

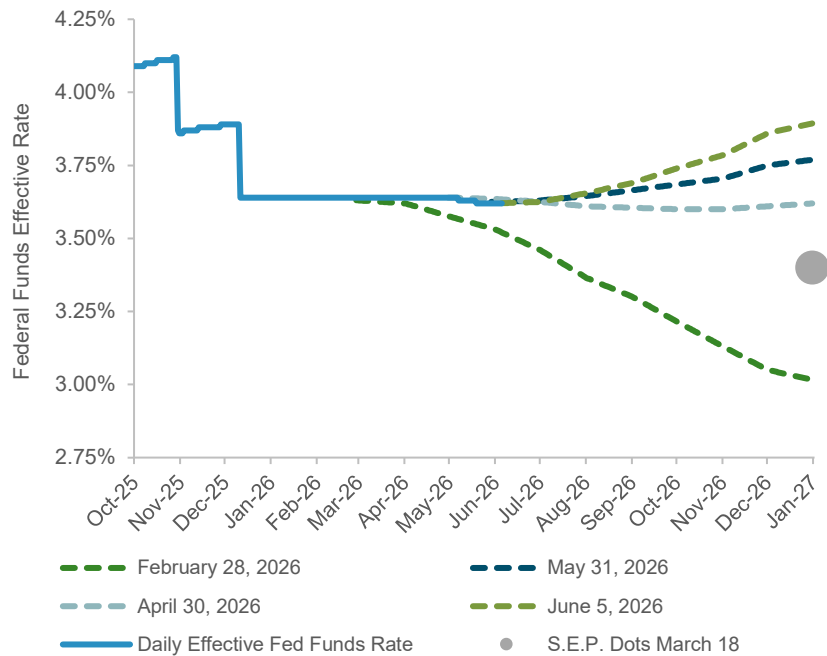
# Caution Rather than Conviction

June 2026

## Market Drivers and Themes

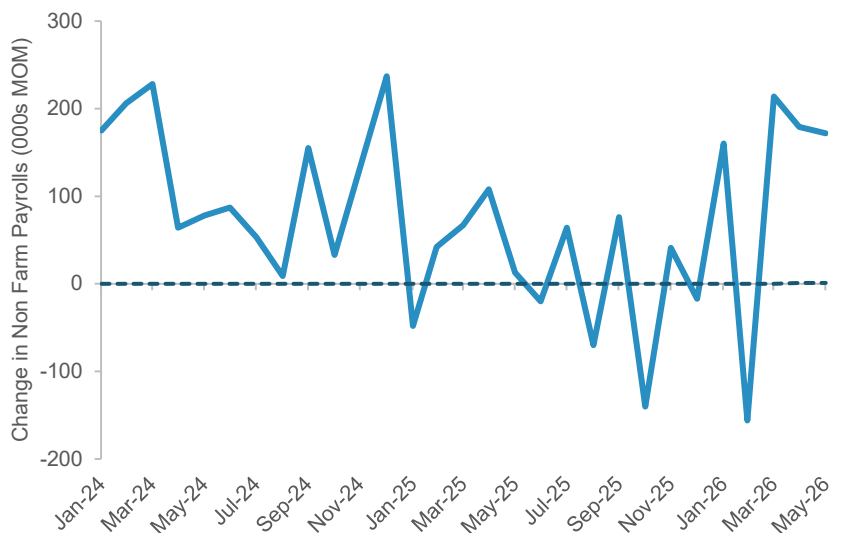
- During May, markets increasingly questioned whether or not the Fed’s policy rate, currently set between 3.50 – 3.75%, is restrictive in the current environment of elevated geopolitical risk, higher energy prices, and a stable labor market. The Federal Reserve’s late-April decision to leave their federal funds target range unchanged remained the anchor for front-end expectations, but attention moved away from the timing of the next move toward the durability of current conditions. Policymakers emphasized a data-dependent approach, while inflation remained above target and external risks persisted. The transition in Fed leadership added another layer of uncertainty, reinforcing focus on how the policy framework may evolve rather than on any immediate rate decision.
- Recent labor market data reinforced the view of an economy that is moderating but not weakening materially. While payrolls rose 115,000 in April, May showed a reacceleration, with payrolls increasing 172,000 alongside meaningful upward revisions to prior months. Gains were led by leisure and hospitality, healthcare, and local government, while the unemployment rate held at 4.3%. The recent strength suggests labor demand remains above levels consistent with a stable unemployment rate. Taken together, the data points to a labor market that has firmed following a late-2025 slowdown.
- Inflation data released in May supported that cautious outlook. Core PCE rose 3.3% year over year in April, underscoring uneven progress toward price stability. Broader growth signals remained mixed, with first-quarter GDP revised down to 1.6% even as personal consumption increased 0.5% in April.
- Against that backdrop, markets in May increasingly reflected a higher-for-longer Fed outlook. Stronger job growth and still-elevated inflation reduced confidence in a near-term easing cycle and supported expectations that the Fed will hold rates at current levels for longer than previously anticipated. Investors became less willing to price aggressive rate cuts, with front-end expectations driven more by inflation persistence, labor-market strength, and the durability of consumer demand than by any imminent policy pivot. As a result, the balance of risks shifted further away from near-term easing, with growing recognition that, if economic resilience persists and inflation remains sticky, the timing of any rate cuts could be pushed further out—and the possibility of additional tightening could re-enter the discussion.

