

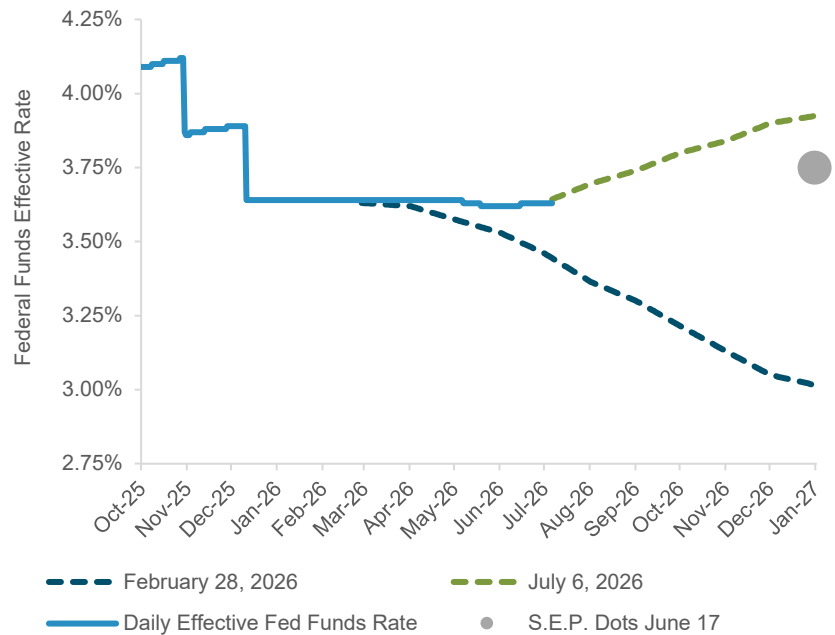
Guiding Towards Less Certainty

July and August 2026

Market Drivers and Themes

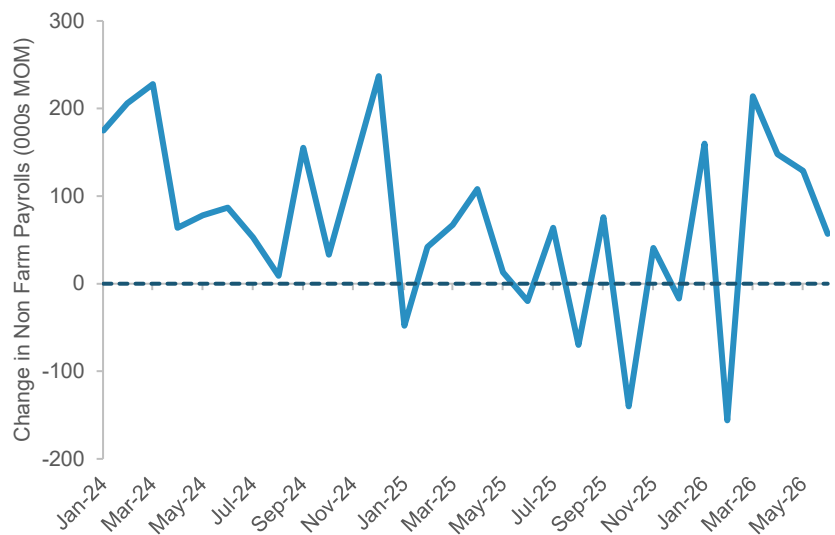
- The June 16–17 FOMC meeting marked a transition as Kevin Warsh chaired his first meeting as Federal Reserve Chair. The Committee voted unanimously to maintain the federal funds target range at 3.50%–3.75%, unchanged since December 2025. More notable was the shift in the Summary of Economic Projections, where the median year-end 2026 federal funds rate projection increased to 3.8% from 3.4% in March. The Committee also adopted more direct language around its inflation objective while reducing its reliance on forward guidance, signaling a preference for greater policy flexibility and a stronger emphasis on achieving price stability. Taken together, the meeting reflected a Federal Reserve that remains firmly data dependent and less inclined to pre-commit to a particular policy path.
- Economic data released during June provided mixed signals. Labor market conditions showed signs of moderation, with June payroll growth slowing to 57,000 and prior months revised lower, although JOLTS job openings remained relatively resilient at 7.6 million and the unemployment rate declined to 4.2% as labor force participation eased. Inflation data, meanwhile, remained less encouraging. Headline PCE inflation accelerated to 4.1% year-over-year in May, while core PCE rose to 3.4%, its highest reading since late 2023, supported by a strong increase in consumer spending. While hiring trends suggest some cooling in economic activity, persistent inflation and resilient demand continue to complicate the path toward lower interest rates.
- Financial markets spent much of June balancing the Fed's more cautious policy outlook against evidence of a gradually softening labor market. The higher projected policy-rate path and firmer inflation outlook initially reinforced expectations that interest rates could remain elevated for longer. However, weaker payroll data later in the month tempered those concerns and encouraged investors to reassess the likelihood of additional tightening. As a result, front-end rate expectations became increasingly sensitive to incoming economic data, with market pricing reflecting a narrower amount of expected policy tightening by month-end than immediately following the June FOMC meeting.

