Short Term Investments Committee

Market insights and investment views

March 2025

Economic backdrop

The March Federal Open Market Committee (FOMC) meeting noted uncertainty in the economic outlook. The Federal Reserve (the Fed) kept the fed funds target range unchanged at 4.25-4.50%, and the Summary of Economic Projections (SEP) showed a narrowing range of forecasts for this year. The Fed's economic and inflation projections worsened, with gross domestic product (GDP) estimates for 2025 falling and core personal consumption expenditures (PCE) rising, indicating potential stagflation. However, during the post meeting press conference, Fed Chair Jerome Powell downplayed the rise in long-term inflation expectations while reintroducing the term "transitory" when discussing inflation and potential tariffs. To avoid funding pressures, the FOMC decided to reduce the pace of its balance sheet reduction starting in April. As the Fed continues to "balance inflation risks against growth concerns" we have moved up our expectations for the next Fed interest rate cut to June, while remaining less certain than the market on the total for the year.

Market insights

Liquidity

Market expectations for Fed rate cuts have increased.

While the yield curve has proven volatile, we had already taken the opportunity to extend duration in liquidity products prior to this market sentiment shift when better relative value existed. At this point in time, the best strategy is patience.

Credit

Asset-backed securities (ABS) issuance continues to be robust.

There is still a very active new issue calendar with deals 5-10 times oversubscribed, with some up to 20 times oversubscribed. We are not seeing anything concerning about consumer credit trends. The relative value preference of ABS over corporates is shrinking, due largely to cumulative ABS tightening.

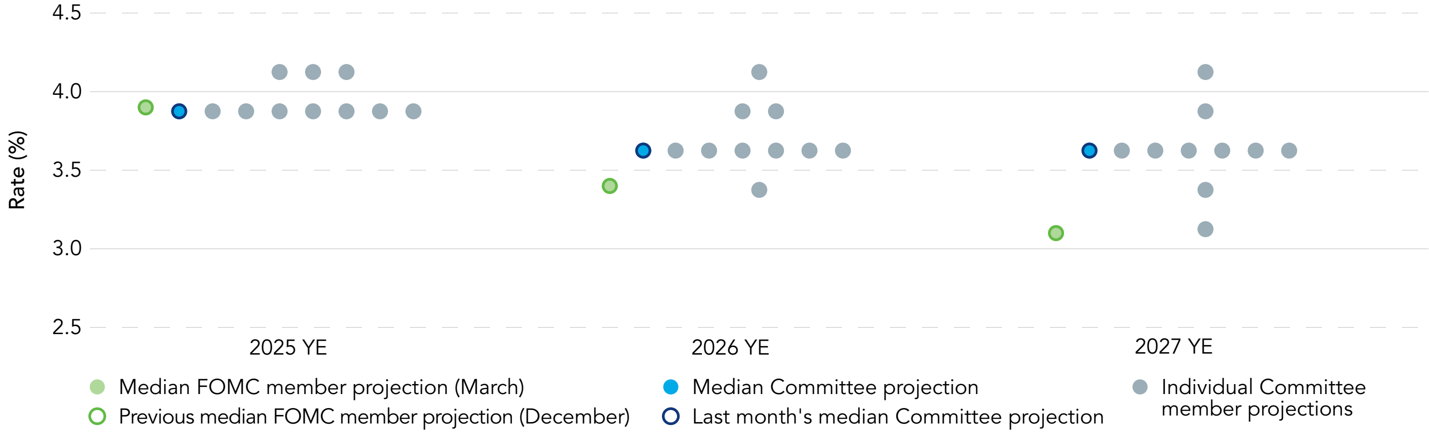
Municipal markets

Municipal ratios, at approximately 65% for both 2- and 5-year maturities, are now at attractive levels.

We have actively put money to work in our short duration municipal portfolios. While duration has drifted in as a function of lighter supply, previously weaker valuations and, in certain cases, asset growth, we are poised to extend duration in these products.

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.

