Market Outlook

2018 ECONOMIC & MARKET PREDICTIONS

NEW YORK LIFE

MainStay Investments®

Investment Insights from Our Strategic Asset Allocation & Solutions Group (SAS)

Led by Chief Investment Officer Jae Yoon, CFA, the SAS Group oversees the portfolio management of MainStay Investments and third-party asset allocation strategies. The SAS Group has expertise in tactical asset allocation, utilizing macroeconomic views, as well as in-depth knowledge of the investment risks and opportunities across equities, fixed-income, and alternative asset classes.

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Chief Investment Officer, Senior Managing Director

Jae is the Chief Investment Officer (CIO) of New York Life Investments and is responsible for the ongoing evaluation of the investment performance of the strategies managed through its multi-boutique investment platform. Additionally, Jae serves as the Chairman of the Investment Governance Committee and is co-lead of the Strategic Asset Allocation & Solutions Group.

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Robert contributes to investment thought leadership and communication efforts across New York Life Investments. He is responsible for investment strategy, portfolio construction, and capital markets' research.

Navigating the Markets in a Sea of Change

In this piece, we provide perspectives on several topics we believe warrant your attention in 2018. As we consider the future, some of the factors we expect to be particularly significant drivers of corporate performance and market activity include:

- **Tighter monetary policy/looser fiscal policy,**
- **Optimism on both Wall Street and Main Street, and**
- **Ongoing technological disruption.**

Our goal is to provide insights from a global perspective that will help you navigate the investment landscape in 2018.

Room to Run—Remaining Cautiously Optimistic

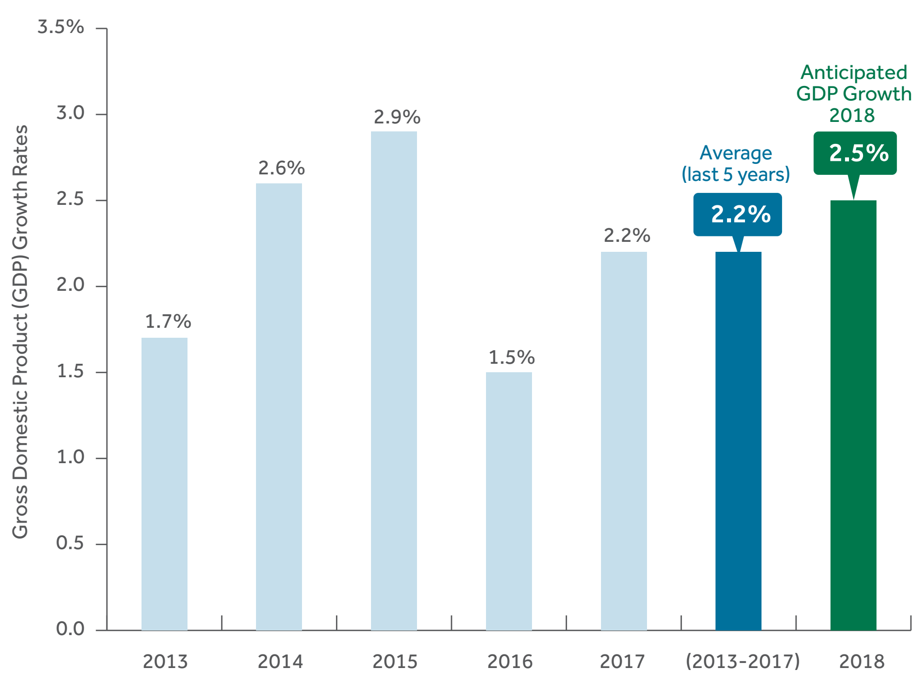
The global economy is a key driver of market performance. In our view, the global economy has the necessary momentum to continue expanding in 2018. And, we believe the rate of growth will accelerate over the next 12 months. In addition, we see strength in business activity remaining supportive of risk asset pricing, although the duration of the continued rally is subject to debate.

ECONOMIC AND MARKET PREDICTIONS

Still Young at Heart

We anticipate that the lengthy U.S. economic expansion will enjoy faster, broader growth in 2018 than in recent years. Driven by a combination of accelerating business investment and increasing personal consumption, and further boosted by tax cuts and deregulation, gross domestic product (GDP) should pick up in pace. That being said, risks to investors are mounting, as resource utilization becomes an issue.

GDP Growth to Be Driven by Business Investment, Personal Consumption, Tax Cuts, and Deregulation



Source: Bloomberg, 11/30/17. Based on a survey of economists.

