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Such great heights

Remember the days in which we measured the change in central bank balance sheets in billions? No more. So far in 2020, the combined balance sheets of the Federal Reserve, European Central Bank (ECB) and the Bank of Japan have surged a total of around \$6 trillion to a record \$21 trillion. The Fed has risen \$2.9 trillion to \$7 trillion, and the ECB from \$2.4 trillion to \$7.6 trillion. That's an astonishing jump, one that makes a billion dollars a rounding error. How these and other central banks unwind the colossal amount remains to be seen. But as the Fed laid out in its new monetary policy framework unveiled by Chair Jerome Powell last week, it won't necessarily raise rates in tandem. It wants to see inflation at 2% even if it overshoots that target temporarily.

This reality means that local government investment pools, such as MMDT Cash Portfolio, are more important than ever because historically they have offered an attractive yield relative to other cash management options, including deposit products. When rates are low, every penny counts and any potential yield advantage could add up to needed return for investors, from individuals to municipalities. Additionally, their stability in in the pandemic-induced volatility this year has allowed them to show their importance in the greater economy. In the best and worst of times, liquidity products have provided much of the short-term funding that oil the gears of the American economy.

Federated Hermes has been a leader in the liquidity space for more than 40 years and we appreciate you continued trust in us.