Market Commentary Blog

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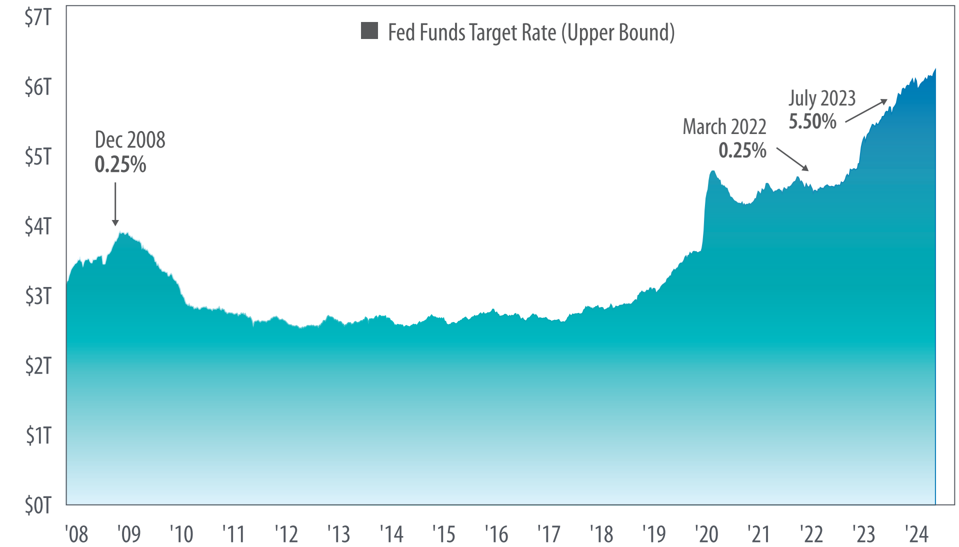
Money Market Fund Assets Hit New All-Time High

ICI All Money Market Funds (Total Net Assets)



Bloomberg and Investment Company Institute. Weekly data points from 1/2/08 through 8/21/24.

View from the Observation Deck

Today's blog post offers a visual representation of trends in money market fund assets over time. As the chart reveals, it appears that investors tend to increasingly utilize money market funds during times of turmoil such as the financial crisis in 2008 – 2009 and the COVID-19 pandemic of 2020. Recently, however, investors have been piling cash into money market accounts (see chart) despite compelling returns in the U.S. equity markets. 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.

- **U.S. money market fund assets stood at a record $6.24 trillion on 8/21/24 (most recent weekly data), an increase of 5.9% from $5.89 trillion on 12/27/23.**
- **The S&P 500 Index increased by 19.20% on a total return basis between 12/29/23 and 8/23/24.**

Below are several noteworthy points:

- **Beginning in March 2022, the Federal Reserve ("Fed") initiated eleven increases to the federal funds target rate (upper bound), raising it from 0.25% to 5.50% where it remains today.**
- **The Fed's tighter monetary policy set the stage for disinflation, with the trailing 12-month rate of change in the Consumer Price Index declining from 9.1% in June 2022 to 2.9% in July 2024.**
- **Consumer expectations regarding the Fed's policy rate changed dramatically over the last few months. As of 4/30/24, the federal funds rate futures market was pricing in just one rate cut totaling 28 basis points (bps) in 2024. For comparison, the same market projected four rate cuts totaling 103 bps on 8/23/24.**

Takeaway

In previous posts on this topic, we wrote that tighter monetary policy and disinflation had benefitted money market investors by ushering in a period of positive real yields. While we maintain this stance, we also believe that the increased likelihood of near-term rate cuts could be fueling increased demand for money market products. In short, investors are locking in higher rates before they are gone. While we think it is healthy to take advantage of positive yield spreads, investors should be aware that allocations to less-risky assets may come at a cost. Money market funds offer principal stability and income, but their total return has lagged the S&P 500 Index, which surged by 26.26% on a total return basis in 2023, and 19.20% year-to-date through 8/23/24. We believe that an allocation to equities will continue to generate a higher return on capital than cash over time.