Exhibit 1: Market Implied FOMC Rate Path



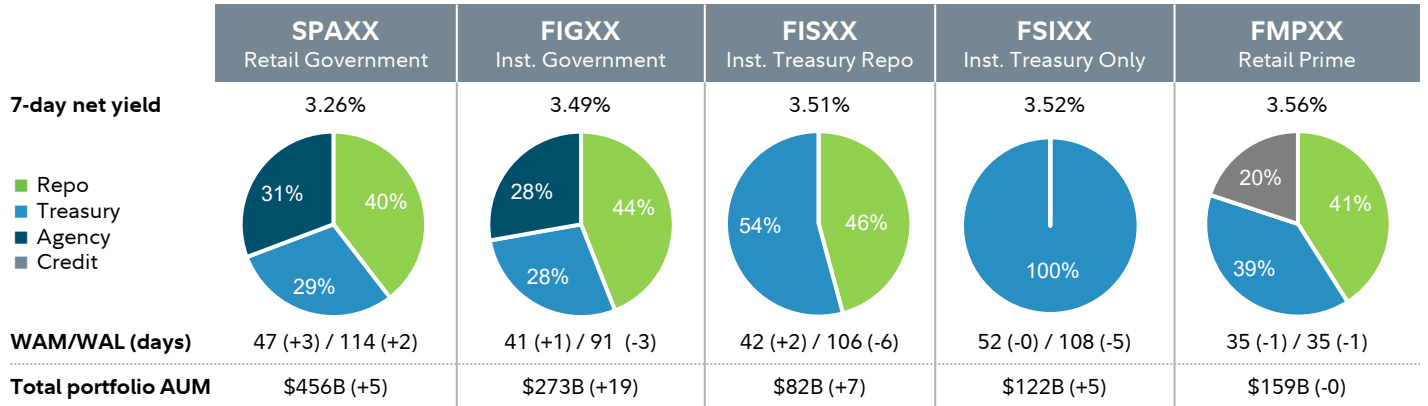
Source: Bloomberg as of 6/5/26.

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



Source: Bureau of Labor Statistics via Bloomberg as of 5/31/26.

