MMDT
MASSACHUSETTS MUNICIPAL DEPOSITORY TRUST

MyNews

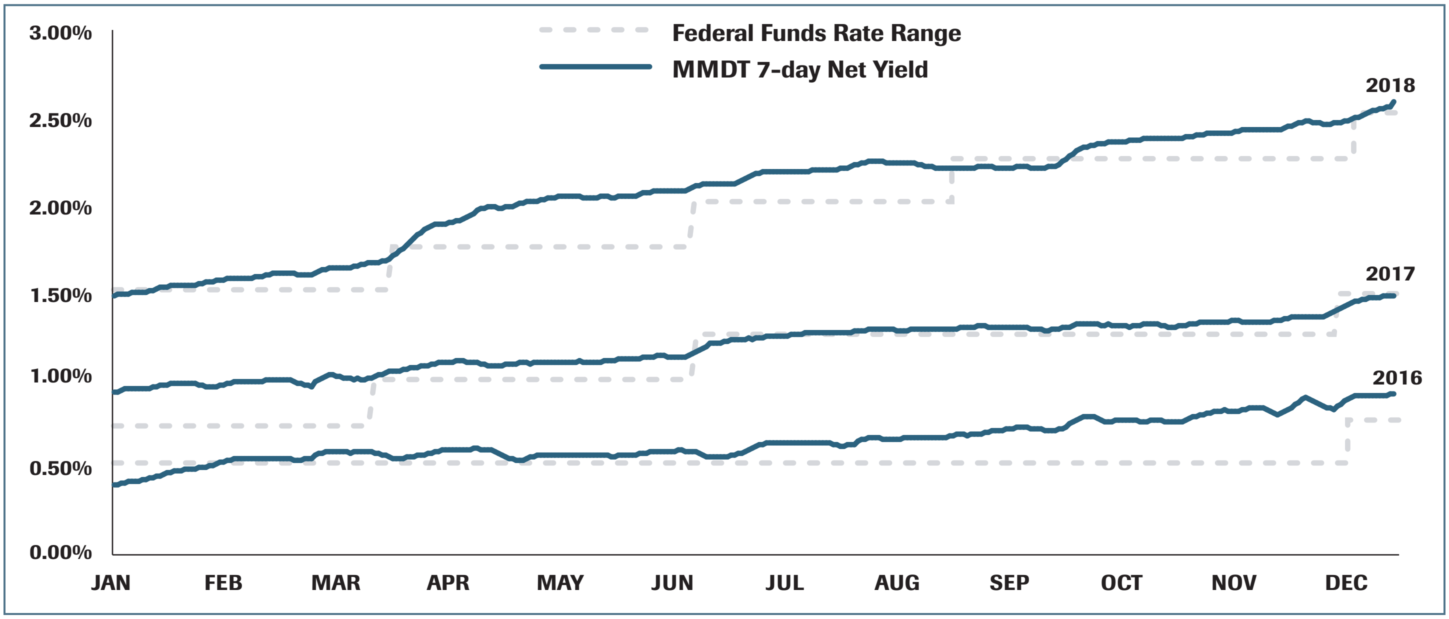
Your MMDT Quarterly Update

Winter 2019

FOMC raises the target range of the Fed funds rate to 2.25% - 2.50%

The Federal Reserve announced another increase in its benchmark Fed funds rate. Strength in the U.S. economy prompted the additional 0.25% increase, making MMDT Cash Pool an increasingly attractive option.

As rates rise, MMDT Portfolio Manager Paige Wilhelm seeks to invest in securities with the highest yields possible consistent with stability of principal and daily liquidity. Since the announcement on the 19th, the 7-Day net yield for MMDT Cash Portfolio rose from 2.48% to 2.59% on December 31, 2018.



Performance quoted represents past performance, which is no guarantee of future results. Investment return will vary. The value of an investment when redeemed, may be worth more or less than the original cost.

Sources: Federated Investors, Bloomberg; Chart end date is 12/31/18 7-day net yield as of 12/31/18 is: 2.59%

Past performance is no guarantee of future results

Fed: One and not yet done

The story of the meeting was not the action, rather what the future might hold for monetary policy. The materials accompanying the announcement of the policy action were less optimistic than they were in September, reflecting not only softer economic growth and lower inflation, but also the prospect of fewer rate hikes. The Fed's projections for the policy rate for 2019 and beyond were lowered, with the median dot for 2019 reflecting expectations of two tightenings rather than three over the course of the year.

Our outlook for 2019 is for two rate hikes, with the timing of those hikes being less certain as the Fed moves away from quarterly press conferences to one at every meeting. Powell characterized the Fed's balance sheet policy as being on autopilot, a label that seemed to disappoint the broader financial markets. The technical adjustments also made further enhanced the Fed's ability to maintain a fed funds target rate within the established range, and will likely lead to softer repo rates as a result.

Fed Rate Watch
Upcoming Fed meetings:

2019:

Jan. 29-30

Mar. 19-20

Apr./May 30-1

June 18-19

July 30-31

Sep 17-18

Oct 29-30

December 10-11

Outlook:
Anticipating 2 Rate Hikes in 2019

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Money markets: 3 things to watch in 2019

1. The Federal Reserve The Fed acted correctly at its December meeting when it raised rates 25 basis points to a target range of 2.25%-2.50% and pulled back its 2019 projections to two hikes from three. These moves fit with how the economy is performing now and how it might moderate in the near future. Further, the unanimous statement and Chair Powell's no-nonsense press conference suggest policymakers want to simplify their message. Look for them to constantly reiterate that their decisions are based on keeping inflation stable and maintaining strong employment—their mandate. They also likely will remind us that their policy tool is the federal funds rate, not the runoff of the balance sheet, and that they disregard market volatility and politics. Keep in mind that every meeting will have a press conference and the potential for policy action.

2. Fruits of volatility Inflows to liquidity products likely will continue, spurred by equity market volatility. The question is that, when the markets eventually settle down, how much of the influx will remain due to the high level of return cash is now offering compared to the recent past and the expectation that the return will grow if rates continue to rise. Indeed, we expect a rate hike to come in the first half of this year with one more arriving in the second half before a potential pause, with the $50 billion-a-month flood of securities from quantitative tapering putting additional upward pressure on rates.

3. "Steady" We think this will be the watchword for money markets in 2019: steady corporate-earnings, economic performance and Fed communication. A recession may be coming, but has not yet appeared above the horizon. The Fed likely will be more watchful and data dependent about policy. This bodes well for liquidity products. Rare are cash managers and investors who don't like to earn a return above inflation in less-risky products. We think that in 2019, cash will be key, if not king.

Tired of paper statements?

MMDT is pleased to offer e-delivery for your monthly account statements.

If you are interested in enrolling in this service, complete the "Electronic Statement Delivery Consent Form" and submit it to your MMDT Participant Services Team via mail or fax. This form can be found in the Quick Links section on the MyMMDT.com homepage or from the Account Documents webpage.

Upcoming Events
We look forward to meeting with MMDT participants at these events:

1. Jan 18, 2019 - Jan 19, 2019, Hynes Convention Center, Boston
   MMA Annual Meeting & Trade Show 2019
2. Mar 20, 2019 - Mar 20, 2019, Best Western Royal Plaza, Marlborough
   MASBO Trade Show