

U.S. Domestic 'AAAm' Money Market Fund Trends (Third-Quarter 2020)

Oct. 26, 2020

Index name	7-day net yield (%)	30-day net yield (%)	WAM (R) (days)	Total net assets (bil. \$)	Credit quality (%) (A-1+/A-1)
S&P Global Ratings 'AAAm' principal stability funds - prime	0.13	0.14	44	454.6	68/32
S&P Global Ratings 'AAAm' principal stability funds - government	0.03	0.03	42	2,620.1	97/2

The S&P Global Ratings 'AAAm' money market fund (MMF) indicators are metrics of U.S. domestic managed funds that seek to maintain principal preservation. These indicators provide a benchmarking tool of the 'A-1+' credit quality, portfolio composition, maturity distribution, net asset movements, and yields of 'AAAm' principal stability rated funds.

The MMF indicators demonstrate the investment practices of funds conforming to the principal stability fund rating criteria. An individual fund's metrics below that of the S&P Global Ratings 'AAAm' MMF indicators may indicate a more conservative approach to investment, while a fund's risk metrics well above the average may signal a more aggressive approach, albeit undertaken within the constraints of a 'AAAm' principal stability fund rating.

Market Comment

After strong inflows during the second quarter, U.S. money market funds (MMFs) lost steam in the third quarter as the uncertainty of the COVID-19 pandemic continued. Although market conditions have markedly improved since March, the third quarter saw multiple fund closures, declining yields, and a renewed market focus on regulatory liquidity metrics. Assets under management (AUM) for rated government and prime funds plateaued over the summer, ending the quarter at \$3.1 trillion.

Government MMFs saw outflows of 6.3%, in part because of investors reversing course from their "flight to quality" during the first half of the year, by moving toward other liquidity or ultrashort products in search of higher yield.

Notably, some of the industry's largest MMF managers took action to liquidate their prime MMFs, alongside new announcements of converting their existing prime funds into government strategies. With some balances in government funds moving back to higher-yielding prime funds, prime AUM saw modest net growth of 0.5%.

We observed further consolidation in the tax-exempt space amid closures of state-specific municipal money market funds, which invest in short-dated instruments issued by state and local governments. Managers of these funds have cited a lack of investment supply and weak demand for these products, which have been squeezed in the current low rate environment.

As MMFs' higher-yielding assets purchased before the Fed's March rate cut matured during the third quarter, yields continued to deteriorate. Seven-day net yields declined to 0.03% for government funds and 0.13% for prime funds. Net 30-day yields dropped to 0.03% for government funds and 0.14% for prime funds. Given the Fed's current forward guidance, rates are likely to remain positive, but near zero for the foreseeable future.

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U.S. Domestic 'AAAm' Money Market Fund Quarterly Trends (Third-Quarter 2020)

Table 1

'AAAm' Principal Stability Funds Seven-Day Net Yield (%)				
Index	December 2019	March 2020	June 2020	September 2020
S&P Global Ratings 'AAAm' prime MMFs	1.64	0.99	0.33	0.13
S&P Global Ratings 'AAAm' government MMFs	1.41	0.48	0.1	0.03

Unlike the jump in weighted average maturities (WAM) observed during the second quarter, WAMs for government and prime funds experienced little movement. Managers extended maturity profiles of government and prime funds by only one day, to 42 and 44 days, respectively.

Table 2

'AAAm' Principal Stability Funds Weighted Average Maturity (In Days)				
Index	December 2019	March 2020	June 2020	September 2020
S&P Global Ratings 'AAAm' prime MMFs	35	35	43	44
S&P Global Ratings 'AAAm' government MMFs	35	36	41	42

Day-to-day reliance on the Fed's Money Market Mutual Fund Liquidity Facility appears to have waned throughout the summer as market conditions returned to relative normalcy. Market liquidity remains the primary concern for U.S. MMFs, in particular for prime MMFs, which have recently shown a growing dependence on Treasury bills to bolster liquidity after some struggled to maintain regulatory thresholds in March.

Despite their concern, managers regained some comfort in credit, increasing average commercial paper holdings to 24% from 21%. Exposure to corporate floating rate securities slightly declined, ending the quarter under 3%.

As managers pursued opportunities to secure yield, we observed ongoing usage of 'A-2' rated overnight repo, specifically in government MMFs. Although average exposure to 'A-2' overnight repo was minimal, at 1%, exposure prior to March was generally zero. Overall credit quality in prime funds declined slightly from the previous quarter, with effective 'A-1+' exposure at 68%.

