Short Term Investments Committee

Market insights and investment views

Federated Hermes

September 2026

Economic backdrop

Despite persistent geopolitical and policy uncertainty, the economy continues to demonstrate resilience. Federal Reserve (Fed) Chair Kevin Warsh's hawkish Jackson Hole keynote proved to be a preview rather than just rhetoric: at its September meeting, the Federal Open Market Committee (FOMC) raised rates by 25 basis points (bps), moving the fed funds target range to 3.75-4.00%. The September Summary of Economic Projections showed broad agreement that this hike wasn't the last one for the year, with 16 of 18 participants expecting at least one more increase and the median dot placing the year-end range at 4.00-4.25%. Inflation remains mixed and above target, and oil near $92 per barrel amid the ongoing Iran conflict, now in its seventh month, remains a risk to watch. The labor market also came in stronger than expected in August, reinforcing the Fed's read of continued stability and giving it room to keep tightening. Markets are now pricing a 50% chance of another hike at the October meeting, and we expect the Fed to remain in hiking mode into year-end rather than pausing after September.

Market insights

Government liquidity

Government liquidity portfolios are finding value in the 6-month to 1-year area of the treasury curve.

We are particularly interested in Treasury Bills and expect to see around $300B in issuance during 4Q. There are also some opportunities within agency paper but there is less supply available there.

Credit

AI data center builds and chipmakers are creating buying opportunities for ultrashort and short-term portfolios through investment-grade corporates in the 2-3-year space.

The high-quality nature of these securities, mostly AA-rated and above, and the yields we are seeing make them attractive given the current rate environment.

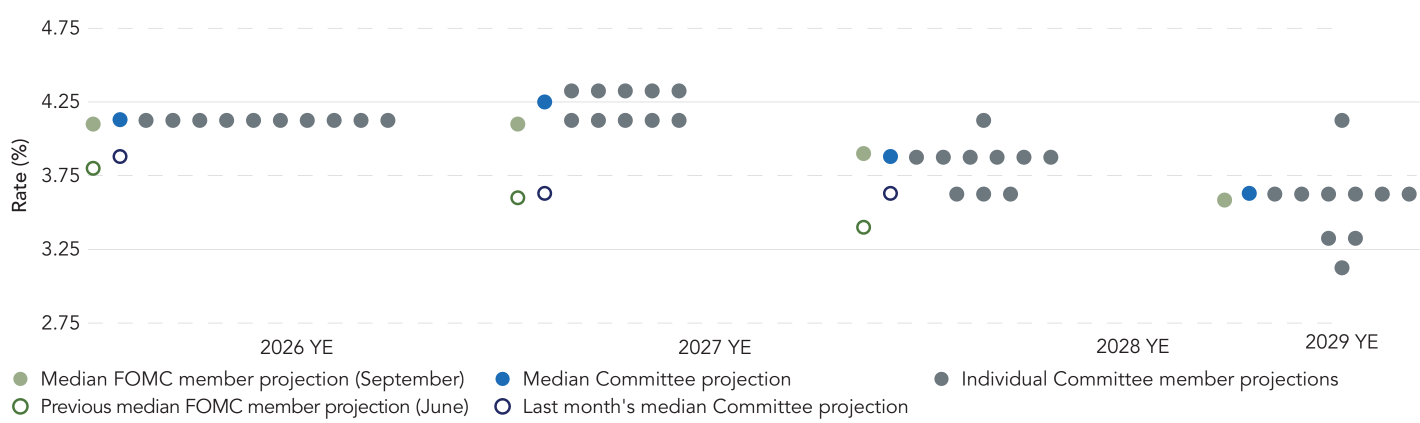
Municipal markets

Municipal portfolios are buying 1-year paper selectively as seasonal market dynamics are changing.

Summer note season has wrapped up, and we hope to see less volatility and higher ratios as reinvestment demand dwindles.

Assessment of monetary policy

Results of the committee's poll estimating the midpoint of the target range for the federal funds rate



