Short Term Investments Committee

Market insights and investment views

July 2024

Economic backdrop

Recent inflation reports have come in cooler than expected. In response, the Federal Funds Futures market moved to price in more cuts this year, keeping the possibility of a rate cut in September on the table. Federal Reserve (the Fed) Chair Jerome Powell and the rest of the Federal Open Market Committee (FOMC) will likely pay close attention to even subtle changes in inflation, the labor market and the economy overall as the number of FOMC meetings remaining this year ticks down. In other news, election results in the UK and France have increased volatility and yields in the European markets in the short term amidst political uncertainty.

Market insights

Government liquidity

Government liquidity portfolios are looking forward to new bill issuance.

We expect to see a shift in the supply and demand balance with net positive new Treasury bill issuance over the next eight weeks. This should help portfolios find more value while putting cash to work.

Credit

Asset-backed securities (ABS) remain attractive for ultrashort and low duration portfolios.

We are seeing steady new issuance of auto loans and lease as well as equipment lease deals and are capitalizing on AAA-rated ABS with comparable and sometimes higher yields than A-rated investment-grade corporate securities.

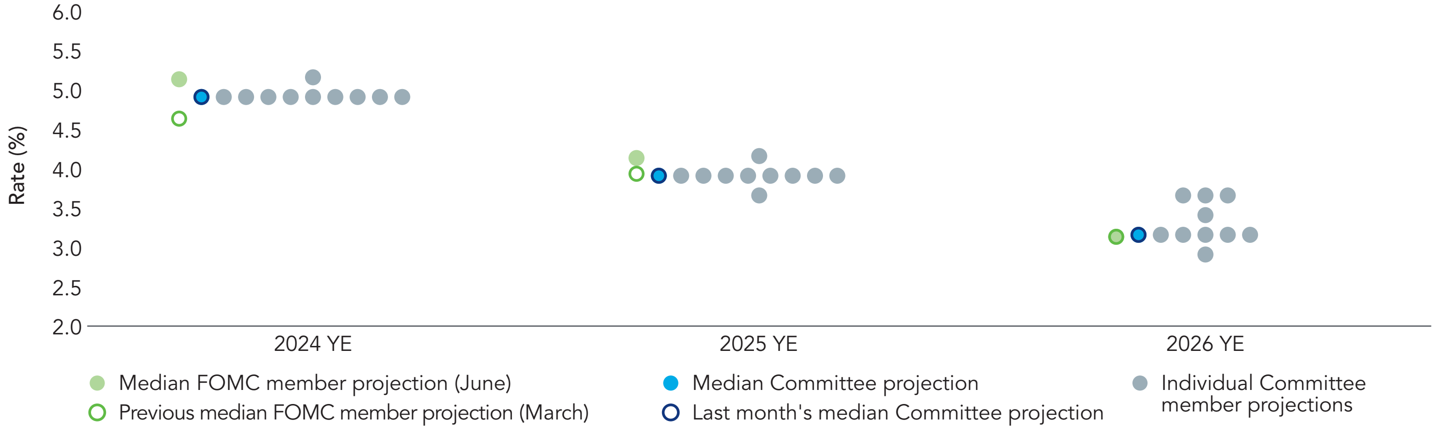
Prime liquidity

Prime liquidity portfolios are finding value in 3-month commercial paper.

The yield curve is currently inverted with a peak at 3-months with rates around 5.39%. Longer maturities appear to be pricing in Fed rate cuts a bit too soon.

Assessment of monetary policy

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



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Investment views

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

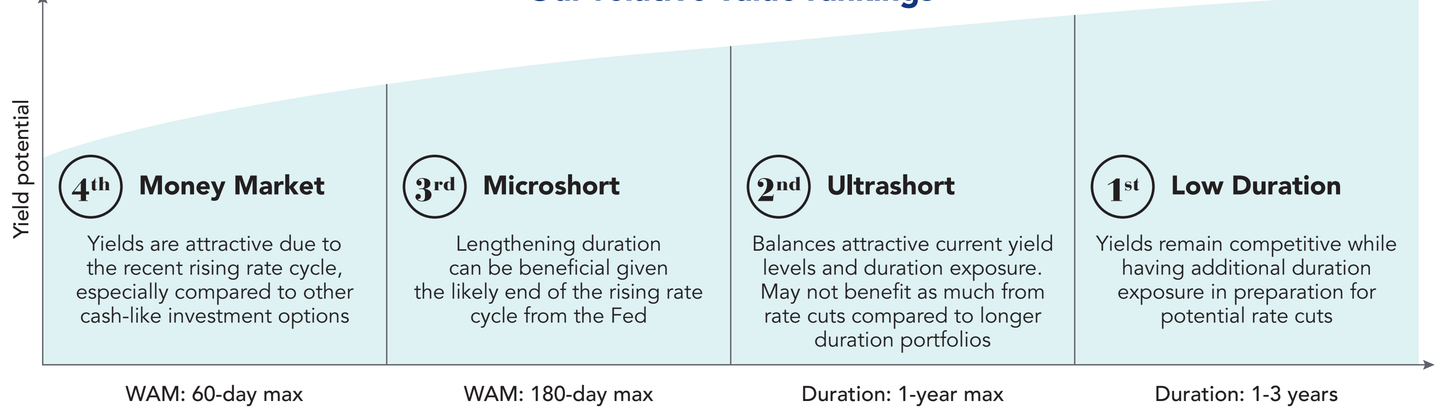
These themes are guiding our investment views in the space:

- 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. The Fed Funds futures curve is now pricing in more than two Fed rate cuts by year-end with the first fully priced cut in September. As a result, the bill curve is inverted from 1-month to 1-year. We have seen strong net new bill supply so far in July and it is expected to continue into late-August. This could provide support to yields across the curve, creating value opportunities for investors looking to extend maturities in the face of an easing Fed. 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 continues to move sideways, 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. Floaters have become increasingly popular among investors given the higher SOFR levels we've seen since quarter-end.
Liquidity	Certificates of Deposit (CDs) and Commercial Paper (CP)	The prime securities curve is now inverted from 3-months to 1-year. Supply remains healthy and should provide support to yields across the curve, however investors should be patient waiting 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 Fed Funds rate. With the market now expecting an earlier Fed cut, fixed rate securities can be less attractive than floaters, so relative value must be assessed daily.
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)	Despite increasing delinquencies in sub-prime auto asset-backed securities (ABS), overall fundamentals remain very strong due to robust deal structural characteristics, a healthy economy, and a low unemployment rate. Prime auto loan and lease ABS as well as credit card ABS are performing exceptionally well due to higher interest rates and steady charge-offs which add more protection to deals from higher excess interest. Some value has diminished from tightening spreads in 2024 but ABS is still attractive compared to similarly rated investment grade corporates.
Fixed Income	Investment Grade (IG) Corporates	2Q 2024 corporate earnings are expected to grow in the high single digits and full year 2024 earnings expectations are in the positive low double digits. Overall, corporate quality is holding up well in this slowing inflationary environment. New issuance 2024 estimates have been revised upwards due to strong issuance year to date and the high demand for new issue corporates remains with most deals tightening 20-30 basis points from initial price thoughts. Credit spreads continue to be tight and were flat month over month in the 1–3 year space. Security selection is important due to expensive valuations and other opportunities in high quality sectors including Agency 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' 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 July 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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