Money Market Monthly Commentary

Looking Ahead into 2025

December 2024

Market Drivers and Themes

- At their December policy meeting, the FOMC reduced the target for the Federal Funds rate by 25 basis points (bps), while the Overnight Reverse Repo Program (RRP), an investment option for Money Market Funds (MMFs) to invest excess cash balances with the Federal Reserve, experienced a technical reduction of an additional 5 bps (30 bps total offering rate reduction). In the FOMC's updated Summary of Economic Projections (SEP), the committee now forecasts a 2025 median federal funds rate of 3.9%. This revision implies an expectation of 50 bps of interest rate cuts to occur in 2025, down from the previously projection of a total of 100 bps of interest rate reductions in 2025 that was forecasted at their September policy meeting. Furthermore, the median longer run federal funds rate projection continued its upward trend, rising to 3.0% from the March low of 2.6% (Exhibit 1).

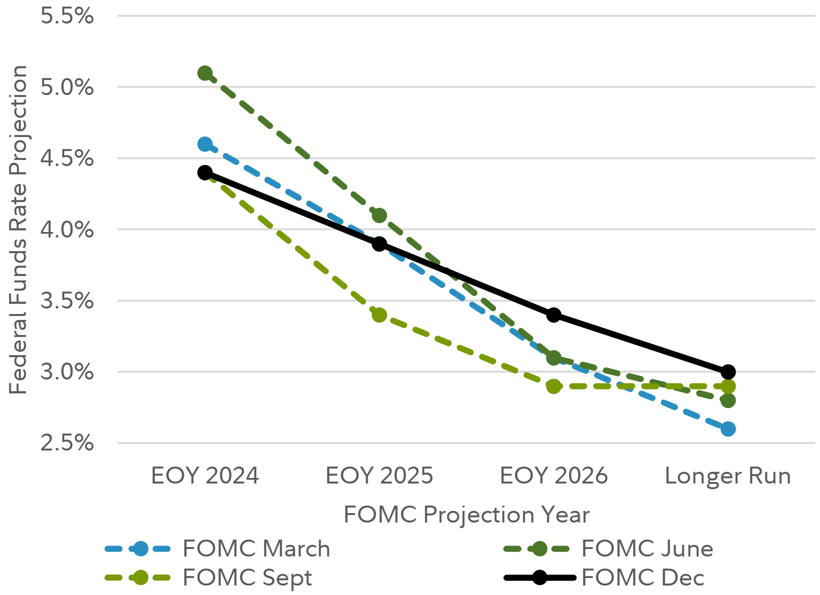
There are a variety of investment themes in money markets that have our attention as we enter 2025:

- Flows: Over the past several years, MMFs have experienced a surge of inflows, primarily driven by two factors: a reallocation of assets in the wake of the regional banking crisis in 1Q'23 and the appeal of MMF yields that, as the result of the FOMC raising their policy rate, have become increasingly attractive compared to traditional bank deposit rates. (Exhibit 2). With current market pricing for the Fed's policy rate aligning with the FOMC's latest SEP, absent a deterioration in the labor market, money market fund yields may remain an attractive investment throughout 2025 and beyond.

- Politics: The arrival of new administrations across major international markets injects a layer of uncertainty into markets overall. Potential changes in government debt issuance programs, evolving regulations impacting credit risks, and geopolitical events mandate MMFs to adapt as situations evolve. Domestically, Congress must address the now binding debt limit which was reinstated on January 1, 2025. Failure to do so in a timely manner will result in an erratic issuance program by the Treasury which historically has become problematic for money market funds.

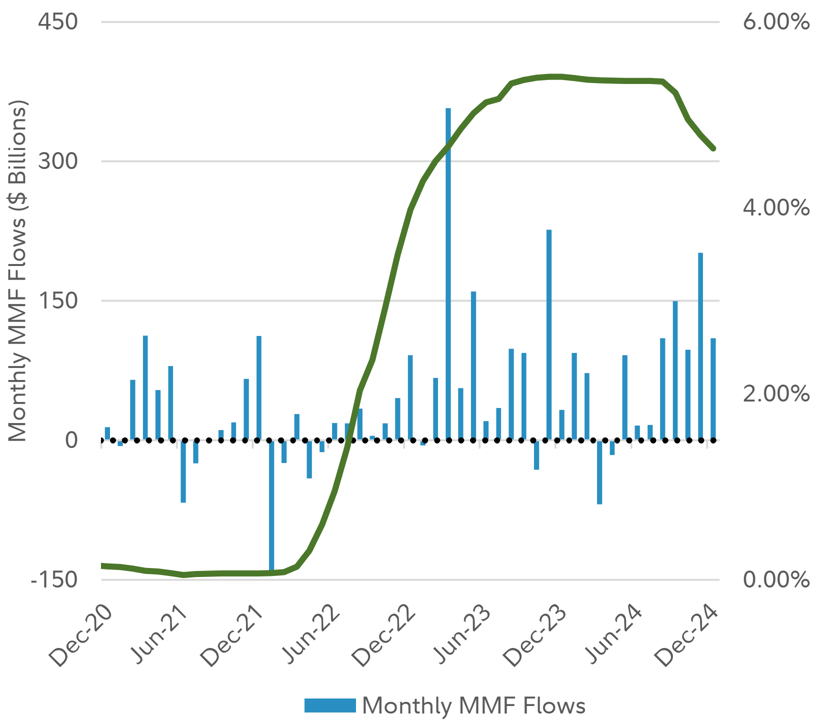
- FOMC Composition: While the participants of the overall FOMC will not change in 2025, those that are designated voting members will change with the annual rotation of regional Fed Presidents. The shift in voting members will inevitably influence the direction of monetary policy as the Fed attempts to satisfy their dual mandate of price stability and maximum employment

