

# Hawaiian Tax-Free Trust

## PORTFOLIO MANAGER COMMENTARY

### Q1 2025



A Shares: **HULAX**

C Shares: **HULCX**

F Shares: **HULFX**

Y Shares: **HULYX**

### Municipal Bond Market Overview

In the first quarter of 2025, municipal bond prices fell as market yields rose due to three converging factors. First, the Trump administration's aggressive policy changes within a short period contributed to market volatility. Specifically, concerns about the impact of increasing tariffs on potential inflation have driven yields higher in longer maturities. Second, outflows from municipal bond mutual funds increased the available supply in the secondary market as demand weakened. Third, the municipal market entered a historically high seasonal period of new bond issuance. With the economy performing well and an increase in the amount of bonds available in both primary and secondary markets, yields rose. Although yields continued to rise, the market bias remains towards selling longer maturities. The Federal Reserve has signaled a pause in further rate reductions, aiming to maintain the current environment for a longer period to lower inflation. The Fed's mantra of "higher for longer" seems fitting for the current forecast.

According to Bloomberg market data for the first quarter of 2025, the Bloomberg Municipal Index decreased by 0.22%, while the Bloomberg Hawaii Index<sup>1</sup> increased by 0.11%. The national municipal "AAA" yield<sup>2</sup> rose from 3.11% to 3.19% for the 10-year maturity, and the Hawaii 10-year maturity yield increased from 3.27% to 3.40%. For the quarter ending March 31, 2025, the supply of new bond issuance in Hawaii increased sevenfold compared to the prior year, reaching \$854 million in new issues. The yield ratio of 10-year municipal interest rates over 10-year U.S. Treasury yields rose from 68% to 76% during the quarter. Typically, one minus your marginal tax rate gives you the breakeven ratio for calculating after-tax returns. The current ratio has become more favorable for high-tax-bracket earners.

We should also emphasize that at the Asset Management Group (AMG) of Bank of Hawaii, as the Investment Adviser of Hawaiian Tax-Free Trust, we diligently locate Hawaii bonds from numerous mainland securities brokers and peer investment managers. From early morning until market close, we scour the market for opportunities. We regularly put over 40 different counterparties in competition with one another to achieve the best execution. Our objective is to opportunistically bring Hawaii bonds home in the secondary market from our mainland peers. Being based in Hawaii enhances our understanding of local credit trends with state and local bond issuers. For the primary market, we maintain strong relationships with all island issuers, staying close to the Hawaii market and directly financing bond issuance throughout the state and local governmental agencies. We are determined not only to bring higher yields for Hawaiian Tax-Free Trust but also aim to create a consistent future stream of potential income that is exempt from Hawaii State and Federal taxation.

### Hawaii Municipal Bond Market and Economy

The Hawaii economy has exhibited stable growth, according to the most recent economic releases by the State Department of Business, Economic Development and Tourism. In the fourth quarter of 2024, the total number of visitors increased by 5.5%. During the same period, the construction sector added 3,400 jobs, an increase of 8.9%. However, in the second half of 2024, Hawaii's inflation rate (4.0%) ran higher than the national average (2.7%). Key factors driving prices higher for local residents include the cost of housing, apparel, food, and recreation. Additionally, in the wake of the tragic Lahaina fire, casualty insurance costs have increased for home and condo owners across the islands. Despite higher inflation pressures, the latest data available from the third quarter of 2024 shows that total Hawaii non-farm payrolls increased by 5.9%. Overall, the state economy was on solid footing throughout 2024. Heading into 2025, some slowing might occur, but growth may continue at a decent rate, with the credits we own and monitor for the Hawaiian Tax-Free Trust remaining in solid financial condition.

The new issue supply was high for Hawaii during the first quarter of 2025, increasing sevenfold compared to last year's first quarter issuance due to one significant bond offering. The State of Hawaii Airport Authority issued \$848 million in bonds, which were upgraded to AA3/AA-/AA- by all rating agencies. The deal was well received by the local community.

### Fund Strategy and Outlook

Looking ahead, we believe the Federal Reserve has paused additional rate reductions for the near future. However, the Fed has stated that further monetary easing remains data-dependent. We expect the economy may slow as elevated activity around trade and tariffs puts pressure on growth. It remains to be seen if the Fed's targeted inflation rate of 2% can be achieved without the economy slipping into a recession.

In our opinion, the possibility of a “soft landing” for the economy remains high. At AMG, we continue to invest in a manner that seeks to identify relative value and create long-term income potential. We believe this is a prudent approach given the current market environment.

For specific information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at [www.hawaiiantaxfreetrust.com](http://www.hawaiiantaxfreetrust.com). **Index performance is not indicative of fund performance. Past performance does not guarantee future results.**

Fund Facts as of 03/31/25

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$398.1M	Number of Holdings 131
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This information is general in nature and is not intended to provide investment, accounting, tax or legal advice. It is not intended to represent a recommendation or solicitation related to any particular investment, security or industry sector. The opinions shared are those of the portfolio manager and do not necessarily reflect those of Asset Management Group of the Bank of Hawaii, Investment Adviser for Hawaiian Tax-Free Trust.

Information regarding holdings is subject to change and is not necessarily representative of the entire portfolio. A complete list of the Fund’s current holdings, including percentage allocation, is available on our website, [www.hawaiiantaxfreetrust.com](http://www.hawaiiantaxfreetrust.com).

Independent rating services (such as S&P Global Ratings, Moody’s Investors Services and Fitch Ratings) assign ratings, which generally range from AAA (highest) to D (lowest), to indicate the credit worthiness of the underlying bonds in the portfolio. Where the independent rating services differ in the rating they assign to an issue, or do not provide a rating for an issue, the highest available rating is used in calculating allocations by rating.

The Bloomberg Municipal Bond Index covers the U.S. dollar-denominated, long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.

<sup>1</sup>The Bloomberg Hawaii Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the State of Hawaii. Indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results.

<sup>2</sup>The AAA ten-year muni yield to maturity to ten year U.S. Treasury Yield Ratio

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Mutual fund investing involves risk; loss of principal is possible. Investments in bonds may decline in value due to rising interest rates, a real or perceived decline in credit quality of the issuer, borrower, counterparty, or collateral, adverse tax or legislative changes, court decisions, market or economic conditions. State-specific fund performance could be more volatile than that of funds with greater geographic diversification.

*Investors should consider the investment objectives, risks, charges and expenses carefully before investing. For a prospectus or summary prospectus with this and other information about the Hawaiian Tax-Free Trust please contact your financial advisor, visit [www.hawaiiantaxfreetrust.com](http://www.hawaiiantaxfreetrust.com) OR please call 800-437-1000 . Read the prospectus or summary prospectus carefully before investing*