Short Term Investments Committee

Market insights and investment views

October 2025

Economic backdrop

During the October Federal Open Market Committee (FOMC) meeting, the Federal Reserve (the Fed) again cut the target range of the federal funds rate by 25 basis points to a range of 3.75-4.00%. There were two dissenting votes to this move, one for a larger cut and one for no cut. Fed Chair Jerome Powell's press conference was full of questions about what the Fed will do in December, which it is more concerned about—inflation or employment—and how the government shutdown could impact the Fed's views given the change in data available. Chair Powell emphasized that nothing is set in stone for future meetings and that the markets should understand that. He reiterated the Fed's dual mandate and noted that there are alternative unofficial sources of data that can help guide decisions if the government shutdown continues.

Market insights

Credit

Ultrashort investors have raised concerns about credit given recent headlines related to certain sub-prime auto asset-backed security (ABS) issuers.

Both the prime auto issuers and two sub-prime auto issuers that we invest in have robust structures and collateral features able to withstand severe stresses and offer attractive spreads over lower quality corporates. They also have multiple sources of funding (equity, debt, warehouse lines, deposits, etc.) in addition to the ABS market that will enable them to withstand potential disruptions in the ABS market.

Government ultrashort

Government ultrashorts may benefit from adjusting portfolio compositions as lower interest rates shorten the duration of mortgage securities.

Investors can take advantage of the shorter security durations by increasing allocation towards higher yielding MBS without overextending portfolio duration.

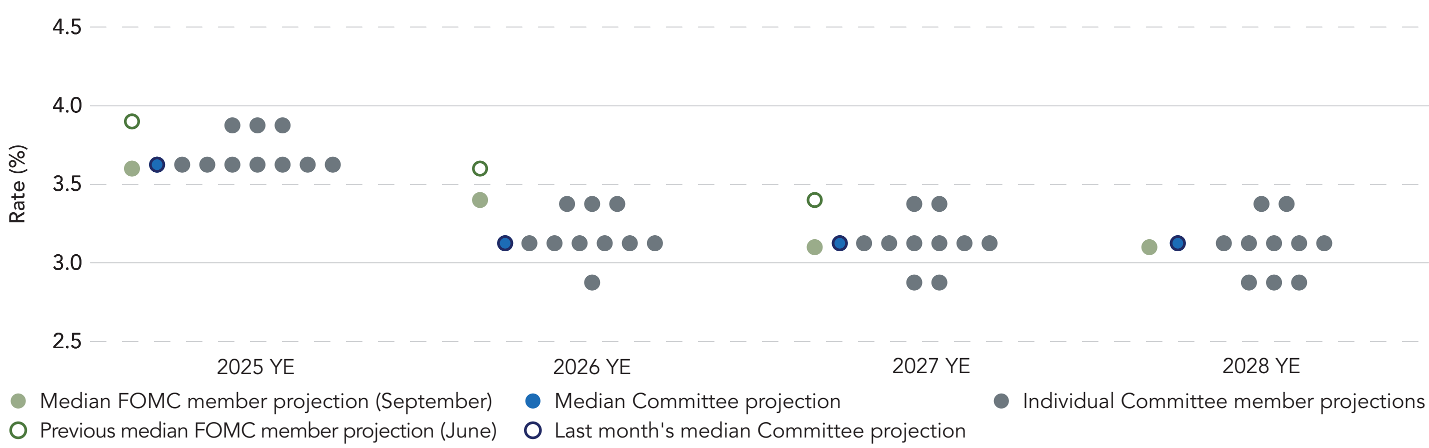
Municipal markets

There is value in extending duration for municipal investors on the short end.

Whether that means moving assets further out the curve or extending duration within the parameters of an existing portfolio, being further out the curve can be beneficial as the Fed continues to cut rates. Ratios in the 0-5-year space are at the highest levels since June, around 65-70%, making now an attractive entry point for investors.

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.

