

Monthly Cash Review

The US markets were expecting the unexpected for the month of November and the month turned out better than expected.

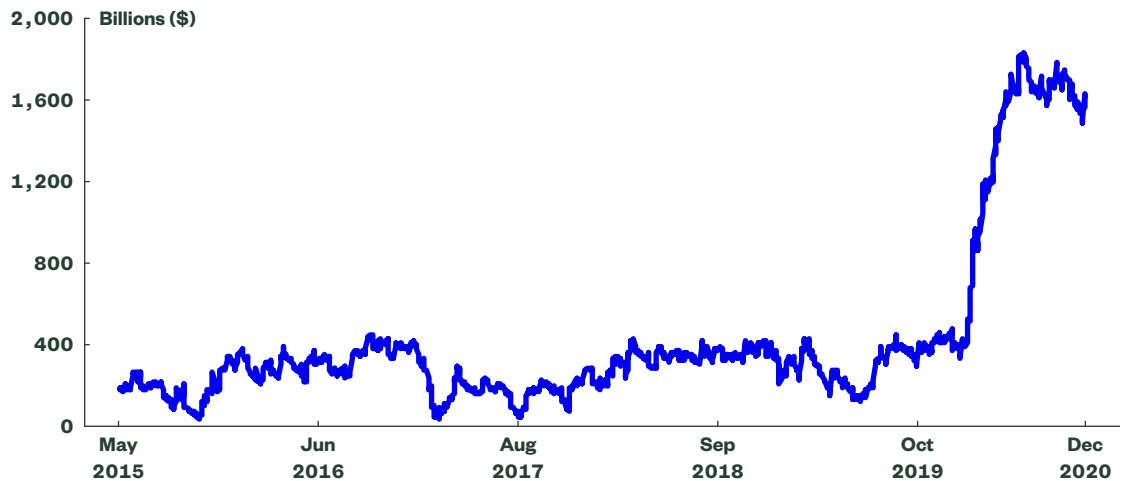
The presidential election consumed the lead up to November, with consensus saying the election would be contested. And it was, but ultimately with the results confirmed, we could look onto the transition. Vaccine news also added a boost to sentiment and risk markets took the news and rallied. Certain sectors' returns broke records. It's amazing how far we have come from the darker days of March.

There was cause for concern when Secretary of the US Treasury Mnuchin informed the market some emergency lending facilities would expire at the end of the year. The market took it in stride, recognizing the facilities were more perception than reality, proved by low utilization and broader recognition the events of March were liquidity-related and not credit-related. In the face of any concerns over these programs being withdrawn, credit spreads continue to grind tighter.

Further boosting confidence was the announcement that Janet Yellen would be the next Secretary of the US Treasury. Given her recent job experience it should be no stretch to think she will work very well with Federal Reserve Chair Powell. It will be nice to consider the idea of rowing in the same direction.

Yellen will be coming into the job with the US Treasury holding an abundance of cash (Figure 1) and thus we don't expect there to be a considerable need for new Treasury issuance. We have been hopeful of some near-term supply of Treasury Bills (T-bills) but the US Treasury is sitting on almost \$1.6 trillion of cash.

Figure 1
US Treasury
Cash Holdings



Source: Bureau of Labor Statistics as of December 3, 2020.

This amount seems to be enough to fund the next round of fiscal stimulus that might get passed before the new year. Although T-bills continue to represent ~25% of total Treasury debt outstanding (~\$5 trillion outstanding), there is an expectation that number will decline along with T-bill yields as the Treasury looks to extend their duration. At this moment we still see T-bills as the best investment for our Government funds. There is no relative value or yield pickup in agency debt (Home Loan Bank, Freddie, Fannie) as yield is coming through T-bills. In the case of Freddie and Fannie, outstanding discount notes volume have dropped so much that there is almost nothing left to buy. We continue to keep the Government fund durations longer with anticipation that yields could push lower before they move higher. In addition, we have been applying a barbell strategy as longer dated SOFR and T-bill floating rate notes offer better value than intermediate fixed rate notes.

As previously noted, credit conditions improved over the course of the month. Investment grade credit spreads were tighter in all ratings categories. Likewise, short term commercial paper yields were lower in almost all categories. Prime strategies saw outflows over the course of the month — perhaps money chasing the equity market. Both retail and institutional Prime money market funds are lower by \$30 billion over the month of November. Institutional funds were lower by ~\$20 billion and retail funds by ~\$10 billion, while Government funds were higher by ~\$10 billion.

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* 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.

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