fiscally responsible states and local issuers that have maintained their credit strength. Outperformance of states benefiting from population growth momentum and underlying economic stability should protect investors against possible volatility from both legislative and market uncertainty.	In the national municipal portfolios that we manage, MacKay Municipal Managers increased exposure to high tax/high demand, fiscally responsible states, such as California and New York, that also offer exposure to a diversified set of credits. Gaining this exposure is predicated on identifying relative-value opportunities within specific issuers, in conjunction with having high conviction from a credit perspective.	**Pending:** Using California and New York as proxy, their respective sub-indices have performed in close range with the broad municipal index so far this year. Through June 30, 2017, year-to-date performance for the Bloomberg Barclays Municipal Bond Index was 3.57%. At the same time, performance for the California segment of the Bloomberg Barclays Municipal Bond Index was 3.64%, and performance for the New York segment of the Bloomberg Barclays Municipal Bond Index was 3.49%.[1]
4	**Municipals Outperform Treasuries and Lower-Rated Credit Outperforms Investment Grade**	We believe municipal to treasury yield ratios will decline during 2017, as tax policy uncertainty subsides. The relative value of municipal bonds, when compared to the taxable market, will move back to more normal historic levels. We expect that this outperformance will provide municipal bond investors with an offset against any negative impact of federal income tax rate reductions. Additionally, spread widening in the fourth quarter of 2016 in the BBB and lower-rated categories offers investors tremendous yield and potential total return opportunities in an uncertain market, where rates will likely be more volatile. Historically, lower-rated, revenue-backed bonds have outperformed general obligation and higher quality bonds in rising rate environments, as underlying fundamentals improve, spreads tighten, and ratings are upgraded.	MacKay Municipal Managers increased exposure to credit within the investment-grade portfolios that we manage to capitalize on attractive spreads and yield potential. Based on our view that high-yield municipals would outperform in 2017, MacKay Municipal Managers initially recommended a maximum overweight of 60% to investment grade and 40% 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 in the early part of 2017, the base case allocation has been revised to 70% investment grade/30% high yield, therefore maintaining a constructive view on high yield.	**On Target:** As anticipated, municipals have outperformed treasuries and, as a result, yield ratios have declined as follows: Yield Ratios – 5, 10, and 30 Year: • As of January 1, 2017: 93%, 95%, and 99% respectively[2] • As of June 30, 2017: 72%, 87%, and 98% respectively[2] Through June 30, 2017, year-to-date performance for the Bloomberg Barclays High Yield Municipal Bond Index was 6.13%, outperforming the Bloomberg Barclays Municipal Bond Index by 256 basis points, which returned 3.57% for the same period.[3]
5	**Alpha Generation from Active Trading and Timely Execution**	We believe the uncertainties of new legislation at the federal level will cause swings in perceived value across many sectors, especially healthcare and education. As such, we believe security selection and buy/sell execution will be key to outperforming. In these types of markets, a nimble active management style should be better positioned to generate strong relative performance. Investors employing a buy and hold strategy or investments in funds that have become too large to maneuver effectively will not be able to adequately adjust to the market changes and may underperform in our view.	MacKay Municipal Managers has been a longstanding proponent of active management and has executed accordingly in the portfolios we manage.	**On Target:** We believe there will be great uncertainty regarding all of the policies Washington, DC will implement. For instance, healthcare reform has been resurrected three times now, and will likely experience new iterations. This has caused shifts in the perceived relative value of healthcare bonds since the election, as we have remained active in the space and not content to buy and hold. Volatility in certain credits, such as Illinois and Chicago, is also creating opportunities. Shifting valuation between munis and treasuries and between municipal investment grade and high yield also creates opportunities to dynamically manage the portfolios for value.

1. Bloomberg Barclays Municipal Bond Index, as of June, 2017.
2. MMD: Thomson Reuters as of January 1, 2017 and June 30, 2017.
3. Bloomberg Barclays High Yield Municipal Bond Index, as of June, 2017.

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The Bloomberg 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 Bloomberg 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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