

December 2025

### Economic backdrop

The Federal Open Market Committee (FOMC) lowered the fed funds target range by 25 basis points to 3.50-3.75% at its December meeting. This was largely expected, however, the dot plot and comments following the meeting indicated it may have been a contentious debate. Federal Reserve (Fed) Chair Jerome Powell signaled that future action will be data dependent, and this may have put monetary policy at "plausibly neutral." The Fed also announced plans to buy \$40 billion of Treasury bills per month starting in December, characterizing this as stabilizing reserve supply. Looking ahead to 2026, we expect short-term interest rates to remain in the 3-5% range based on the strength of the US economy. We will likely see a more dovish Fed and Chair next year as the voting members rotate and a new Chair takes the lead.

### Market insights



#### Prime liquidity

Prime liquidity portfolios are capitalizing on 3-month and longer maturity securities resulting from issuers securing funding into 2026.

This helps portfolios remain invested through year-end and maintain their targeted weighted average maturities as we expect to see supply dwindle in the coming weeks.

#### Ultrashorts

Collateralized mortgage obligations (CMOs) continue to offer value for both government and credit ultrashort investors.

Spreads have pushed a bit tighter, as they have over the past few months, but CMO floaters remain attractive given the current rate environment.

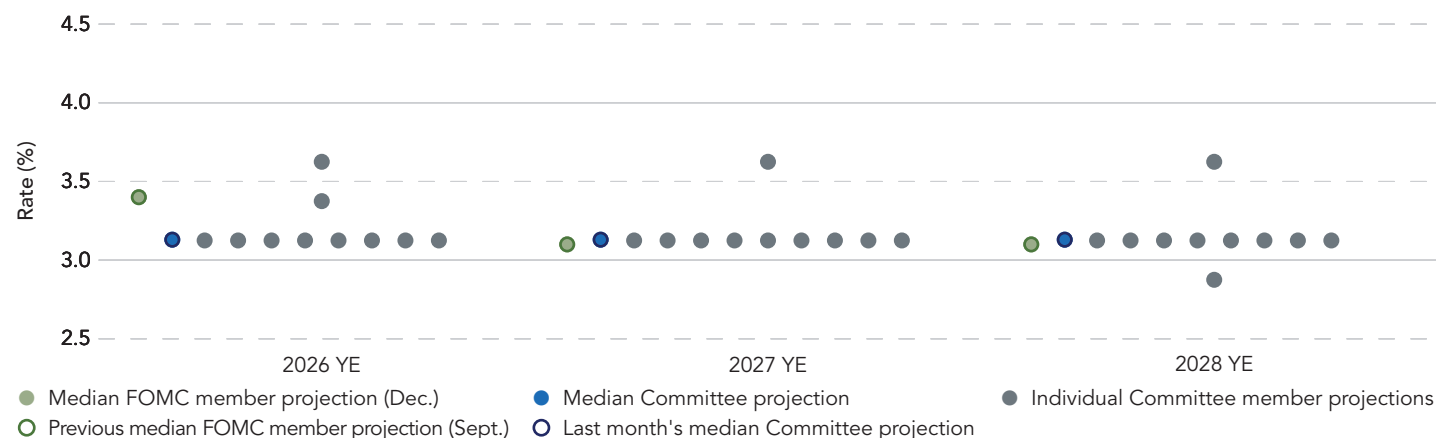
#### Short municipals

Short duration municipal portfolios are seeing buying opportunities out through the 3-year space, especially compared to Treasuries.

This has been helpful as we continue to lengthen durations across the short end.

### Assessment of monetary policy

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



## Investment views

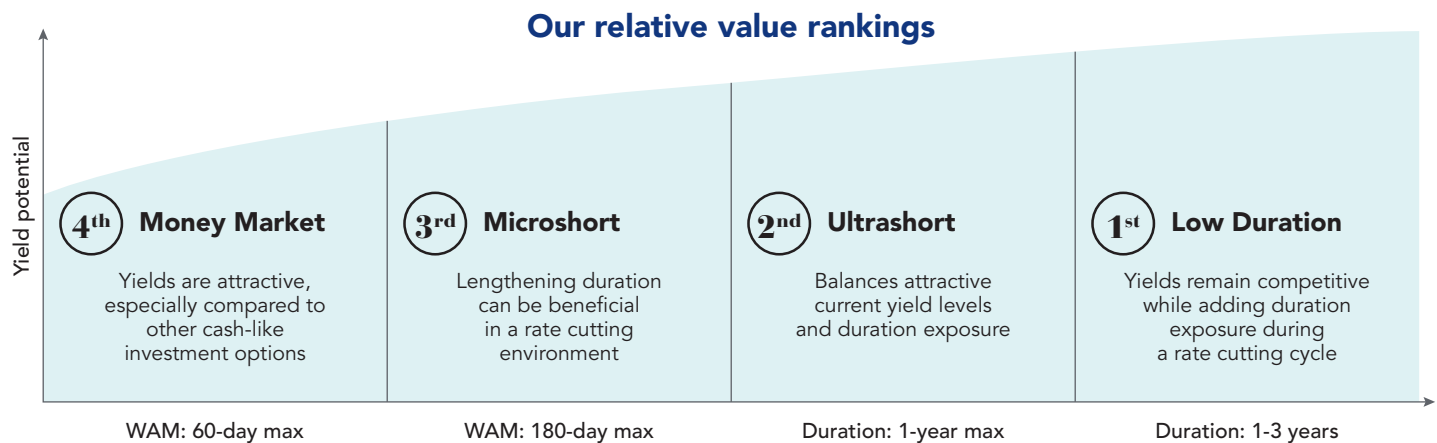
Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive.

