MacKay Municipal Managers – Insights for 2019

INSIGHTS SERIES
From MacKay Municipal Managers™

TACTICAL MOVES GUIDE INVESTORS THROUGH MARKET UNCERTAINTY

When foggy weather obscures the path forward, it is prudent to get your bearings more frequently. Similarly, uncertainty clouds our visibility going into 2019. Whether the economy is in late cycle or taking a pause, municipal investors will be balancing their concerns about risk against their need for income. When the path is unclear, it is wise to watch your footing and we think that a similar sentiment will weigh on market participants' investment decisions as 2019 progresses. However, being overly cautious can cause a misstep; we believe that a tactical approach in 2019 will best ensure progress for our clients' investment objectives.

1 Dedicated tax and general obligation debt outperforms as tax revenue streams grow

The recent expansion in overall economic activity has fueled growth in individual and corporate income taxes as well as sales taxes. State government revenues have exhibited strong year over year growth, with 2018 revenues up almost 6% through the third quarter of 2018 (source: U.S. Census Bureau 3Q 2018). We anticipate investors will place a premium on higher quality, tax-backed debt. However, security selection is essential as the recovery in credit fundamentals among state and local governments has been uneven.

2 Municipal issuance exceeds market expectations

Cumulative issuance of both tax-exempt and taxable municipal bonds, in our opinion, will exceed expectations as issuers increase funding for capital investment. We anticipate ongoing revenue growth will spur governors to reinvest incremental cash flows back into their state economies. We expect the growing supply of taxable municipal debt to be readily absorbed as demand increases from pensions and endowments that are seeking to diversify away from their exposure to the BBB-heavy corporate bond asset class.

3 Restructuring of Puerto Rico debt provides opportunity to increase allocation to high yield municipal bonds

The market will, we believe, demand higher yields and wider spreads on the massive volume of restructured Puerto Rico debt. We anticipate the spillover effect from this transition to accrued bonds offers investors the opportunity to increase their allocation to high yield debt at very attractive levels. We expect the opportunity for outperformance in the high yield municipal market to occur in the second half of the year.

4 Municipal financing with embedded real estate risk underperforms

We anticipate the market will penalize sectors and credit structures exposed to real estate market values. Financings tied to selected commercial real estate, raw land housing development and continuing care retirement centers, in our opinion, will come under pressure as peaking market values recede. These same sectors also historically experience higher default rates (source: Municipal Market Analytics Inc.). By contrast, we believe that financings dependent on assessed valuations of existing developed real estate (e.g. general obligation debt) will find favor in the market as debt coverage remains strong.

5 Tactical portfolio positioning drives performance

In contrast to the last number of years when strategic portfolio structure proved beneficial, we believe a tactical approach going forward to be more prudent. Given the uncertainty of the overall markets, tactically adjusting portfolio exposures as market direction becomes evident should, in our opinion, provide more flexibility. As a result, we believe that this approach provides better total return opportunities than strategies anchored to more traditionally passive investment approaches.

New York Life Investments

MACKAY SHIELDS

For more information about MainStay Funds®, call 800-624-6782 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.

For more information

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2019 Municipal Bond Market Insights: mid-year update

"Tactical Moves Guide Investors Through Market Uncertainty"

INSIGHTS SERIES

July 2019

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 2019 – "Tactical Moves Guide Investors Through Market Uncertainty"

