Short Term Investments Committee

Market insights and investment views

August 2024

Economic backdrop

Despite potential rate cuts to the target range of the federal funds rate being a topic of discussion for months now, the potential for cuts at the next meeting has never felt higher. Market expectations change constantly, and Federal Reserve Chair Jerome Powell continues to reiterate the importance of data dependency in decision making, but he also made it clear that a rate cut in September was firmly on the table.

Market insights

Across the curve

With Fed rate cuts imminent, months of anticipation is likely coming to a head.

We are keeping durations and maturities long leading up to a probable 25 basis point cut in September to the target range of the federal funds rate. This should begin a normalization of yield potential and impact asset flows across the short end. Investors who adjust earlier than an official policy change, as the market does, could capture additional total return benefits.

Credit

Ultrashort portfolios are taking advantage of attractive prime credit card asset-backed securities which are performing extremely well, close to the best we have seen in roughly 20 years.

Some prime credit card master trusts have over 20% in excess interest, an extraordinarily high level of credit enhancement for bondholders.

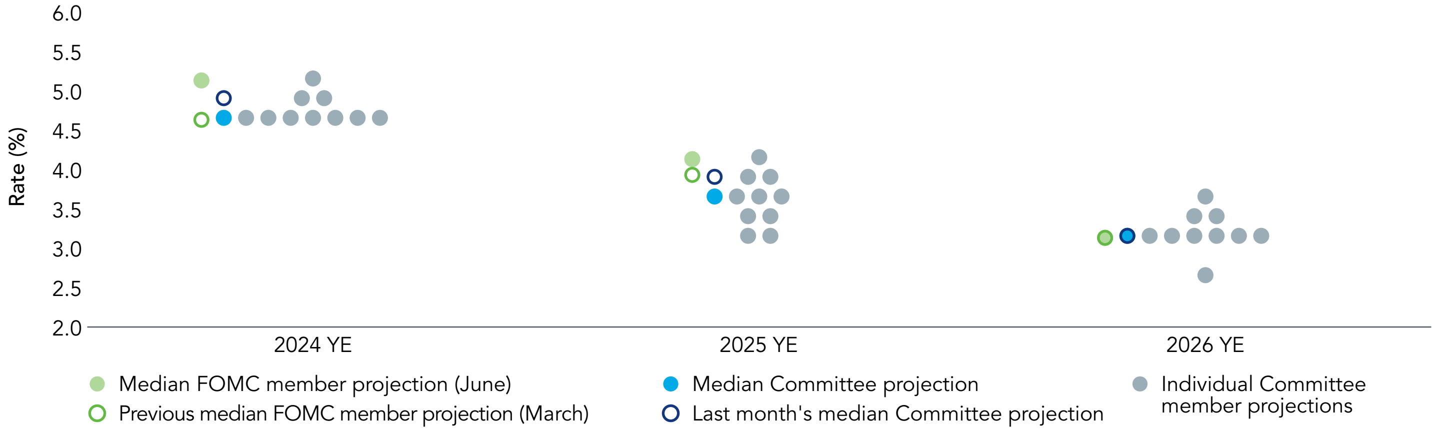
Government ultrashort

Floating rate securities continue to generate high coupons for government ultrashort portfolios.

Due to the recent drop in mortgage rates, we are seeing a slight pickup in pre-payment rates that can benefit portfolios that purchased mortgage-backed securities at discounts to par and are now getting repaid at par.

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.

