Hawaiian Tax-Free Trust
Podcast Transcript May 13, 2019

Interviewer:
Aloha, this is Pierre Etienne. Today we have the pleasure of speaking with Stephanie Nomura, Co-Portfolio Manager of the Hawaiian Tax-Free Trust.

Stephanie, on May 1st, Federal Reserve officials decided to hold rates steady, and stated that key economic activity had slowed during the first quarter. How have bond markets reacted to the announcement?

Stephanie Nomura:
The bond market continued to rally on the news that the Fed would maintain their patient stance. This message has been well received by the bond market as market participants grow more comfortable with the forecast that the Fed will no longer be looking to hike rates, and an increased possibility that the Fed will look to cut rates at their next move. The Fed's lack of indication that they are looking to cut the Fed fund rates allowed the short-term rate to actually move up slightly, as a possibility of a near-term rate cut diminished.

Interviewer:
Americans recently filed their first tax returns with the state and local tax, or SALT, deduction caps in place. Do you think that change in the tax law had a meaningful impact on the municipal bond market?

Stephanie Nomura:
It is our belief that the Tax Cut and Jobs Act of 2017 has had significant impact on the municipal market. First, the lower levels of SALT deductions made municipal investments more advantageous. Billions of dollars have moved into the municipal investments as tax free income has become even more appealing, and this is especially true in high-tax states like New York, California, and Hawaii. This increased demand has played a role in producing the rally we have seen so far this year. There's more to the Tax Cut and Jobs Act of 2017 than the headline capturing SALT deductions. The tax law also made it much more difficult, if not impossible, for municipalities to pre-refund bonds, which has played a role in diminishing supply as well. So, these two factors together have pushed the prices of municipal bonds up significantly as the supply crunch and demand boom have hit the market at the same time.

Interviewer:
How has new issue supply year-to-date changed versus 2017 and 2018, and what are you anticipating over the remainder of the year?

Stephanie Nomura:
Well in 2017, issuance was relatively robust as a tightening cycle had begun and municipalities rushed to the market to capture all the lower rates. In 2018, we saw a lighter year of issuance, as the Fed continued its tightening cycle with what seemed to be no end in sight. And then in 2019, supply has been light so far this year. During the first quarter of 2019, the Hawaiian Tax-Free Trust participated in two new municipal bond issues in Hawaii: the Hawaii State General Obligation and a Honolulu City and County General Obligation. These new issues provided an opportunity to add highly-rated bonds to the portfolio that also offer additional yield and diversification benefits. Looking forward, we're anticipating a lighter year of supply, due to the higher short-term rates, and muted inflation pressure keeping longer rates from heading higher.

Interviewer:
We've seen generally positive economic indicators in recent months. How would you assess the financial strength of municipal bond issuers, in general, and are there particular sectors that you find attractive?

Stephanie Nomura:
Although the Hawaii economy saw slower growth in 2018, compared with 2017, it was still positive, and economic performance has been very solid. Visitor arrivals are expected to expand by another one to two percent for the next two years, with stable visitor spending. Labor market conditions remain healthy, but with unemployment at a two percent historic low, further reduction could be a challenge. Looking forward, we will be watchful for any indications of weakness. We're mindful that the Hawaii economy has had a record year of growth, and that some slowing in the rate of expansion is definitely likely. Our local government has been proactive in taking steps to mitigate economic volatility by increasing reserves. We are not currently favoring any particular sector.

Interviewer:
Would you please describe your current strategy and the position of the Fund?

Stephanie Nomura:
As always, we manage the Trust prudently, both in terms of credit quality and interest rate risk, by investing in higher-quality bonds with intermediate maturities. The Trust exposure to interest rate changes is currently a bit lower than its benchmark index, and has a higher quality tilt than the benchmark.

Interviewer:
Thank you very much Stephanie. For those of you listening, before investing in the Fund, carefully read about and consider the investment objectives, risks, charges, expenses, and other information found in the Fund prospectus, which is available on this site, from your financial advisor, and when you call (800) 437-1020.

Mahalo for listening to this podcast.