Short Term Investments Committee

Market insights and investment views

November 2024

Economic backdrop

Coming on the heels of the US presidential election and offering the expected 25 basis-point rate cut, the Federal Reserve policy-setting meeting in early November was uneventful. That is, except for Chair Powell's rebuff of media questions about the Trump administration's potential impact on Fed independence—and his own job. If they come to pass, the president-elect's campaign promises regarding taxes, tariffs and immigration could be a cause for inflationary concern and may impact future decisions. But the Fed's desire to make policy less restrictive is intact. The meeting's statement held few changes, and the Fed maintained the amount of the monthly reduction of its balance sheet.

Market insights

Prime liquidity

Prime liquidity portfolios are finding value in fixed-rate securities as opposed to floating-rate offerings.

Following the US election, the 1-year part of the commercial paper curve ticked up and we are seeing attractive rates around the 4.60% level.

Credit

Ultrashort portfolios are prepared for lighter supply through year-end after record high asset-backed securities (ABS) new issuance in 2024.

Extraordinary demand and strong collateral performance led to significant spread tightening this year, which could be exaggerated by decreased supply, but ABS are still generally out-yielding investment grade corporates across the credit ratings scale.

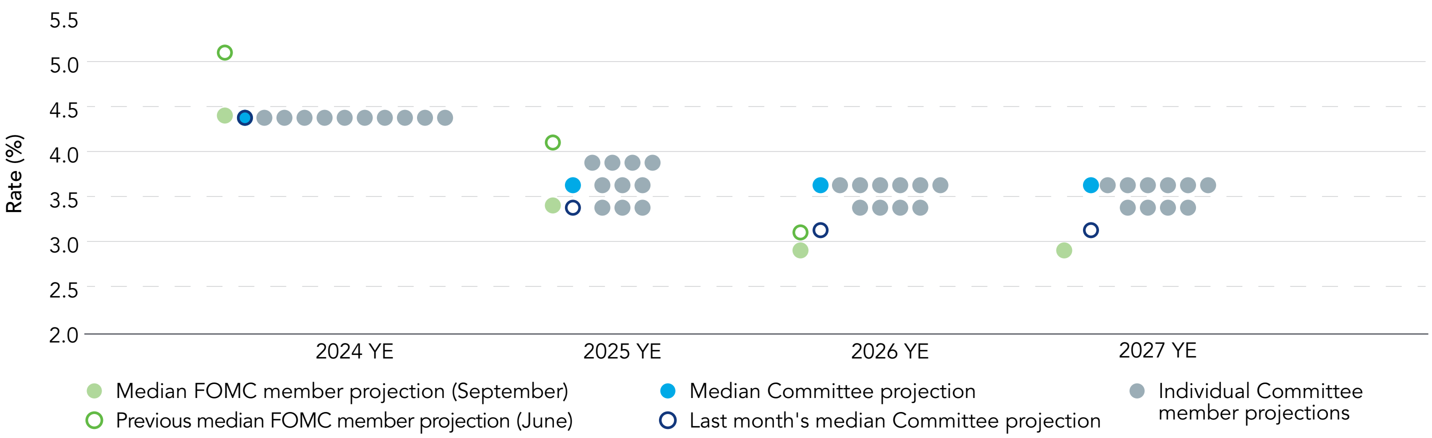
Municipal liquidity

Historically, municipal liquidity portfolios are more attractive during the 4th quarter on an after-tax basis.

This is due to lower reinvestment demand for variable rate demand notes from participants outside the liquidity space. Since the first Federal Reserve rate cut, we have seen strong inflows as municipal liquidity portfolios can compare favorably to direct securities.

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.

