

Market Commentary

Fed isn't in a hurry, nor are we

US money markets remain stable as the Fed signals patience, with liquidity ample and volatility driven mainly by global headlines—not policy changes or market fundamentals.

US money markets continue to do what they do best: function smoothly while everyone argues loudly about whether they *should* be functioning differently. Policy expectations remain stuck in a familiar loop—inflation is easing, growth refuses to roll over, and the debate has shifted from “when do we cut?” to “how confident are we that cutting won't be embarrassing later.” Liquidity remains ample, plumbing is intact, and volatility mostly shows up when geopolitics or Fed phrasing accidentally steps on a rake.

Higher-for-longer, with footnotes

The Fed's recent communications have not so much clarified the path ahead as reminded markets that “data-dependent” is a way of life, not merely a slogan. The minutes and speeches have leaned away from imminent easing, reinforcing the idea that policy is closer to neutral than markets would ideally like—or at least closer than they were pricing a few months ago. In plain English: the Fed isn't in a hurry, and it would like everyone else to stop being in such a hurry too.

Implementation matters (yes, even the wording)

One of the more niche—but important—USD money-market themes has been a subtle debate around where overnight rates should trade relative to Interest on Reserve Balances. A small tweak in language sparked outsized attention, because when the Fed talked about overnight rates trading “slightly below” versus “around” administered rates, the front-end listened carefully and then overreacted slightly.

This was less about an imminent regime change and more about the Fed reminding markets that the ample-reserves framework is still being fine-tuned—think software updates, not a full system reboot.

Liquidity, supply, and the cash bid

Money-market yields have drifted modestly lower as expectations recalibrate, even as policy rates remain unchanged. This is exactly what you'd expect in a market that has moved from pricing aggressive easing to pricing cautious patience.

Cash remains abundant, demand remains strong, and the front-end continues to do its job without drama—which, ironically, is what makes every minor deviation feel like a crisis to someone on Twitter.

Geopolitics never RSVP

Geopolitical headlines—particularly around energy supply risks—continue to inject occasional volatility, usually at inconvenient times. These episodes tend to reinforce USD's safe-haven role and briefly remind markets that positioning matters, even when fundamentals haven't changed much. The good news: the system absorbs these shocks well. The bad news: everyone still panics anyway.

Boring on purpose

From a **State Street** perspective, the USD environment rewards exactly the qualities it always does: liquidity discipline, credit selectivity, and a healthy skepticism toward dramatic narratives.

We continue to emphasize capital preservation, diversification, and rigorous independent credit research, supported by real-time monitoring and stress-testing frameworks designed to handle both the expected and the inconvenient.

Bottom line: USD money markets are behaving like adults in the room, which makes them less exciting, but far more useful.

Liquidity Fund

AUM for the fund rose in February, as the fund again neared its all-time highs. AUM rose from \$3.451 bln to \$3.714 bln, a 7.6% increase. The yield of the fund fell 2 basis points to 3.82% month-over-month, weighed down by inflows and reinvestments at lower yields. The FOMC held rates steady last month, as they feel that we are closer to neutral rates and economic activity has remained resilient. They also remain cautious on the potential effects from stickier than expected inflation, particularly the inflation impacts from the Supreme Court's unconstitutional ruling on tariffs and subsequent imposition of additional product specific tariffs by the White House are filtered by the economy. In addition, geopolitical concerns have bubbled to the forefront with strike on the energy rich state of Iran. Credit curves have flattened as less future cuts are being priced in by markets, while spreads have remained near their tight for the year, as issuers are fully funded and don't need to chase funding. The market is currently pricing in the next full cut by the Fed in September, and 2.04 cuts by year end 2026, but the impact of tariffs and geopolitical risk has continued to make it more difficult for markets and the Fed to forecast the path of

forward rates. This will continue to lead to add volatility to the market expectations on timing and depth of future rate cuts. WAM (weighted average maturity) rose by 3 days to 46 days, and WAL (weighted average life) rose 4 days to 82 days, as positioning was maintained despite the asset inflows. The Floating rate exposure in the fund remained steady at around 23%. Exposure to Yankee CD's remained steady at around 28%, Commercial Paper exposure rose slightly, and exposure to repurchase agreements fell to ~26%. Quality exposure to higher rated credits in the fund rose by 3%. Liquidity ratio's for the fund fell slightly, with 31.29% in 1 week liquidity, and 90 day liquidity at 61.93%.

Short Term Fund

In February 2026, the Short-Term Fund posted a gross total return of 0.33% with income return contributing 0.32% and price return contributing 0.01%. Income return was the largest driver of total return. Treasuries was the largest contributor to income return, returning 0.23% in income return, IG Credit (0.05%), followed by ABS (0.04%), and government related securities (0.01%). Price return was small for the month.

Medium Term Fund

In February 2026, the Medium-Term Fund posted a gross total return of 0.67% with income return contributing 0.33% and price return contributing 0.34%. Price return was the largest driver of total return. Treasuries was the largest contributor at 0.34%. The positive price return can be explained by lower US Treasury rates in response to weaker-than-expected GDP in Q4 and concern about credit risk in pockets of the private credit market. With a longer duration profile and more duration risk, the impact of rates increasing was more acutely felt in the Medium-Term fund. For income return, Treasuries was the largest contributor at 0.22%, followed by IG Credit (0.06%), ABS (0.04%), and government related securities (0.01%).