Bond Case Briefs

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MacKay Municipal Managers Provides Top Five 2015 Municipal Market Insights.

PRINCETON, N.J.–(BUSINESS WIRE)–MacKay Municipal Managers™ today distributed its outlook on the top five municipal market trends for 2015. The insights include:

“The municipal marketplace delivered strong performance in 2014 as one of the best asset classes in the fixed income arena. The muni marketplace will remain large and fragmented in 2015 and active management will be imperative to investing in the right bonds at the right prices”

1. Demand for municipals remains high – institutions increase investments and proprietary trading desks resurface. We foresee demand for municipals remaining high and liquidity improving as certain institutional clients, including insurance companies, continue to add municipals to their core portfolios. These institutions, with varying tax profiles, will likely view municipal bonds as a compelling investment solution that offers attractive absolute income streams. On the heels of a dramatic decline in capital commitment to municipal bonds since 2008, our view is that favorable market conditions and regulatory developments will cause proprietary trading desks to resurface and, therefore, liquidity will improve on the margin.

2. High grade municipal bonds with short to intermediate maturities will underperform. We expect a flattening of the yield curve to cause dislocations and spread widening among high grade bonds on the short-intermediate part of the yield curve and, as a result, we believe this segment of the market should be avoided in 2015. In light of their higher correlations to Treasury securities, AA and AAA-rated municipal bonds in the three to seven year maturity range have higher exposure to potential interest rate hikes by the Fed than most other segments of the municipal market. This is due in part to the expensive nature of the high grade, short-intermediate part of the municipal market. Getting defensive on rates without sacrificing income by focusing on cushion bonds (high coupon/premium bonds) is our preferred portfolio structure. We believe this will cause actively managed portfolios to outperform passive municipal bond ladders in terms of total return and current income.

3. New bond issuance will surprise on the upside – but net supply will be negative for the fifth year in a row. We project new bond issuance will surpass consensus and exceed $375 billion. Although new issuance will rise as the U.S. starts to come to terms with its infrastructure needs, we believe net new supply will remain negative for the fifth year in a row and the overall municipal market will continue to shrink. Refinancing will likely contribute to net negative supply as issuers capitalize on the opportunity to advance refund higher coupon bonds while locking in more favorable long term borrowing costs. We believe new bond issuance and increased market trading will contribute to pricing transparency. As a result, portfolios taking an active, credit research-driven approach to municipal bond investing should further positively differentiate themselves as the true value of underlying credits materializes.

4. Return of new issue monoline insurance – greater than 10% penetration rate for the first time in six years. We expect the penetration rate of monoline insurance on the new issue market to exceed 10 percent for the first time in six years as the market continues to rediscover the benefits of bond insurance. Challenges that monoline insurance companies experienced in years past have resulted in many clients having an underweight position to insured municipal bonds in their portfolio. We believe that attractive spreads and improving fundamentals, while also recognizing the relative position of select monoline insurers including AMBAC1 will yield opportunities in this segment of the market. While we do not expect to see AMBAC re-entering the primary market in 2015, bonds backed by its insurance policies should continue to experience spread narrowing as various legal settlements proceed to final resolution.

5. Tobacco sector outperforms – investors seek to maintain yield as existing higher coupons are called or mature. With a projected increase in municipal refinancings taking out higher coupon bonds in 2015, we anticipate municipal bond investors will look at Tobacco settlement bonds to replace income in their portfolios. While the Tobacco sector will likely experience periods of higher volatility throughout the year, we believe the overall return will place it as one of the top performing sectors in 2015. MacKay Municipal Managers remains confident in certain areas of the Tobacco sector as deep credit research identifies valuable bonds at an attractive price.

The insights were developed by MacKay Municipal Managers which manages $12.7 billion as of December 31, 2014. The MacKay Municipal Managers are subadvisor to the MainStay Tax Free Bond Fund, MainStay High Yield Municipal Bond Fund, MainStay California Tax Free Opportunities Fund, and the MainStay New York Tax Free Opportunities Fund. The team is co-headed by John Loffredo and Robert DiMella, who have worked together for over 20 years managing municipal bonds, including high-yield, investment grade, and state-specific strategies.

“The municipal marketplace delivered strong performance in 2014 as one of the best asset classes in the fixed income arena. The muni marketplace will remain large and fragmented in 2015 and active management will be imperative to investing in the right bonds at the right prices,” said Loffredo and DiMella. “The overall market will be promising, but attention must be paid to potential risks such as the flattening yield curve. In this environment, our focus remains on continuing to identify opportunities in line with our strategies and funds that we manage.”

For more information about MacKay Municipal Managers and to view the full report, click here.

About MacKay Shields LLC

MacKay Shields LLC (“MacKay”) is a global, multi-product fixed income investment advisory firm managing more than $92 billion in assets as of December 31, 2014. Its clients include pension funds and other institutional investors in the U.S. and overseas. MacKay Shields is an indirect, wholly-owned subsidiary of New York Life Insurance Company. Please visit MacKay’s website at www.mackayshields.com for more information.

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With approximately $100 billion in assets under management as of December 31, 2014 across retail mutual funds and variable product sub-accounts, MainStay Investments is the mutual fund distribution arm of New York Life. MainStay provides financial advisors access to a powerful mix of autonomous, institutional investment managers, delivered by people who understand the needs of today’s financial advisor. As an indirect subsidiary of New York Life Insurance Company, a Fortune 100 company founded in 1845, MainStay is owned by the largest mutual life insurance company in the United States* and one of the largest life insurers in the world. Please visit www.mainstayinvestments.com for more information.

*Based on revenue as reported by "Fortune 500 ranked within Industries, Insurance: Life, Health (Mutual)," Fortune magazine, 6/16/14. See http://fortune.com/fortune500/.

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About Risk

MainStay Tax Free Bond: 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. The Fund may experience a portfolio turnover rate of over 100% and may generate short-term capital gains which are taxable.

MainStay High Yield Municipal Bond Fund: A portion of the Fund's income may be subject to state and local taxes or the alternative minimum tax. 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. 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.

MainStay California Tax Free Opportunities Fund and MainStay New York Tax Free Opportunities Fund: Because the Funds invests primarily in municipal bonds issued by or on behalf of the State of California or the State of New York, respectively, and its political subdivisions, agencies, and instrumentalities, events in California or New York are likely to affect the Fund's investments and performance. These events may include fiscal or political policy changes, tax base erosion, and state constitutional limits on tax increases, budget deficits, and other financial difficulties.

Past performance is no assurance of future results. Investment return and market value of an investment in the funds will fluctuate.

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