Market Commentary Blog

# Cash Flow *and Carey*

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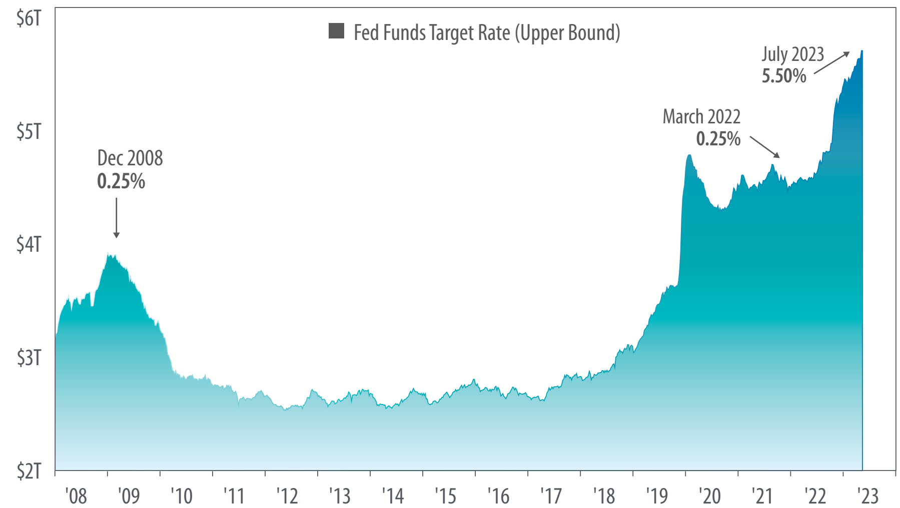
## The Price of Safety

### ICI All Money Market Funds (Total Net Assets)




Source: Bloomberg and Investment Company Institute (ICI). Weekly data points from 1/2/08 – 10/11/23.

### View from the Observation Deck

Investors tend to utilize money market funds during times of uncertainty such as the financial crisis in 2008 – 2009, the COVID-19 pandemic of 2020, and the banking crisis in March 2023. Notably, even though the S&P 500 Index moved back into bull market territory in June, investors continued to pile cash into money market accounts (see chart). A note about the chart: we use the federal funds target rate (upper bound) as a proxy for short-term interest rates, such as those offered by taxable money market funds and other savings vehicles. In our opinion, this proxy may offer insights into the potential effect of short-term rates on investor behavior.

**After growing to a record $5.5 trillion in July 2023 (the last time we posted on this topic), total net assets in U.S. money market accounts surged to a new record of $5.7 trillion in early October.**

As of 10/4/23, total money market fund assets stood at $5.71 trillion, approximately $1.79 trillion, and $920 billion higher than their levels on 1/14/09 (peak during financial crisis) and 5/20/20 (peak during COVID-19 pandemic), respectively. A portion of this growth can be attributed March's banking turmoil (click here to view our post on that topic), but that doesn't explain why total net assets invested in money market funds grew by an additional 9.78% since then (between 3/29/23 and 10/11/23).

**From March 2020 to March 2022, the Federal Reserve ("Fed") kept the federal funds target rate (upper bound) at 0.25%. Since then, the Fed has initiated eleven increases to their target rate, raising it from 0.25% to 5.50% as of 9/29/23.**

**Inflation, as measured by changes in the consumer price index (CPI) stood at 3.7% on 9/30/23, down substantially from its high of 9.1% on June 30, 2022, but up from its most recent low of 3.0% on 6/30/23.**

We think that these two factors, combined with the threat of an economic recession in the U.S., may partially explain why total assets in U.S. money market accounts grew to record levels in October. Prior to 4/30/23, stubbornly high inflation had been a headwind to real yields (yield minus inflation) for several years. Now that inflation is receding, short-term interest rates have begun to reflect positive real yields again.

### Takeaway

Total net U.S. money market fund assets stood at a record $5.71 trillion on 10/4/23, representing an increase of $508 billion since 3/22/23 (when we posted on this topic during the banking crisis). In our view, positive real yields brought on by higher interest rates and easing inflation, combined with concerns of an economic recession, may be driving money market assets higher. While we think it is healthy to see yields trending upward, allocations to less-risky assets often come at a cost to positive returns. While money market funds may offer principal stability and a yield, their total return has lagged the S&P 500 Index, which posted a total return of 15.37% year-to-date through 10/17/23. Even accounting for the near-term risk of a recession, we believe that an allocation to equities will continue to generate a higher return on capital than cash over time.