Short Term Investments Committee

Market insights and investment views

June 2024

Economic backdrop

We received an updated Summary of Economic Projections (SEP) following the June Federal Open Market Committee (FOMC) meeting. Notably, policymakers increased their year-end projection of core PCE – the Fed's preferred measure of inflation – from 2.6% to 2.8%, while reducing expected rate cuts by year-end from 75 basis points (bps) to 25 bps. The previously announced slowing of the pace of balance sheet run-off – aka Quantitative Tightening – went into effect this month and there were no further changes made at the June meeting. From a messaging standpoint, Powell was more dovish, saying that the May inflation reports were "a step in the right direction" and that no one on the committee expects to hike rates again.

Market insights

Municipal markets

Municipal portfolios are capitalizing on an active summer note season.

The market is off to a strong start with most participants bringing the same or higher issuance compared to last year. One of the larger annual issuers increased their cash flow borrowing by approximately $50 million from last summer. With over a hundred potential issuers active, we closely evaluate all opportunities as they arise.

Short duration

Short duration portfolios are increasing mortgage holdings, where applicable, to capitalize on benefits from high coupon payments.

We have seen an increase in collateralized mortgage obligations (CMOs) available and are encouraged by smaller regional banks coming back to the market to buy these CMO floaters. We expect larger banks to participate once there is more clarity on Fed actions.

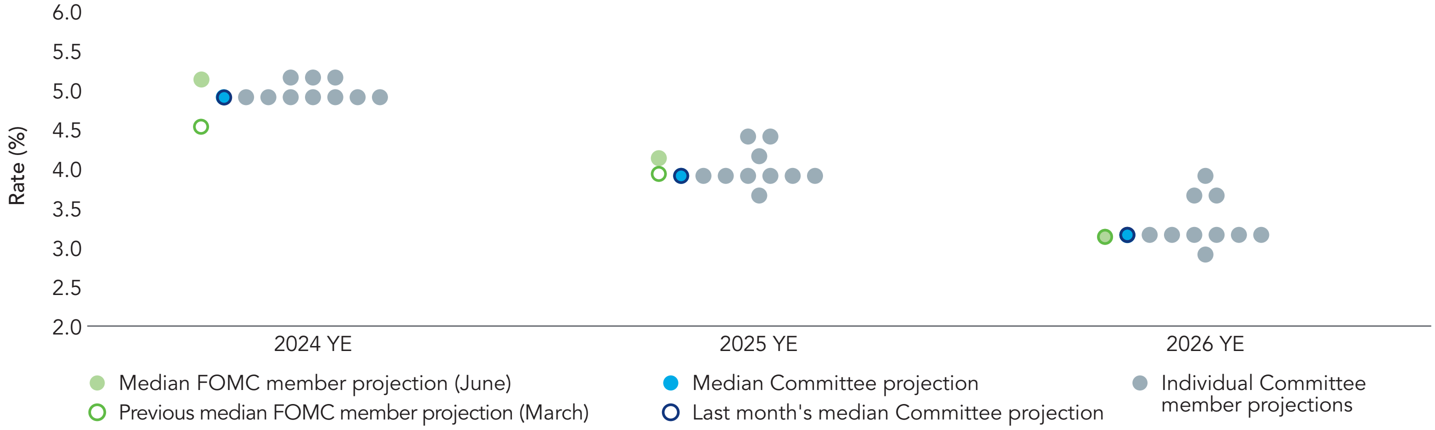
Across the curve

Efforts to lengthen maturities/durations continue across portfolios at the short end of the curve.

We are generally finding value in longer-term fixed-rate securities which can help lock in rates prior to a cut in the target range of the federal funds rate.

Assessment of monetary policy

Results of the committee's poll estimating the midpoint of the target range for the federal funds rate



Investment views

Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive.

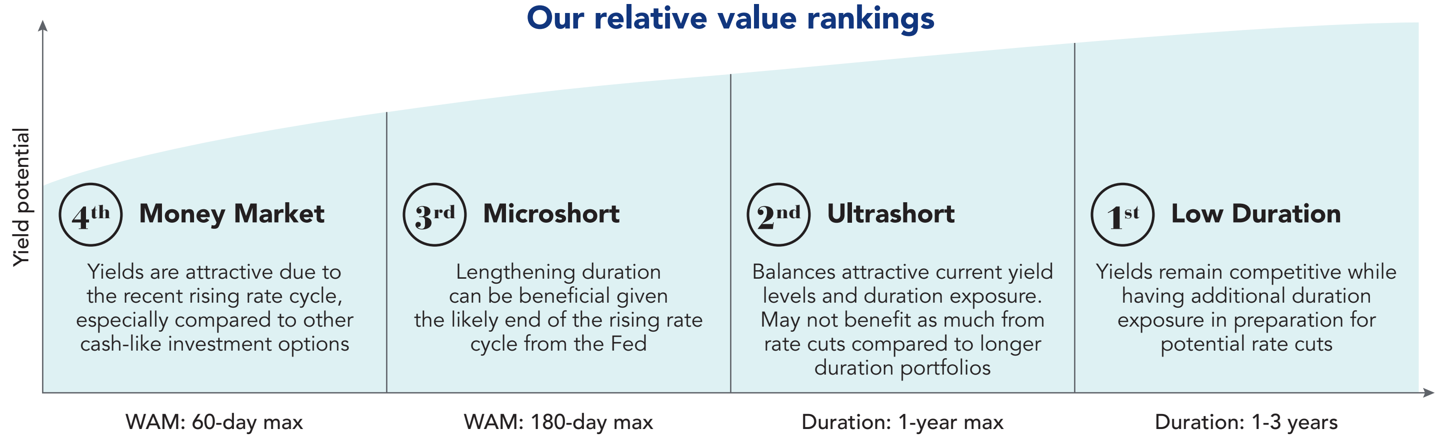
These themes are guiding our investment views in the space:

- While money market yields are compelling, maintain a bias to lengthen duration.
- Take a balanced approach to credit due to tight valuations but a stable economic environment in the near term.
- Use mortgage-backed securities where possible to capitalize on available carry and prepare for potential benefit of future spread compression.

For investors diversifying across the 0-3-year universe

The asset classes and subsectors below represent the potential universe for a robust investment strategy that spans the 0-3-year space. Investments will vary depending on risk tolerance, maturity/duration needs, investment policies and more. Our relative value rankings and investment spotlights reflect the category we believe is the most attractive given general investment objectives or preferences and the current market conditions.

Our relative value rankings



Investment spotlights: for varying investor outcomes

Government	**Government Money Market** Low-to-no duration risk is attractive, especially for risk averse investors.		**Government Ultrashort** Risk sensitive investor. Yields are compelling and longer duration exposure may benefit total return if the Fed begins to cut rates.	**Short-Term Government** Highest relative value seeking investor. Lack of credit offers lower potential total return, however, longer duration exposure makes this compelling if the Fed begins to cut rates.
Credit	**Prime Money Market** Liquidity seeking investor. Yields have attractive spreads to Treasurys. Credit conditions on the short end of the curve remain solid.	**Microshort** Yield seeking investor. Yields are becoming more attractive and we expect this trend to continue given the likely end of the rising rate cycle from the Fed.	**Ultrashort** Total return seeking investor. We are constructive on credit in the near-term given resilient economic conditions.	**Short-Term Income** Given a Fed Pause, we see higher total return potential within this asset's longer duration and constructive credit dynamics.
Municipal	**Municipal Money Market** Despite recent moves in SIFMA, municipal money markets can still be attractive for tax sensitive investors.	**Municipal Microshort** Tax sensitive yield seeking investor. Microshorts offer a smaller incremental step out if you don't want to jump from money markets to ultrashorts yet.	**Municipal Ultrashort** Tax sensitive total return seeking investor. Yields are compelling compared to both longer and shorter duration municipal securities and credit remains solid.	**Short-Term Municipal** Credit quality remains high and investments here may be useful when the Fed potentially starts cutting rates in 2024.

"WAM" is weighted average maturity.

Detailed sector/security rationale driving rankings

Within the short end of the curve, each sector and security type has specific nuances that should be considered when making investment decisions.

