

December 2020

Monthly Cash Review

US markets found peace in the month of December as year-end funding pressure did not materialize and liquidity conditions remained robust.

High Level

This was the first year in several where massive gyrations in funding levels were not felt. While the market responded with a collective sigh of relief, there remained an abundance of concerns away from the US cash market (COVID, politics, etc.). And all the while, equity markets turned a blind eye and continued to reach new highs. We all want what they are having.

Policy

The US Federal Reserve (Fed) left policy rates unchanged at their December FOMC meeting. They made few changes to the language in their press release. They dropped the reference to maintaining the current pace of purchases “over the coming months” and replaced it with “substantial further progress has been made toward the Committee’s maximum employment and price stability goals”. This leaves the quantitative easing (QE) door wide open and confirms they have no near-term plans to reduce their purchases of \$80 billion of US Treasury securities and \$40 billion of US mortgage backed securities per month. There has been discussion of inflation pressure, particularly on the service sector, as we emerge from lockdown and resume normal life. Fed Chairman Powell commented that this scenario has the “markings of a transient price level adjustment rather than an acceleration of inflation” and we could not agree more.

Outlook

We hate to say it, but it’s reality: rates will be lower for much longer. With the Fed reconfirming their commitment to QE and anticipating some short-term pricing pressure it’s not hard to expect policy rates low for the longer term even with strong economic growth.

Data

Weaker November Non-farm Payroll gains were offset by a drop in continuing jobless claims but an uptick in initial claims and a drop in the unemployment rate. It seems for each glimmer of hope there is an offset. Retail sales were weaker than expected and down from the previous month. Inflation pressures were all below the Fed’s 2% target — nothing shocking there — at least the readings were positive.

Politics and Policy

Election results have been confirmed and Joe Biden will become the next president. Treasury Secretary Mnuchin also announced the wind down of five of the liquidity programs implemented during the 1H of 2020. Four programs will remain in place. This seemed alarming at first glance given the negligible cost to keep these programs in place but on closer inspection the programs being wound down were almost meaningless and would not result in the sale of any assets.

The Federal Reserve Bank of New York released a Staff Report on Sophisticated and Unsophisticated Runs. It outlines the challenges that the retail and institutional shareholder cash flows present to a money market fund and how the weekly liquid asset metric can further complicate the stability of a fund's cash flows. This is certainly something we will pay close attention to over the coming years as regulators determine if further reform is necessary.

Markets

Some market rates were mostly lower over the course of the month but overall, it was smooth sailing. One-month Treasury bills (T-bills) were lower by 4 basis points (bps), 3-month T-bills were unchanged. Three-month Libor was wider by 2bps and 1-month Libor was unchanged. One-month and 3-month commercial paper rates were lower by 2 bps as supply was scarce and demand consistent. Longer term credit spreads were also tighter across the rating spectrum.

Institutional Prime money market funds saw outflows over the month, down \$16 billion to \$261 billion. Institutional Government money market funds were also down but just \$4 billion. Total money market fund assets were down by just \$4 billion over the month.

Funds

Shareholder volatility was higher over the course of the month as year-end pressures increased the need to reallocate cash. Over the course of the month the funds were focused on year-end liquidity and managing cash flows. Money market funds' WAMs and WALs were in line with peer comparisons. Government strategies have been running slightly longer than prime strategies given the term structure of yield curve. There also continues to be a cautious approach around credit given the geopolitical risks, pandemic risks and increased cash flow volatility.

About State Street Global Advisors

For four decades, State Street Global Advisors has served the world's governments, institutions and financial advisors. With a rigorous, risk-aware approach built on research, analysis and market-tested experience, we build from a breadth of active and index strategies to create cost-effective solutions. As stewards, we help portfolio companies see that what is fair for people and sustainable for the planet can deliver long-term performance. And, as pioneers in index, ETF, and ESG investing, we are always inventing new ways to invest. As a result, we have become the world's third-largest asset manager with US \$3.15 trillion* under our care.

* This figure is presented as of September 30, 2020 and includes approximately \$80.51 billion USD of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

ssga.com

Marketing communication

**State Street Global Advisors,
One Iron Street, Boston MA 02210
T: +1 617 786 3000.**

State Street Global Advisors Worldwide Entities

Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 2B, ADGM Square, Al Maryah Island, P.O. Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000.

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611.

Belgium: State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221,

authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900. **France:** State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Paris

Branch, is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delarivière-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 144 45 40 00. F: (+33) 144 45 41 92. **Germany:** State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorized and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Registered with the Register of Commerce Munich HRB 121381. T: +49 (0)89-55878-400. F: +49 (0)89-55878-440. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number 10495250960 - R.E.A. 2535585 and VAT number 10495250960 and whose office is at Via Ferrante Aporti, 10 - 20125 Milano, Italy. T: +39 02 32066 100. F: +39 02 32066 155.

Japan: State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association.

Netherlands: State Street Global Advisors Netherlands, Apollo Building, 7th floor Herikerbergweg 29 1101 CN Amsterdam, Netherlands. T: 31 20 7181701. SSGA Netherlands is a branch office of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorized and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, One Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

Investing involves risk including the risk of loss of principal.

Past performance is not a guarantee of future results.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security.

It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor. All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information. The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation and it should not be relied on as such.

It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor's or potential investor's particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

© 2021 State Street Corporation.
All Rights Reserved.
ID377034-3396806.11.GBL.RTL 0121
Exp. Date: 01/31/2022