Market Commentary Blog

Cash Flow *and Carey*

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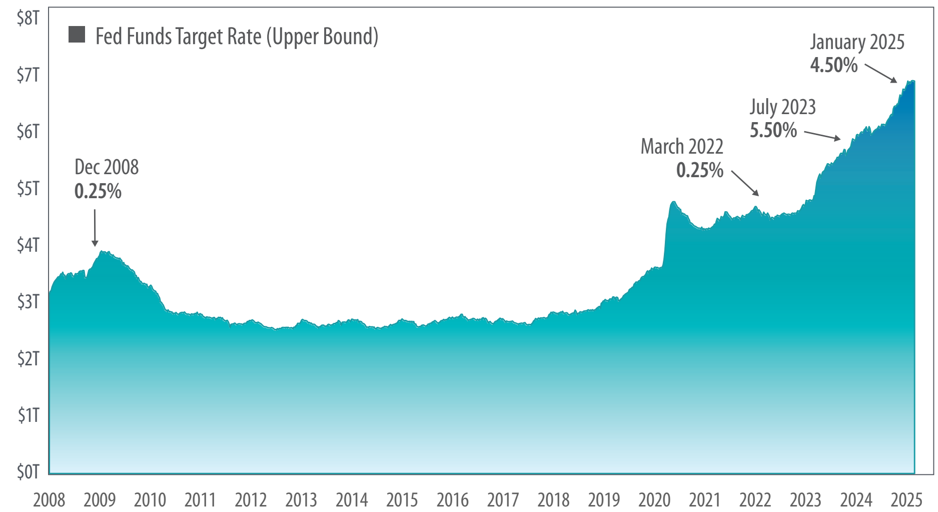
Money Market Fund Assets

ICI All Money Market Funds (Total Net Assets)



Bloomberg and Investment Company Institute. Weekly data points from 1/2/08 through 2/19/25.

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, investors tend to 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 and declining interest rates. 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.

- **Net assets invested in U.S. money market funds totaled $6.91 trillion on 2/19/25 (most recent weekly data), an increase of 14.98% from $6.01 trillion on 2/14/24. The current tally rests just below the record of $6.92 trillion set on 2/12/25. For comparison, the S&P 500 Index increased by 24.55% on a total return basis over the same period (2/14/24 – 2/19/25).**
- **The Federal Reserve ("Fed") announced three reductions to its federal funds target rate since September 2024, bringing the rate from 5.50% to 4.50% (upper bound) where it currently sits. Money market investors appear unfazed by these reductions, adding $0.61 trillion to money market funds from 9/18/24 (date the first cut was announced) to 2/19/25.**
- **Market expectations regarding the Fed's policy rate continue to be volatile, which may explain continued inflows into money market funds despite declining interest rates. As of 2/25/25, the futures market revealed that investors expect the federal funds rate to settle at 3.75% by the close of 2025, up from an implied rate of 2.95% on 9/30/24.**
- **Inflation's reacceleration offers a further explanation for increasing money market assets. The pace of inflation, as measured by the trailing 12-month rate of change in the Consumer Price Index (CPI), increased from 2.4% in September 2024 to 3.0% in January 2025. As we see it, stubbornly high inflation continues to pose a roadblock to falling interest rates, increasing the relative attractiveness of interest-bearing assets.**

Takeaway

Today's chart reveals a positive correlation between the recent surge in money market assets and elevated interest rates. Since the Fed's initial rate hike on 3/16/22, total net assets invested in U.S. money market funds increased from $4.56 trillion to $6.91 trillion (51.65%), notching multiple records along the way. Notably, recent interest rate reductions have not slowed demand for these debt instruments. Net assets invested in money market funds increased by $0.61 trillion (9.7%) from the date of the Fed's first interest rate cut on 9/18/24 to 2/19/25. From our perspective, disinflation's reversal, stretched equity valuations, and the recent spate of weaker than expected economic data are acting as catalysts behind investors "risk-off" behavior. That said, while money market funds offer principal stability and income, their total return has lagged the S&P 500 Index, which surged by 25.00% on a total return basis in 2024. It remains our view that an allocation to equities will generate a higher return on capital than cash over time.