Exhibit 1: Market Implied FOMC Rate Path (waiting to update)



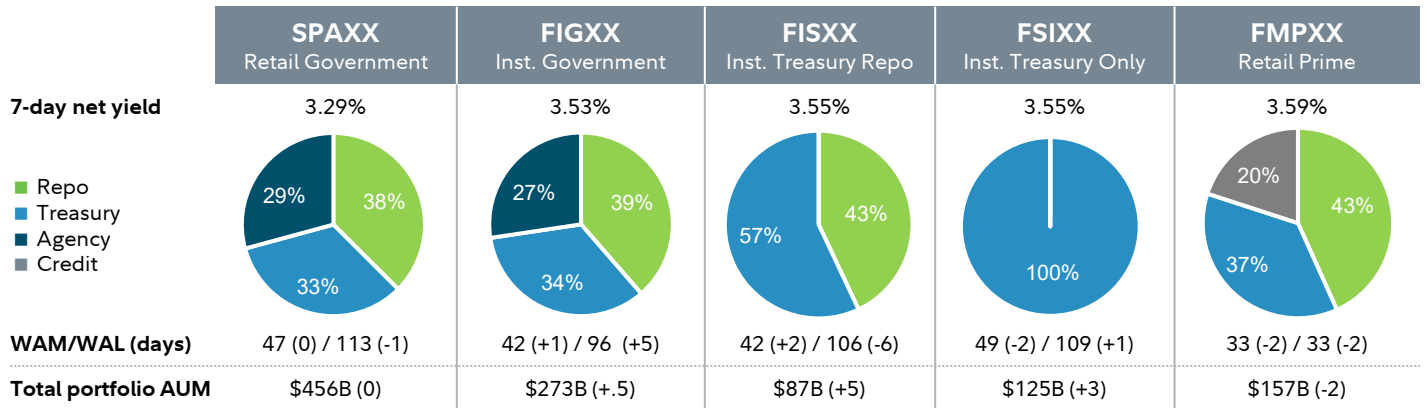
Source: Bloomberg as of 7/6/26.

Exhibit 2: Change in Monthly Non-Farm Payrolls (in Thousands)



Source: Bureau of Labor Statistics via Bloomberg as of 6/30/26.

FIDELITY TAXABLE MONEY MARKET FUND COMPOSITION AS OF 6/30/26



Data is of 6/30/26 compared to fund positioning as of 5/29/26. 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