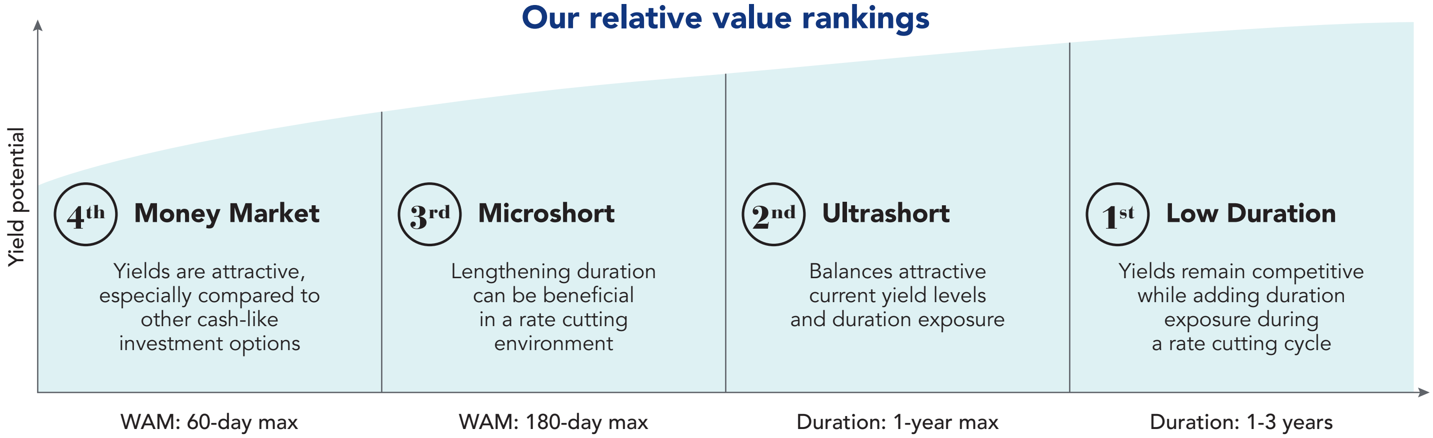
These themes are guiding our investment views in the space:

- 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 and Fed rate environment.
- Take advantage of attractive income opportunities from municipal bonds by incrementally extending durations.

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 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. Repo rates remain elevated after the recent increase in treasury supply, making it an even more attractive alternative.
	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. Following the Fed's rate cut of 25 bps in October, the Fed funds futures curve is pricing in nearly one more cut by year-end and three additional cuts by the end of 2026. The bill curve is inverted from overnight to 1-year. Net new bill supply has been positive and over $150 billion in additional issuance is expected by year-end. This should provide support to bill yields, 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.
	US Government Agencies	Issuance by US government agencies has been steady, with discount note oustandings essentially unchanged in recent months. We have seen discount notes offering value relative to bills on a more frequent basis recently, 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, with spreads narrowing only slightly in recent weeks.
	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 become more inverted this month as we approach additional Fed rate cuts. Fixed-rate supply improved this month, providing opportunities to extend portfolio maturities. Floating-rate securities can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate, and with spreads remaining at decent levels, they can make an attractive hedge to an uncertain Fed outlook.
	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	Overall, it has been a fairly restrained period for most global bond sectors. Despite the potential risks stemming from a US government shutdown, a near collapse of the French government, and a historic transformation in Japan's ruling party, global developed credit spreads remained stable. In Europe, the gap between 10-year French and German bond yields reached their widest level since early 2025 as a consequence of the French political instabilities. Additionally, The European Central Bank kept key interest rates unchanged at 2.0% and the Bank of England made no adjustments to monetary policy. However, diminishing wage pressures in the UK have increased the likelihood of a -0.25% reduction in early 2026. The Bank of Japan made no changes to interest rate policy, but unlike its developed peers it is poised to hike rates in the coming months.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply remains abundant, and deals continue to be met with strong demand. Auto ABS credit spreads widened 20-30 basis points over the last month from headline risk related to a very poorly managed and extremely small sub-prime issuer that filed for bankruptcy and is being investigated for fraudulent activity. Despite this headline, prime and the largest sub-prime auto deals are performing well and feature ample structured protection to withstand increasing delinquencies and charge-offs from weaker employment reports. ABS still offers value at the short end of the yield curve compared to investment grade corporates.
	Investment Grade (IG) Corporates	2Q 25 corporate earnings came in much stronger than expected and earnings expectations for the balance of the year and 2026 look solid. Management color on earnings calls is less cautious than last quarter and corporate balance sheets remain healthy. New issuance is expected to finish the year at similar or slightly higher levels than in 2024. We remain cautious on investment grade corporates given current spread levels.
	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.
	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.

Short Term Investments Committee

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

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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