Short Term Investments Committee

Market insights and investment views

August 2025

Economic backdrop

Effective August 8th, Adriana D. Kugler resigned from the Federal Reserve (the Fed) Board and President Trump selected Stephen Miran, chair of the Council of Economic Advisors, to fill her role until the term expires on January 31, 2026. It seems unlikely that Miran will permanently fill the role. All eyes are turning to September to see if the Fed will announce a cut to the target range of the federal funds rate at the Federal Open Market Committee (FOMC) meeting on the 17th. There was no cut during the July meeting but two members dissented, both in favor of a cut and both potential nominees for replacing Chair Powell when his term is up in 2026. The labor market was soft across the board in July. Headline payrolls rose by a lower-than-expected number of jobs in July, but the bigger story was the substantial downward revision of May and June results by a combined 258,000 jobs.

Market insights

Credit

There is value, despite tighter spreads, in asset-backed securities (ABS) for ultrashort portfolios compared to investment grade corporate securities.

We expect new issuance to slow heading into Labor Day after a busy July with over 55 deals/$40 billion in new ABS issuance.

Government liquidity

Government liquidity portfolios are capitalizing on attractive repurchase agreement rates while focusing on guarding against upcoming rate cuts.

Currently, the best value can be found in the front half of the money market curve. Transitioning from floating to fixed-rate securities can make sense as the market is more seriously pricing in a rate cut at the September Fed meeting.

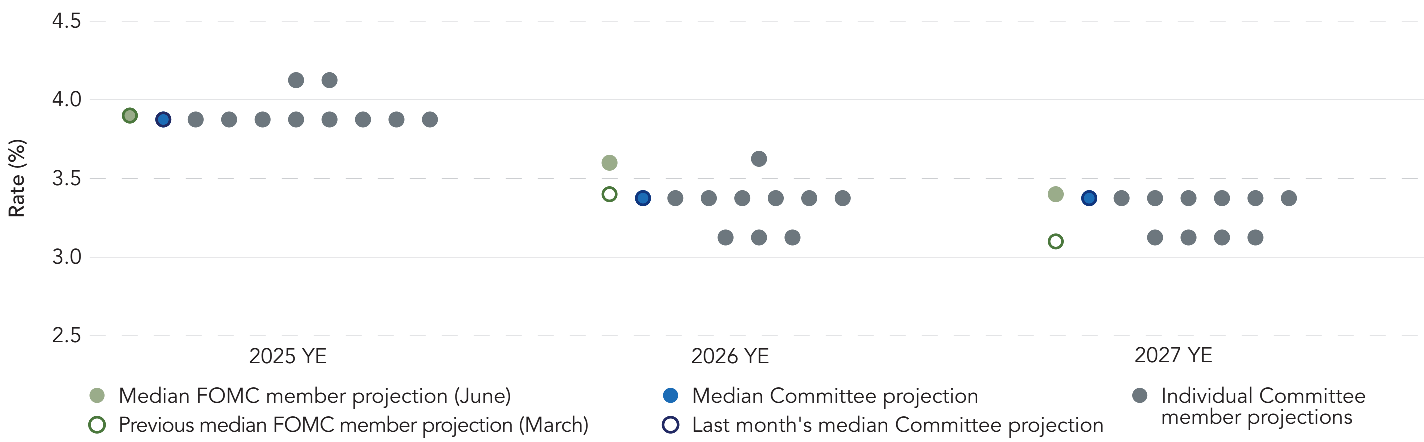
Government ultrashort

Collateralized mortgage obligation (CMOs) floaters are attractive for government ultrashort investors given continued wide spreads.

Banks are shifting mortgage holdings towards floaters, as they limit duration risk relative to bank deposits, but are cautious about adding mortgage-backed securities outright before updated Basel III regulations are promulgated. We expect higher bank purchases to lead to tighter mortgage spreads, including for CMO floaters.

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.

