

February 2026

Economic backdrop

The Federal Reserve (Fed) left the target range of the federal funds rate unchanged at 3.50-3.75% during the January meeting with a more balanced focus on inflation and unemployment. All eyes turned toward Kevin Warsh, who at the end of January was announced as the White House’s nomination for the next Fed Chair. We expect the Senate will confirm him and think that his previous time at the Fed might mean he would eventually push back against excessive political pressure. Additionally, President Trump’s announcement directing Freddie Mac and Fannie Mae to buy \$200 billion additional mortgage-backed securities could lead to more front end issuance.

Market insights



Across the short end

Overall, short duration investors are taking a breath as the Fed is on hold and are digesting the announced nomination of Kevin Warsh to be the next Fed Chair.

We continue to expect that a rate cut won’t come until June, and the markets seem to share this opinion as we are seeing rates reflect this.

Prime liquidity

Prime liquidity portfolios enjoyed good supply in January of both commercial paper and bank CDs.

Issuance has dropped off some in February resulting in some adjustments to the yield curve. Right now, we are seeing a peak in rates in the 3-month area.

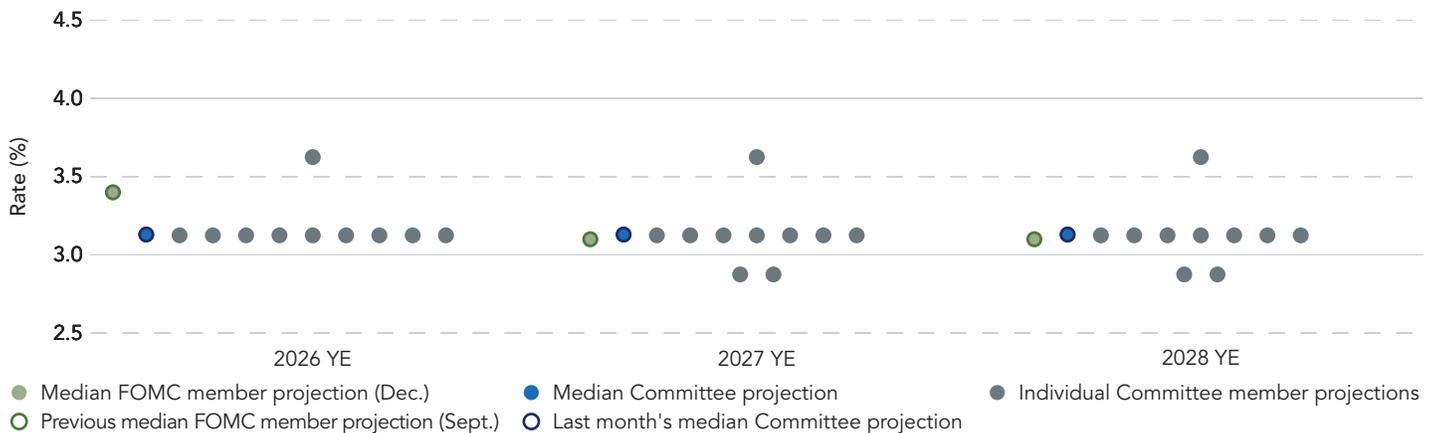
Municipal liquidity

Municipal liquidity portfolios are viewing commercial paper as an attractive tool to keep weighted average maturities long given the seasonally expected strong reinvestment demand in municipal markets in January.

We expect to see better opportunities in the next few months, as we enter tax season, and are preparing to capitalize on them.

Assessment of monetary policy

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



Investment views

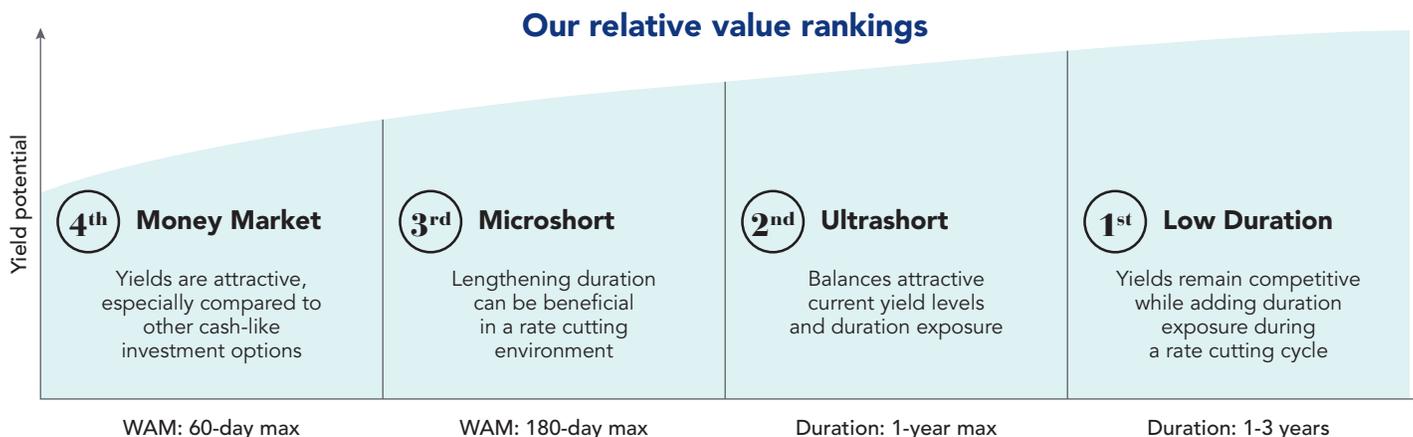
Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive.