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Investment views

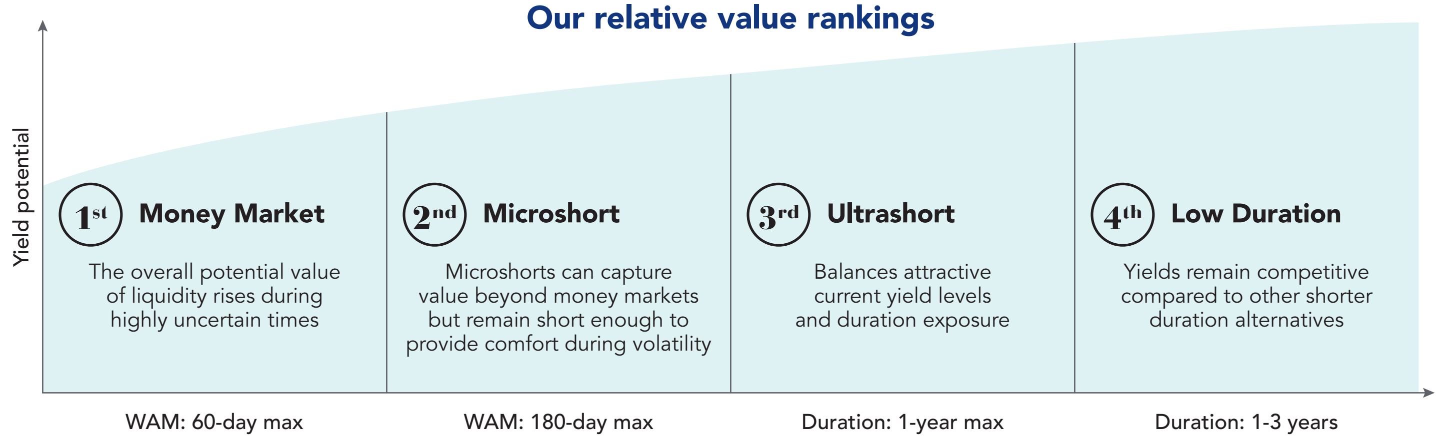
Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive. These themes are guiding our investment views in the space:

- Maintain current overweight to collateralized mortgage obligations, neither increasing nor decreasing allocations.
- Rate backup is providing value within pockets of IG corporates, creating attractive yields as strong earnings and fundamentals will likely keep spreads tight/rangebound.
- Capitalize on the steeper municipal yield curve by buying out longer in duration.

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 Highest relative value 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 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** Historically, with reduced seasonal volatility in SIFMA, municipal money markets typically offer attractive or fair value rates 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 3.75%, 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 September Fed hike behind us, the Fed funds futures curve is now fully pricing in the next 25bps hike for December 2026. As a result, the bill curve has steepened with the 1-month to 1-year spread at roughly 5bps. Ongoing uncertainty surrounding the rate outlook makes longer end rates a bit of a moving target, so investors may want to take an opportunistic approach in this part of the curve. Net bill supply is expected to be negative through the end of September before turning positive in October. This could provide some support for bill yields after the calendar flip. Treasury floating-rate notes based on the 3-month T-bill remain a viable option and can be an attractive hedge against potential Fed hikes.
Liquidity	US Government Agencies	Agency discount note issuance has been steady in recent weeks and they frequently offer a bit of 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 against potential Fed hikes, with spreads widening by nearly a basis point 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 has steepened versus a month ago and now has a 1-month to 1-year of roughly 80bps. With markets now pricing in multiple Fed hikes over the next 12 months, yields in the 1-year area have reached as high as 4.80%, which could be attractive depending on your Fed outlook. 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 little changed in recent weeks, with 1-year paper in the mid-30s and callable structures paying an extra 4-5bps in some cases. Floaters have increased in popularity as a hedge against 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	As expected, the European Central Bank (ECB) hiked by 0.25% (2.50%). While their tone was cautious, the underlying substance was arguably quite hawkish. Both growth and inflation forecasts were revised higher. Additionally, the ECB stated for the first time that inflation would remain above its 2% for an "extended period." These developments open the door for another hike in December. Energy related pricing pressures remain the central risk for further tightening from both the ECB and the Bank of England. The need for further monetary tightening in Japan remains intact, but value opportunities are emerging in long dated bonds.
Fixed Income	Asset-Backed Securities (ABS)	The conflict in the Middle East persisted and escalated during the period. ABS issuance slowed, as is typical for August amid the final weeks of summer and the Labor Day holiday. Treasury rates remained volatile with a bias toward higher yields across the curve. Following the holiday, several issuers began premarketing new ABS transactions, supporting expectations for a strong issuance calendar and robust investor demand in the coming weeks. ABS credit spreads across prime and subprime auto, credit card, and equipment sectors were generally unchanged to 2 basis points tighter. ABS valuations remain attractive as short-term Treasury rates increased nearly 40bps while credit spreads remained stable.
Fixed Income	Investment Grade (IG) Corporates	2Q26 corporate earnings are on pace to top 50% growth year over year (y/y) with full year 2026 earnings per share expected to rise ~30% y/y. IG corporate bond issuance remains resilient and well subscribed, up ~33% year to date vs 2025 and on pace to surpass the 2020 record of $1.7 trillion. 1-3 year IG corporate spreads stayed well-behaved in August, narrowing 2bps (bps), ending the month at 44bps, with all-in yields on the asset class reaching 4.80% at month-end (+5bps month over month) on higher treasury rates. IG Corp spreads remain roughly in line with other IG sectors (e.g. ABS & Mortgages) on strong Q2 corporate earnings prints and technical support from higher all-in yields, providing continued opportunity to lock-in higher income.
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, senior portfolio manager, and Head of Prime Liquidity Group. He is responsible for portfolio management and administration of prime liquidity portfolios.

Committee members:

- consist of portfolio managers and investment analysts with product managers and more also attending meetings
- manage $719 billion in assets in the 0-3-year space (as of 6/30/26)
- 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. Please carefully read the summary prospectus or prospectus before investing.

Views are as of September 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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