

European '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' euro principal stability funds	(0.56)	(0.56)	46	€108.3	72/28
S&P Global Ratings 'AAAm' sterling principal stability funds	0.01	0.02	42	£243.1	68/32
S&P Global Ratings 'AAAm' U.S. dollar principal stability funds	0.07	0.08	41	\$504.1	81/29

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The S&P Global Ratings' 'AAAm' money market fund (MMF) indicators are metrics of European 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

In the third quarter of 2020, rated European-domiciled MMFs' net assets continued to grow, and it appears that only the end of quarter outflows saw sterling funds have a negative quarter, albeit down 2%. That said, in August 2020, sterling-denominated funds reached an all-time asset high of £250.6 billion, well above the £32 billion recorded in January 2006, when we launched our quarterly statistics publication. The same can be said for U.S.-dollar funds, which recorded new asset highs of \$524 billion in August but finished the third quarter at \$504 billion.

With the dramatic actions the Federal Reserve and Bank of England took during March to offset the effects of COVID-19, it is no surprise to see a marked decline in the seven-day yields of U.S. dollar and sterling-denominated funds. Generally, MMFs' returns lag the actions of central banks because of their maturity profiles, but operating in a post-regulatory era and MMFs holding more short-dated assets, the lag is not as great as it once was (see table 1).

European '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' euro MMFs	(0.52)	(0.60)	(0.46)	(0.56)
S&P Global Ratings 'AAAm' sterling MMFs	0.64	0.35	0.12	0.01
S&P Global Ratings 'AAAm' U.S. dollar MMFs	1.62	0.72	0.21	0.07

In terms of weighted average maturities (WAM), we've seen a notable extension for euro-denominated funds and more moderate adjustments for the equivalent sterling and U.S.-dollar funds (see table 2). This seems to be reflective of the historically low interest rates and that expectations for lift-off are not within an MMF's investment horizon.

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' euro MMFs	46	41	40	46
S&P Global Ratings 'AAAm' sterling MMFs	43	37	40	42
S&P Global Ratings 'AAAm' U.S. dollar MMFs	33	32	39	41

We consider credit quality to play a key role in net asset value (NAV) stability and view higher-rated assets as reflecting higher price stability. Notably during the third quarter and increasingly so over the last 12 months, it seems that euro-denominated funds are not playing the search for yield game, but rather are improving their portfolio credit quality to buffer against unexpected market events and raise liquidity more readily. Case in point, in September 2019, euro MMFs had average 'A-1+' credit quality of 59%, and in September 2020 it was 72% (see table 3). Other than July 2020, this is the highest average 'A-1+' credit quality since July 2012, which is the same month the European Central Bank dropped the deposit rate to 0.00%.

Table 3

'AAAm' Principal Stability Funds 'A-1+' Credit Quality (%)				
Index	December 2019	March 2020	June 2020	September 2020
S&P Global Ratings 'AAAm' euro MMFs	59	63	70	72
S&P Global Ratings 'AAAm' sterling MMFs	62	70	67	68
S&P Global Ratings 'AAAm' U.S. dollar MMFs	70	74	76	81

The past six months have seen money market funds tested by the impact of COVID-19. Money market funds remain an appealing cash management tool for institutional investors--they provide investors with a high credit quality investment product that is diversified by issuer, instrument, and geography, with an aim of providing daily liquidity. Each week, pursuant to those criteria, we analyze surveillance data, including credit metrics on asset levels, NAV per share, portfolio credit quality, and diversification, duration and redemption patterns. Notably, the European-domiciled money market funds rated by S&P Global Ratings, with €806 billion (US\$945 billion) in assets under management as of Sept. 30, 2020, continue to meet our stated money market fund criteria metrics.

