FLORIDA PRIME
AN INVESTMENT SERVICE FOR PUBLIC FUNDS

Liquidity Market Meets the Challenge

With the Fed as a partner, the cash markets overcame stress in March.

In what will be a month we would all like to forget, I hope we will look back on March and recognize the robustness of the liquidity market during the coronavirus crisis. In times of financial strain, the Federal Reserve should be a partner of the markets, especially the money markets. It has been just that, from the rate cut of 50 basis points on March 3rd to the initiation of new programs to boost cash flow across markets and main streets. Chair Powell has pulled out many tools from the policy toolbox, and that support has been effective even through times of tremendous concern and stress. Liquidity is abundant and transactions generally are occurring smoothly.

After historic inflows and unprecedented buying of Treasuries that pushed some of the shortest bills into negative yields—not negative rates, which we still do not anticipate—the government sector and the Treasury yield curve appear to be returning to an upward slope. We think demand for U.S. government debt will subside as the Fed reduces its purchases from $75 billion to $60 billion on Thursday and because the fiscal stimulus package approved by Congress will require the government to raise a great deal of cash in a short period of time. The logical place to do so is through issuing Treasury bills. Also, if the markets stabilize as uncertainty around the coronavirus abates, the extreme demand for Treasuries may subside.

Both of these should help to push yields on short-term Treasuries back into positive territory.
The Fed's action in the prime and tax-free space has targeted needs accurately. Its Money Market Mutual Fund Liquidity Facility (MMLF) has worked well to date. This is not to say the system is back to normal, if that word means anything at the moment. Bid/ask spreads, while narrowing daily, remain high at times. As the velocity and amount of paper being placed in the market becomes more predictable, that spread should continue to shrink. We expect operations to improve further when the Fed's Commercial Paper Funding Facility (CPFF) begins in mid to late April and as its Primary Dealer Credit Facility (PDCF) continues. Also, it is good to see that the London interbank offered rate (Libor) curve seems to be sloping upward.

The municipal money markets also settled down as of late. Helped by the expansion of the MMLF to include short-term municipal securities, the Securities Industry and Financial Markets Association (SIFMA) municipal swap index rate has declined, dealer inventories have shrunk and credit issues have not arisen. The Coronavirus Aid, Relief and Economic Security Act (CARES Act) is positive in the broader market, although as not yet been implemented as it just recently was signed by President Trump.

As a whole, the industry and the Fed have emerged on the other side of March in good shape.

Florida PRIME is fully operational and has liquidity in excess of its investment policy minimums. Federated Hermes' focus continues to be on the constant provision of liquidity and also expects the Fed to keep the fed funds target range at 0-0.25% for the near future, but does not foresee a sustained zero-rate environment.

For any account assistance, please contact the SBA's pool line at (850) 488-7311 or via email at localgovpool@sbafla.com or visit our website, https://www.sbafla.com/prime/

SBA FLORIDA
STATE BOARD OF ADMINISTRATION

An investment in the Pool is not insured or guaranteed by any government or government agency. Although the manager of the Pool seeks to preserve principal, it is possible to lose money by depositing money in the Pool.

Federated®