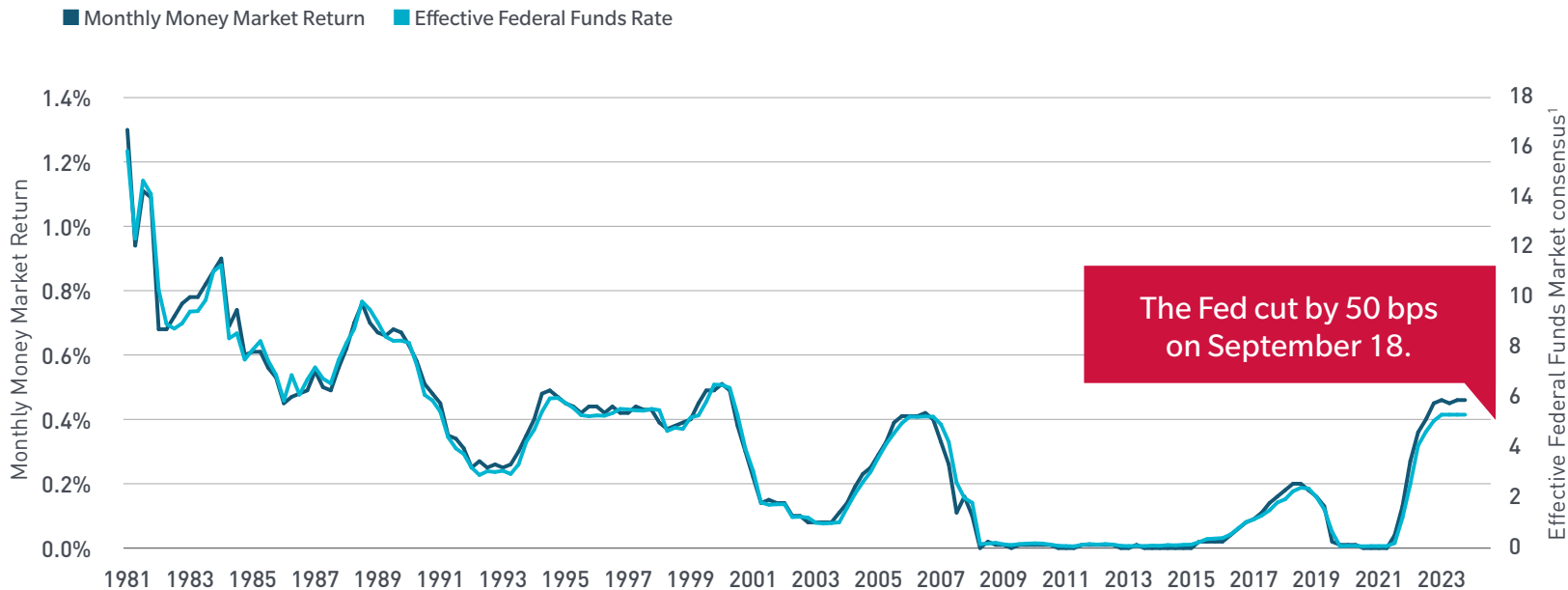


Money Market Yields: Is the Clock Running Out?

Money markets returns and yields rose as the US Federal Reserve raised interest rates rapidly to curb inflation. However, inflation has subsided, and the Fed cut rates and started a rate cutting cycle. Money market returns as well as other cash alternatives like short-term Treasury bills and CDs have generally moved in lockstep with the federal funds rate. In past rate cutting cycles, money market rates fell by 86% of the total rate decline. We believe the two-minute warning has sounded on the end of the Fed's pause. Now may be the time to look beyond money market funds and CDs to bond funds as bond prices generally rise when rates decline.

Historically, money market returns have fallen when the Fed has cut rates

Money market returns versus federal funds rate



DOING THE MATH
 Today's money market rate: 5.4%²
 Historically, money market rates have declined 86% of the total federal funds cuts during past easing cycles.
 How much do you think the Fed will end up cutting by the time they are done?

The Fed cut by 50 bps on September 18.

Sources: Bloomberg, FRED. Monthly data from 30 September 1981 through 30 June 2024. Monthly money market returns are proxied using the annual rate on the US Treasury 3-month money market yield.

¹ Market consensus is derived from the range of economist forecasts in Bloomberg.

² As of 30 June 2024.

Time may be running out to avoid declining cash returns, thereby missing a potential bond opportunity. Consider rethinking your cash allocation.

Terms and Definitions:

The **federal funds rate** is the interest rate set by the Federal Open Market Committee that commercial banks use to borrow and to lend their excess reserves to each other overnight.

The **effective federal funds rate** (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates.

A **correlation** is a statistic that measures the degree to which two securities move in relation to each other.

A **basis point** (BP) is used to indicate changes in the interest rates of a financial instrument. One basis point is equal to 1/100th of 1%, or 0.01%. In decimal form, one basis point appears as 0.0001 (0.01/100).

The views expressed are those of the author(s) and are subject to change at any time. These views are for informational purposes only and should not be relied upon as a recommendation to purchase any security or as a solicitation or investment advice from the Advisor.

Important risk considerations:

Bond: Investments in debt instruments may decline in value as the result of, or perception of, declines in the credit quality of the issuer, borrower, counterparty, or other entity responsible for payment, underlying collateral, or changes in economic, political, issuer-specific, or other conditions. Certain types of debt instruments can be more sensitive to these factors and therefore more volatile. In addition, debt instruments entail interest rate risk (as interest rates rise, prices usually fall). Therefore, the portfolio's value may decline during rising rates. Portfolios that consist of debt instruments with longer durations are generally more sensitive to a rise in interest rates than those with shorter durations. At times, and particularly during periods of market turmoil, all or a large portion of segments of the market may not have an active trading market. As a result, it may be difficult to value these investments and it may not be possible to sell a particular investment or type of investment at any particular time or at an acceptable price. The price of an instrument trading at a negative interest rate responds to interest rate changes like other debt instruments; however, an instrument purchased at a negative interest rate is expected to produce a negative return if held to maturity.