Play It Again, Uncle Sam—Another Up Year for Stocks

We expect a vibrant economy to drive consumer consumption, while productivity gains enable businesses to maintain healthy profit margins, despite rising debt service costs and higher labor input costs. Furthermore, with tax reform providing an additional boost, this could be a solid year for corporate earnings. Although already elevated, price multiples may expand somewhat further, as investor exuberance gathers momentum. The combination of fast-growing earnings and higher valuations could translate into another year of double-digit returns for stocks.

The Grass Really Is Greener on the Other Side

While the U.S. economy is in the later stages of its economic cycle, Europe, Japan, and most emerging markets remain in earlier stages—providing a significantly longer runway for growth. With more accommodative central banks and less heavily utilized resources, cost pressures are lower for these markets. Also, with less frothy valuations, many international equity markets offer more compelling valuations than their U.S. counterparts. All told, we expect non-U.S. equities to be the performance leaders in 2018.

Forward Price-to-Earnings Are Significantly Below the Long-Term Average—Leaving Room to Grow

Sources: Thomson Reuters Datastream and New York Life Investments, 11/30/17. Past performance is not a guarantee of future results. An investment cannot be made directly into an index. Index definitions can be found at the end of this piece.

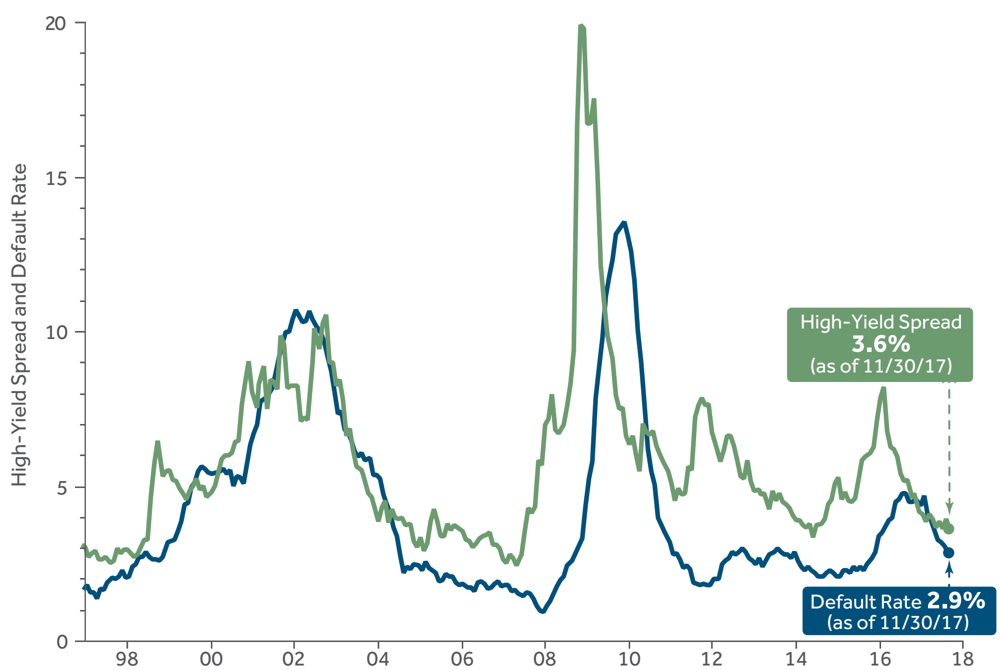
Fixed Income Takes a Back Seat

We anticipate upward pressure on Treasury yields, driven by slowly climbing wages, fluctuating commodity costs, a continued widening deficit, more rapid balance sheet runoff from the Federal Reserve, and a series of interest rate hikes. Limiting their rise will be heavy buying from liability-driven institutional investors and ongoing quantitative easing among non-U.S. central banks. Investment-grade bonds have delivered annual returns of about 2% over the last five years, which we believe is at the high end of what to anticipate in 2018.[1]

High-yield bond investors are unlikely to fare much better. Even though credit spreads are tight and default rates are low, both may move in the opposite direction, as heavy use of leverage, rising Treasury yields, and ongoing business disruption from technological advances put pressure on more indebted issuers. Since we expect returns to be in the low single digits, we don't see justification in the downside risk they represent. However, considering a low-volatility high-yield option may be prudent.