These themes are guiding our investment views in the space:

- Maintain longer maturities/durations across the board as yield curve normalizes.
- Take a constructive approach to MBS given attractive income potential and Fed rate environment.
- Capitalize on attractive valuations and income opportunities of municipal bonds relative to treasuries on the short end.

## 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.



## Investment spotlights: for varying investor outcomes

<div>Government</div> <div>Credit</div> <div>Municipal</div>	<b>Government Money Market</b> Low-to-no duration risk is attractive, especially for risk averse investors.		<b>Government Ultrashort</b> <b>Risk sensitive investor</b> A majority government portfolio presents opportunities to benefit from income potential while not taking on additional credit risk.	<b>Short-Term Government</b> <b>Highest relative value seeking investor</b> Lack of credit offers lower potential total return but avoids credit risk during volatile times.
	<b>Prime Money Market</b> <b>Liquidity seeking investor</b> Yields have attractive spreads to Treasuries. Credit conditions on the short end of the curve remain solid.	<b>Microshort</b> Yields are more attractive than shorter alternatives and we expect this to be further recognized as the Fed cuts rates.	<b>Ultrashort</b> <b>Yield seeking investor</b> We are constructive on credit in the near-term given resilient economic conditions.	<b>Short-Term Income</b> <b>Total return seeking investor</b> We see higher total return potential within this asset's longer duration and constructive credit dynamics.
	<b>Municipal Money Market</b> Despite recent moves in SIFMA, municipal money markets can still be attractive for tax-sensitive investors.	<b>Municipal Microshort</b> Microshorts offer a smaller incremental step out if you don't want to jump from money markets to ultrashorts yet.	<b>Municipal Ultrashort</b> <b>Tax sensitive yield seeking investor</b> Taxable-equivalent yields are compelling for tax sensitive investors, especially compared to other shorter duration investments.	<b>Short-Term Municipal</b> <b>Tax sensitive total return seeking investor</b> 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 3.50%, 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 increase in treasury supply this year combined with the Fed's effort to reduce the size of its balance sheet through quantitative tightening (QT). Although the Fed has now begun Reserve Management Purchases (RMP's) to grow the balance sheet, we continue to believe dealer repo will remain relatively attractive in the near term.
	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 continues to price in two cuts by year-end 2026. The bill curve remains inverted from overnight to 1-year. Net bill issuance has been negative since the beginning of December and it is expected to continue until mid-January. This means downward pressure on bill yields could persist, making the extension trade somewhat more challenging. 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 outstandings for both discount notes and coupon securities unchanged. We continue to see discount notes offering value relative to bills on a frequent basis, 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 mostly unchanged 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 essentially flat this month as the Fed rate cut has lowered yields in the front end of the curve. Supply is expected to diminish into year-end, as is typical, but should resume in mid-January. Floating-rate securities can provide exposure to indices such as SOFR, the Overnight Bank Funding Rate (OBFR), and the Fed Funds rate. With spreads on SOFR floaters unchanged, 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	The current baseline for the European Central Bank is to remain on hold in the near future, but with a slight bias for modest easing in the second half of 2026. Overall, "a good place" should keep European yields, particularly German bunds, range-bound in the months ahead. The Bank of England has long imparted that it required ample signaling from inflation to embark on a systematic easing path. A recent pause in pricing pressures has the potential to develop into a major inflection point for UK monetary policy. However, the present 3.6% consumer price index rate is still historically elevated and has been running over 3% for seven consecutive months. Nonetheless, benchmark rates in the UK remain in restrictive territory. In Japan, the newly elected administration continues to find itself at odds with the BoJ's efforts to normalize monetary policy. Cabinet ministers have repeatedly made statements to discourage the BoJ from raising rates further. Meanwhile, the BoJ is committed to gradual rate hikes as underlying inflation continues to move higher. This tension will probably extend into 2026, but in aggregate points to even higher yields in Japan.
Fixed Income	Asset-Backed Securities (ABS)	ABS supply has been plentiful with over 60 deals issued in both October and November across most sub-sectors before finally slowing down in December. Sub-prime auto ABS spreads tightened 10-15 basis points over the last month while prime auto ABS spreads tightened 5-10 basis points. Despite continued headline risk from a few poorly managed sub-prime auto originators and increasing delinquency trends, most ABS deals remain very well structured and are performing within close ranges of initial expectations. ABS offers good value at the short end of the yield curve compared to most investment grade asset classes.
	Investment Grade (IG) Corporates	3Q 25 corporate earnings have been coming in much stronger than expected and earnings expectations for the remainder of the year and 2026 look solid. Management color on earnings calls is less cautious than last quarter. New issuance continues to be well received with most deals tightening approximately 30 basis points from initial price thoughts due to extremely strong demand. Although IG corporate fundamentals remain solid, it's prudent to be more selective due to tight credit spreads.
	Government/Mortgage-Backed Securities (MBS)	Floating rate mortgage CMOs offer extremely attractive spreads in a government mortgage space, providing high income and the potential for price appreciation if spreads tighten. While spreads in competing sectors are historically tight, government MBS markets offer compelling opportunities to allocate funds.
	Municipal Bonds/Notes	State and local municipal government credit quality generally remains solid, benefiting from historically large financial reserves 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).

## 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 \$696 billion in assets in the 0-3-year space (as of 9/30/25)
- 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](https://FederatedHermes.com/us). Please carefully read the summary prospectus or prospectus before investing.**

Views are as of December 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.