

U.S. Domestic 'AAAm' Money Market Fund Trends (First-Quarter 2021)

April 22, 2021

Index	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	0.02	0.05	46	408.0	65/35
S&P Global Ratings 'AAAm' principal stability funds - government	0.02	0.02	42	2,794.7	96/4

The S&P Global Ratings' 'AAAm' money market fund (MMF) indicators are metrics of U.S. domestic managed funds that seek to maintain principal value and limit exposure to principal losses due to credit risk, as defined in our principal stability fund ratings (PSFR) criteria. These MMF 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 PSFR criteria. An individual fund's metrics below those 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' PSFR.

Market Comment

Rated U.S. MMFs finished the first quarter of 2021 with sizable positive flows. Government funds remained the driving force behind this trend, highlighting their growing favor among investors. For the first quarter, government MMF assets increased nearly 9%, reaching levels akin to the peak of 2020, and prime fund assets remained consistent with the previous quarter-end. Overall, for the first quarter, U.S. domestic PSFR assets increased to \$3.2 trillion, from \$2.98 trillion.

Return yields continued to face downward pressure throughout the quarter, and although seven-day net yields for both government and prime funds rose to 0.03% midway through the quarter, they dropped back to 0.02% shortly thereafter. 30-day yields held steady at 0.02% for government funds and declined to 0.05% for prime funds. MMF industry managers are preparing for continuing low yields and leveraging their experiences following the 2008 financial crisis. One of the consequences of persistently low yields is fee waivers being used across the industry as a basis to offset any negative net fund yield.

Large purchases of Treasury bills were ongoing in government funds--along with an uptick in Treasury notes--as managers moved from agency securities. Agency and floater exposures hit a low by quarter-end, reflective of low rates. Several managers were awaiting the introduction in this quarter of the Bloomberg Short-Term Bank Yield Index (BSBY), an alternative money market reference rate to SOFR (Secured Overnight Financing Rate), which may reignite interest in floating rate instruments. We recently published an article that provides more information on our view (see "[The New Bloomberg Short-Term Bank Yield Index Is Consistent With Our Fund Ratings Criteria](#)").

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U.S. Domestic 'AAAm' Money Market Fund Quarterly Trends (First-Quarter 2021)

Prime funds have slowly begun to reposition themselves to slightly mirror pre-pandemic times. For instance, while Treasury bills remained a valuable tool for overnight liquidity, there was less emphasis on usage. Average T-bill exposures decreased to 3%, the lowest concentration since before the COVID-19 pandemic. Managers also increased their bank deposit and asset-backed commercial paper exposures. The Federal Reserve's Money Market Mutual Fund Liquidity Facility officially ended, but the pressing issue for prime funds is the likelihood of regulatory reform as the SEC seeks public comments on potential reform measures for MMFs during the quarter.

Table 1

'AAAm' Principal Stability Funds Seven-Day Net Yield (%)

Index	March 2020	June 2020	September 2020	December 2020	March 2021
S&P Global Ratings 'AAAm' prime MMFs	0.99	0.33	0.13	0.02	0.02
S&P Global Ratings 'AAAm' government MMFs	0.48	0.1	0.03	0.02	0.02

Weighted average maturities (WAM) for government funds were stagnant throughout the quarter, at 42 days. Comparatively, MMF prime managers extended WAMs by two days, resulting in the longest observed WAM in the past 12 months, indicative that interest rates are unlikely to change within the investment period for MMFs.

Table 2

'AAAm' Principal Stability Funds Weighted Average Maturity (In Days)

Index	March 2020	June 2020	September 2020	December 2020	March 2021
S&P Global Ratings 'AAAm' prime MMFs	35	43	44	44	46
S&P Global Ratings 'AAAm' government MMFs	36	41	42	43	42

Government funds kept effective 'A-1+' exposures elevated during the quarter, averaging 96%, while the inclusion of 'A-2' rated overnight collateralized repo was a sustained practice carried over from last year, albeit at levels below 2%. Prime funds experienced a shift in aggregate credit quality coinciding with a modest return to credit. Effective 'A-1+' exposure was lower than previous quarters, averaging 65%, reflecting the pivot toward a pre-pandemic strategy.

Table 3

'AAAm' Principal Stability Funds 'A-1+' Credit Quality (%)

Index	March 2020	June 2020	September 2020	December 2020	March 2021
S&P Global Ratings 'AAAm' prime MMFs	66	70	68	68	65
S&P Global Ratings 'AAAm' government MMFs	95	97	97	95	96

Although fund strategies are adjusting with a normalizing market and economy, net asset values (NAVs) for rated funds have moved minimally. Through our weekly surveillance, we observed that 97% of NAV per shares was recorded within five basis points of par, ranging from 0.9996-1.0005 during the first quarter, and the remaining 3% recorded NAVs between 1.0006-1.0015.