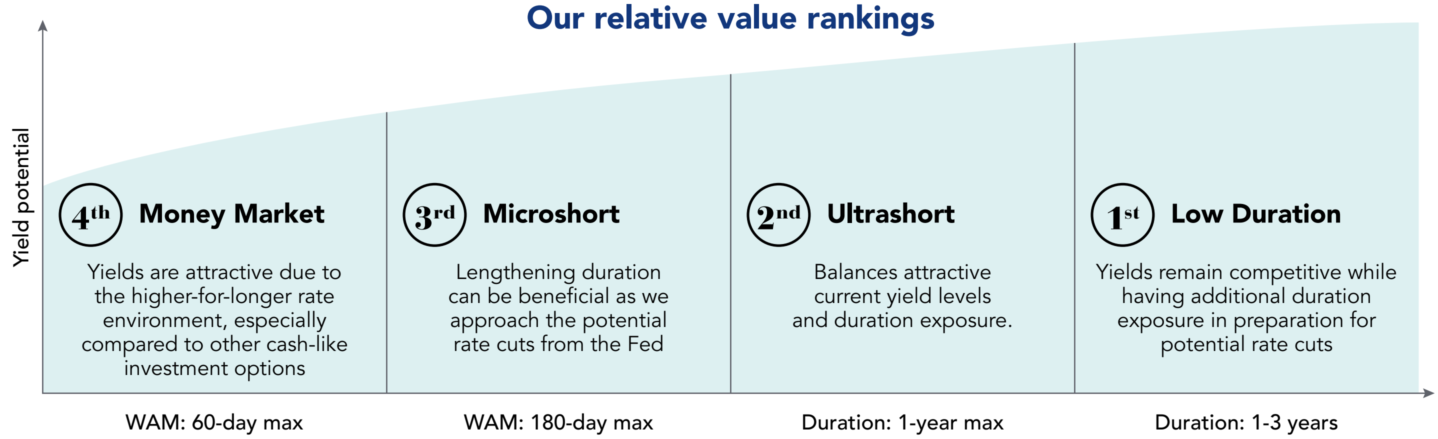
These themes are guiding our investment views in the space:

- While money market yields are compelling, maintain a bias to lengthen duration.
- Take a balanced approach to credit, despite some recent spread widening, given 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 given the likelihood of a rate cut.
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 more attractive than shorter alternatives and we expect this to be further recognized when the Fed lowers rates.	**Ultrashort** Total return seeking investor We are constructive on credit in the near-term given resilient economic conditions.	**Short-Term Income** 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 lengthening durations is becoming a more attractive move.

"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. However, the Fed Funds futures curve is now pricing in nearly four Fed rate cuts by year-end with the first fully priced cut in September. As a result, the bill curve is inverted from overnight to 1-year. We have seen strong net new bill supply since the second week of July. This is expected to continue through the end of August and then become negative in September. This could put downward pressure on yields across the curve, making it somewhat more difficult 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 offering 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 continue to be popular among investors given the higher SOFR levels we've seen since quarter-end.
Liquidity	Certificates of Deposit (CDs) and Commercial Paper (CP)	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. The prime securities curve is now inverted from 1-month to 1-year and we have observed very little activity on the longer end as investors seem to feel the inversion may be a bit overdone, and we would tend to agree. Floating rate securities, however, continue to be a popular option as they can be relatively attractive versus an overly inverted fixed curve, depending on your rate outlook, of course. Floaters can also provide exposure to indices such as SOFR, Overnight Bank Funding Rate (OBFR), and the Fed Funds rate.
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 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 ABS, overall fundamentals remain very strong due to robust deal structural characteristics, a healthy economy, and a rising but low unemployment rate. Prime auto loan and lease ABS are performing well within original collateral performance expectations. Prime credit card ABS are performing exceptionally well due to high gross yields and steady charge-offs that create high levels of protection in the form of excess interest. As a result of recent spread widening, ABS offers even better value compared to similarly rated investment grade corporates.
Fixed Income	Investment Grade (IG) Corporates	Earnings expectations for full year 2024 are positive low double-digits. New issuance has been robust year-to-date and well received with most deals tightening 20-30 basis points from initial price thoughts. Issuance is expected to slow in the second half of 2024, which should create a positive technical. IG 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. Although spreads widened over the last month, security selection remains important due to expensive valuations compared to other investment grade sectors.
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. The annual peak/spike in one-year note issuance (the "summer note season") is nearing an end with supply increasing at a reasonable pace 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.

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 $626 billion in assets in the 0-3-year space (as of 6/30/24)
- 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

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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