Short Term Investments Committee

Market insights and investment views

July 2026

Economic backdrop

Inflation continues to be top of mind with it slowing to 3.5% in June. Chair Warsh faces a difficult task of piloting the Federal Reserve (Fed) through a narrow path between both presidential and price pressures, while maintaining the central bank's credibility and independence. The wide range of views regarding the future of the federal funds rate, both within our teams and within the market, can be attributed to the intentional lack of forward guidance. It will be a while before the task forces are functioning, but we could see some incremental changes start to be implemented in the meantime. We will likely see increased volatility in the next few months as a result of everything mentioned already. Whether inflation remains higher-for-longer, we glide into a soft landing, or we see a growth slowdown the short end of the curve can be an attractive area for investors. With goals of liquidity, stability, and yield (at varying levels of stringency depending on risk and duration tolerance) investments at the short end present a real opportunity during uncertain times.

Market insights

Liquidity

Liquidity portfolios are adding floating rate securities.

There is still value in fixed rate securities, but floaters can provide some protection should the Fed tighten rates sooner rather than later. In this higher-for-longer scenario, we see the liquidity space as particularly attractive.

Credit

Ultrashort portfolios are looking closely at investment-grade (IG) corporate issuance with spreads being at near-term tights.

Historically, IG corporate issuance has slowed in the summer months (June-August) and picked back up in September. This has not been the case so far this year with nearly $200 billion of new issuance in June, roughly one-quarter coming from hyper-scalers. Given the higher than normal issuance, we are being selective and are considering some smaller issuers that may provide more value than the larger, higher beta names.

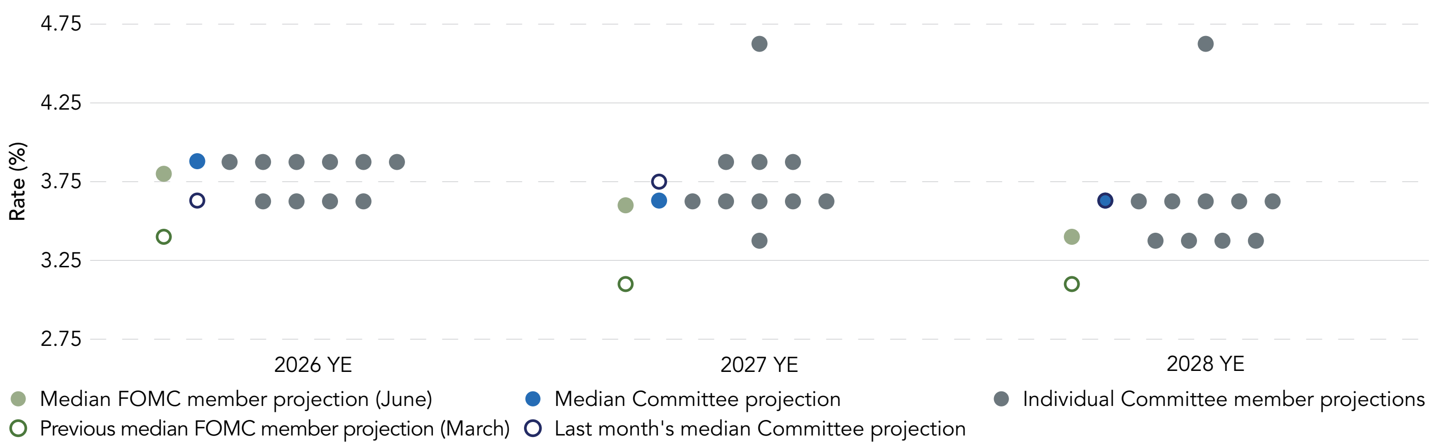
Short duration governments

We believe now is an attractive entry point into short duration government portfolios given the current spread levels in collateralized mortgage obligation (CMO) floaters.

There is plenty of demand to create new CMO floaters, which is good for overall supply. Holding these floaters can be helpful during a Fed hiking environment. If you are comfortable with some volatility, investing in the 1-2-year space, as opposed to being even shorter, could be a way to add incremental yield given the steepness of the curve on the short end.

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.

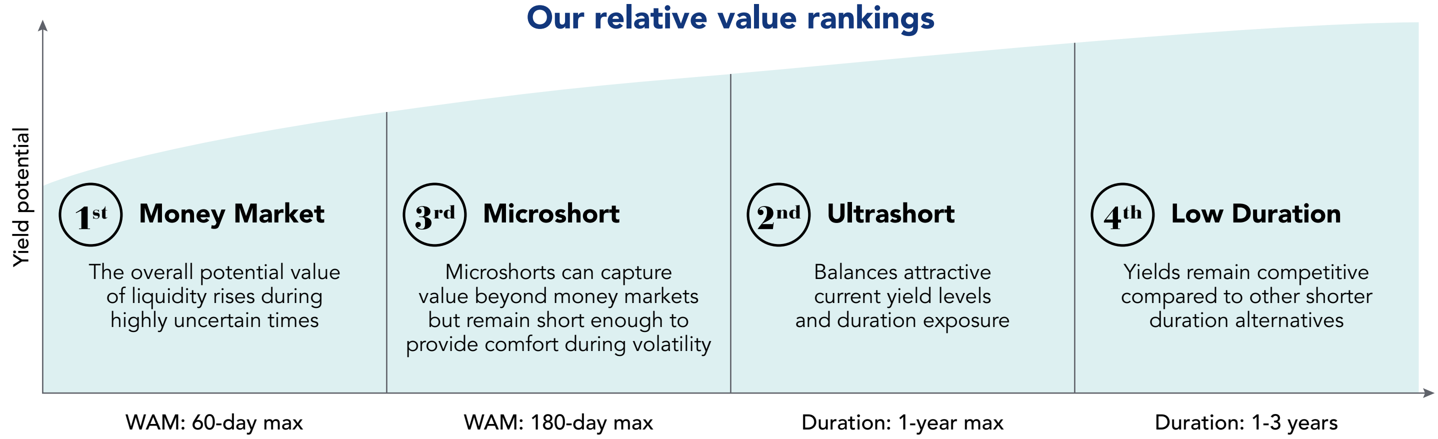
These themes are guiding our investment views in the space:

- Seasonally favorable summer technicals for municipal bonds/notes combined with strong inflows into municipal bond portfolios results in periods of supply/demand imbalance with some expected volatility and generally richer valuations despite increased issuance.
- Maintain current overweight to collateralized mortgage obligations, neither increasing nor decreasing allocations.
- Views on investment grade corporates are more neutral where there is value due to recent spread tightening.

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** Risk sensitive investor Low-to-no duration risk is attractive, especially for risk averse investors.		**Government Ultrashort** A majority government portfolio presents opportunities to benefit from income potential while not taking on additional credit risk.	**Short-Term Government** 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** Highest relative value seeking investor Yields are more attractive than shorter alternatives while seeking less volatility than longer alternative.	**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 or when repo rates are relatively more attractive.
Liquidity	T-Bills, T-Notes, Coupons	Fixed-rate Treasury securities typically provide a low-risk, efficient means of capturing higher yields by extending beyond overnight. With the Fed funds futures curve fully pricing in a hike as soon as October, the bill curve remains positively sloped from 1-month to 1-year. That said, ongoing uncertainty surrounding the rate outlook has made longer end rates a bit of a moving target, so investors may want to take an opportunistic approach in this part of the curve. Weekly net bill supply is expected to be positive through the month of August. This could provide support to yields across the curve. Treasury floating-rate notes based on the 3-month T-bill remain a viable option and can be an attractive hedge for potential Fed hikes.
Liquidity	US Government Agencies	Although agency discount note issuance has decreased in recent months, we continue to see them offering value relative to bills, 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 as a hedge to potential Fed hikes, with spreads mostly unchanged in recent weeks.
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 remains positively sloped from 1-month to 1-year, with yields in the 1-year area reaching as high as 4.42% following the June FOMC meeting, coupled with continued turmoil in the US/Iran war. That said, investors should be opportunistic as daily headlines can cause notable fluctuations in the longer end of the curve. 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 contracting by a few basis points in recent weeks, with 1-year paper now in the mid-30s and callable structures paying an extra 4-5bps in some cases. Floaters have increased in popularity as a hedge for potential Fed hikes.
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	There has been a clear switch in global policy divergence. The surge in borrowing costs that was being sourced in Europe & the UK has materially abated due to falling energy prices. Since the June European Central Bank rate hike, falling oil prices have reduced the urgency for another immediate hike. Credit fundamentals remain broadly resilient. Upgrades continue to outpace downgrades, and default ratios are largely benign. Energy risks remain the central consideration.
Fixed Income	Asset-Backed Securities (ABS)	Although ABS issuance in June was the lightest month of the quarter, year-over-year supply is up over 17% because of more non-consumer related issuance in fiber, aircraft, franchise, and data center ABS. Despite continued volatility in the Middle East, credit markets are showing little concern as spreads continue to tighten and demand for new deals remains robust. Auto ABS credit spreads tightened 0-5 basis points across both prime and sub-prime collateral. Fundamentals remain strong with elevated used car prices, a 4.2% unemployment rate, and expanding economic activity. ABS continues to offer good value at the short end of the yield curve compared to other investment grade sectors.
Fixed Income	Investment Grade (IG) Corporates	Corporate bond issuance remains robust (+~30% year to date (YTD) vs 2025) as deals, on average, continue to price almost 30 basis points (bps) inside of initial talk. 1-3 year corporate spreads tightened another 4bps in June, ending the month at 42bps (-9bps YTD). With the 2-year treasury yield 16bps higher in June, all-in yields now north of 4.60% on 1-3 year corporate bonds are attracting yield buyers, despite spread levels hitting a multi-year low. IG Corp spreads have retraced to roughly back in line with other IG sectors (e.g. ABS & Mortgages) and are expected to remain rangebound on strong corporate earnings and technical support from higher all-in yields.
Fixed Income	Government/ Mortgage-Backed Securities (MBS)	Floating rate mortgage CMOs offer an attractive opportunity in the government mortgage space, providing high income relative to cash alternatives. Recent returns have been driven by high coupon income that provides steady returns and offsets volatility from interest rate changes.
Fixed Income	Municipal Bonds/Notes	State and local municipal government credit quality generally remains solid, benefiting from historically large financial reserves (that are likely to normalize over time) 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) and may be forced to readdress inflationary pressures.

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 Multisector 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 $728 billion in assets in the 0-3-year space (as of 3/31/26)
- 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

An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. 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 July 2026 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. In addition, fixed income investors should be aware of other risks such as credit risk, inflation risk, call risk and liquidity risk.

Diversification does not assure a profit nor protect against loss.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

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.

International investing involves special risks including currency risk, increased volatility, political risks, and differences in auditing and other financial standards. Prices of emerging-market securities can be significantly more volatile than the prices of securities in developed countries, and currency risk and political risks are accentuated in emerging markets.

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