Exhibit 1: FOMC Statement of Economic Projections



Source: Federal Reserve

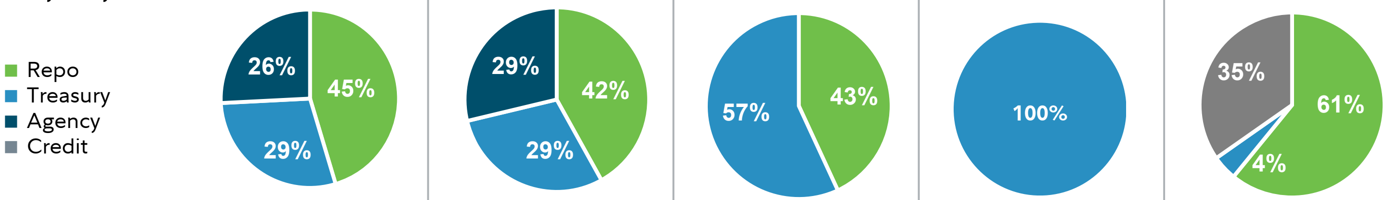
Exhibit 2: Money Market Flows vs 7-day Government Institutional Yield



Source: Crane Data of 12/31/24.

FIDELITY TAXABLE MONEY MARKET FUND COMPOSITION
AS OF 12/31/24

	SPAXX Retail Government	FIGXX Inst. Government	FISXX Inst. Treasury Repo	FSIXX Inst. Treasury Only	FMPXX Retail Prime
7-day net yield	4.14%	4.38%	4.34%	4.34%	4.40%
WAM/WAL (days)	31 (-6) / 84 (-6)	31 (-7) / 90 (-7)	35 (-2) / 91 (+0)	43 (-3) / 76 (-3)	17 (-3) / 28 (-3)
Total fund AUM	$381B (+$11B)	$211B (+$5B)	$67B (-$3B)	$94B (+$3B)	$141B (+$3B)



Data is of 12/31/24. WAM: Weighted Average Maturity. WAL: Weighted Average Life. AUM: Assets Under Management. **Past performance is no guarantee of future results.**

Money Market Environment and Strategy Update

- With the Fed now having reduced their targeted policy rate by a total of 100 basis points over the course of their past three policy meetings, they now find themselves with a current policy rate range between 4.25 – 4.50%. While it's a constant debate in the market of where the Fed's neutral policy rate is (the rate in which their policy stance is neither restrictive nor accommodative to the economy), they are undoubtedly closer to that level today than they were when they began to ease back at their September policy meeting. Because of this, the Fed can afford to watch how the data evolves while standing ready to support the economy if the labor market deteriorates while remaining attentive to the inflation side of their dual mandate.
- This uncertainty of the future interest rate path, combined with an overall decline of money market supply, which included both a decline in the supply of Treasury Bills as well as unsecured credit, resulted in limited investment opportunities for our funds during the month of December. As a result, the weighted average maturity (WAM) of our funds declined during the month of December.
- According to the Crane data at the end of December, Government institutional funds had an average WAM of 36 days and an average WAL of 92 days while Government retail funds had an average WAM of 33 days and an average WAL of 89 days. Prime institutional funds ended the month with an average WAM of 29 days and an average WAL of 45 days while Prime retail funds had an average WAM of 31 days and an average WAL of 53 days.
- Treasury Bills outstanding decreased by ~$200 billion during the month of December to $6.186 trillion outstanding. Bills now account for 21.9% of the Treasury's total marketable debt. During 2024, Treasury Bills outstanding increased by $511 billion.
- Fixed rate CD/CP yields were largely unchanged in December and the curve remained flat with both the 3-month tenor and the 6-month tenor falling to between 4.48% and 4.55% while one-year fixed credit was offered in the range of 4.50% and 4.55%. Floating rate securities continue to deliver a modest spread over SOFR and also were largely unchanged during the period with the 6-month tenor trading around SOFR+22-26, while the 9m at SOFR+26-28 and 1y at SOFR+33-36.
- According to ICI data, total Money market fund assets increased ~$76 billion during the month of December to bring the YTD cumulative growth to ~$960 B. For 2024 overall, Government money market funds grew by ~$820 billion to $5.633 trillion and Prime money market funds grew by ~$127 billion to $1.078 trillion.

Please read this information carefully. Speak with your relationship manager if you have any questions.

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