U.S. Domestic 'AAAm' Money Market Fund Quarterly Trends (First-Quarter 2021)

Chart 1

'AAAm' USD Funds Net Assets

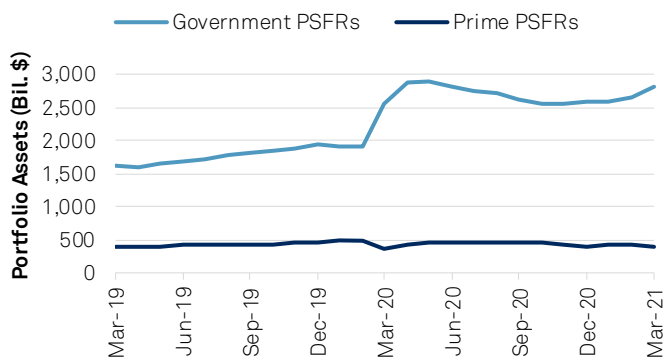


Chart 2

'AAAm' Funds NAVs

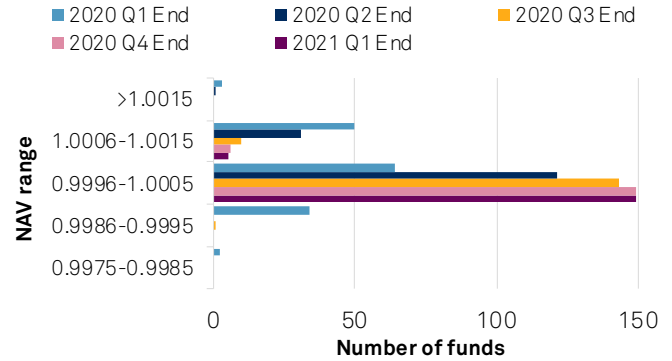


Chart 3

'AAAm' Funds Average WAM (R)

