Short Term Investments Committee

Market insights and investment views

June 2025

Federated Hermes

Economic backdrop

The general theme of the Federal Reserve (the Fed) Chair Jerome Powell's remarks at the post June Federal Open Market Committee (FOMC) meeting press conference was to focus on what is important. He repeatedly declined to comment on political noise, implications of his impending term expiration and speculation of what future actions might be. Instead he reiterated the Committee's commitment to serving the American people and seeking a stable economy with maximum employment and stable prices. In that vein, the Fed kept the target range of the federal funds rate at 4.25-4.50%. In the updated Summary of Economic Projections, the FOMC members still anticipate 0.50% worth of cuts by the end of the year. Powell continued to defend the "wait and see" approach since the possibility of rising oil prices and the lingering questions surrounding the timing, degree, and impact of tariffs continue to drive uncertainty. The so called hard data has been decent, and the data releases through the summer should clear some uncertainty, but it is the soft data that causes more of a pause as consumer sentiment has not been as strong. We, the markets and the Fed will be watching to see if the soft data impacts the hard data or vice versa.

Market insights

Government ultrashorts

Mortgages remain especially attractive for government ultrashort portfolios.

Banks appear to be more active in the collateralized mortgage obligations market where spreads have not moved much. Investors in this space can benefit from income opportunities and enjoy attractive yields while the Federal Reserve keeps rates elevated.

Prime liquidity

We are finding value in fixed-rate paper compared to floating-rate paper for prime liquidity portfolios.

Supply was lower at the end of May but picked up again in June. Rates in the 1-year commercial paper space have been attractive from a break even perspective.

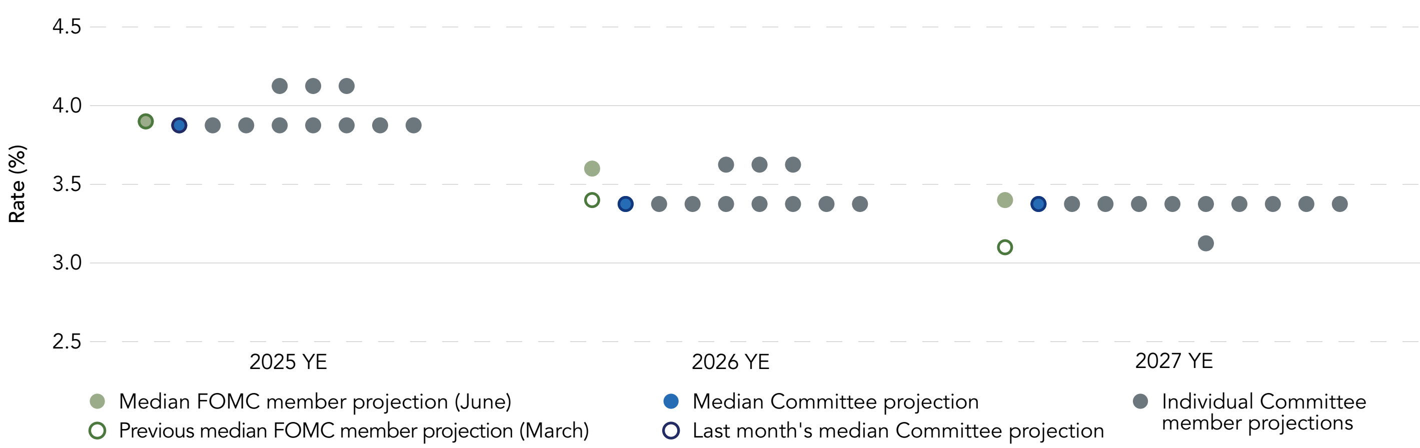
Municipal markets

Municipal portfolios are capitalizing on opportunities from increased supply.

Last year issuance hit a record $500 billion. Current estimates for 2025 from JP Morgan and Bank of America are for $560-580 billion. New issuance has been particularly high in the health care, higher ed and airport sectors lately with most offerings including both longer and shorter term bonds.

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.

