INCOME RESEARCH + MANAGEMENT

CASHING IN ON YOUR SECOND CHANCE

November 2024

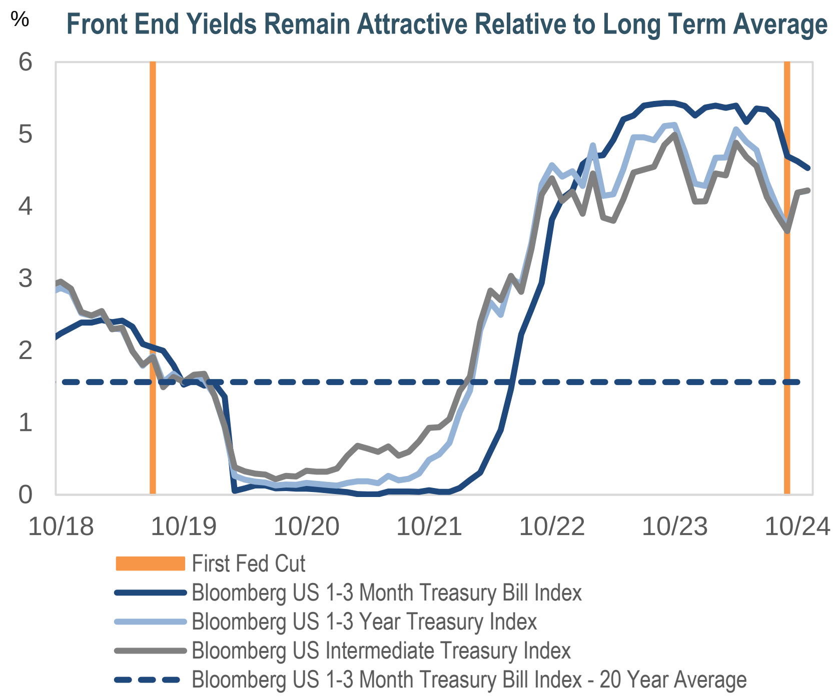
Throughout 2024, investors have monitored the Fed's rhetoric around interest rate cut expectations. While money market yields remained attractive following the Fed's initial rate cut in September, some investors worried that they missed the opportunity to extend their cash and lock in higher yields.

Recent market moves further support our belief that investors will benefit by extending duration and diversifying their exposures, without compromising their yield, liquidity, and principal. Partnering with our clients, we can help determine the most appropriate strategy and investment vehicle to navigate this ever-evolving environment.

DID WE MISS OUR OPPORTUNITY?

- Although the Fed's 50bps cut in September helped move front-end rates lower, yields across the curve rose throughout the month of October.
  - This move was further exacerbated following the recent US election results and the Fed's additional 25bps rate cut in November.
- We believe investors have been rewarded with their money market investments given historically high yields coupled with an inverted yield curve.
  - However, should Fed Fund rates continue to move lower and the yield curve normalizes, we believe money market yields will decrease more rapidly than longer duration portfolios, amplifying reinvestment risk.
- The market is still anticipating additional rate cuts, which may finally break the inertia and incentivize investors to strategically extend their cash positions and lock in current rates. We believe there's still time to act.

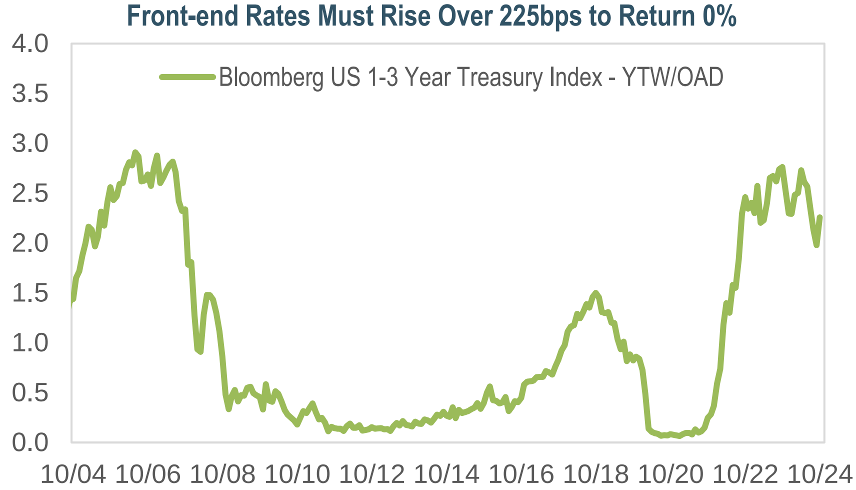
Front End Yields Remain Attractive Relative to Long Term Average



WHAT ARE THE RISKS OF EXTENDING?

