Short Term Investments Committee

Market insights and investment views

September 2025

Economic backdrop

As expected, the Federal Reserve (the Fed) cut the target range of the federal funds rate by 25 basis points at the September Federal Open Market Committee (FOMC) meeting to 4-4.25%. President Trump's frantic push to get White House economist Stephen Miran into the vacant Federal Reserve Board seat for the remaining months of former Governor Adriana Kugler's term didn't sway officials to enact more drastic actions. This does not mean, though, that White House pressure is over, as evidenced by the administration announcing it had asked the Supreme Court to allow Trump to remove Gov. Lisa Cook, who was able to vote during the September meeting. All administered rates moved down 25 basis points, maintaining existing relationships: the Reverse Repo Facility to 4.00%, Interest on Reserves to 4.15% and the Standing Repo Facility to 4.25%. The Fed also continued modest balance sheet reductions. In other news, SIFMA rates have been stable recently as the summer note season wraps up and supply decreases. However, we are seeing some strong synthetic variable rate demand notes come to market given the steep municipal yield curve. Lighter reinvestment demand in the fall can make munis relatively cheap compared to taxable investments.

Market insights

Across the short end

Both liquidity and ultrashort portfolios are taking advantage of inflows and extending maturities/durations given increasing rate cut expectations.

When the Fed cuts rates the entire short end typically adjusts downward at varying paces. Bank deposit rates and overnight repurchase agreements normally reprice quickest followed by longer duration securities. Liquidity and ultrashort portfolios can hold on to higher rates based on their overall maturity/duration.

Municipal markets

Longer duration securities, in the 5-7-year space, are attractive for short-intermediate municipal portfolios which can benefit from the steepness of the yield curve.

We see value in pairing short duration with longer duration purchases in a barbelled structure. Taxable equivalent yields are attractive right now as the value of the tax-exemption is worth more in a higher rate environment.

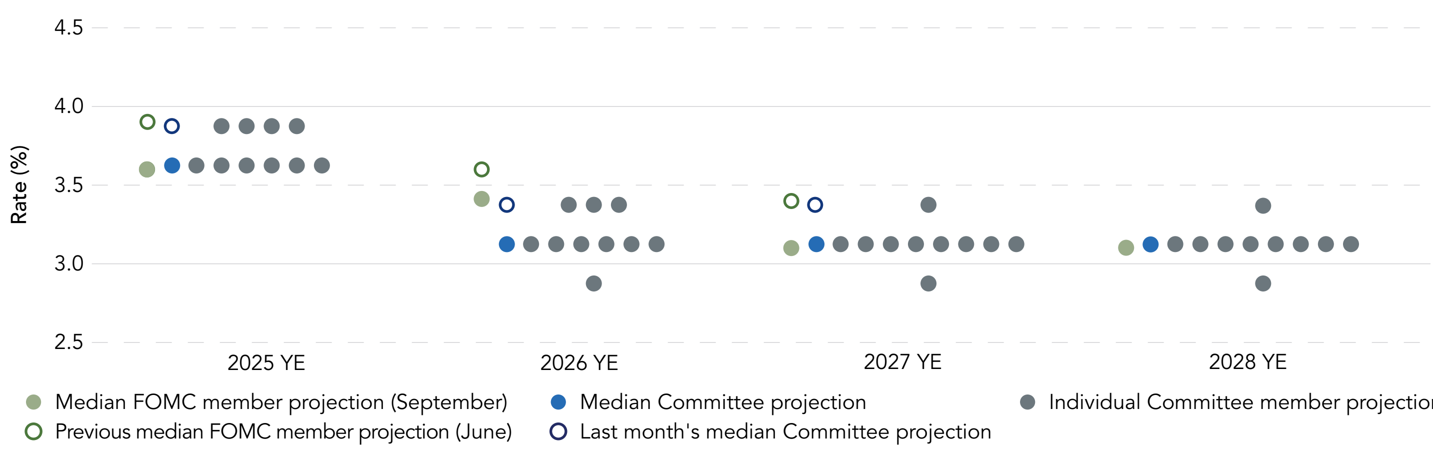
Government ultrashort

Government ultrashort portfolios are finding value in collateralized mortgage obligation (CMOs).

Fixed-rate securities can help lock in yield and duration while floating-rate CMOs have compelling valuations given the wide spreads we are currently seeing.

Assessment of monetary policy

Results of the committee's poll estimating the midpoint of the target range for the federal funds rate



For professional investors only. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested.

Investment views

Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive.

