Short Term Investments Committee

Market insights and investment views

August 2026

Economic backdrop

Despite persistent geopolitical and policy uncertainty, the economy continues to demonstrate resilience. The Federal Reserve (Fed) left rates unchanged at its July meeting, citing solid economic activity, strong productivity growth, healthy capital investment, and a labor market that remains broadly stable, while emphasizing that inflation remains above its 2% target. Inflation trends have generally improved, though higher energy prices driven in part by the ongoing Iran conflict present an upside risk. With less forward guidance, every statement by a Fed member is increasingly important and scrutinized carefully, especially if they dissented in the prior meeting. We are generally expecting a single hike by year end, but will see what impact the upcoming Jackson Hole meeting has on market expectations.

Market insights

Liquidity

Liquidity portfolios are finding some value in the 6-month area of both the treasury and commercial paper curve depending on applicable investments for prime vs government portfolios.

There is plentiful supply, but not always at the levels we want to see. Floating rate securities are of particular interest given the potential for Fed hikes this year.

Credit

Ultrashort portfolios continue to benefit from increased asset-backed security (ABS) supply, currently outpacing last year's new issuance by around 15% year-to-date.

Demand remains healthy and spreads have been relatively stable, only moving a few basis points. We are more targeted in our purchases, seeking to capture value when we see it, and being patient when we don't. Specifically, we have seen some good auto credit link notes and fleet ABS deals come to market in the past few weeks.

Government ultrashorts

No news can be good news for government ultrashort investors looking to benefit from income opportunities.

Mortgage markets have not seen a ton of issuance or movement over the summer, and we still view the short end of the curve here as attractive.

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

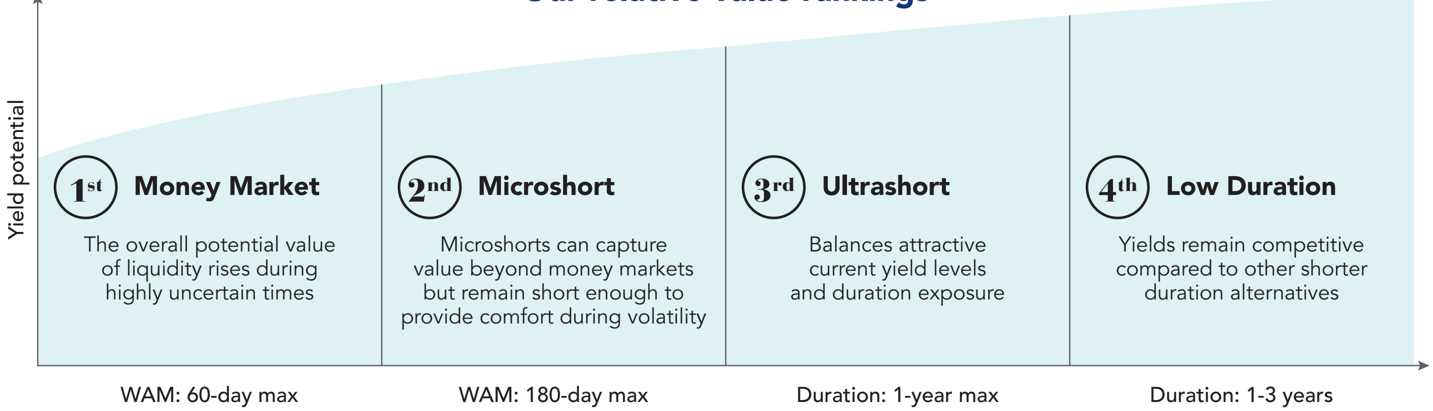
Relative to longer-term fixed income, the 0-3-year part of the yield curve is attractive. These themes are guiding our investment views in the space:

- Capitalize on the steeper municipal yield curve by buying out longer in duration as seasonally favorable summer technicals begin to wind down.
- 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.

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** Despite 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.	**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 3.50%, 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 or when repo rates are relatively more attractive.
	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 Fed funds futures curve now showing the first fully priced Fed hike in January 2027, the bill curve has flattened a bit but remains positively sloped from 1-month to 1-year by roughly 30 basis points (bps). 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. Weekly net bill supply is expected to be positive through the end of August before turning negative in September. This could put some downward pressure on yields across the curve. Treasury floating-rate notes based on the 3-month T-bill remain a viable option and can be an attractive hedge for potential Fed hikes.
	US Government Agencies	Although agency discount note issuance has decreased in recent months, we continue to see them offering value relative to bills, making them an attractive alternative, when available. 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 to potential Fed hikes, 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 flatter now than it was a month ago but remains positively sloped from 1-month to 1-year by roughly 62bps. With markets no longer expecting a Fed hike by year-end, yields in the 1-year area have fallen by about 15bps and are now around 4.27%. 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 for potential Fed hikes.
	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	A recent string of economic surprises in Europe, higher quater over quarter GDP and inflation, practically guarantee another hike from the Eurpoean Central Bank in September to 2.50%. However, pricing pressures remain mainly supply driven and directly tethered to the price of oil. Incremental hikes after September will be challenging as they could constrict an already reserved growth backdrop. In contrast, higher yields in Japan are not just a shock reaction to higher energy prices, but also a regime change after decades of zero or negative borrowing costs. The Bank of Japan is increasingly viewed as being "behind the curve".
Fixed Income	Asset-Backed Securities (ABS)	ABS issuance accelerated in July following a slower June, led by strong auto ABS supply, and issuance momentum has continued into August. Investor demand remains robust, supporting further spread tightening across both prime and sub-prime auto ABS despite ongoing macroeconomic and geopolitical uncertainty. A notable development for the market was the SEC's clarification that certain data center securitizations are not subject to Exchange Act ABS rules, removing a regulatory overhang from one of the fastest-growing segments of the securitization market. Overall, strong issuance, tightening spreads, and expanding opportunities across both consumer and non-consumer collateral continue to support the ABS asset class, which still offers attractive value relative to other investment grade sectors at the short end of the yield curve.
	Investment Grade (IG) Corporates	July saw a strong start to 2Q26 corporate earnings season, with earnings per share (EPS) coming in >35% year/year (y/y) and full year 2026 EPS now expected up >25% y/y. Corporate bond issuance is currently on track to exceed the 2020 record, up ~33% year to date vs 2025 as deals continue to see solid demand and price well inside of initial talks. 1-3 year corporate spreads gave back 4bps in July, ending the month at 46bps, with all-in yields on the asset class at 4.75%, the highest level since March 2025. IG Corp spreads remain roughly in line with other IG sectors (e.g. ABS & Mortgages) and are expected to stay rangebound on strong Q2 corporate earnings and technical support from higher all-in yields, providing an attractive opportunity to lock-in higher 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.
	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.

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 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 August 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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