European 'AAAm' Money Market Fund Quarterly Trends (Third-Quarter 2020)

Chart 1

'AAAm' Funds Average Weighted Average Maturity To Reset

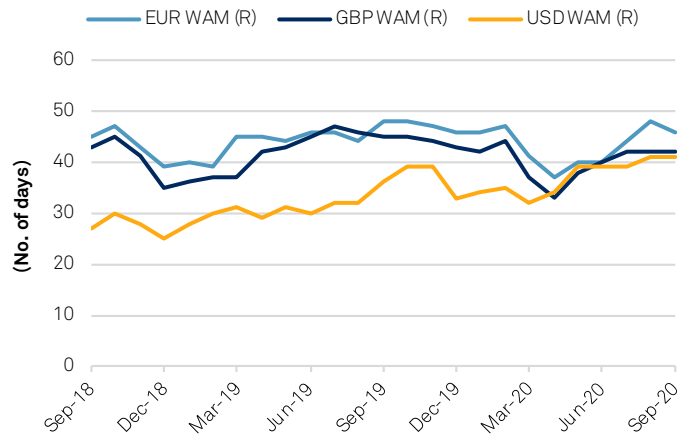


Chart 2

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

Credit quality promotes NAV stability

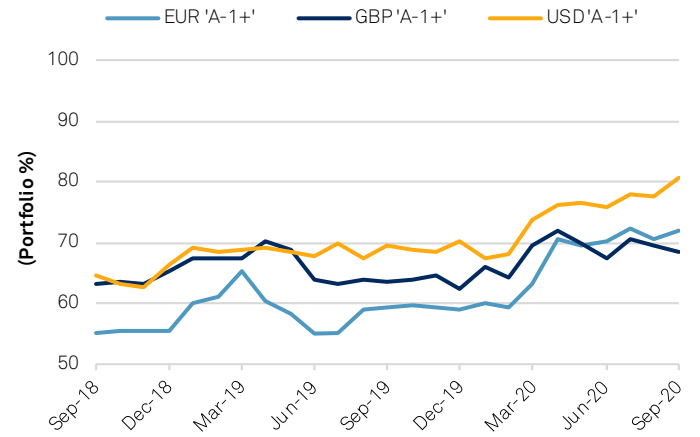


Chart 3

'AAAm' EUR Funds Net Assets

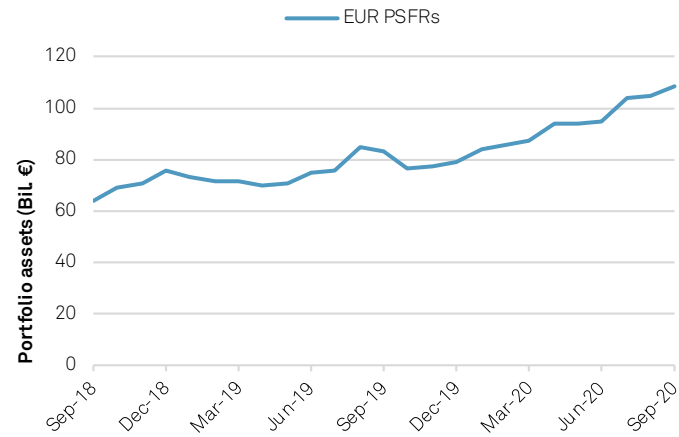


Chart 4

'AAAm' EUR Portfolio Composition

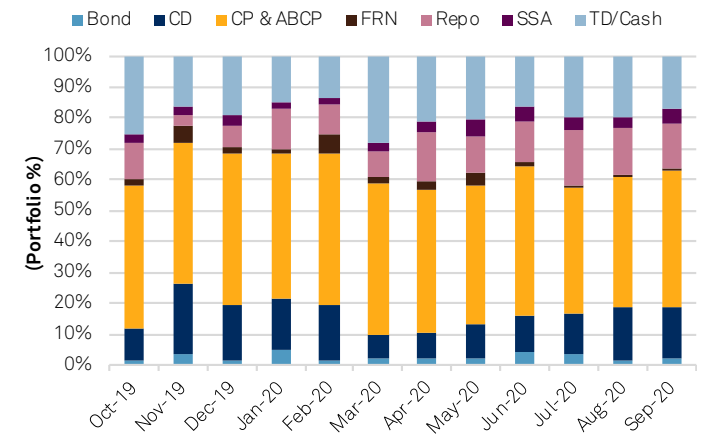


Chart 5