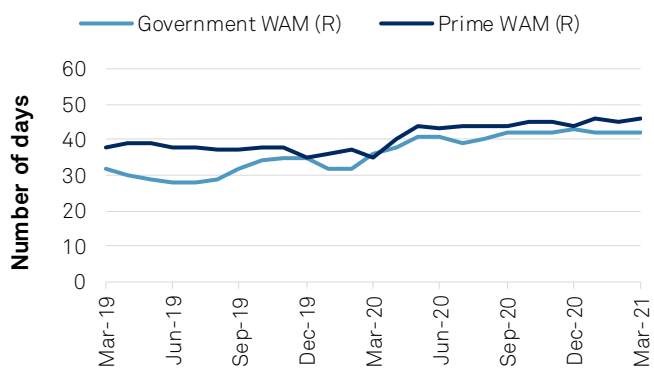


Chart 4

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

Credit quality promotes NAV stability

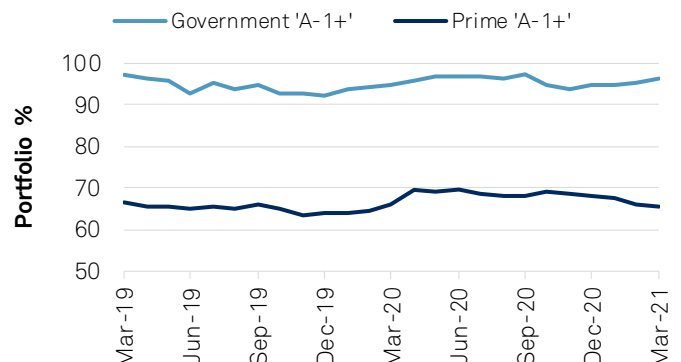


Chart 5

'AAAm' USD Prime Portfolio Composition

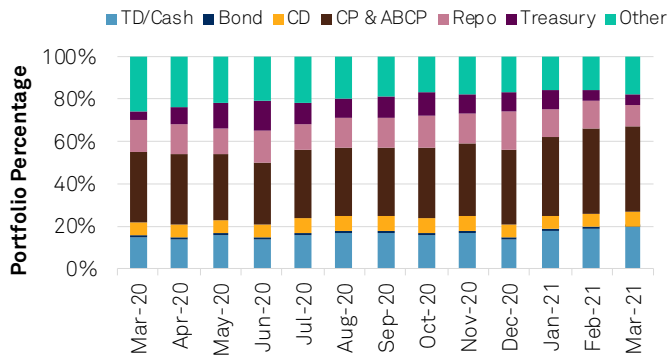


Chart 6

'AAAm' USD Government Portfolio Composition

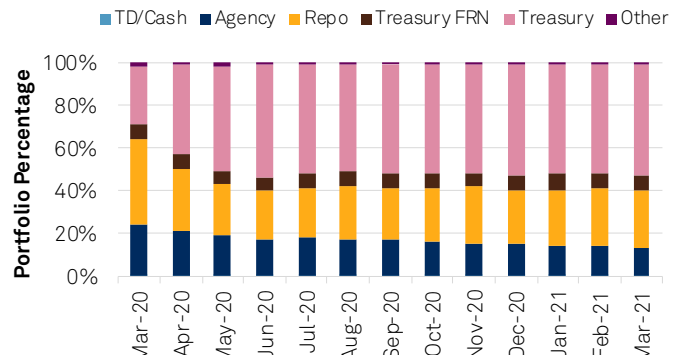


Chart 7

'AAAm' USD Seven-Day Net Yields

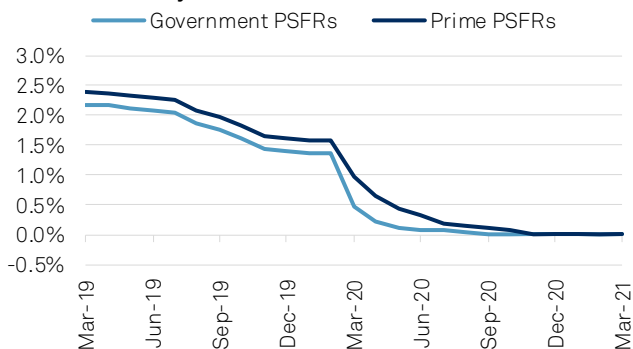
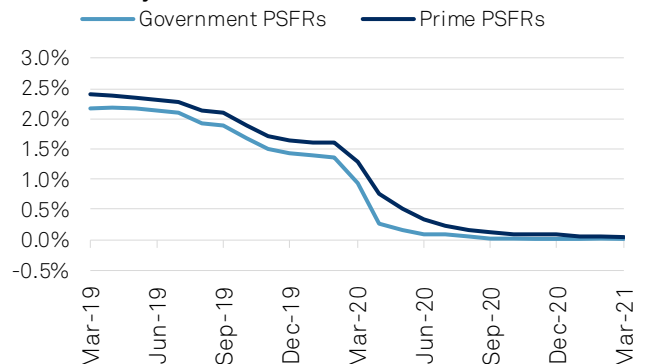


Chart 8

'AAAm' USD 30-Day Net Yields



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

Table 4

'AAAm' US Dollar principal stability funds – government

Rating	Fund name	Net assets	Portfolio maturity (days)		Credit quality
		(mil. \$)	WAM (R)	WAM (F)	A-1+ (%)
AAAm	JPMorgan U.S. Government Money Market Fund	223,026	46	75	85
AAAm	Goldman Sachs Money Market Funds - Goldman Sachs Financial Square Government Fund	196,707	49	93	100
AAAm	BlackRock Liquidity Funds FedFund	180,489	36	96	95
AAAm	Wells Fargo Government Money Market Fund	135,215	46	101	95
AAAm	Fidelity Investments Money Market Government Portfolio	134,532	42	93	97
AAAm	BlackRock Liquidity Funds T-Fund	131,838	39	96	96
AAAm	Federated Government Obligations Fund	118,528	32	90	99
AAAm	Morgan Stanley Institutional Liquidity Funds - Government Portfolio	116,947	40	75	98
AAAm	JPMorgan 100% U.S. Treasury Securities Money Market Fund	100,522	45	71	100
AAAm	Dreyfus Government Cash Management	91,530	35	102	95

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

Table 5

'AAAm' sterling principal stability funds

Rating	Fund name	Net assets	Portfolio maturity (days)		Credit quality
		(mil. \$)	WAM (R)	WAM (F)	A-1+ (%)
AAAm	JPMorgan Prime Money Market Fund	76,419	45	75	59
AAAm	Federated Prime Cash Obligations Fund	23,208	51	56	58
AAAm	Federated Institutional Prime Obligations	20,104	50	55	63
AAAm	Florida PRIME	18,755	51	56	67
AAAm	State Treasury Asset Reserve of Ohio (STAR OHIO)	17,224	57	79	72
AAAm	Morgan Stanley Institutional Liquidity Funds - Prime Portfolio	15,861	54	77	68
AAAm	State Street Money Market Portfolio	15,682	44	82	62
AAAm	Texas Cooperative Liquid Assets Securities System	15,127	53	81	62
AAAm	Western Asset Institutional Liquid Reserves	11,985	37	99	60
AAAm	Maryland Local Government Investment Pool	10,076	47	113	98

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

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