Table 3

'AAAm' Principal Stability Funds 'A-1+' Credit Quality (%)				
Index	December 2019	March 2020	June 2020	September 2020
S&P Global Ratings 'AAAm' prime MMFs	64	66	70	68
S&P Global Ratings 'AAAm' government MMFs	92	95	97	97

NAVs for rated funds converged toward an even narrower range relative to prior quarters. A majority of funds settled in the 0.9995-1.0005 range. The lower bound for rated funds at quarter-end was 0.9993.

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Chart 1

'AAAm' USD Funds Net Assets

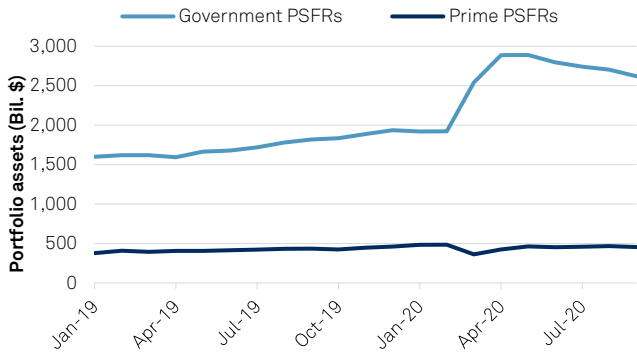


Chart 2

'AAAm' Funds NAVs

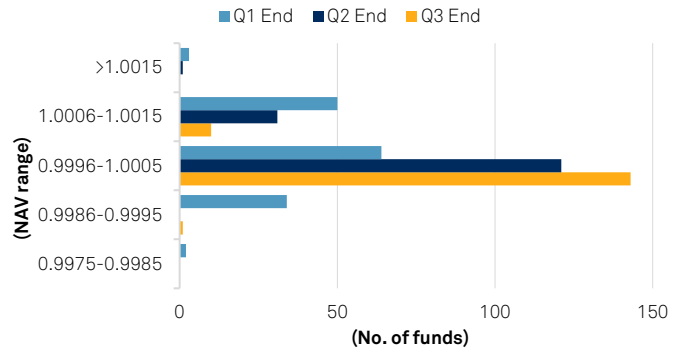


Chart 3

'AAAm' Funds Average WAM (R)