These themes are guiding our investment views in the space:

- Maintain longer maturities/durations across the board as yield curve normalizes.
- Evaluate collateralized mortgage obligations, maintain current holdings with neutral bias.
- Consider the relative value between asset-backed securities and investment grade corporates with new issuance.

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

	Government	Credit	Municipal
Government	<p>Government Money Market</p> <p>Low-to-no duration risk is attractive, especially for risk averse investors.</p>	<p>Prime Money Market</p> <p>Liquidity seeking investor</p> <p>Yields have attractive spreads to Treasuries. Credit conditions on the short end of the curve remain solid.</p>	<p>Municipal Money Market</p> <p>Despite the recent expected seasonal volatility in SIFMA, municipal money markets can still be fair value or attractive for tax-sensitive investors, especially when looking at a 4-week average.</p>
Credit	<p>Government Ultrashort</p> <p>Risk sensitive investor</p> <p>A majority government portfolio presents opportunities to benefit from income potential while not taking on additional credit risk.</p>	<p>Microshort</p> <p>Yields are more attractive than shorter alternatives and we expect this to be further recognized as the Fed cuts rates.</p>	<p>Municipal Ultrashort</p> <p>Tax sensitive yield seeking investor</p> <p>Taxable-equivalent yields are compelling for tax sensitive investors, especially compared to other shorter duration investments.</p>
Municipal	<p>Short-Term Government</p> <p>Highest relative value seeking investor</p> <p>Lack of credit offers lower potential total return but avoids credit risk during volatile times.</p>	<p>Ultrashort</p> <p>Yield seeking investor</p> <p>We are constructive on credit in the near-term given resilient economic conditions.</p>	<p>Short-Term Municipal</p> <p>Tax sensitive total return seeking investor</p> <p>Credit quality remains high and lengthening durations is becoming a more attractive move.</p>

"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 attractive even as the Fed conducts Reserve Management Purchases (RMP's) to right-size its balance sheet. However, given expectations for net new bill supply to turn negative in mid-March, rates could become a bit softer.
	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. As a result, the bill curve remains inverted from overnight to 1-year. Net bill issuance has been positive since mid-January. This should continue into mid-March, but is then expected to turn negative, which could put downward pressure on bill yields. 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 in recent weeks, particularly in discount notes. 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 is now inverted from 3-months to 1-year. Good supply has returned to the market following the typical post-year-end dry spell. 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 held steady in recent weeks and they remain 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	From both a consensus and pricing perspective, very little is expected from the European Central Bank's (ECB) monetary policy in 2026. In contrast to the current sentiment, we favor marginal easing from the ECB as deflationary forces prove more persistent than currently priced in. On the credit front, we continue to expect both investment grade and high-yield European corporate debt to deliver excess returns mainly via the carry channel and not as much via additional spread tightening. Default rates remain low, fundamentals solid. However, geopolitical risks remain highly elevated; a point of tension that requires scrutiny.
Fixed Income	Asset-Backed Securities (ABS)	ABS primary volume in the US is up 12% year-over-year through mid-February and mid-February's supply alone has nearly matched last year's full-month total of \$26.8B. Deals continue to be well oversubscribed, and spreads tightened further over the last month. Despite President Trump's proposal to cap credit card interest rates at 10%, credit card ABS spreads remained generally flat. ABS still offers value along the short end of the curve, but relative value has diminished compared to corporates YTD.
	Investment Grade (IG) Corporates	Early earnings reports continue to support the expectation of solid 4Q 25 corporate earnings expansion in the low double-digit area and 2026 Earnings Per Share growth >10%, aided by solid performance of non-Tech sectors. New corporate issuance has had a strong start to 2026 with continued solid demand, aided by a few jumbo deals from hyper-scalers and normal seasonal activity by self-funders (financials). That said, given the strong demand for corporate paper in the new issue market, spreads tightened by 6 basis points (bps) on the Bloomberg US Corporate 1-3 Year index over the past month ending at 45 bps, continuing to make prudent security selection vital.
	Government/Mortgage-Backed Securities (MBS)	Floating rate mortgage CMOs offer attractive spreads in a government mortgage space, providing high income relative to cash alternatives. Recent spread tightening in the mortgage sector has provided robust total return, though current tighter spreads offer somewhat less potential for further compression.
	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 \$725 billion in assets in the 0-3-year space (as of 12/31/25)
- 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 February 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.

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.