

# Monthly Cash Review

## October was a Month of Transitions

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The first was the shift higher of several central banks' forward rate paths. In the United States, the probability of one 25 basis points (bps) rate hike was barely priced in on October 1st, and just one month on Federal Funds Futures are pricing for the potential of two hikes before 2022 closes out. The back end of the money market curve has adjusted with higher yields; 1-year LIBOR, having reached a new low of 0.22% in September is now yielding 0.36% at the time of this writing. One-year Treasury Bill yields also adjusted higher, starting the month at 7bps and ending at 12bps. Seeing the curve steepen in the Bill market is a welcome relief — unfortunately for our clients however, yields on Money Market funds have failed to adjust due to waivers keeping the yields higher. Money fund investors won't see higher yields until the first rate hike.

We also saw a transition to the next phase of Money Market Fund reform. The Financial Stability Board (FSB) released their final recommendation — [link here](#). The 64-page document is a grind to get through and does not tell us much we didn't already know. It indicates that reform decisions should be made at the regional level, something that was anticipated. It also highlights the connection between gates and fees and liquidity levels as something that needs to be separated. Hurrah! We are looking forward to the SEC delivering their news on US MMF reform sometime in the first quarter of 2022.

Inflation is a topic that remains front of mind for investors. The focus is on how long 'transitory' will prove to be. The Federal Reserve (Fed) adjusted their language in the latest statement and added the word 'expected' in front of 'to be transitory', highlighting the shifting view that perhaps inflation is longer lasting than originally thought. Some pockets of inflation have thus far lasted longer (shipping costs) than perhaps others (lumber). Meanwhile, the labor shortage may be driving some of the sustained wage inflation. As I have noted in recent conversations with clients, labor costs could provide the means by which prices remain elevated. If the consumer has more money to spend, they are less sensitive to increasing costs of goods. But the question remains: will higher costs slow economic growth? Business owners are unsure if price increases are temporary or will be sustained. It's one thing to raise prices due to a short-term constraint, but to maintain this price increase without a decrease in demand would be dependent on the buyer. The labor force participation rate will have a lot to do with the future path of wages — how impactful will the 'great resignation' be? Additionally, as borders reopen and seasonal workers are allowed to move freely across them we should see some easing in labor market conditions as supply increases.

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A debt ceiling showdown was avoided in October. As the clock was ticking on extraordinary measures, observers watched as the political gamesmanship seemed to come off the boil. A short-term deal was struck and the can was kicked into December. What was important was that neither side played the political games too aggressively, unlike in previous showdowns (2011, 2013). December T-Bills are trading cheap to the rest of the curve so we are not out of the woods just yet. Let's hope both sides can agree to a long(er) term solution.

Our Government and Treasury MMFs' WAMs and WALs extended slightly over the month and those of Prime MMFs remained the same to slightly shorter. There were no significant changes in AUM and no change to yields in the month.

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\*Pensions & Investments Research Center, as of December 31, 2020.

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