At its October 30 meeting, the Federal Open Market Committee (FOMC) lowered the federal funds target rate by a quarter point to 1.50%-1.75%. This was the third reduction of the target rate this year in an effort to insulate the record-long U.S. economic expansion from slowing global growth. The committee will continue to monitor economic data and will respond with policy changes when needed. The commentary provided hints at a pause for the next several meetings. The next FOMC meeting is scheduled for December 10-11.

Assets in tax-exempt money market funds have been steady during the past several months. The inverted yield curve has kept the rate on variable-rate demand notes attractive compared to fixed-rate notes and we see continued strong demand for these securities. The securities are highly liquid and are used to meet redemptions and adjust quickly to market changes.

Strong demand plus limited supply, combined with the change in Federal Reserve policy, resulted in a downward trend in fixed-income tax-exempt yields, moving the one-year index to a reading of 1.20%. Demand remains strong for shorter maturities due to the continued flattening of the yield curve and persistent strong inflows into tax-exempt funds, particularly longer-dated portfolios.

Approaching the midpoint of fiscal year 2020 for municipalities with a June 30 fiscal year-end, overall credit quality remains generally sound. States continue to benefit from a still-growing economy, job growth and consumer spending.

As we enter year-end, we anticipate buying opportunities as yields will generally increase due to several factors. The first is a rush from issuers attempting to access the market before the year-end deadline, resulting in added new-issue supply. The second comes from investors reviewing their tax liabilities and executing trades in an effort to mitigate taxable gains. We then move into the new year, which brings a dearth of new-issue supply, and cash entering the market as reinvestment proceeds from maturities and coupon payments will keep yields depressed.
All investments involve risk, including the possible loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

Views expressed are those of the advisor stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change.

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