Short Term Investments Committee

Market insights and investment views

January 2025

Federated Hermes

Economic backdrop

The new year brought a rotation of new voting members for the FOMC (Federal Open Market Committee). In summary we now have a slightly more hawkish group. While we, and the markets, are currently predicting one to two cuts this year, there is a range of views from the Federal Reserve (the Fed) officials themselves with one saying there could be four cuts in 2025. Data dependency continues to be the resounding message. US President Trump made his official return to office, bringing the conversation of trade policies and tariffs to center stage. We continue to evaluate the potential inflationary impact of policy changes and noted that the US Treasury rate markets initially responded favorably to Trump's return, with yields down. Another topic returning to headlines is the debt ceiling, which was reinstated on January 2nd at $36.1 trillion. We are months away from an "X date" where Treasury runs out of money, however, extraordinary measures are underway and Treasury Bill supply will likely be impacted starting in March. We believe an agreement will be reached, even if it is down to the wire, but continue to monitor the situation regardless.

Market insights

Prime liquidity

Prime liquidity portfolios are seeing value in 1-year commercial paper (CP).

The CP yield curve is positively sloped, with rates around 4.50% in the 1-year space. Despite the larger supply of floating-rate notes in the market right now, we prefer fixed-rate paper, which is desirable from a yield perspective but also from the lens of extending maturities.

Credit

Ultrashort portfolios are evaluating nearly two dozen new asset-backed securities (ABS) deals so far in January.

The increased issuance we saw in 2024 is continuing in the new year, but we are more selective due to spread tightening from extremely high demand. However, ABS still offers good relative value compared to Corporates considering AAA-rated ABS spreads are about 20-25 basis points wider than A-rated Corporates for similar terms.

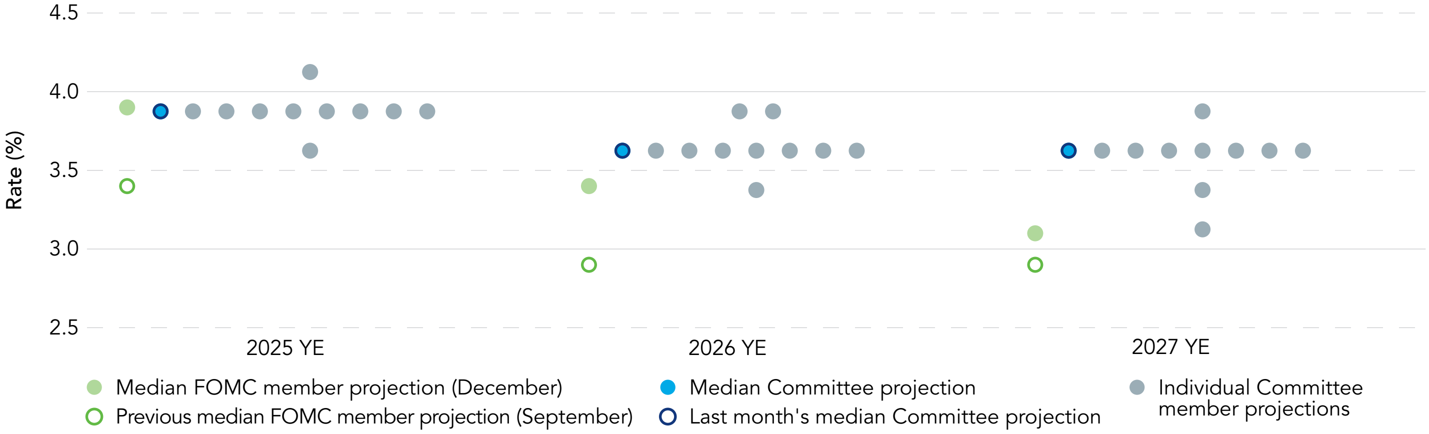
Municipal markets

Municipal portfolios are taking advantage of the upward sloping municipal yield curve.

Short-term, fixed municipal rates have increased to levels not seen since last summer and are providing attractive taxable equivalent yields for tax-sensitive investors.

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.

