Tax-Exempt Money Market Commentary

JANUARY 2019

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- On December 19, 2018, Federal Reserve officials increased the federal funds rate by 0.25% to 2.25-2.50%. The next scheduled Federal Open Market Committee (FOMC) meeting is scheduled for January 30 and the market is looking at the rate to remain unchanged. The committee judges that some further gradual increases in the federal funds rate will occur but will continue to monitor global economic and financial developments and assess their implications for the economic outlook.

- The year 2018 was a transformative year for municipals as the market faced significant upheaval due to tax reform and general market volatility. The new issuance drought, brought on by these events, finally took a turn the last several months of the year as several large issuers entered the market for their annual cash flow borrowing. This increase in issuance, in the one-year maturity range, has pushed the one-year note index to the 2% level. Demand continues to remain strong for shorter maturities due to the continued flattening of the yield curve and increasing federal funds rate. The funds continue to maintain relatively shorter-weighted average maturities (WAMs) enabling the funds to capture the increase in yields as the Federal Reserve continues on the current path.

- Tax-Exempt money market funds have seen an increase in assets, particularly in the retail sector, as after tax yields are compelling. Interest in single-state funds, specifically high-tax states, has seen an increase in assets. We expect this trend to continue as rates continue to post compelling after-tax returns.

- Supply and Demand continues to drive the Securities Industry and Financial Markets Association (SIFMA) Index. The average for December was a 1.67% as the index stabilized as asset flows and supply normalized. The index averaged 1.42% for 2018. We believe, demand will be strong the first couple of months of the new year as new issues tend to be minimal during this time period and reinvestment demand increases.

- The SIFMA Index is a weekly high grade market index comprising seven-day tax-exempt variable rate demand notes produced by Bloomberg LP.

- Nearly at the mid-point in the 2019 fiscal year for most states, credit quality remains stable. This continues to be due to the robust economy, as job growth and consumer spending contribute additional personal income tax and sales tax revenue to the states' treasuries. Many states have recognized the importance of continuing to bolster rainy day and budget stabilization funds in advance of an economic slowdown, while spending generally remains constrained.

- A divided Congress following the mid-term election is unlikely to result in any significant legislation impacting the states, although bipartisan efforts to stimulate infrastructure spending may proceed.

MARK-46050-2019-01-09

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