'AAAm' GBP Funds Net Assets

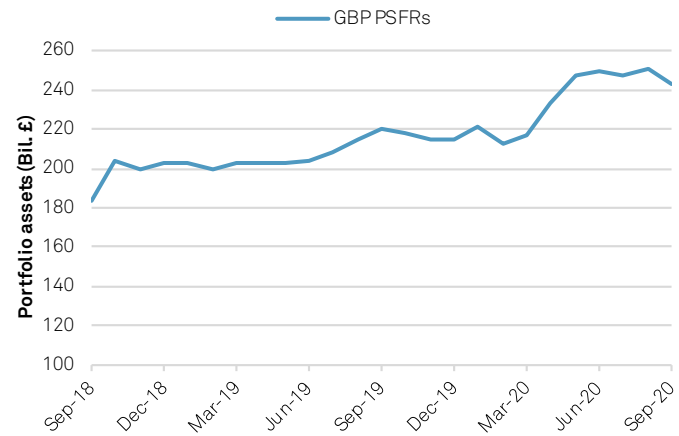
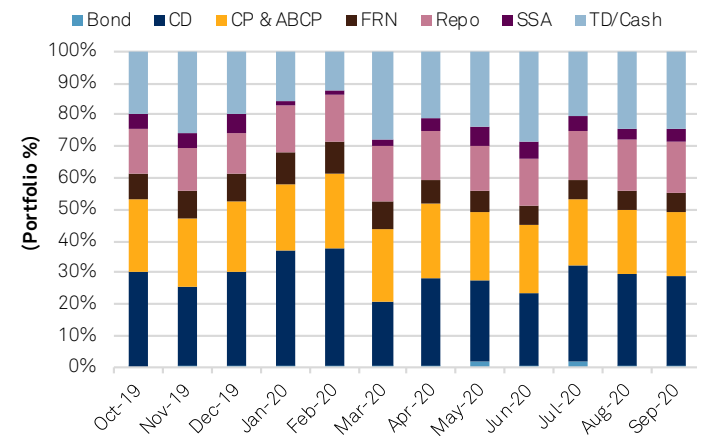


Chart 6

'AAAm' GBP Portfolio Composition



European 'AAAm' Money Market Fund Quarterly Trends (Third-Quarter 2020)

Chart 7

'AAAm' USD Funds Net Assets

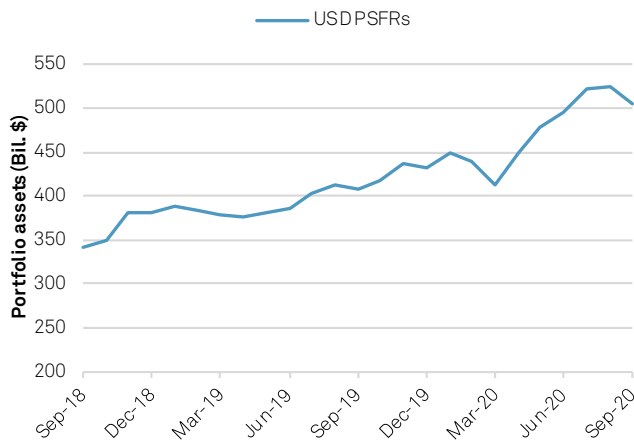
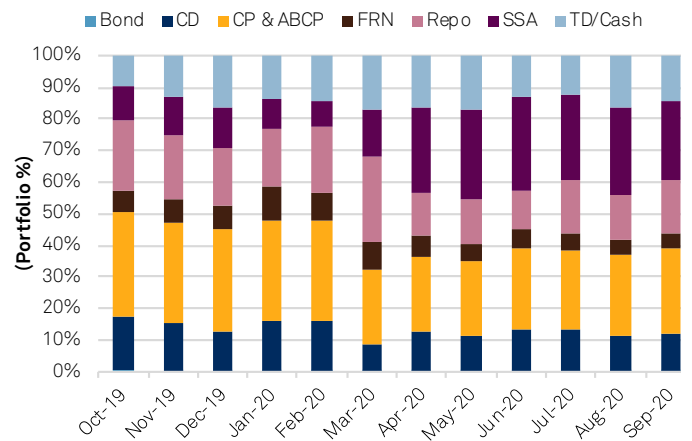


Chart 8

'AAAm' USD Portfolio Composition



Top 10 European-Domiciled 'AAAm' MMFs--Euro, Sterling, And U.S. Dollar--By Assets--Key Statistics