	Sector/security type	Rationale
Liquidity	Repurchase Agreements (Repo)	With the Fed's Reverse Repo Program (RRP) providing a soft floor for the market at 5.30%, overnight repurchase agreements are the preferred investment vehicle for liquidity in government portfolios. This can also be a valid option for prime portfolios when demand for very short CDs and CP exceeds supply.
Liquidity	T-Bills, T-Notes, Coupons	Fixed-rate Treasury securities can typically provide a low-risk, efficient means of potentially capturing higher yields by extending beyond overnight. Similar to last month, the federal funds futures curve is pricing in almost two Fed rate cuts by year-end. This has kept the bill curve inverted from 3-month to 1-year. Net new bill supply has been negative so far this month and is expected to continue through the first week or so of July. This should keep downward pressure on yields across the curve, continuing to make the search for value difficult. The extension trade can provide protection against an easing Fed, but can be difficult to implement in the current environment. That said, the data dependent nature of the Fed and the resulting rate swings can provide extension opportunities for the watchful investor. Also, bill supply is expected to turn positive in mid-July and could provide support to the curve. Treasury floating-rate notes based on the 3-month T-bill remain a viable option, but must be used cautiously when the outlook includes rate cuts.
Liquidity	U.S. Government Agencies	Issuance by U.S. government agencies has moved sideways in recent weeks, with discount notes continuing to offer little to no value versus bills. Structured coupon securities, such as callable notes, continue to be a staple in the offerings and, depending on your rate outlook, can be a source of relative value. Agency issuance can also provide exposure to Secured Overnight Financing Rate (SOFR) based floating-rate securities and in much shorter tenors than Treasury floating-rate notes.
Liquidity	Certificates of Deposit (CDs) and Commercial Paper (CP)	The prime securities curve is now inverted from 6-months to 1-year. Supply remains healthy and should provide support to yields across the curve, however investors should be patient to wait for opportunities to extend. With the appropriate credit work, bank CDs, corporate CP and asset-backed CP can potentially enhance portfolio yield while maintaining minimal credit risk as the credit quality of banks and corporations continues to be strong. In addition, they can provide exposure to floating-rate securities based on indices such as SOFR, Overnight Bank Funding Rate (OBFR), and the federal funds rate. With expectations for a patient Fed, interest in floaters remains active as they can offer value relative to fixed rate securities.
Liquidity	Variable Rate Demand Notes (VRDNs)	With a par optional tender and regular rate reset (both typically either daily or weekly), VRDNs are the preferred investment vehicle for liquidity in municipal portfolios. Given the tax-exempt interest, rates are usually lower than short-term taxable interest rates and can display more inconsistency during certain, regular periods of supply/demand imbalances but, on average (we suggest a 4-week view), offer fair value for tax sensitive investors.
Fixed Income	Asset-Backed Securities (ABS)	ABS delinquencies continue to rise but this modest deterioration in collateral is expected and, in general, ABS structural features remain robust for most deals. Some very low quality sub-prime issuers and other "one off" deals have experienced downgrades so strong credit analysis remains very important. New issue supply continues to be elevated. We still see good value in ABS; however, we have been more selective recently as some value has diminished with spreads grinding tighter especially in subordinate tranches.
Fixed Income	Investment Grade (IG) Corporates	The valuation debate between corporate yields vs. spreads continues. Investment grade corporates are supported by better-than-expected economic growth, solid earnings, and attractive yields that are counterbalanced by tighter spreads, sticky inflation, and a vigilant Federal Reserve. Security selection remains very important considering current valuations and other opportunities in high quality sectors such as mortgages and ABS.
Fixed Income	Government/ Mortgage-Backed Securities (MBS)	Spreads in the short duration government mortgage space remain at multi-year wides and are extremely attractive. With the next FOMC rate move very likely to be a cut we expect that rate declines and curve steepening will bias mortgage spreads tighter over the next 12 months. The wide spreads, attractive income and strong potential for capital appreciation available in government guaranteed floating rate collateralized mortgage obligations warrant active portfolio addition.
Fixed Income	Municipal Bonds/ Notes	State and local municipal government credit quality generally remains solid, benefiting from historically large financial reserves and strong management. One-year note issuance is hitting its annual peak season with supply showing signs of increasing from previous low levels as portfolios continue to benefit from higher rates. Further out the short-term municipal curve, the higher rate environment has contributed to historically attractive yields that offer fair value on a ratio-basis when compared to U.S. Treasuries.

Short Term Investments Committee

Federated Hermes

Federated Hermes' strength on the short end of the curve

The **Short Term Investments Committee** is a collection of investment professionals with in-depth experience investing across the 0-3-year part of the yield curve. On a monthly basis, the Committee meets to provide insights, strategize and discuss investment opportunities.

The Committee is headed by Nicholas Tripodes, CFA and Mark Weiss, CFA. Nick is senior vice president, senior portfolio manager and head of Low Duration/Structured Products Group. He is responsible for portfolio management and administration of low duration multi-sector portfolios with concentrations in investment-grade securities, as well as management and administration of structured product allocations. Mark is vice president and senior portfolio manager. He is responsible for portfolio management and research in the fixed-income area concentrating on liquidity portfolios.

Committee members:

- consist of portfolio managers and investment analysts with product managers and more also attending meetings
- manage $619 billion in assets in the 0-3-year space (as of 3/31/24)
- average over 25 years of investment experience
- include multi-asset solutions professionals skilled at investing and research in the global asset allocation area
- are subject matter experts in government liquidity, prime liquidity, municipal liquidity and short-term fixed-income including investment-grade securities, asset-backed and mortgage-backed securities and other short duration securities

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although some money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in these funds.

Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. To obtain a summary prospectus or prospectus containing this and other information, contact us or view the prospectus provided on FederatedHermes.com/us. Please carefully read the summary prospectus or prospectus before investing.

Views are as of June 2024 and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

Variable and floating rate loans and securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much or as quickly as interest rates in general. Conversely, variable and floating rate loans and securities generally will not increase in value as much as fixed-rate debt instruments if interest rates decline.

Yields quoted are for illustrative purposes only and not representative of all securities or any specific investment.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices.

Diversification does not assure a profit nor protect against loss.

Past performance is no guarantee of future results.

Yield curve is a graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

Bond credit ratings measure the risk that a security will default. Credit ratings of A or better are considered to be high credit quality; credit ratings of BBB are good credit quality and the lowest category of investment grade; credit ratings of BB and below are lower-rated securities; and credit ratings of CCC or below have high default risk.

Ultra-short and microshort bond funds are not "money market" mutual funds. Some money market mutual funds attempt to maintain a stable net asset value through compliance with relevant Securities and Exchange Commission (SEC) rules. Ultra-short and microshort funds are not governed by those rules, and their shares will fluctuate in value.

The value of some mortgage-backed securities may be particularly sensitive to changes in prevailing interest rates, and although the securities are generally supported by some form of government or private insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

The value of some asset-backed securities may be particularly sensitive to changes in prevailing interest rates, and although certain securities may be supported by some form of government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Income from municipal funds may be subject to the federal alternative minimum tax and state and local taxes.

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