**FIDELITY TAXABLE MONEY MARKET FUND COMPOSITION**  
AS OF 5/29/26



Data is of 5/29/26 compared to fund positioning as of 4/30/26. 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**

- Given our fund positioning entering the month of May, we found opportunities to selectively add to our fixed rate exposure as the market’s expectation for the future path of the Fed’s policy rate more closely aligned with our own view. These fixed rate investment opportunities were limited in the first half of the month as Treasury Bill supply continued its seasonal pattern of declines following the mid-April tax payment. However, the second half of the month saw Bill supply increase resulting in the amount of Treasury Bills outstanding increasing during the month of May by \$137 billion
- According to the Crane data at the end of May, Government institutional funds had a WAM of 41 (0) days and an average WAL of 95 (-1) days, while Government retail funds had an average WAM of 41 (+1) days and an average WAL of 91 (0) days, Treasury institutional funds had an average WAM of 43 (-3) days and an average WAL of 91 (-4) days. In the Prime fund space, Prime institutional funds ended the month with an average WAM of 38 (+1) days and an average WAL of 59 (+2) days while Prime retail funds had an average WAM of 40 (+1) days and an average WAL of 62 (+2) days. Note: numbers in the parenthesis represents the month-over-month change.

- Fixed rate CP/CD volume was stable in May with proportionally more activity in fixed rate as compared to floating rate product. The fixed rate yield curve cheapened in the longer tenors as compared to the end of April which led to a steeper upward slope in the curve. At the end of May, three-month yields were largely unchanged in the range of 3.85%-3.90%, while longer tenors were impacted by changing probability of Fed Funds futures prices with six-month yields in the range of 3.92%-3.97% and one-year yields cheapening the most, to a range of 4.15-4.20% (up from 4.00%-4.05% at the end of April). In contrast, the spread for floating-rate securities relative to SOFR was slightly richer in May across the curve with the six-month tenor at SOFR +23/27bp (as compared to +25/30bp at the end of April) and the one-year tenor at SOFR +30/35bp (as compared to 35/38bp in the prior month).
- According to ICI data, from May 6th to June 3rd, total money market fund assets increased by approximately \$141 billion to \$7.894 trillion. During this period, Government money market funds saw the bulk of inflows, rising by roughly \$136 billion to \$6.510 trillion, while Prime money market funds increased by approximately \$8 billion to \$1.237 trillion. This broad-based growth highlights continued demand for high-quality, short-duration assets, supported by elevated front-end yields and ongoing investor preference for liquidity

**FIDELITY TAX-EXEMPT MONEY MARKET FUND COMPOSITION**  
AS OF 5/29/26

	<b>FTCXX</b> Fidelity Investments (FIMM) Tax Exempt	<b>FSBXX</b> California Municipal	<b>FMAXX</b> Massachusetts Municipal	<b>FSKXX</b> New Jersey Municipal	<b>FNKXX</b> New York Municipal
<b>7-day net yield</b>	1.73%	1.57%	1.67%	1.58%	1.68%
<b>Tax equivalent yield</b>	2.92%	3.42%	3.31%	3.27%	3.68%
<b>WAM/WAL (days)</b>	36 (+6) / 37 (+6)	22 (-3) / 22 (-3)	37 (+7) / 37 (+7)	41 (-3) / 41 (-3)	29 (-1) / 30 (-1)
<b>Total portfolio AUM</b>	\$11.3B (-.3)	\$6.4B (+.24)	\$3.56B (-.09)	\$1.34B (+.01)	\$5.09B (+.21)

Data is of 5/29/26 compared to fund positioning as of 4/30/26. 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

Geopolitical uncertainty and heavy bond issuance continued to put pressure on the municipal market in May. The ratio of the 1-year municipal AAA index to 1-year Treasuries remained elevated through the first three weeks of the month, reaching a high of 69%, before rallying to close the month at 64%. Inflows into municipal money market funds increased demand for tax-exempt variable-rate securities. After averaging 85% in April, the ratio of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index to Effective Fed Funds fell sharply to an average of 55% in May. Industry assets rose from \$144.7 billion to \$147.9 billion over the course of the month. Year to date, issuance of short-term tax-exempt notes has totaled \$9.8 billion, a 28% increase from the same period last year.



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