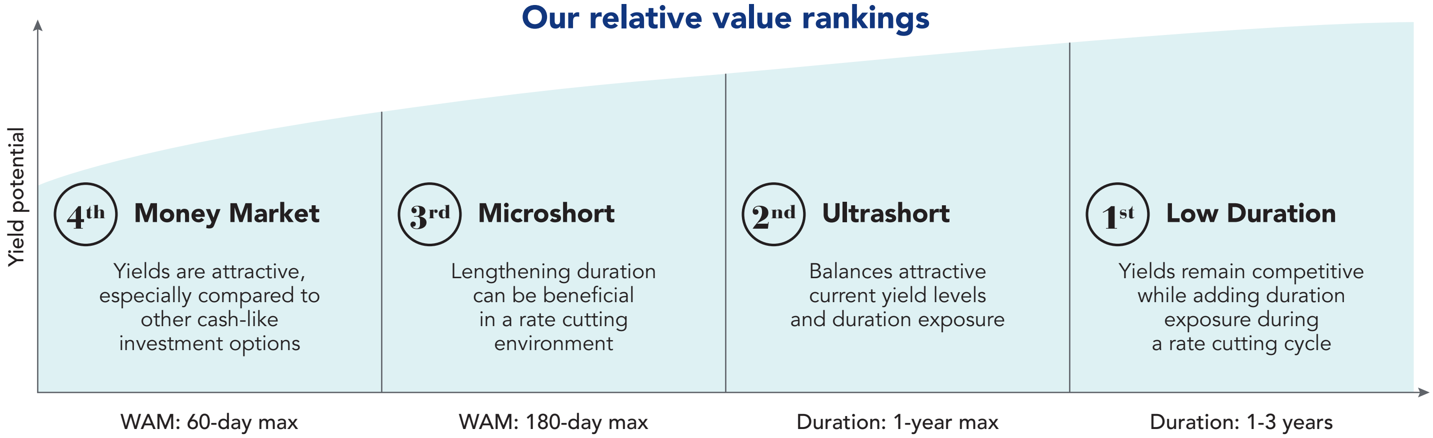
These themes are guiding our investment views in the space:

- While money market yields remain elevated, maintain a bias to lengthen duration where yields are more attractive.
- Take a constructive approach to MBS given attractive income potential as we near a cut in the federal funds rate.
- Take a balanced approach to credit given tight spreads and strong fundamentals.

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 recent moves in SIFMA, municipal money markets can still be attractive for tax sensitive investors.	**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 4.25%, 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 have been pushed higher by the recent increase in treasury supply, making it an even more attractive alternative.
Liquidity	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 over two cuts by year-end and the bill curve is inverted from overnight to 1-year. With the increase of the debt ceiling last month, bill supply continues to be net positive and is expected to persist into September. This has provided as much support as possible to bill yields given the outlook for Fed rate cuts, presenting opportunities for the defensive extension trade. 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.
Liquidity	US Government Agencies	Issuance by US government agencies has been steady, with discount note oustandings essentially unchanged this month. We have seen discount notes offering value relative to bills at times, 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, and spreads have remained unchanged.
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 recent volatility in the longer end of the prime curve has presented some good buying opportunities. However, the value can be data dependent and short-lived, so an opportunistic approach is warranted. Additionally, fixed-rate supply has been somewhat limited in recent weeks, making the extension trade more challenging. Floating-rate securities can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate. Issuance continues to be robust at roughly $20 billion per week and, with spreads remaining at decent levels, they can make an attractive hedge to an uncertain Fed outlook.
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	As is typical with most summer months, global bond markets were generally subdued and total returns limited to very modest ranges. With diminished liquidity and the absence of major economic surprises, US trade negotiations took center stage once again. Surprisingly, global bond markets weathered the dizzying array of US trade arbitrations with relative ease. Europe, which was originally faced with punishing 30% export levies, settled on a 15% all-inclusive tariff ceiling on nearly all exports with the US. Lastly, the European Central Bank kept the interest rates unchanged at 2% in its last meeting, generally in line with consensus. However, the central bank did indicate that the bar for further easing had grown much higher. Overall, benchmark European bonds procured a benign 0.20% total return during the period; a surprising output given all the trade uncertainty that still remains.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply remains strong and continues to be met with high demand. Credit spreads tightened another 5 basis points over the last month in prime autos and are tighter than pre-Liberation Day levels. Used car prices remain elevated, up 16.5% from Jan-2021 levels, providing additional support to both prime and sub-prime Auto ABS. Credit card ABS is also performing very well with extremely high levels of excess interest from elevated gross yields. Even with tighter spreads, 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 balance sheets remain in good shape to handle potential market turmoil. Corporate earnings are expected to be +5% year-over-year, a low point for the year. New issuance continues to be met with great demand and is expected at similar-to-slightly higher levels than in 2024. Tight spread levels make IG Corporates less attractive at the short end of the curve but selective opportunities do exist for A-rated and BBB-rated corporates.
Fixed Income	Government/ Mortgage-Backed Securities (MBS)	Spreads in the short duration government mortgage space remain at multi-year wides and provide extremely attractive income potential. With higher volatility in longer duration and credit oriented sectors, the relative value of short duration, government guaranteed MBS remains compelling. Over time, the wide spreads and attractive income available in government agency guaranteed floating-rate collateralized mortgage obligations continue to offer significant total return potential.
Fixed Income	Municipal Bonds/Notes	State and local municipal government credit quality generally remains solid, benefiting from historically large financial reserves and strong management. While short-term rates are below the peak experienced during 2024, portfolios are benefitting from expectations of a higher terminal Fed funds rate and a healthy supply of municipal bonds and notes.

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 $676 billion in assets in the 0-3-year space (as of 6/30/25)
- 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

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 August 2025 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.

Diversification does not assure a profit nor protect against loss.

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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