- June saw money market conditions improve as Treasury bill supply normalized following the Spring tax-season funding cycle. After the Treasury reduced bill supply by approximately \$197 billion in April following the influx of tax receipts, money market funds faced fewer reinvestment options. This excess cash migrated into overnight repo markets, contributing to softer funding rates. By June, these technical pressures had largely reversed as bill issuance stabilized. Simultaneously, market sentiment shifted away from pricing near-term Federal Reserve rate cuts toward a "higher-for-longer" policy path—even assigning a greater probability to future hikes—which drove front-end yields meaningfully higher. Notably, six-month Treasury bill yields rose by roughly 23 basis points, from approximately 3.61% in early May to 3.84% by late June.
- Consistent with our long-standing expectation that the Fed would remain on hold rather than deliver the cuts previously priced in, we viewed this upward yield repricing as an opportunity. Given the more compelling opportunities in the market, we selectively extended the weighted average maturity of our funds using Treasury bills and other high-quality fixed-rate securities. While maintaining ample liquidity and a disciplined maturity profile, the combination of improved bill supply, higher yields, and robust demand for high-quality assets strongly reinforces our constructive outlook for the money market sector.
- According to the Crane data at the end of June, Government institutional funds had a WAM of 37 (-4) days and an average WAL of 93 (-2) days, while Government retail funds had an average WAM of 39 (-2) days and an average WAL of 90 (-1) days, Treasury institutional funds had an average WAM of 38 (-5) days and an average WAL of 87 (-4) days. In the Prime fund space, Prime institutional funds ended the month with an average WAM of 36 (-2) days and an average WAL of 57 (-2) days while Prime retail funds had an average WAM of 38 (-2) days and an average WAL of 61 (-1) days. Note: numbers in the parenthesis represents the month-over-month change.
- Fixed rate CP/CD volume was stable in June with proportionally more activity in fixed rate as compared to floating rate product. The fixed rate yield curve cheapened further during the period, most notably in the longer tenors, as compared to the end of May, reflecting the higher probability of an increase to the Effective Federal Funds Rate after the meeting in mid-June. At the end of June, three-month yields were moderately cheaper and generally wrapped around 3.95%, while six-month yields were in the range of 4.10%-4.15% and one-year yields were in a range of 4.23%-4.28%. Meanwhile, the spread for floating-rate securities relative to SOFR also cheapened moderately across the curve with the six-month tenor at SOFR +26/29bp, nine-month in the range of +30/35bp and the one-year tenor at SOFR +38/43bp.
- According to ICI data, from June 3rd to July 1st, total money market fund assets increased by approximately \$54 billion to \$7.947 trillion. During this period, Government money market funds saw the majority of the inflows, rising by roughly \$45 billion to \$6.555 trillion, while Prime money market funds increased by approximately \$4 billion to \$1.241 trillion.

FIDELITY TAX-EXEMPT MONEY MARKET FUND COMPOSITION

AS OF 6/30/26

	FTCXX Fidelity Investments (FIMM) Tax Exempt	FSBXX California Municipal	FMAXX Massachusetts Municipal	FSKXX New Jersey Municipal	FNKXX New York Municipal
7-day net yield	2.54%	2.34%	2.42%	2.21%	2.54%
Tax equivalent yield	4.29%	5.09%	4.85%	4.56%	5.56%
- Notes & Bonds - Commercial Paper - Variable-rate demand notes & tender option bonds					
WAM/WAL (days)	34 (-2) / 34 (-3)	27 (+4) / 27 (+4)	33 (-4) / 34 (-3)	41 (0) / 41 (0)	35 (+6) / 35 (+5)
Total portfolio AUM	\$11.8B (+.42)	\$6.55B (+.15)	\$3.79B (+.23)	\$1.34B (0)	\$5.07B (-.02)

Data is of 6/30/26 compared to fund positioning as of 5/29/26. Tax equivalent yield based on highest federal tax bracket and includes Medicare surtax. WAM: Weighted Average Maturity. WAL: Weighted Average Life. AUM: Assets Under Management. **Past performance is no guarantee of future results.**

Tax-Free Money Market Update

Strong payroll data and a hawkish Federal Reserve meeting pushed front-end Treasury yields higher in June, but powerful summer reinvestment technicals anchored the municipal market. Reflecting this outperformance, the 1-year AAA muni-to-Treasury ratio compressed steadily from 63% at the start of June to close the month at 58%. After averaging 60% in May, the ratio of the Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) to Effective Fed Funds rose to average 68% in June. This yield reset enhanced the relative value of tax-exempt vehicles, helping drive municipal money market fund assets up to \$150.2 billion from \$146.2 billion. Year to date, issuance of short-term tax-exempt notes has totaled \$18.9 billion, a 33% increase from the same period last year.



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