Short Term Investments Committee

Market insights and investment views

May 2025

Economic backdrop

At the May meeting, the Federal Reserve (the Fed) kept the federal funds rate at 4.25-4.50%, with no changes to the reverse repurchase rate or quantitative tightening plans. Chair Powell noted rising uncertainty regarding the economic outlook, citing increased risks of higher unemployment and inflation in the wake of the tariff announcements and resulting trade deal discussions. The market significantly decreased expectations for future rate cuts and Powell is likely happy to stick to his wait and see approach. We currently think the next cut will come in September. Treasury Secretary Bessent provided some clarity regarding the debt limit, urging congress to come to a resolution before August. In other news, the newest tax bill from the house making the rounds leaves the municipal bond tax exemption status unscathed. We continue to monitor progress and changes to the bill. But for now, the fear of losing the tax-exemption has been alleviated.

Market insights

Government liquidity

When determining positioning, government liquidity portfolios are factoring in a potential August "X" date for when Secretary Bessent says the US Treasury department could be unable to meet its obligations.

While we are confident an agreement will ultimately be reached to avert default, investors should closely consider maturities when making security selections and understand the probability of that predicted timing changing.

Credit

Higher quality asset-backed securities (ABS) are attractive for ultrashort portfolios.

After a complete halt in new issuance during April market volatility, supply has returned to the market and been met with overwhelming demand. Specifically, we see opportunities in auto loan and lease ABS deals given both strong consumer characteristics and structural support from elevated used car prices.

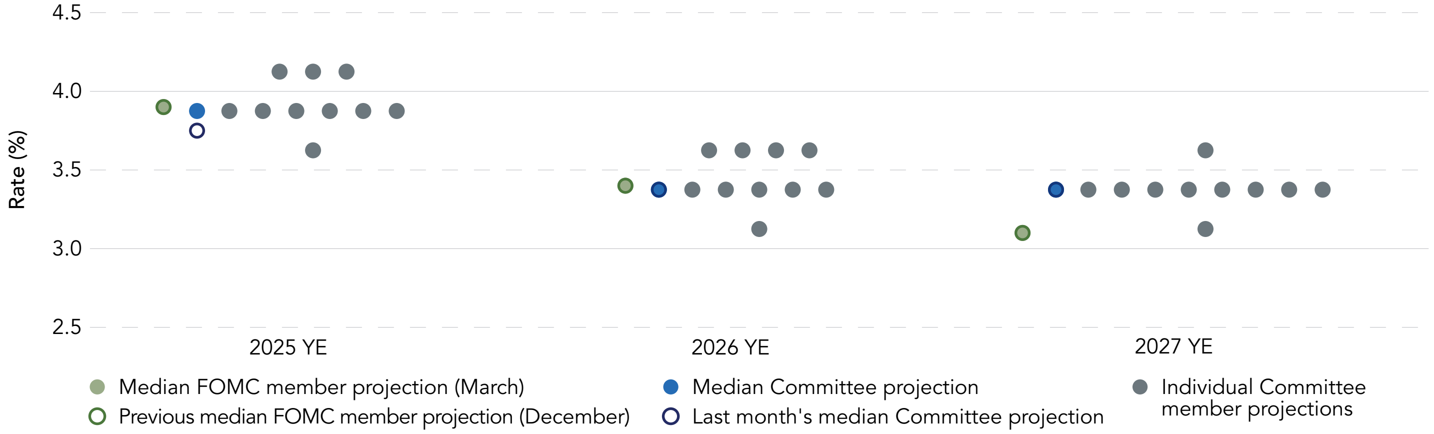
Municipal markets

Municipal portfolios could benefit from an increase in issuance during the annual summer note season this year due to probable funding cuts and the continued need for capital by state and local governments.

We find value in focusing on the 4-week average when looking at SIFMA rates given that there can be volatility from week to week which we believe stems from sudden changes in supply/demand.

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 remain elevated, maintain a bias to lengthen duration where yields are more attractive.
- Take a more balanced approach to MBS given attractive income potential but current general market volatility.
- 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

Yield potential

4th Money Market	3rd Microshort	1st Ultrashort	2nd Low Duration
Yields are attractive, especially compared to other cash-like investment options	Lengthening duration can be beneficial in a rate cutting environment	Balances attractive current yield levels and duration exposure	Yields remain competitive while adding duration exposure during a rate cutting cycle
WAM: 60-day max	WAM: 180-day max	Duration: 1-year max	Duration: 1-3 years

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 A majority government portfolio presents opportunities to benefit from income potential while not taking on additional credit risk.	**Short-Term Government** Highest relative value seeking investor Lack of credit offers lower potential total return but avoids credit risk during volatile times.
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.
	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 currently pricing in two cuts by year-end 2025 and the bill curve continues to be inverted. Net negative bill supply is expected to continue until a resolution on the debt ceiling is reached, putting downward pressure on yields across the curve. As a result, value can be hard to find, so buying out the curve to maintain weighted average maturities requires a patient and opportunistic approach. 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.
	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. When bill yields become pressured, discount note yields will often 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, however spreads have tightened a bit in recent weeks.
	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. The recent volatility in the longer end of the prime curve, presented some good buying opportunities in the first half of the month with 1-year levels around 4.40%. However, that luster has faded with the yield curve now essentially flat, making it more difficult to maintain weighted average maturities. A more discerning approach is now warranted. 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. While floaters can offer a hedge play in an uncertain Fed environment, spread compression in recent weeks has made them somewhat less compelling.
	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	The European Central Bank (ECB) is faced with unprecedented fiscal expansion from the region's largest economy, Germany. On the other hand, the euro area may have to contend with punishing US levies on European exports. These two contrasting dynamics are inherently in conflict with each other and present a formidable challenge for the future path of European monetary policy. The central bank recently removed 'restrictive' from its terminology, but committee members were clearly worried about the downside effects that US imposed tariffs could have on growth. Consequently, the ECB actually turned more dovish in its April meeting – suggesting that US trade policy is viewed as a greater risk to growth than the stimulative effects of German fiscal expansion.
Fixed Income	Asset-Backed Securities (ABS)	After a temporary disruption in new ABS supply in April from the tariff related market volatility, supply picked up in May and was met with strong demand. ABS spreads tightened from the quarterly wides with Prime Auto ABS reversing most of the recent widening from April. ABS collateral continues to perform well because of a low level of unemployment (4.2%) and high used car prices that are up nearly 16% from January 2021 levels. ABS still offers good value compared to most other investment grade sectors.
	Investment Grade (IG) Corporates	Q1 2025 corporate earnings are coming in as expected, however forward guidance is mostly cloudy. Earnings expectations for full year 2025 are declining from expected tariff effects. After pausing during the market turmoil, new issuance has slowly resumed and 2025 issuance is expected at similar-to-slightly higher levels than in full year 2024. The recent spread widening from the tariff related market volatility has been reversed in the short end of the curve so we remain underweight due to valuation concerns.
	Government/ Mortgage-Backed Securities (MBS)	Spreads in the short duration government mortgage space remain at multi-year wides and provide extremely attractive income potential. With higher volatility in longer duration and credit oriented sectors, the relative value of short duration, government guaranteed MBS remains compelling. Over time, the wide spreads and attractive income available in government agency guaranteed floating-rate collateralized mortgage obligations continue to offer significant total return potential.
	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 $678 billion in assets in the 0-3-year space (as of 3/31/25)
- 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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