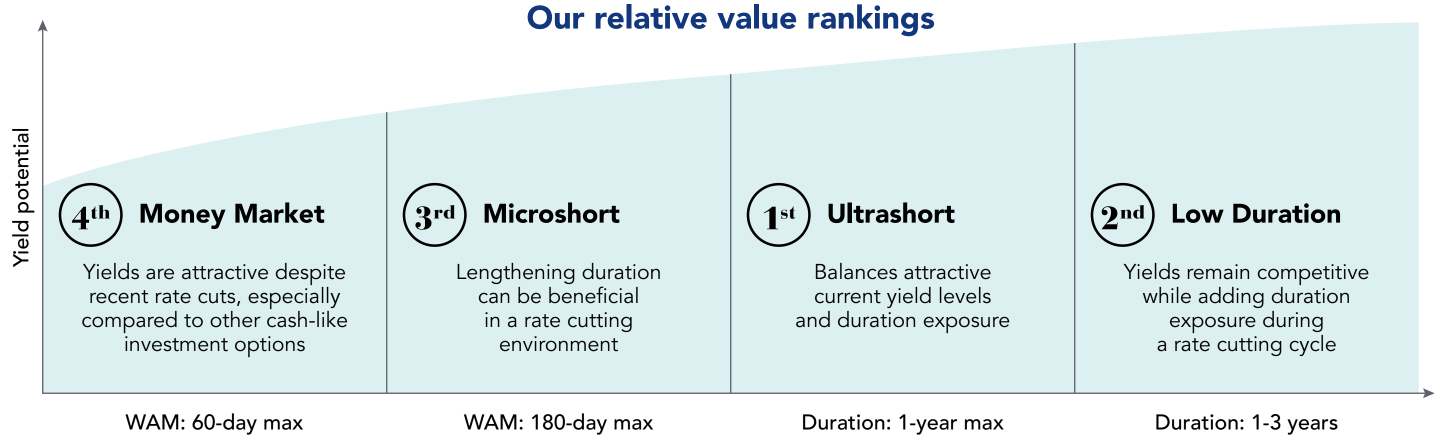
These themes are guiding our investment views in the space:

- While money market yields are compelling, maintain a bias to lengthen duration where there is value.
- Take a balanced approach to credit given tight spreads and strong fundamentals.
- 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 Yield seeking investor Yields are compelling and longer duration exposure may benefit total return as the Fed cuts 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 recent 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** Yields are more attractive than shorter alternatives and we expect this to be further recognized as the Fed cuts rates.	**Ultrashort** We are constructive on credit in the near-term given resilient economic conditions.	**Short-Term Income** Total return seeking investor 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 longer 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 4.55%, 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 preserving yield in a declining rate environment by extending beyond overnight. The markets have continued to remove Fed cuts from the outlook following strong data on economic activity and stubborn inflation prints. For example, the Fed Funds futures curve is now pricing in only three cuts by this time next year, down from five cuts at the time of our October report. As a result, the inversion in the bill curve has lessened, and this, along with positive net new bill supply, has presented better value along the curve and the opportunity to extend maturities. Net new supply is expected to remain positive through the end of November before turning negative in December. Treasury floating-rate notes based on the 3-month T-bill remain a viable option, but must be used cautiously in a declining rate environment.
Liquidity	U.S. Government Agencies	Overall issuance by US government agencies has been increasing, however discount notes continue 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 continue to be popular among investors given the higher SOFR levels we've seen recently.
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 remains strong. In fixed rate securities, most activity has been centered in 3-month maturities due to uncertainty about the number and pace of Fed rate cuts. That said, the prime securities curve is less inverted than a month ago, and has even been flat at times, providing opportunities for the extension trade. Demand for floating rate securities continues to be strong as they can provide protection against the Fed easing at a slower pace than what fixed markets are pricing in. 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)	ABS supply reached a new record in 2024 and expectations for 2025 are even greater from continued growth in consumer borrowing and a desire for lenders to fund in the ABS market. Credit spreads over treasuries tightened another 20-30 basis points over the prior month but remain very attractive compared to most other investment grade securities in the short end of the yield curve. Although supply was on pause due to the US presidential election and November FOMC meeting, many issuers were back in the market the following week. ABS credit continues to perform very well and structural components remain extraordinarily strong and provide ample protection to withstand deterioration in collateral performance.
Fixed Income	Investment Grade (IG) Corporates	Corporate credit quality is holding up well in a slowing inflationary environment. 3Q24 corporate earnings are positive low single-digits year-over-year. Earnings expectations for full year 2024 are positive low double digits. Recent new issuance volumes have broken records and were well received. Many new issue IG corporate deals tighten 30-35 basis points from initial price talks and are well over subscribed. Spreads have tightened another five basis points post-election in the 1–3-year space. Due to tight valuations, we remain more selective in buying IG corporates but still like the strong fundamentals of the sector.
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 limited new origination and an attractive environment for bank purchases, we expect mortgage spreads to be biased 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. A healthy supply of municipal bonds and notes are keeping rates attractive.

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 $634 billion in assets in the 0-3-year space (as of 9/30/24)
- 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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