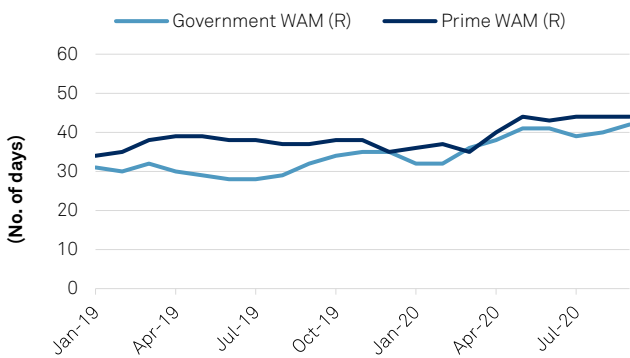


Chart 4

'AAAm' Funds 'A-1+' Credit Quality Trend

Credit quality promotes NAV stability

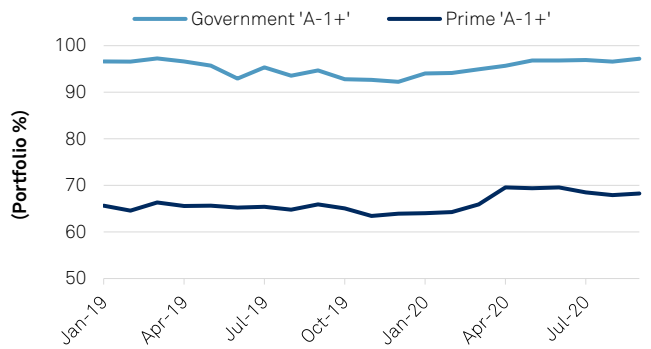


Chart 5

'AAAm' USD Prime Portfolio Composition

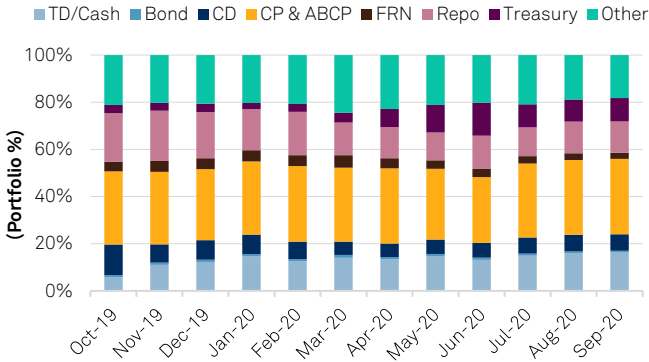


Chart 6

'AAAm' USD Government Portfolio Composition

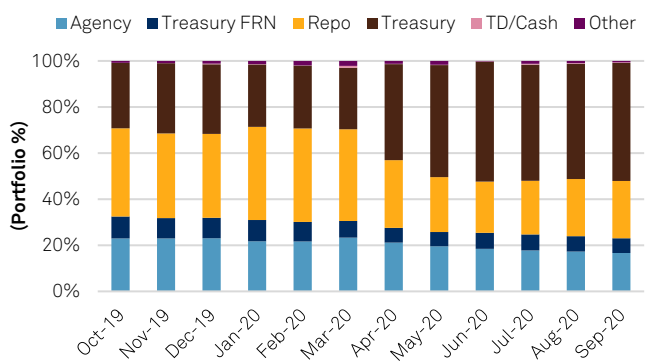


Chart 7

'AAAm' USD Seven-Day Net Yields

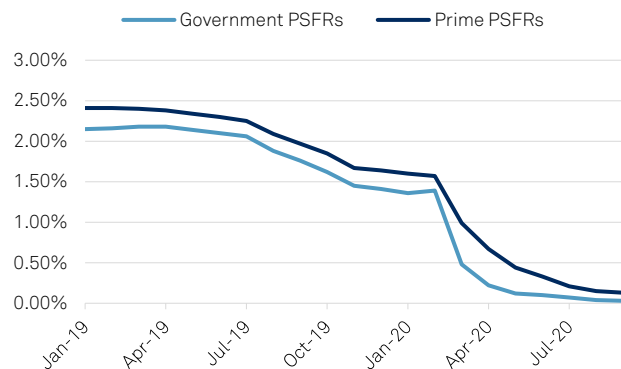
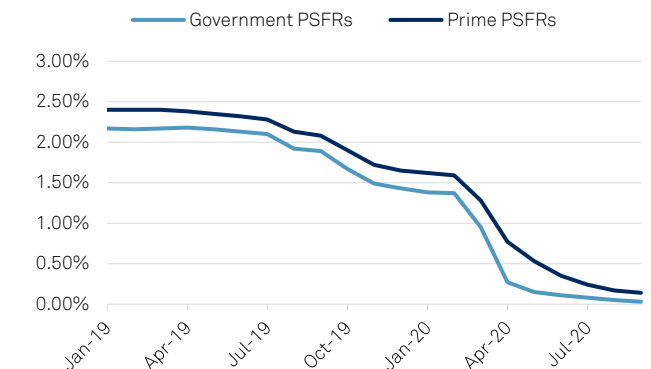


Chart 8

'AAAm' USD 30-Day Net Yields



Top 10 U.S.-Domiciled 'AAAm' MMFs--Government And Prime--By Assets--Key Statistics

'AAAm' USD government principal stability funds

Rating	Fund name	Net assets (mil. \$)	Portfolio maturity (days)		Portfolio credit quality (%)
			WAM (R)	WAM (F)	A-1+
AAAm	JPMorgan U.S. Government Money Market Fund	188,813	37	96	100
AAAm	Goldman Sachs Money Market Funds - Goldman Sachs Financial Square Government Fund	181,028	48	99	100
AAAm	Wells Fargo Government Money Market Fund	155,179	37	87	94
AAAm	BlackRock Liquidity Funds FedFund	152,653	45	105	94
AAAm	Fidelity Investments Money Market Government Portfolio	152,057	42	114	98
AAAm	Federated Government Obligations Fund	132,806	43	110	99
AAAm	JPMorgan 100% U.S. Treasury Securities Money Market Fund	106,908	47	86	100
AAAm	BlackRock Liquidity Funds T-Fund	103,268	48	101	76
AAAm	Northern Institutional Funds: Treasury Portfolio	93,640	53	109	100
AAAm	Morgan Stanley Institutional Liquidity Funds - Government Portfolio	88,754	31	103	98

'AAAm' USD prime principal stability funds

Rating	Fund name	Net assets (mil. \$)	Portfolio maturity (days)		Portfolio credit quality (%)
			WAM (R)	WAM (F)	A-1+
AAAm	JPMorgan Prime Money Market Fund	84,505	51	75	60
AAAm	Federated Prime Cash Obligations Fund	28,166	41	48	60
AAAm	Federated Institutional Prime Obligations	24,028	46	55	64
AAAm	Morgan Stanley Institutional Liquidity Funds - Prime Portfolio	22,452	46	56	66
AAAm	Western Asset Institutional Liquid Reserves	21,499	38	91	66
AAAm	State Treasury Asset Reserve of Ohio (STAR OHIO)	17,421	49	80	91
AAAm	Florida PRIME	13,650	50	64	70
AAAm	State Street Money Market Portfolio	13,472	41	66	57
AAAm	Texas Cooperative Liquid Assets Securities System	13,148	55	82	62
AAAm	Wells Fargo Heritage Money Market Fund	12,284	35	39	57

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