'AAAm' euro principal stability funds

Rating	Fund name	Net assets (mil €)	Portfolio maturity (days)		Portfolio credit quality (%) A-1+
			WAM (R)	WAM (F)	
AAAm	Institutional Cash Series plc - BlackRock ICS Euro Liquidity Fund	42,181	46	48	74
AAAm	Goldman Sachs Funds, plc - Goldman Sachs Euro Liquid Reserves Fund	13,510	27	27	74
AAAm	BNP Paribas Insticash EUR 1D Short Term VNAV	13,111	44	72	68
AAAm	DWS Deutsche Global Liquidity Series PLC - Deutsche Managed Euro Fund	7,861	57	57	67
AAAm	HSBC Global Liquidity Funds PLC - HSBC Euro Liquidity Fund	7,170	56	62	75
AAAm	MS Liquidity Funds - Euro Liquidity Fund	7,072	44	46	79
AAAm	State Street Liquidity plc - State Street EUR Liquidity LVNAV Fund	5,411	42	44	58
AAAm	Aberdeen Standard Liquidity Fund (Lux) - Euro Fund	3,423	47	53	69
AAAm	Fidelity Institutional Liquidity Fund PLC - The Euro Fund	1,944	35	35	78
AAAm	Amundi Money Market Fund - Short Term (EUR)	1,879	46	54	72

WAM (R)--Weighted average maturity to reset. WAM (F)--Weighted average maturity final.

'AAAm' sterling principal stability funds

Rating	Fund name	Net assets (mil €)	Portfolio maturity (days)		Portfolio credit quality (%)
			WAM (R)	WAM (F)	A-1+
AAAm	Institutional Cash Series plc - BlackRock ICS Sterling Liquidity Fund	41,371	51	55	65
AAAm	LGIM Liquidity Funds PLC - LGIM Sterling Liquidity Fund	36,771	53	58	65
AAAm	Insight Liquidity Funds PLC - ILF GBP Liquidity Fund	25,157	39	39	75
AAAm	Aberdeen Standard Liquidity Fund (Lux) - Sterling Fund	24,874	44	49	55
AAAm	Aviva Investors Liquidity Funds PLC - Aviva Investors Sterling Liquidity Fund	23,204	60	71	57
AAAm	JPMorgan Liquidity Funds - GBP Liquidity LVNAV Fund	16,293	56	69	74
AAAm	Goldman Sachs Funds, plc - Goldman Sachs Sterling Liquid Reserves Fund	15,224	29	32	79
AAAm	Northern Trust Global Funds PLC - The Sterling Fund	10,721	50	57	65
AAAm	HSBC Global Liquidity Funds PLC - HSBC Sterling Liquidity Fund	9,324	49	57	74
AAAm	DWS Deutsche Global Liquidity Series PLC - Deutsche Managed Sterling Fund	6,633	54	57	76

WAM (R)--Weighted average maturity to reset. WAM (F)--Weighted average maturity final.

'AAAm' U.S. dollar principal stability funds (EU-domiciled)

Rating	Fund name	Net assets (mil \$)	Portfolio maturity (days)		Portfolio credit quality (%)
			WAM (R)	WAM (F)	A-1+
AAAm	JPMorgan Liquidity Funds - USD Liquidity LVNAV Fund	112,619	56	75	76
AAAm	Institutional Cash Series plc - BlackRock ICS US Dollar Liquidity Fund	54,582	42	62	73
AAAm	Goldman Sachs Funds, plc - Goldman Sachs US\$ Treasury Liquid Reserves Fund	54,274	54	71	97
AAAm	JPMorgan Liquidity Funds - USD Treasury CNAV Fund	47,705	38	50	97
AAAm	Goldman Sachs Funds, plc - Goldman Sachs US\$ Liquid Reserves Fund	39,714	39	39	79
AAAm	HSBC Global Liquidity Funds PLC - HSBC US Dollar Liquidity Fund	33,933	47	70	71
AAAm	MS Liquidity Funds - US Dollar Liquidity Fund	26,643	48	54	68
AAAm	Institutional Cash Series plc - BlackRock ICS US Treasury Fund	19,533	49	67	100
AAAm	BNY Mellon Liquidity Funds, PLC - BNY Mellon U.S. Treasury Fund	13,661	37	54	100
AAAm	JPMorgan Liquidity Funds - USD Liquidity VNAV Fund	12,610	52	72	66

WAM (R)--Weighted average maturity to reset. WAM (F)--Weighted average maturity final.

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