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Tax-Exempt Money Market Commentary

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Colleen Meehan
Senior Portfolio Manager

- The Federal Reserve followed through on an expected interest-rate increase and raised its forecast for economic growth in 2018 with a projection for three interest-rate hikes in 2018. The Federal Open Market Committee (FOMC) expects the labor market to remain strong with sustained job creation. The next meeting is scheduled for February 1, 2018.
- The normally quiet year-end for new issuance was shaken as issuers rushed to market ahead of the tax overhaul, which would inhibit many traditional financing vehicles in this sector of the fixed income market. This has put pressure on yields on the front end as longer fund managers purchased newly issued longer-dated securities and sold securities in the front end to pay for them. This has provided us with opportunities ahead of the dearth of new supply as we entered the new year. The municipal yield curve has continued to flatten due to current market technicals.
- The Securities Industry and Financial Markets Association (SIFMA) Index has moved higher ahead of the FOMC meeting and increased long-term issuance. The average for 2017 was 0.86%. Demand continues to remain strong as funds are maintaining shorter weighted-average maturities given the relatively flat yield curve and expected higher short-term interest rates. The SIFMA Index is a weekly high grade market index comprised of seven-day tax-exempt variable-rate demand notes produced by Bloomberg LLP.
- Careful and well-researched credit selection remains crucial. Certain state general obligation bonds, essential service revenue bonds issued by water, sewer and electric enterprises, select local credits with strong financial positions and stable tax bases, and various health care and education issuers will remain securities with what we believe have low credit risk.
- The recently enacted Tax Cuts and Jobs Act (TCJA) will limit the amount of state and local tax payments a taxpayer may take as itemized deductions for federal income tax purposes. This may pose challenges to states with high personal income tax rates, such as California, New Jersey and New York. Municipalities with high property tax levies may also experience declines in home values, as the TCJA subjects property tax payments to the aggregate deduction limit. Additionally, the TCJA has eliminated the ability of municipalities to issue tax-exempt advance refunding bonds.

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