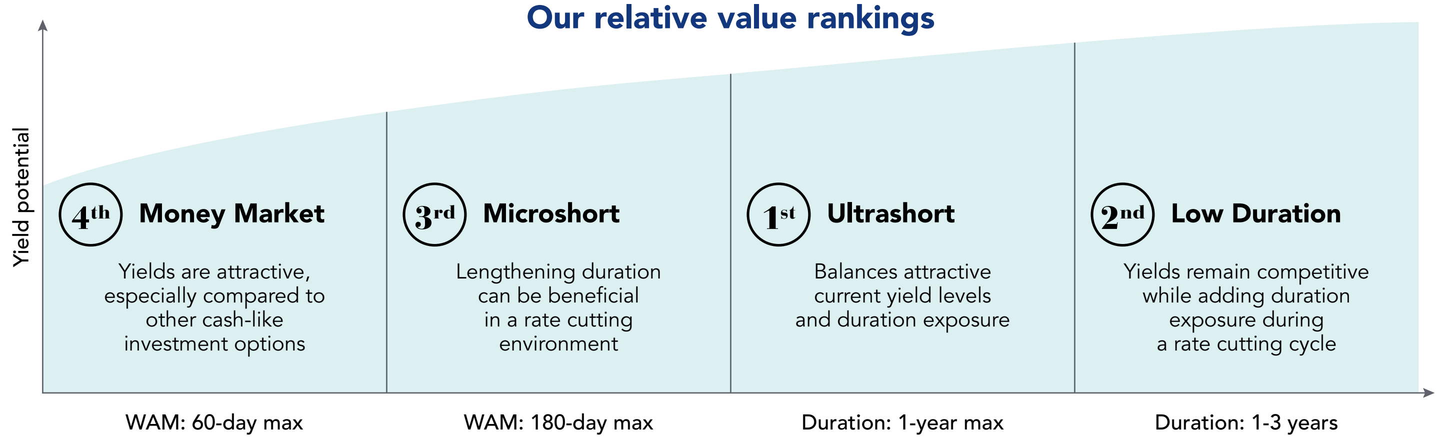
These themes are guiding our investment views in the space:

- While money market yields remain elevated, maintain a bias to lengthen duration where yields are more attractive.
- Take a constructive approach to MBS given attractive income potential while preparing for eventual federal funds rate cuts.
- Take a balanced approach to credit given tight spreads and strong fundamentals.

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 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** Microshorts offer a smaller incremental step out if you don't want to jump from money markets to ultrashorts yet.	**Municipal Ultrashort** Tax sensitive yield seeking investor Taxable-equivalent yields are compelling for tax sensitive investors, especially compared to other shorter duration investments.	**Short-Term Municipal** Tax sensitive total return seeking investor 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 currently pricing in just under 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 (likely late-July), putting downward pressure on yields across the curve. There are currently dislocations in the very front-end as demand for 2-month bills has shifted to 1-month bills as investors try to avoid maturities in August due to the estimated Treasury X-date. As a result, value can be found further out the curve, but it 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.
Liquidity	US Government Agencies	Overall issuance by US government agencies has been steady, with discount note issuance increasing and coupons decreasing. We have seen discount notes offering value, specifically, as a substitute for low-yielding 1-month bills due to debt ceiling dislocations. However, in longer maturities the relative value is more sporadic, as when bill yields become pressured, discount note yields will often follow. Structured coupon securities, such as callable notes, can be a source of relative value, depending on your rate outlook. 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 for shorter maturities, spreads have tightened a bit due to the expected typical spike in SOFR over quarter-end.
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. The recent volatility in the longer end of the prime curve has presented some good buying opportunities in the 1-year area. However, the value can be data dependent and short-lived, so an opportunistic approach is warranted. Issuance of floating-rate securities weakened somewhat in the beginning of the month, but appears to be recovering as they can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate. With spreads widening a bit recently, they can make a more attractive hedge to an uncertain Fed outlook.
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	Recent language used by European Central Bank (ECB) President, Christine Lagarde, when questioned about the future path of rate cuts may prove to be an important inflexion point for European monetary policy. Until now, the ECB's "meeting-to-meeting" messaging implied they were looking for evidence to continue cutting key interest rates. As of June, that same "meeting-to-meeting" language felt like it meant they were now looking for evidence to halt further easing. This was the first time that Lagarde referred to rates being "in a good place." It's a fine nuance but rarely has Lagarde been so celebratory about monetary policy – we view this as having potential to develop into something much more meaningful. Either at the end of – or coming close to the end of rate reductions.
Fixed Income	Asset-Backed Securities (ABS)	Supply of new issue ABS has been very strong and credit spreads in prime autos have almost completely reversed from the recent tariff related widening that took place in April. High used car prices, which are up 15% over the last four years, and a low unemployment rate of 4.2% are contributing to solid ABS performance. ABS offers very good value compared to other investment grade sectors within short-term investments.
Fixed Income	Investment Grade (IG) Corporates	Q1 2025 corporate earnings are meeting expectations, however, forward guidance is cloudy due to tariff related effects. 2025 new issuance is expected at similar-to-slightly higher levels than in full year 2024. IG Corporates continue to present safe haven attributes such as sold balance sheets, modest leverage, and record high margins, however, given spread levels and potential volatility from the Administration policies, 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 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.
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 $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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