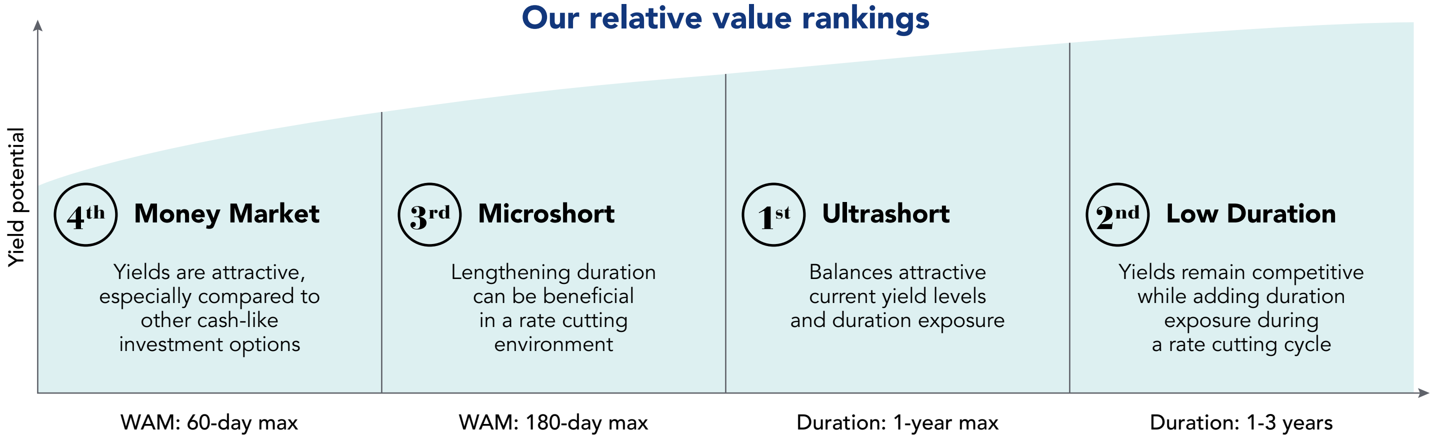
These themes are guiding our investment views in the space:

- 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 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 attractive taxable equivalent yields.

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 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 less than two cuts by year-end 2025 and the bill curve is slightly inverted, but there is value to be had in the back end. Net new supply is expected to turn decidedly negative this month and remain so until a resolution on the debt ceiling is reached. 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 steady. We have seen discount notes offering value relative to bills on occasion, but it has been sporadic. If bill yields become pressured due to lack of supply, discount note yields will likely follow. 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. SOFR floaters continue to be popular, but spreads have tightened a bit due to reduced supply.
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. Fixed-rate supply has returned to the market following the annual January dry spell. The prime securities curve continues to be positively sloped, and there is value at various maturities. 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. With spreads remaining steady as of late, floaters can offer a hedge play in an uncertain Fed environment.
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	Striking divergence between US government bonds and their European counterparts emerged during the reporting period. Material Euro area (Ea) bond underperformance materialized as U.S. economic activity began to wane while Ea data began to surprise to the upside. This variance between the two regions was further catalyzed by a German government proposal to implement a 500 billion Euro infrastructure and defense fund and to also reform the legacy 0.35% 'debt brake' to allow defense spending to exceed 1% of GDP. These developments ushered in the single largest one-day rise to German borrowing costs since 1990. Additionally, U.S. 10-year U.S./Bund spreads narrowed nearly 0.90% in February alone, and the Euro-Usd exchange rate has since appreciated 5.0%. Overall, European rates remain divided between tariff uncertainties and fiscal optimism.
Fixed Income	Asset-Backed Securities (ABS)	New issue ABS supply has been very strong in Q1 2025, and until recently, been met with high demand. However, recent new issue ABS has struggled somewhat with some deals widening materially to get done. Spreads widened 10-15 basis points across subordinate auto ABS tranches over the last month. Collateral performance has remained solid, and ABS still offers good value compared to most other investment grade sectors.
Fixed Income	Investment Grade (IG) Corporates	Q424 corporate earnings are coming in better than expected. Earnings expectations for full year 2025 are positive low double digits. For 2025, new issuance is expected at similar-to-slightly higher levels than in full year 24. Credit spreads in the 1-3 year space have widened approximately 10 basis points over the last month, but we still remain modestly underweight in most multi-sector portfolios given current spread levels.
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.

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 $670 billion in assets in the 0-3-year space (as of 12/31/24)
- 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

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.