Short Term Investments Committee

Market insights and investment views

January 2026

Economic backdrop

With the Federal Reserve (Fed) coming into the new year likely on pause from cutting rates, we expected conversations to focus on the imminent end to Chair Powell's term, the rotation of the voting members, and to some degree, Fed independence. We didn't expect US prosecutors to launch a criminal investigation on Chair Powell or for him to respond swiftly and strongly against the claims with a video. For the most part, we saw support rally for Powell and expect that to continue. Moving on, we are kicking off the new year with increased supply in most securities following the expected seasonal slowdowns at year end. Liquidity investments hit record highs in 2025 and we are looking forward to building on that more in 2026.

Market insights

Across the short end

Portfolios across the short end of the curve are not seeing much of an impact from the escalation of the ongoing saga between the Trump Administration and the Fed.

Following the December jobs report showing a drop in the unemployment rate to 4.4%, short term interest rates rose modestly as expectations for additional easing moved out to the middle of 2026, which we currently agree with.

Credit

We expect to continue to find value in asset-backed securities for ultrashort portfolios in 2026.

We saw record supply in 2025 and are off to similar start again, but with demand still outpacing supply, spreads have tightened from last year's levels. We also think we will see more relative value in investment-grade corporates and have so far this year.

Short duration

Short duration portfolios are adjusting strategy as spreads for collateralized mortgage obligations (CMOs) floaters have tightened 15-20 basis points.

There may be fewer opportunities to benefit from spread compression in the coming months. We still like CMO floaters and the attractive yields we are seeing but view them as more fair value today.

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.

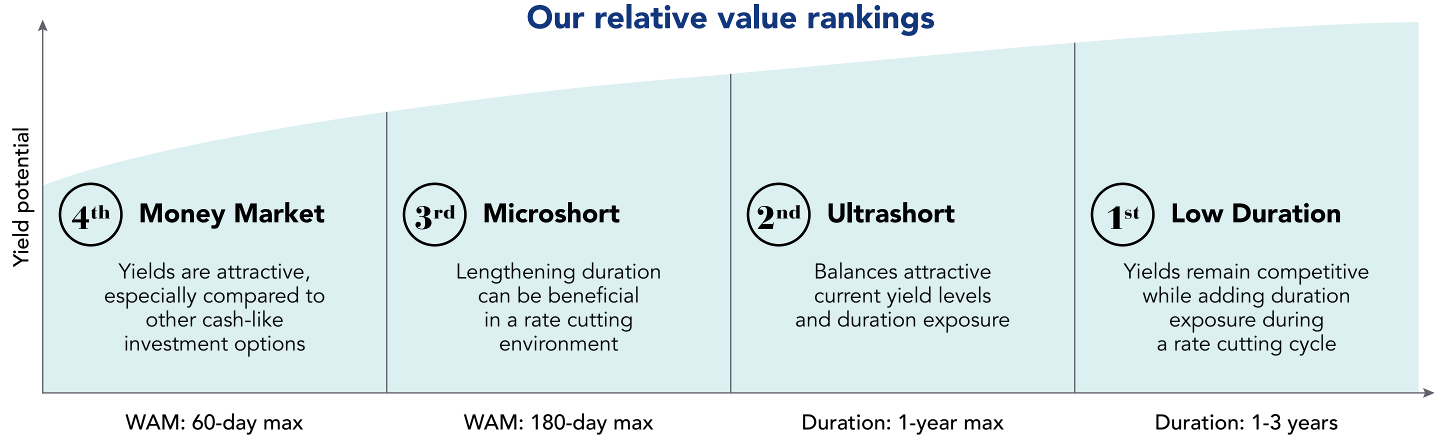
These themes are guiding our investment views in the space:

- Maintain longer maturities/durations across the board as yield curve normalizes.
- Draw from increasing supply across various security types following the expected year-end slowdown.
- Consider the relative value between asset-backed securities and investment grade corporates with new issuance.

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 the recent expected seasonal volatility in SIFMA, municipal money markets can still be fair value or attractive for tax-sensitive investors, especially when looking at a 4-week average.	**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 3.50%, 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 attractive even as the Fed conducts Reserve Management Purchases (RMP's) to right-size its balance sheet. And given expectations for strong bill supply in coming months, we continue to believe dealer repo will be relatively appealing in the near term.
	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 just under two cuts by year-end. As a result, the bill curve remains inverted from overnight to 1-year, but slightly less than it was in our last report. Net bill issuance was negative in December and early-January, but is now strongly positive and it is expected to continue into March. This should provide support to bill yields. 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	Issuance by US government agencies has picked up in recent weeks, particularly in discount notes. Consequently, we continue to see discount notes offering value relative to bills on a frequent basis, 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, with spreads mostly unchanged 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 prime securities curve remains flat from 3-months to 1-year. Supply has been returning to the market now that we are past year-end, but the progress has been slow and may not be fully back to normal until early-February. Floating-rate securities can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate. Spreads on SOFR floaters have been tightening slightly in recent weeks, but they remain an attractive hedge to an uncertain Fed outlook.
	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	Overall, the global economic backdrop remains resilient, with growth conditions supportive across major regions. In the Euro Area, economic growth is expected to accelerate to an annualized rate of around 1.60% in the second half of 2026, driven by German fiscal stimulus, solid household consumption, and healthy corporate balance sheets. The European Central Bank (ECB) kept the interest rates unchanged at 2%, generally in line with consensus. In the UK, unemployment hit its highest level (5.1%) in five years while inflation continued to moderate which greenlighted a Bank of England rate reduction to 3.75% on Dec 18. In Japan, economic data continued to corroborate further tightening measures from the Bank of Japan.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply has been robust in Jan-2026 with 20 deals issued for over $13B in the first two weeks alone. Subscription levels have also been extremely strong with some tranches over 10x oversubscribed. Spreads in auto ABS have tightened about 10-15 basis points over the last month and based on current demand, spreads should continue to tighten further barring any headline risk. ABS offers good value at the short end of the curve, but relative value compared to other investment grade sectors, particularly corporates, has declined recently.
	Investment Grade (IG) Corporates	4Q 25 corporate earnings are expected to come in at low double-digit pace and expectations for 2026 earnings per share growth are north of 10%. Earnings growth in non-Tech sectors continues to expand and profit margins remain healthy. New issuance is expected to grow double digits and may surpass the 2020 record year. Value in IG corporates has increased relative to other investment grade sectors such as ABS and Mortgages but prudent security selection remains vital due to valuations.
	Government/ Mortgage-Backed Securities (MBS)	Floating rate mortgage CMOs offer attractive spreads in a government mortgage space, providing high income relative to cash alternatives. Recent spread tightening in the mortgage sector has provided robust total return, though current tighter spreads offer somewhat less potential for further compression.
	Municipal Bonds/Notes	State and local municipal government credit quality generally remains solid, benefiting from historically large financial reserves and strong management. Portfolios continue to benefit from a healthy supply of municipal bonds and notes and a Federal Reserve that has eased monetary policy at a slower pace than expected (the "higher for longer" scenario).

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 $696 billion in assets in the 0-3-year space (as of 9/30/25)
- 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

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