

Hawaiian Tax-Free Trust

PORTFOLIO MANAGER COMMENTARY

Q2 2025



A Shares: **HULAX**

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Municipal Bond Market Overview

During the second quarter of 2025, the municipal bond market demonstrated notable resilience, closing the period with relative stability despite intermittent volatility. The quarter was marked by investor concerns over inflation, largely driven by the Administration's implementation of new tariff and tax reduction policies. However, the Federal Reserve maintained a steady policy stance, opting to wait for further economic data, which ultimately confirmed a solid economic foundation and a continued downward trend in inflation.

A key theme this quarter was the significant increase in bond issuance. At the federal level, long-term debt issuance rose sharply to address persistent budget deficits, contributing to upward pressure on long-term yields. This, combined with reduced foreign sovereign demand and inflationary caution, led Moody's to downgrade the final "AAA" rating on U.S. Treasury securities. Meanwhile, state and local governments also increased issuance, driven by the expiration of pandemic-era stimulus funding. These issuers returned to the market to finance new infrastructure projects and refinance callable debt.

Despite these supply pressures, interest rates ended the quarter largely unchanged. The yield curve, however, steepened modestly—short-term yields declined in anticipation of potential Federal Reserve rate cuts later in the year, while long-term yields edged higher. As we look ahead, we remain attentive to evolving fiscal policy, inflation trends, and central bank signals, all of which will shape the fixed income landscape in the coming months.

In the second quarter of 2025, the municipal bond market remained broadly stable, with the Bloomberg Municipal Index¹ posting a modest decline of -0.12%. In contrast, Hawaii municipal bonds delivered a strong relative performance, with the Bloomberg Hawaii Index² rising by 0.70%. Year to date, this outperformance has been even more pronounced: while the national index declined -0.35%, the Hawaii index advanced 0.81%, reflecting solid demand and favorable market dynamics. For the quarter, the 10-year "AAA" municipal yield held steady at 3.19% nationally, while Hawaii's 10-year yield stood slightly higher at 3.40%, offering a yield premium. Notably, Hawaii experienced a surge in new bond issuance, with \$624 million issued in Q2—three times the volume of the same period last year—and \$1.472 billion issued year to date, nearly five times higher. Despite this increase in supply, investor appetite remained strong. The yield ratio of 10-year municipal bonds to 10-year U.S. Treasuries rose from 68% to 76% over the six-month period ending June 30, 2025, making tax-exempt bonds increasingly attractive—particularly for investors in higher tax brackets, where the breakeven ratio (1 minus the marginal tax rate) favors municipal investments. This environment continues to support a constructive outlook for Hawaii municipal bonds.

The recent increase in the availability of local Hawaii municipal bonds has been a welcome development in an otherwise supply-constrained market. However, the quarter also saw a significant volume of maturities and called or refunded bonds, which has left many local investors holding uninvested cash as the period came to a close. This dynamic presents a timely opportunity for the Hawaiian Tax-Free Trust. In today's environment, our focus remains not only on maximizing yield but also on ensuring the sustainability and reliability of income. We are committed to preserving the long-term value of double tax-free income for our investors—an advantage that is especially meaningful in high-tax brackets. Our strategy continues to emphasize disciplined reinvestment of portfolio assets, with the goal of delivering durable, tax-exempt income for years to come.

Hawaii Municipal Bond Market and Economy

Hawaii's economy continues to demonstrate stability and moderate growth, according to the latest data from the State Department of Business, Economic Development and Tourism. Over the first five months of 2025, total visitor arrivals increased by 2.8% compared to the same period in 2024. While the number of visitors remains 3.9% below the 2019 peak, visitor spending has surged—up 24.3% over the same five-month period and 6.5% higher year-to-date through May. This reflects a shift toward higher-value tourism and a more resilient economic base.

Importantly, the local economy is diversifying. In the City and County of Honolulu's Investor Presentation for their Series 2025 issuance, they reported 84% of employment is now concentrated in non-tourism sectors, underscoring a broader and more sustainable economic foundation. The unemployment rate stood at just 2.8% in May 2025, well below the national average of 4.2%, highlighting the strength of the local labor market.

As we enter the second half of the year, some moderation in economic activity may occur in Hawaii, in line with broader national trends. However, potential Federal Reserve interest rate cuts could help maintain a solid economic footing. Overall, the state's economic backdrop remains supportive of long-term investment in Hawaii's municipal bond market.

Fund Outlook and Strategy

Looking ahead, we believe the Federal Reserve has likely paused additional rate reductions for the near term. However, the Fed has emphasized that future monetary policy decisions remain data dependent. We anticipate that economic growth may moderate, particularly as elevated activity around trade and tariffs could begin to weigh on expansion. Whether the Fed can achieve its 2% inflation target without tipping the economy into recession remains uncertain. That said, the probability of a “soft landing” appears to be increasing, in our view.

At Asset Management Group of the Bank of Hawaii, investment adviser to the Hawaiian Tax-Free Trust, we continue to manage the portfolio with a disciplined focus on identifying relative value opportunities that support long-term income potential. We believe this approach is prudent given the current market environment and remains aligned with our commitment to delivering durable, double tax-free income to our investors.

Information about fund characteristics, holdings and performance please see the Fund Fact Sheet on our website at www.hawaiiantaxfreetrust.com. **Index performance is not indicative of fund performance. Past performance does not guarantee future results.**

Fund Facts as of 06/30/25

Lead Portfolio Manager REID SMITH	Inception Date 2/20/1985	Total Investments \$386.74M	Number of Holdings 113
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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

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.

¹The Bloomberg Municipal Index is an unmanaged index composed of a broad range of municipal bonds of issuers in the United States. Indices are unmanaged and are not available for direct investment. Past performance does not guarantee future results.

²The 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.

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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 OR please call 800-437-1000. Read the prospectus or summary prospectus carefully before investing