Tight Spreads and Low Defaults in the High-Yield Market Can Lead to Low Single-Digit Returns

(High-Yield Spread and Default Rate; Weighted Average: 12-Month Trailing)

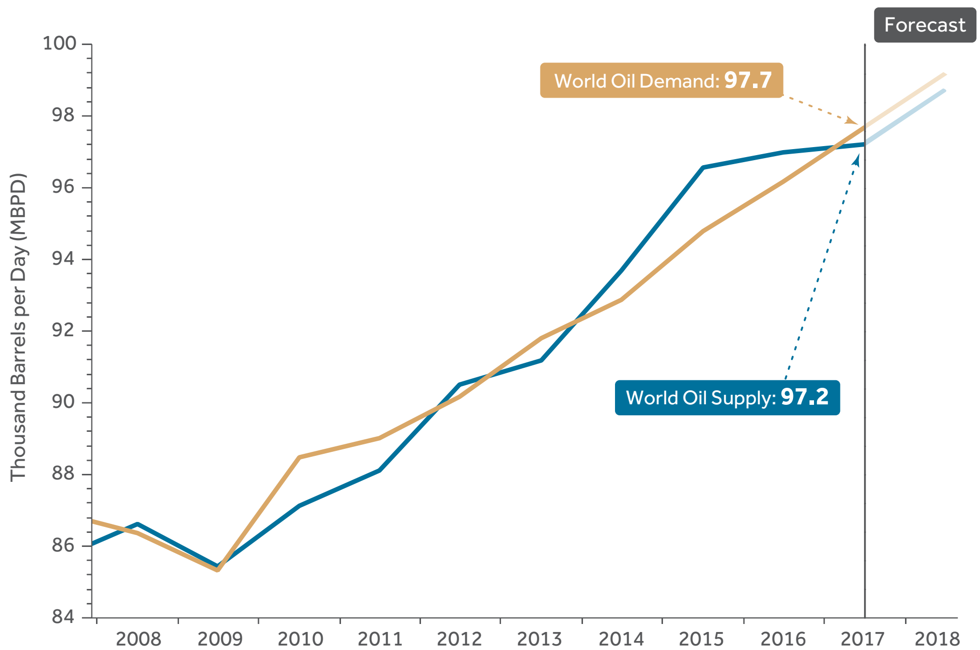


Sources: Thomson Reuters Datastream and New York Life Investments, 11/30/17.

Commodities: The Beat Remains the Same

Shifting supply/demand dynamics and falling inventories saw prices for many commodities rise in 2017. We believe that trend is likely to continue in 2018, as supply becomes increasingly constrained. Therefore, stock prices for commodity producers have not kept pace with the gains in the underlying commodity, but we believe that's likely to change. As confidence around the sustainability of this rebound continues to grow, we believe commodity stocks will rally—especially within U.S. energy.

Shifting Dynamics in Oil Supply and Demand Are Expected to Continue into 2018



Sources: Thomson Reuters Datastream and New York Life Investments, 11/30/17.

WILD CARDS TO MONITOR

Phillips Curve's Resurrection

A powerful combination of technological innovation, globalization, and aging demographics has kept inflation subdued and wage growth modest, even as labor markets tighten. That's likely to persist, but a more rapid rise fueling generalized inflation cannot be ruled out. The potential ramifications to both stock and bond investors are very significant—and not in a positive way.

A Dark Side to Deregulation

On the surface, politics in D.C. has looked messy and gridlocked. But underneath, we see meaningful change looming. The Trump administration has unwound some Obama era financial and energy regulations, with more rules to fall (or be ignored) in 2018. While financial markets and corporate management are likely to embrace the freedom and use it to favorable effect in the near term, there is a risk of fostering unstable credit conditions.

China's Cold

China continues to orchestrate a controlled economic slowdown, as it transitions to a consumer-driven economy, curbs leverage, and reins in an overly hot property market. The government believes that it has prescribed the necessary vaccinations, but an adverse reaction both domestically and globally is possible. We believe the risk of an economic "hard landing" has passed, and that developments in China are unlikely to poison global financial markets, but it remains a possibility.