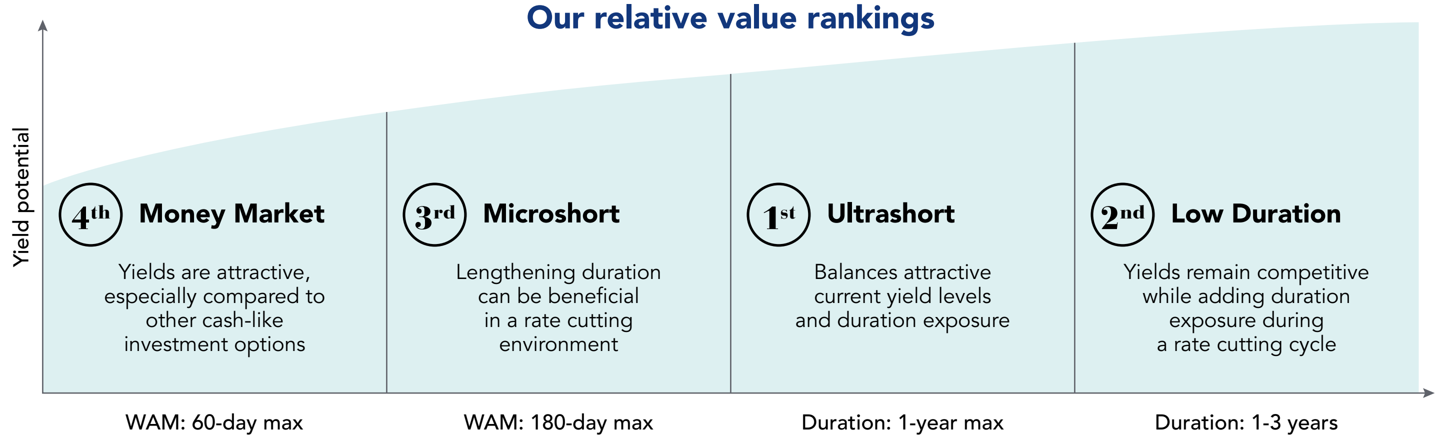
These themes are guiding our investment views in the space:

- While money market yields are compelling, maintain a bias to lengthen duration where there is value.
- Take a balanced approach to credit given tight spreads and strong fundamentals.
- Use MBS where possible to capitalize on available carry and prepare for potential benefit of future spread compression.
- Take advantage of municipal offerings where possible given the most attractive taxable equivalent yields seen in several months.

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 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** Yield seeking investor 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 4.25%, 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 Fed funds futures curve is back to pricing in two full cuts by year-end 2025 and the bill curve is again inverted, but there is value to be had in the back end. Net new supply has been positive in January, but is expected to turn sharply negative mid-February. This could put downward pressure on yields across the curve. 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	US Government Agencies	Overall issuance by US government agencies has been increasing, specifically in discount notes. We have seen discount notes offering value relative to bills, but it has been sporadic. Structured coupon securities such as callable notes, continue to be a staple 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. Short floaters continue to be popular given the higher SOFR levels we've seen.
Liquidity	Certificates of Deposit (CDs) and Commercial Paper (CP)	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 in 3-month maturities, as the market awaits the return of supply in early-February. The prime securities curve continues to be positively sloped, but less so than last month. Demand for floating rate securities continues to be strong, as they can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate. However, spreads have recently tightened a bit, making them somewhat less appealing.
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.
Non-US	Emerging and developed markets	European economic developments have been generally consistent and aligned with further rate cuts from the European Central Bank (ECB). ECB is likely to normalize monetary policy back to a terminal rate of 2% by early second half 2025. Additionally, global scale government spending supports a "tight for longer" outlook for European credit spreads. Unfavorable credit arguments remain largely technical in nature and absent of a material deterioration to global growth.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply has been solid in Jan-2025 with over $30 billion in new issuance. Strong demand has led to some deals being over 10x oversubscribed and material spread tightening. ABS credit spreads have tightened 10-15 basis points across subordinate classes over the last month. A strong job market and healthy excess spread from high interest rates provide additional support for consumer ABS collateral. Despite tighter credit spreads, ABS continues to offer good value compared to other investment grade sectors.
Fixed Income	Investment Grade (IG) Corporates	Earnings expectations for full year 2025 are positive low double digits and we expect new issuance to be similar or slightly higher than 2024. IG corporates continue to be supported by moderate low single-digit Gross Domestic Product growth, solid earnings, and stable balance sheets. However, given current spreads and potential volatility from the Administration's policies and their impact, if any, on Federal Reserve actions, more cautious positioning is warranted.
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. While short-term rates are below the peak experienced during 2024, portfolios are benefitting from expectations of a higher terminal Fed funds rate and a healthy supply of municipal bonds and notes.

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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