

Hawaiian Tax-Free Trust

Podcast Transcript January 17, 2019

Interviewer:

Today, we're talking to Stephanie Nomura, Portfolio Manager of Hawaiian Tax-Free Trust. There have been reports that the Fed will be patient in regard to near term changes in the Federal Funds Rate. What are your expectations for Fed policy over the course of 2019, particularly as that policy might affect municipal bond investors?

Stephanie Nomura:

Well the Federal Reserve Chairman, Powell, indicated at his most recent testimony in December, that the Federal Reserve continues to be data dependent. The Fed anticipates two rate increases during 2019 but they continue to watch the U.S. and global economies. The Fed does see a bit of economic moderation with continued low inflation. They lowered growth modestly and are expecting inflation to average around 2% over the next 12 months. We don't think the Fed will act rationally to force the U.S. into a recession, and we believe they will continue to act in a measured pace and continue to focus on a worldwide economic financial conditions. Although we see some increases in short-term muni bond rates, keep in mind that all muni bond yields never declined to the near-zero rates of Treasuries and other taxable fixed income investments. The municipal market is more dependent on supply and after-tax income. We would expect the muni market to continue to focus on all these factors.

Interviewer:

There was a significant decline in the supply of municipal bonds in 2018, largely due to the elimination of advanced refunding bonds. What are your expectations for supply in 2019?

Stephanie Nomura:

In Hawaii, we are expecting both the City and County of Honolulu and the State of Hawaii to actually come next week, in early February. Further supply demands on anticipated projects depends on either additional airport or other pending infrastructure that we need in Hawaii, but most of our issuers over the past couple years have already come to market, so we may have a little bit of limited supply in Hawaii.

Interviewer:

How would you characterize the tone of municipal bond market currently? Are you seeing any particular opportunities or areas of concern?

Stephanie Nomura:

The municipal market over the last month or so has actually been very positive. We believe that extreme volatility in the stock market has caused investors to focus on relative stability of municipal bonds and to review their asset allocation and risk tolerance. We don't have any particular concerns about the issuers we hold in Hawaiian Tax-Free Trust, and Hawaii issuers are frequently complimented for their fiscal responsibility and their soundness. Given our high state income tax bracket, double tax-free Hawaii bonds remain an attractive investment for our Hawaii taxpayers.

Interviewer:

The word volatility is cropping up frequently in the press, particularly in relation to equities. How does volatility in the municipal bond market compare with that of other types of investments securities?

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Stephanie Nomura:

The volatility being discussed by media usually relates to the various equity markets, which have experienced more volatility than they have had over the past few years. We believe that this makes a strong case for a portfolio diversification with municipal bonds, which tend to be a more stable asset class than equities.

Interviewer:

Tax returns being filed this coming April will provide investors with some clarity on the impact of the Tax Cuts and Jobs Act. How are you expecting to see the upcoming tax season play out for the municipal bond market?

Stephanie Nomura:

Well that would definitely be an interesting one because we have to see how taxpayers fair with all the new tax structures. Limitation of the SALT deduction may be a very big surprise for Hawaii taxpayers. We have a both high income tax and fairly high mortgage balances, and thus the mortgage interest, which both will not be fully deductible as in previous years. There's a measure before Congress to reinstate the SALT deductions and that may have taxpayer support after April 15. We expect Hawaii investors will be more interested in having double tax-free income.

Interviewer:

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