New York Life Investments

The MacKay Municipal Managers difference

Our municipal bond strategies are actively managed by the experienced professionals at MacKay Municipal Managers, the minds behind munis. Recognized leaders in municipal bond investing, MacKay Municipal Managers is entrusted with $76 billion in assets, as of 03/31/24. Fundamental analysis, a focus on liquidity, and commitment to diversification are at the core of the team's active, opportunistic approach. Grounded in deep credit research and relative value analysis, the team seeks to actively invest in the most compelling segments of the municipal market, with the goal of capitalizing on inefficiencies to generate attractive tax-exempt income.

Key differentiators in MacKay Municipal Managers' investment approach

MacKay Municipal Managers believes that strong long-term risk-adjusted performance can be achieved with a relative value research-driven approach. At the core of this philosophy is the belief that investors benefit from being exposed to a wide variety of geographies, sectors, credit ratings, active yield curve positioning and even credit enhancements, when applicable. Portfolio diversification, which is core to their investment strategy, is designed to help mitigate credit and liquidity risks.

Portfolio diversification across credit quality

MacKay Municipal Managers seeks to construct higher quality state-specific portfolios, analyzing broad opportunity sets to identify investments with attractive relative value characteristics, enhanced income and total return potential. As part of this investment process, non-investment grade exposures may be selectively incorporated into portfolios after rigorous fundamental credit analysis and risk management considerations, including an emphasis on liquidity and diversification.

MacKay believes that when analyzing a lower-rated municipal bond, it is essential to consider the creditworthiness of the issue, nature of a project, its security features, political considerations and long-term viability. When analyzing such an opportunity, the managers practice strict underwriting standards, favoring larger-scale projects that feature substantial city and/or state sponsorship as well as a diverse bond ownership base.

Benefits of incorporating higher yielding municipal bonds with below investment grade ratings

Due to the strong overall credit quality of municipal bonds, many market participants, including MacKay Municipal Managers, consider lower-rated investment grade munis, such as those rated BBB - A, as part of the high yield municipal investment universe. This contrasts with the taxable corporate bond market, where overall credit risk is higher and high yield refers exclusively to below-investment grade ratings.

Municipal bond managers with the opportunity to consider lower-rated municipal bonds, backed by strict underwriting, may potentially enhance after-tax total return and lower correlations without adding significant credit risk. It is important to note that historically, high yield municipal bonds have had lower default rates and higher recovery rates than high yield corporate bonds. BBB-rated municipals have historically defaulted at a lower rate than AAA-rated corporate debt (municipals measured from 1986-2022, corporates measured from 1981-2022).[1]

1. Source: S&P USPF Cumulative Average Default Rates 1986-2021, S&P US Corporate Average Cumulative Default Rates 1981-2021. BBB-rated municipal cumulative default rate: 0.73%; A-rated municipal cumulative default rate: 0.08%; AAA-rated U.S. corporate default rate: 0.83%. S&P rates borrowers on a scale from AAA to D. AAA through BBB represent investment grade, while BB through D represent non-investment grade.

Total return focus through a relative value approach

MacKay Municipal Managers' relative value investment philosophy incorporates fundamental credit analysis, sector allocation, yield curve positioning, and bond structure analysis in seeking to generate superior risk-adjusted return potential. The team looks for municipal bonds with attractive yields at compelling prices, providing support for total return in addition to tax-exempt income.

As a specialized boutique, MacKay Municipal Managers has developed their relative value investment process over 30+ years of municipal bond investing experience. The team believes that its long track record of success can be attributed to this strong, repeatable investment process.

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