Tricky Trading

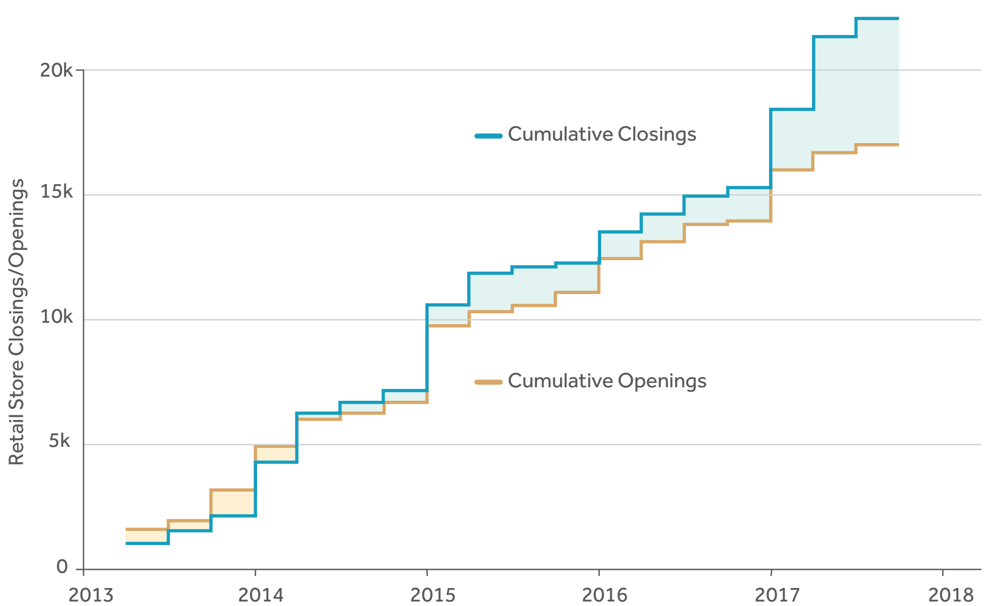
The Trump administration continues to castigate "unfair" trade agreements and draw hard lines in the North American Free Trade Agreement (NAFTA) renegotiations. Withdrawal from this or other trade deals appears to be a low probability in our opinion, but still within the realm of possibility. The impact on foreign policy, as well as trade relationships, looms large.

THE END OF THE WORLD AS WE KNOW IT

Clicks vs. Bricks

Technological disruption is all around us, most prominently in the retail landscape. But, industries of all kinds are undergoing a dramatic change in a noxious swirl of creative destruction. Expect increasing leadership turnover within industries.

Retail Store Closings Outpaced Openings, Causing Concern Around a Potential "Retail Apocalypse"



Sources: ICSC Research Team and PNC Real Estate Research, 11/30/17.

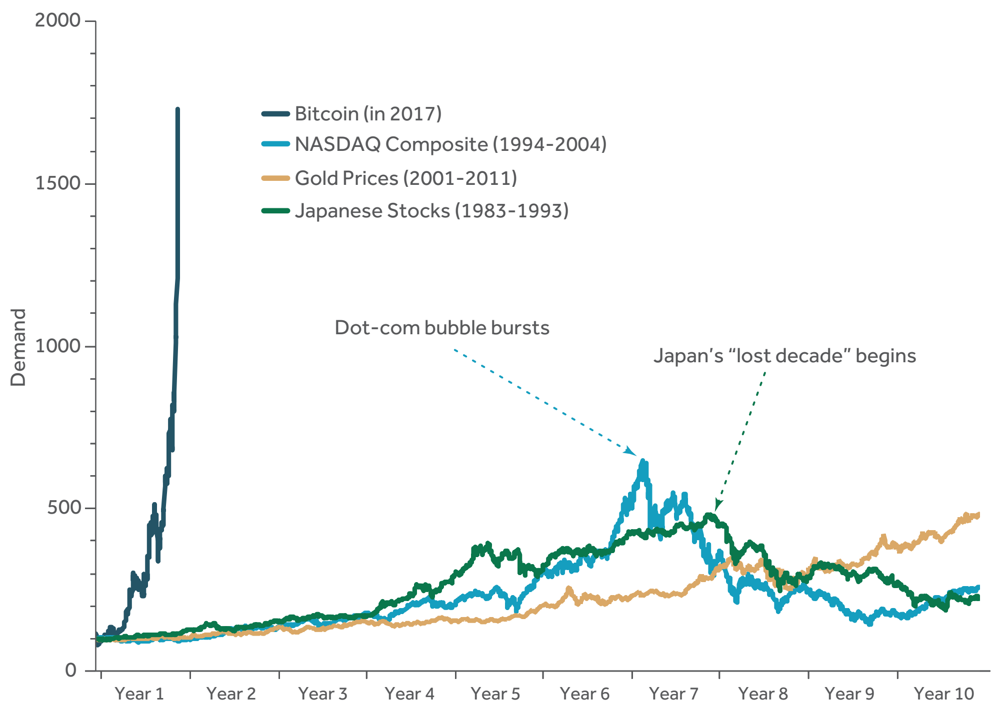
The Turing Test

Artificial intelligence (AI) and machine learning have captured the popular imagination, reshaping the consumer experience. These technologies are making an appearance within the investment management industry in the shape of new analytical tools and data. There are even a few "AI-powered" investment strategies boasting the use of these algorithms. But, can these strategies live up to the hype and beat the market? 2018 will prove to be a pivotal year in the adoption of AI within the investment management industry.

