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Liquidity looking good

Pooled products such as the MMDT Cash Portfolio are not money market mutual funds, but the latter are a good proxy for the popularity of the former and liquidity investment vehicles as a whole. Last week, total money market fund assets topped \$7 trillion, a massive amount propelled by the Federal Reserve's elevating of short rates to combat inflation. While the size of the Cash Portfolio fluctuates seasonally as participants deposit tax revenue, withdraw funds to pay expenses and other operations, we think the performance of the money fund sphere bodes well. The latest reason comes with the potential that the Fed will slow the pace of easing because inflation may have plateaued.

While the Fed's preferred measure of inflation is the Personal Consumption Expenditures Index (PCE), two others arriving last week were troubling. In October, the Consumer Price Index (CPI) rose to 2.6% year-over-year (y/y) from 2.4% in September. Month-over-month (m/m) numbers were unchanged: headline rose 0.2% from September and core CPI, which excludes volatile energy and food prices, rose 0.3%.

The Producer Price Index (PPI) was even less helpful to the Fed's desire to tame inflation. Both it, and core PPI, grew more in October than September, bounding to 2.4% from 1.9%, and to 3.5% from 3.3%, respectively. Furthermore, each rate increased slightly from September: to 0.2% from 0.1%, and to 3.5% from 3.3%.

Fed officials will know how PCE inflation fared in October prior to the December Federal Open Market Committee meeting in December. Actually, the report comes out the day before Thanksgiving and could cause indigestion a day earlier. If prices don't resume their downward march, the Fed might give the liquidity markets an early Christmas gift by skipping a rate cut, which in turn would likely keep cash products attractive.

Views are as of the date above 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.

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