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MacKay Municipal Managers Announces Top Five Municipal Market Insights For 2020.

PRINCETON, N.J., Jan. 21, 2020 /PRNewswire/ — MacKay Municipal Managers™, the municipal bond team of fixed income and equity investment management firm MacKay Shields LLC, today published its top five insights for the municipal bond market in 2020.

John Loffredo and Robert DiMella, co-heads of MacKay Shields Municipal Managers, commented on the firm's outlook: "While we do not believe that 2019's municipal performance will repeat, we do expect that active management has the potential to enhance performance in 2020. We believe the most prudent strategy for 2020 is security selection based on the key qualities of prospective investments. Whether evaluating investment grade or high yield municipal bonds, we look beyond a stated rating to further assess each bond's structure, liquidity profile, rate sensitivity, and credit fundamentals. Anticipating the potential for periods of higher volatility, we also place a premium on maintaining liquidity as an essential strategy for capitalizing on the resulting opportunities that may arise."

MacKay Municipal Managers - Top Five Municipal Market Insights for 2020

1. **Security selection and bond structure drive performance.** Municipal credit spreads are tight, the yield curve is relatively flat, and absolute yields are low. We believe the tax-exempt municipal market will maintain its strong technical and fundamental characteristics versus other fixed income asset classes. However, successful municipal investing requires that investors plan how to generate strong relative returns, not hope for another year of outsized absolute returns. We believe that a relative-value based security selection strategy that incorporates rebalancing credit, reducing exposure to the long end of the market and favoring 4% and higher coupon structures will likely lead to outperformance.
2. **Tactically positioning portfolios when volatility rises can reward investors.** We believe that an ongoing low rate environment, monetary policy on hold and a mixed economic outlook point to coupon-dominant performance in 2020. However, the 2020 U.S. Presidential Election, foreign trade and the potential for weaker equity returns may create periods of notable volatility. Given the backdrop of strong technical conditions in the tax-exempt municipal market, prudent professional managers will seek to reward their investors by 'buying the dips.' However, it is essential to maintain adequate liquidity in preparation for seizing those opportunities coupled with an active trading strategy to monetize those positions.
3. **Strategic underweight exposures likely to drive outperformance in the high yield municipal market.** Quality high yield investments will be key as signs of distress appearing in certain pockets of the high yield municipal market suggest that poor security selection can lead to underperformance. Therefore, we believe a prudent focus on avoiding losers rather than stretching for winners will be the more successful strategy to investing in high yield municipal bonds by avoiding leveraged or speculative income.
4. **Taxable municipal refunding trend leaves the weak behind.** Although interest rate dependent, we expect that the 2019 surge in taxable municipal issuance to re-finance higher coupon tax-exempt debt will continue in 2020. A continuation of this issuance pattern would

result in smaller, less sophisticated issuers being denied access to this re-financing activity, as the taxable market favors larger issuers of generally higher credit quality. We expect that taxable refunding activity will support supply-related technical conditions in the tax-exempt market, which will contribute to the overall market's relative performance strength. The combination of reduced supply pressure, ongoing strong demand for tax-exempt income and a shift in those credit sensitive sectors dictates even more need for sophisticated, credit research driven investment management and prudent security selection.

5. **Beware of fleeting income.** Coupon will likely be king this year but only when the quality of the income source is high. We believe that assertion will hold true in both the investment grade and high yield segments of the municipal market. Investors should verify that their portfolio income is not reliant on strategies employing hidden leverage, excessive duration, speculative project bets or short call bonds on the verge of retirement. While market conditions in the last number of years were very forgiving with respect to such tactics, a turnaround would bring to light the fragility of those investment approaches.

To view the full outlook, please [click here](#). For additional insights from MacKay Municipal Managers, please visit www.mackayshields.com.