

Beyond the Selloff: The Value of Active Municipal Management

From MacKay Municipal Managers™

How MacKay Municipal Managers uses market volatility to reassess opportunities, strengthen portfolio structures and manage risk.

The recent municipal selloff provided MacKay Municipal Managers with opportunities to improve how portfolios respond to changing interest rates, add defensive coupon structures and move into higher-quality credits.

Three portfolio actions illustrate how the team put that process to work.

1. Improving Structure: Seeking More Upside With Similar Interest-Rate Risk

Bonds with similar duration profiles can experience performance divergence when markets move rapidly. During this recent market selloff, the team traded out of longer-maturity bonds with shorter call dates priced around par, into shorter-maturity lower dollar price securities. These trades can reduce our portfolios' downside risk while simultaneously increasing upside capture.

2. Coupon Matters: Adding Defensive Structures When Available

MacKay has long favored premium-coupon bonds bearing 5.50% or more. These higher coupons stabilize a portfolio's duration, especially during periods of increased interest rate volatility. Such coupons are not the market standard. Opportunities to purchase newly issued bonds with these features typically arise during periods of significant interest-rate volatility, when issuers must offer higher coupons to attract buyers.

The team capitalized on the opportunities created during this recent market selloff by layering more of these premium coupons into portfolios. The team remains overweight this structure.

3. Credit Selection: Moving Up in Quality When Extra Risk Pays Less

In prepaid natural gas bonds, which help municipal utilities purchase long-term energy supplies at a discount, the team reassessed whether lower-quality holdings still offered enough additional yield to justify their risks.

During the selloff, the team capitalized on spread compression and relative outperformance within this subsector to improve credit quality. The team sold selected lower-quality holdings that had experienced greater spread compression and reinvested in higher-quality credits within the same sector.

This trade realizes relative outperformance and increases liquidity, without reducing exposure or materially impacting our portfolios' distribution rates.

Active Decisions Through Changing Markets

These examples highlight how MacKay combines its market outlook, credit research, and analysis of individual bonds to make targeted portfolio adjustments. For advisors, they demonstrate the practical value of active management during volatility: seeking better recovery potential, reinforcing defensive structures and reassessing whether taking additional risk remains worthwhile.

For more information about our municipal solutions, visit muni360.com.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Disclosure

Municipal bonds are subject to risks, including interest-rate risk, credit risk, call risk and liquidity risk. Bond prices generally decline as interest rates rise. Changes in market conditions may affect the value and liquidity of municipal bonds, and investors may lose principal.

Past performance is not a guarantee of future results. Active management typically involves higher fees than passive management. Higher credit ratings do not eliminate credit or liquidity risk.

This material represents an assessment of the market environment as of a specific date and is subject to change; and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any investment product or any issuer or security in particular.

The strategies discussed are strictly for illustrative and educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategies discussed will be effective.

This material contains general information only and does not take into account an individual's financial circumstances. This information should not be relied upon as a primary basis for an investment decision. Rather, an assessment should be made as to whether the information is appropriate in individual circumstances and consideration should be given to talking to a financial advisor before making an investment decision.

©2026, MacKay Shields LLC. All Rights Reserved. MacKay Shields LLC does not offer or sponsor any funds registered under the Investment Company Act of 1940, as amended ("Registered Funds"). MacKay Shields LLC serves in the capacity as investment manager of certain Registered Funds through sub-advisory arrangements.

NEW YORK LIFE Investment Management

For more information
800-624-6782
nylim.com

MacKay Municipal Managers™ is a trademark of MacKay Shields LLC. MacKay Shields LLC is a wholly owned subsidiary of New York Life Investment Management Holdings LLC, which is wholly owned by New York Life Insurance Company.

"New York Life Investment Management" is the brand name and service mark used to represent a group of affiliated investment advisors of New York Life Insurance Company, including New York Life Investment Management LLC, a registered investment advisor. Securities distributed by NYLIFE Distributors LLC, 30 Hudson Street, Jersey City, NJ 07302, Member FINRA/SIPC.

8797567 PRD-00307-11/26