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MacKay Municipal Managers Announces Top Five Municipal Market Insights For 2021.

PRINCETON, N.J., Jan. 12, 2021 /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 2021.

John Loffredo and Robert DiMella, co-heads of MacKay Shields Municipal Managers, commented on the firm's outlook: "2020 brought unprecedented market turbulence and uncertainty to the municipal market, and although we anticipate 2021 will continue to present notable challenges, the resilience historically driven by the essential nature of the municipal market offers some optimism for the year ahead. We believe that through disciplined credit analysis, a relative value focus and the ability to actively adjust as market conditions shift, investors can achieve success with municipal bonds in their portfolios."

MacKay Municipal Managers - Top Five Municipal Market Insights for 2021

Policy: The Biden Administration makes an impact. The Biden Administration's policies are expected to positively impact the municipal market in multiple ways. Anticipated initiatives include infrastructure spending, increasing employment opportunities and addressing climate change. These objectives likely coalesce in a higher volume of infrastructure-related municipal issuance that will become more recognized by impact-oriented investors for its strong ESG aspects. We expect a broad array of municipal projects will be climate friendly, supportive of increased employment development and will carry the dual oversight of both federal and state governments. In addition, investor anticipation of the Biden Administration pushing taxes higher (more likely a 2022 event) increases the value of tax exemption and municipal demand.

Stamina: key sectors withstand the COVID shutdown. We expect to see excess return opportunities in the COVID-impacted healthcare, transportation and travel-related municipal sectors. COVID-induced wider credit spreads on select issuers should continue into 2021, and the risk for investors to avoid are those securities with perceived credit weakness. However, a subset of those issuers have access to a broad array of policy and financial tools that should aid them in surviving the current crisis. We believe strategies employing an active, relative value approach focused on understanding credit fundamentals, liquidity and the political landscape can better identify those bonds that represent value. However, because politics play a role and outcomes are likely uneven, investing agility is also essential.

Resurrection: Puerto Rico rises while high risk deal bond prices decline. We believe that the long-awaited final chapters in the restructuring of Puerto Rico debt will provide investors an attractive relative value opportunity in the Territory's credits. Ultimately, a combined \$11 billion of Puerto Rico related debt could restructure out of default in 2021 and resume paying interest. We anticipate demand for these bonds will be strong. The opportunity in Puerto Rico credits stands out relative to much riskier, primarily single site, project finance municipal credits that are prevalent in some high yield portfolios. We anticipate those highly leveraged and illiquid bond financings could face

significant spread widening as project revenues fall short of original projections and investors, facing potential restructurings, attempt to sell their positions.

Oasis: taxable municipal bonds in a global fixed income world. We believe taxable bond investors, in recognition that corporate bond yields do not adequately compensate them for their relative risk, add to their taxable municipal holdings. When compared to corporate bonds, we believe taxable municipal bonds' stronger credit quality, higher yields, and risk benefits offer better value for investors with tax-free accounts. In 2020, corporate bonds yields fell to record lows while their interest rate risk, as measured by the duration of the ICE BofA US Corporate Index, had the largest single-year extension in over 30 years. In contrast, taxable municipal risk-adjusted yields are the cheapest they have been in more than a decade when compared to investment grade corporate bonds. 1 Tax-exempt investors will likely benefit as strong demand for taxable municipal bonds spurs issuance and reduces tax-exempt supply.

Essentiality: municipal bonds outlast the headlines. We believe that tax-exempt bonds from municipal issuers providing essential services will outperform other fixed income asset classes due to their favorable, intrinsic credit characteristics. While we understand municipal bond investor uncertainty is due to weak economic conditions, low yields and negative news coverage on the sector, investors should focus on what we believe is the inherent stability of municipal revenue streams sourced from municipal services that are essential to our everyday lives. They should find confidence in select local government bonds supported by property taxes that continue to be paid, income taxes collected and sales taxes withheld. Those revenue streams support many forms of state-level debt. Although we expect the economy to recover, thoughtful, research-driven credit selection is also essential to differentiate among issuers.

To view the full outlook, please [click here](#).

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About MacKay Shields LLC

MacKay Shields LLC (together with its subsidiaries, "MacKay") *, a New York Life Investments Company, is a global asset management firm with \$144 billion in assets under management as of September 30, 2020. MacKay manages fixed income and equity strategies for high-net worth individuals and institutional clients, through separately managed accounts and collective investment vehicles including private funds, CLOs, UCITS, ETFs, closed end funds and mutual funds. MacKay maintains offices in New York City, Princeton, Los Angeles, London and Dublin. For more information visit www.mackayshields.com.

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1 As of 12/2020 - Comparing yield to worst divided by modified duration to worst for the ICE BofA Broad US Taxable Municipal Securities Index and the ICE BofA US Corporate Index over the last 10 years.

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