Gold 2.0

Bitcoin has quickly asserted itself as the leading cryptocurrency within a fragmented landscape.[2] Many see bitcoin as digital gold, but others remain skeptical of its investment value and status as a viable alternative for commerce. Either way, tokenized assets are here to stay, and the underlying "blockchain" technology will fundamentally alter business processes in the years ahead.

Bitcoin's Run-Up This Year, Compared to Decade-Long Trends in Other Historically Large Market Moves



Sources: Thomson Reuters Datastream and New York Life Investments, 11/30/17. Each return stream is indexed at 100 at a certain start date, so it is not a percentage return. It is a re-based index at the start of the evaluated period.

Investment Themes

Given these trends, we have identified the following key themes to help guide investors through this fluid and changing landscape.

1 OPPORTUNITIES WITHIN THE CURRENT COMMODITY CYCLE

Commodity markets are prone to booms and busts, due to cyclical fluctuations in the supply, demand, and price of commodities. As prices rise and fall, producers curtail or expand investment in their operations to re-establish equilibrium. Over the last three years, for example, we saw a significant underinvestment in the exploration and development of new mining projects.[3]

Examples like this, alongside a renewal in global economic growth, have helped set the stage for a potential escalation in commodity pricing in the years ahead.[4]

2 NAVIGATING VOLATILITY WITHIN A LATE CYCLE EXPANSION

The U.S. has entered the later stages of the business cycle. While there is reason to believe it will continue for some time as business and consumer surveys remain bullish, we must not ignore the fact that financial market valuations are elevated, credit conditions look suspect, and firms face an increasingly difficult environment for growth.

Given the outlook for continued growth in a late cycle expansion, we recommend a more tailored investment approach where investors may want to:

- **Begin to take profits where appropriate,**
- **Manage risk exposure in high yield,**
- **Implement a more flexible investment approach across asset classes, and/or**
- **Find alternative solutions.**

3 LOOKING BEYOND U.S. LARGE-CAP EQUITIES

In the U.S., small-cap stocks historically performed better than large-cap stocks during periods of rising interest rates—making them an asset class worth considering, if suitable.[5] We also believe U.S. small-cap stocks may also benefit from a resurgence in the Trump trade.

Additionally, developed and emerging economies abroad are more reasonably valued and are also earlier in the economic cycle than the U.S.—which may offer more upside potential. Differences in monetary policy, earnings growth, and price momentum may also help to boost international investments.

Bonds. Funds that invest in bonds are subject to interest-rate risk and could 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. **High-yield bonds.** High-yield securities (junk bonds) have speculative characteristics and present a greater risk of loss than higher-quality debt securities. These securities can also be subject to greater price volatility. **Commodities.** Any negative changes in commodity markets (that may be due to changes in supply and demand for commodities, market S-4 events, regulatory developments, or other factors) could have an adverse impact on instruments and companies that are susceptible to fluctuations in certain commodity markets. **Small-cap stocks.** Small-cap stocks are often more volatile than large-cap stocks. Smaller companies generally face higher risks, due to their limited product lines, resources, and financial markets.

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1. Source: Bloomberg, 11/30/17.

2. Investing in cryptocurrency may include the following: potential lack of ownership rights, cybersecurity risks, liquidity risks, and fraud-related risks.

3. Sources: Thomson Reuters Datastream, New York Life Investments, 11/30/17.

4. Sources: Thomson Reuters Datastream, New York Life Investments, 11/30/17. The S&P GSCI (formerly the Goldman Sachs Commodity Index) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. The Consumer Price Index (CPI) produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

5. Source: Morningstar, 11/30/17. U.S. Large Caps are represented by the S&P 500 Index, which is widely regarded as the standard for measuring large-cap U.S. stock market performance. U.S. Small Caps are represented by the Russell 2000 Index, which measures the performance of the small-cap segment of the U.S. equity universe. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

Quantitative easing (QE) is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market to lower interest rates and increase the money supply.

The Phillips Curve is a single-equation empirical model describing a historical inverse relationship between rates of unemployment and corresponding rates of inflation that result within an economy.

A cryptocurrency (or crypto currency) is a medium of exchange using cryptography to secure transactions and to control the creation of new units.

A blockchain is a digitized, decentralized, public ledger of all cryptocurrency transactions.

The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. The S&P 500 Index is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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