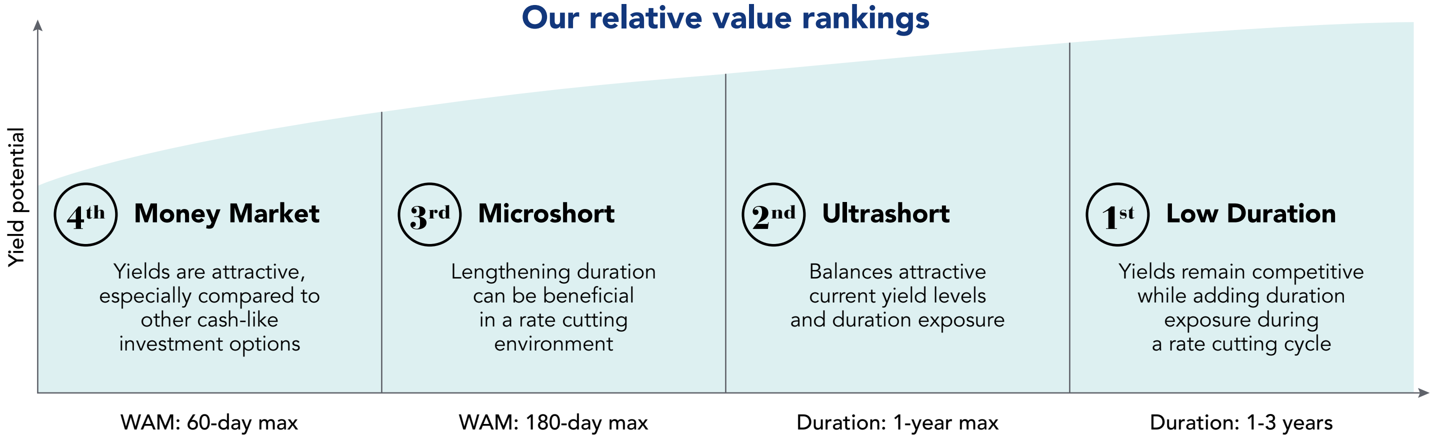
These themes are guiding our investment views in the space:

- 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 and Fed rate environment.
- 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 4.00%, 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. Repo rates remain elevated after the recent increase in treasury supply, making it an even more attractive alternative.
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 now pricing in nearly three cuts by year-end and the bill curve continues to be inverted from overnight to 1-year. After a couple of negative weeks, net new bill supply is expected to return to positive by the end of the month. Although, supply will be at a reduced level going forward, it should provide some support to bill yields, presenting opportunities for the defensive extension trade. 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	Issuance by US government agencies has been steady, with discount note oustandings essentially unchanged in recent months. We have seen discount notes offering value relative to bills at times, making them an attractive alternative. 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, and spreads have remained unchanged.
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 prime securities curve has become more inverted in recent weeks as additional Fed cuts have become more priced in. And although fixed-rate supply has improved this month, it remains lighter than usual. This calls for a discerning approach to the necessary extension trade. Floating-rate securities can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate, and with spreads remaining at decent levels, they can make an 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	In their last meeting, the European Central Bank (ECB) made it clear they were in "wait and see" mode. The ECB is likely in the end stage of monetary easing, but a couple of more cuts may be required to ensure inflation does not persistently drop below 2%. We consider recent whispers of future ECB rate hikes to be premature. Downside risks to Euro area economic activity still far outweigh those requiring tightening. Notably, the impact of US tariffs is still a great unknown, the Russia/Ukraine conflict remains open-ended, and structural core region inefficiencies (Germany/France) continue to afflict the entire Euro area. Nevertheless, the European Central Bank is within an earshot of its neutral rate, which we estimate to be at 1.50%. UK economic developments continued to diverge. Wage inflation, which has been central to monetary policy decisions, has begun to steadily moderate.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply remains robust, and deals are well oversubscribed. Prime auto ABS spreads remained flat over the last month and sub-prime auto ABS spreads widened slightly in BBB-rated subordinated tranches. Collateral continues to perform in line with initial expectations and elevated used car prices are providing additional support to both auto loan and lease deals. Credit card ABS continues to benefit from extremely high gross yields and excess spread. ABS offers value at the short end of the yield curve compared to most other investment-grade sectors.
Fixed Income	Investment Grade (IG) Corporates	2Q25 corporate earnings are coming in much stronger than expected at low double digit growth. Management color on earnings calls is less cautious than last quarter. Corporate balance sheets remain in good shape to handle potential market disruptions. New issuance continues to be well absorbed and is expected at similar-to-slightly higher levels than in full year 2024. We remain very selective of IG Corporates 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 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 $676 billion in assets in the 0-3-year space (as of 6/30/25)
- 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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