Theme		Rationale	Portfolio in Action	Mid-Year Status
1	**Dedicated tax and general obligation debt outperforms as tax revenue streams grow**	The recent expansion in overall economic activity has fueled growth in individual and corporate income taxes as well as sales taxes. State revenues have exhibited strong year over year growth, with 2018 revenues up almost 6% through the third quarter of 2018 (source: U.S. Census Bureau 3Q 2018). We anticipate investors will place a premium on higher quality, tax-backed debt. However, security selection is essential as the recovery of credit fundamentals among state and local governments has been uneven.	Where MacKay Municipal Managers finds value, the team has shifted to a constructive overweight of dedicated tax and general obligation debt (GO) within the portfolios that we manage. This is not a unilateral shift to a GO bond overweight in the portfolios and instead represents strategic increases in select areas we deem to be compelling.	**Pending:** Through June 28, 2019, the dedicated tax and general obligation segment of the market, as measured by the blend of the Bloomberg Barclays General Obligation Bond sub-index and tax-backed (special tax and leasing) sectors, has returned 5.10% on a year to date basis. The Bloomberg Barclays Revenue Bond sub-index, ex-tax-backed (special tax and leasing) sectors, has returned 5.36% during the same period.[1] While this segment of the market has outperformed the dedicated tax and GO segment by 26 bps so far, we believe this will change in the second half of 2019. Of note, Moody's reports that municipal credit upgrades have been dominated by the Local Government sector as they represent 102 of 118 upgrades, or 86% through the first quarter of 2019 (2nd quarter data has not yet been published).[2]
2	**Municipal issuance exceeds market expectations**	Cumulative issuance of both tax-exempt and taxable municipal bonds, in our opinion, will exceed expectations as issuers increase funding for capital investment. We anticipate ongoing revenue growth will spur governors to invest incremental cash flows back into their state economies. We expect the growing supply of taxable municipal debt to be readily absorbed as demand increases from pensions and endowments that are seeking to diversify away from their exposure to the BBB-heavy corporate bond asset class.	Based on the premise of increased issuance, MacKay Municipal Managers will closely monitor new offerings, as we routinely do, and evaluate from a credit and relative value perspective prior to investing. To the extent unique structures related to tax exempt municipal bonds, taxable municipal bonds, and infrastructure spending surfaces, we believe MacKay Municipal Managers is well positioned to evaluate and capitalize.	**On Target:** Looking at municipal supply thus far in 2019, issuance has been on target relative to expectations. Through June 27, 2019, year to date 2019 issuance is $168 billion with net supply of -$9 billion.[3] We believe austerity measures at the state and local levels have led to more modest issuance thus far in 2019. At the same time, we believe supply will increase in the second half of 2019 as issuers increase funding for capital investment, particularly in the 20 states led by new governors motivated to make an early impact on their state.

NEW YORK LIFE INVESTMENTS

Top Five Municipal Market Insights for 2019 – “Tactical Moves Guide Investors Through Market Uncertainty”

Theme		Rationale	Portfolio in Action	Mid-Year Status
3	**Restructuring of Puerto Rico debt provides opportunity to increase allocation to high yield municipal bonds**	The market, we believe, will demand higher yields and wider spreads on the massive volume of restructured Puerto Rico debt. We anticipate the spillover effect from this transition to accrued bonds offers investors the opportunity to increase their allocation to high yield debt at very attractive levels. We expect the opportunity for outperformance in the high yield municipal market to occur in the second half of the year.	MacKay Municipal Managers reduced Puerto Rico exposure to zero from the spring of 2012 to the fall of 2013, as the team anticipated future downgrades and defaults. This thesis came to fruition and the team invested again in the fall of 2013 after headline news led to a dislocation and opportunity to invest primarily in Puerto Rico bonds wrapped with monoline insurance. Since that time, the team has been actively trading to generate additional alpha in the portfolios while gradually increasing select uninsured Puerto Rico bonds at compelling entry points.	**Pending:** Through June 28, 2019, the Bloomberg Barclay’s High Yield Municipal Bond Index returned 6.7% while the Puerto Rico segment of this index returned 11.1% during this same period.[4] Defaulted bonds from their largest issuer, Puerto Rico GO bonds, are excluded from the index and have outperformed Puerto Rico bonds in the index during this period. As the Puerto Rico restructuring has progressed in 2019, there have been tactical opportunities to capture value. At the same time, high yield municipal spreads have not widened due to record setting mutual fund cash flows in excess of $40 billion. If cash flows moderate or reverse in the second half of 2019, we believe spread widening presents an opportunity to increase allocations to high yield municipals.
4	**Municipal financing with embedded real estate financing underperforms**	We anticipate the market will penalize sectors and credit structures exposed to real estate market values. Financings tied to selected commercial real estate, raw land housing development and continuing care retirement centers, in our opinion, will come under pressure as peaking market values recede. These same sectors also historically experience higher default rates (source: Municipal Market Analytics Inc.). By contrast, we believe that financings dependent on assessed valuations of existing developed real estate (e.g. general obligation debt) will find favor in the market as debt coverage remains strong.	Separate from traditional “tax-backed” general obligation debt where we have a constructive view, MacKay Municipal Managers has limited exposure to credit structures exposed to real estate market values. In remote cases where we have this exposure, the team believes the nuances of those specific credits offer relative value in terms of security features and dollar price.	**On Target:** Within a municipal market where credit fundamentals have largely strengthened in recent years, municipal financings tied to real estate (hotel, land secured, local housing, retirement, state housing) have represented 53% of first-time defaults taking place in the first six months of 2019.[5]
5	**Tactical portfolio positioning drives performance**	In contrast to the last number of years when strategic portfolio structure proved beneficial, we believe a tactical approach going forward to be more prudent. Given the uncertainty of the overall markets, tactically adjusting portfolio exposures as market direction becomes evident should, in our opinion, provide more flexibility. As a result, we believe that this approach provides better total return opportunities than strategies anchored to more traditionally passive investment approaches.	MacKay Municipal Managers has always taken an active, strategic approach to managing municipal bond portfolios. In light of market uncertainty, the team has added an additional layer of tactical investment management which leads to more frequent shifts in terms of security selection, sector allocation, and yield curve positioning.	**On Target:** On a year-to-date basis through June 30, 2019 being active and tactical has contributed to returns, as follows:[6]

