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MacKay Municipal Managers Announces Top Five Municipal Market Insights for 2016.

“Liquidity Wars” Require Active Management and May Create Investment Opportunities in 2016

PRINCETON, N.J.-(BUSINESS WIRE)-MacKay Municipal Managers™, the municipal bond team of fixed income investment advisory firm MacKay Shields LLC, today delivered its top five municipal market insights for 2016. Key highlights include:

- 1. Market Disruptions Likely - Both 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 investors 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 under funded.
- 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.

“The key to managing municipal portfolios in 2016 is being cognizant of the movements that influence municipal liquidity. We must take into account factors such as more aggressive cash flow demands on municipal mutual funds and the credit implications of lesser liquidity that will impact

trading behavior. Given these market dynamics, we believe our approach to managing liquidity in 2016 will create investment opportunities,” explained MacKay Municipal Managers™ co-heads John Loffredo and Robert DiMella.

MacKay Municipal Managers™ manages \$14.5 billion as of November 30, 2015. MacKay Municipal Managers™ is subadvisor to the MainStay High Yield Municipal Bond Fund (MMHAX, MMHIX), which was recently recognized by Money Magazine as a best-in-class fund for 2015 in the “Tax Exempt Bond Category”.

The team also subadvisees the MainStay Tax Free Bond Fund (MTBAX, MTBIX), MainStay Tax Advantaged Short Term Bond Fund (MSTAX, MSTIX), MainStay California Tax Free Opportunities Fund (MSCAX, MCOIX) and the MainStay New York Tax Free Opportunities Fund (MNOAX, MNOIX). The team is co-headed by John Loffredo and Robert DiMella, who have worked together for over 20 years managing municipal bonds, including investment grade, high-yield and state-specific strategies.

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