- Extending cash from money market funds ahead of additional rate cuts can lock in higher yields for longer, capture total return, and provide additional diversification while maintaining liquidity options.
- We believe the risks of extending duration are muted by all-in yield levels. The current yield environment can provide a cushion against any future rate increases.
  - For example, front-end rates would need to rise by over 225 basis points for the 1-3 Year Treasury Index to return 0%. Additional cushion can be obtained with the inclusion of spread product.

Front-end Rates Must Rise Over 225bps to Return 0%



Source: Bloomberg as of 11/7/24 unless stated otherwise. Top chart: First Fed Cut refers to the date of the first cut in that respective cutting cycle. The 20-year average for the Bloomberg 1-3 Month Treasury Bill Index is from 10/31/04 to 10/31/24. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions.

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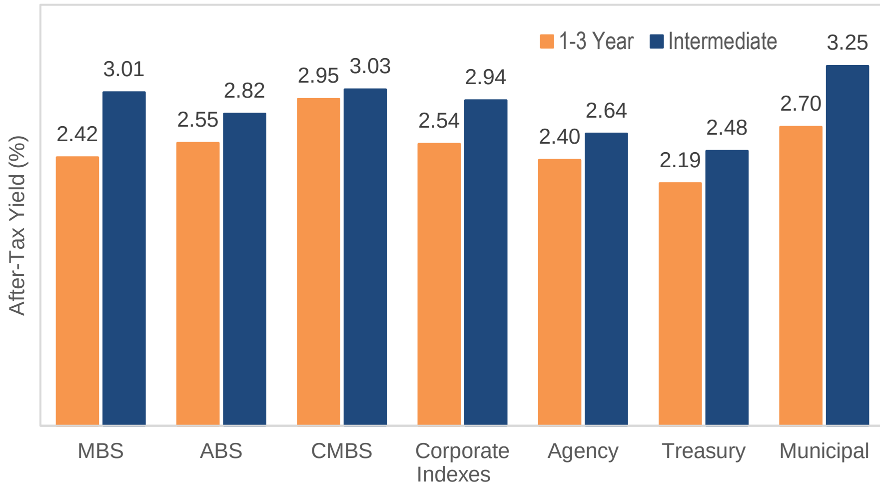
WHAT ARE THE OPTIONS?

A Wide Opportunity Set of After-Tax Income Potential



- Tax-aware investors continue to contemplate their options, as they look to capitalize on the current yield environment.
- We believe that a broader investment universe of both municipal and taxable bonds allows for a more holistic tax-aware approach.
- Adding diversification across numerous sectors and extending duration can help capture today's unique opportunity set.

WHERE DO WE GO FROM HERE?

- With current yields closer to historical averages, a normalizing yield curve, and the market still pricing in additional rate cuts, we believe that investors will benefit by extending duration and increasing diversification across spread sectors.
- IR+M offers numerous strategies across the yield curve, with differing levels of risk. We partner with our clients to determine the most appropriate strategy and vehicle to reflect their risk tolerance and meet their overall asset allocation and portfolio needs.
- We believe that now is the time to extend duration, take advantage of today's market environment, and protect against your reinvestment risk.

DURATION / RISK SPECTRUM

	Largest Prime Money Market Fund	IR+M Tax-Aware - Short Portfolio	IR+M Tax-Aware - Intermediate Portfolio	IR+M Core Muni Portfolio	IR+M Core Plus Portfolio
Yield (%)	4.77	4.01	4.38	3.41	5.26
Tax Equivalent Yield (%)*	4.77	5.20	5.56	5.75	5.26
Duration (yrs)	0.08	2.59	3.87	4.09	6.13
Average Quality (M/S&P)	Aaa/AA+	Aa3/AA-	A1/A+	Aa3/AA-	Aa3/A+

As of: 10/31/24. Sources: Bloomberg and IR+M Analytics.

Top chart: each point is representative of the after-tax yield of the respective Bloomberg index as of 10/31/24.

*Tax equivalent yield assumes a tax rate of 40.8%. The largest prime money market fund is based on a Bloomberg Fund Screen which compiles all funds that are: open-end funds, money markets, primary share class, and a geographic focus of United States. The prime money market fund uses a fund strategy of Taxable First Tier. The yield shown for money market funds is the 7-day SEC yield. Cash/other sector is cash, other non-negotiable time deposits, other repo agreements, and net other assets. Some statistics require assumptions for calculations which can be disclosed upon request. Yields are represented as of 10/31/24 and are subject to change. The views contained in this report are those of Income Research + Management ("IR+M") and are based on information obtained by IR+M from sources that are believed to be reliable but IR+M makes no guarantee as to the accuracy or completeness of the underlying third-party data used to form IR+M's views and opinions. This report is for informational purposes only and is not intended to provide specific advice, recommendations, or projected returns for any particular IR+M product.

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