	1/1/2019 -6/30/2019
MainStay MacKay Tax Free Bond I	5.41%
BBgBarc Municipal Index	5.09%
MainStay MacKay High Yield Municipal Bond I	6.10%
BBgBarc 60% Tax-Exempt HY/40% Investment Grade Muni Index	6.03%
BBgBarc Municipal Index	5.09%
MainStay MacKay NY Tax Free Opportunities I	5.20%
BBgBarc Municipal New York Exempt Index	4.96%
MainStay MacKay CA Tax Free Opportunities I	5.36%
BBgBarc Municipal California Exempt Index	5.14%
MainStay MacKay Short Term Municipal I	1.63%
BBgBarc Municipal 3 Yr 2-4 Index	2.46%

Class I shares are generally only available to corporate and institutional investors.

Click on the fund name for the most current fund page, which includes, the prospectus, investment objectives, performance, risk, and other important information. Returns represent past performance which is no guarantee of future results. Current performance may be lower or higher. Investment return and principal value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Visit nylinvestments.com/etfs and nylinvestments.com/funds and for the most recent month-end performance.

1. Bloomberg Barclays Municipal Bond Index (GO and Revenue Bond sub-indices, as of June, 2019). "Tax-backed" sectors include: Electric, Hospital, IDR/PCR, Transportation, Education, Water & Sewer, Resource Recovery, Leasing, Special Tax
2. Moody's – May 15, 2019 Data Report
3. Barclays – July 2, 2019
4. Bloomberg Barclays High Yield Municipal Bond Index and the Puerto Rico sub-index, as of June, 2019
5. Municipal Market Analytics (MMA), as of July, 2019
6. Fund returns are net; Index returns are gross. Bloomberg Barclays Municipal Bond Index is considered representative of the broad market for investment-grade, tax-exempt bonds with a maturity of at least one year. High Yield Municipal Bond Blended Index consists of the Bloomberg Barclays High Yield Municipal Bond Index and the Bloomberg Barclays Municipal Bond Index weighted 60%/40% respectively which is believed to be a fair representation of the MainStay MacKay High Yield Municipal Bond I Fund's guidelines. Bloomberg Barclays New York Municipal Bond Index is a market value-weighted index of New York investment-grade, tax-exempt, fixed-rate municipal bonds with maturities of one year or more. Bloomberg Barclays California Municipal Bond Index is a market value-weighted index of California investment-grade, tax-exempt, fixed-rate municipal bonds with maturities of one year or more. Bloomberg Barclays 3-Year Municipal Bond Index is considered representative of the broad market for investment-grade tax-exempt bonds with a maturity range of 2-4 years. Index results assume the reinvestment of all capital gain and dividend distributions. Source: Bloomberg Barclays.

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 than passive management.
Alpha measures a fund's risk-adjusted performance and is expressed as an annualized percentage. An investment cannot be made directly into an index.

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.

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

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