Liquidity in the wake of falling rates

BlackRock.

OVERVIEW

Shifting central bank policy was a key driver of flows over the last few years, as an aggressive interest rate hiking cycle highlighted cash as an asset class, following ten years of near zero/negative rates. Additionally, the banking tremors of 2023 highlighted the importance of diversification in cash investing. Suddenly, the opportunity cost of not reviewing cash investments became much greater.

All investors have a cash need, and we continue to see the importance of actively managing cash strategies. Money market funds (MMFs) invest in short-term, high-quality debt securities and offer investors a relatively stable, less volatile way to potentially earn a return on cash.

The trends that have increased recent appetite for MMFs remain in all rate cycles, namely:

- Liquidity for same-day access versus term deposits
- Diversification versus sole counterparty exposure
- Operational ease
- Active duration management for optimising risk-adjusted returns that track interest rates

What does this mean for cash investors today?

If central banks cut rates this year, will MMFs still be an attractive option?

Although rate cuts might lower the yields on new short-term investments, MMFs hold a mix of securities with varying maturities. Their ability to blend shorter and slightly longer-dated securities can help balance yield and risk, adapting to changes in the interest rate environment.

I have exposure to US Dollars, Sterling and/or Euros in my portfolio – how can I keep track of changing central bank policy?

Outsourcing to a dedicated MMF manager could be the right solution. There is still uncertainty in the path of interest rates – when using actively managed MMFs, a team of investors monitor the money markets for opportunities and manage duration risk each day.

Though the market is pricing in some rate cuts, base rates are still expected to remain at levels not seen since before the 2008 financial crisis.

Would I be better off locking into a fixed-term product now?

Investors should consider the different requirements of their cash balances, regardless of market cycle.

We see a place for MMFs in operating and core cash positions to avoid low/no interest-bearing undiversified bank deposits.

Portfolio managers should consider if their strategic cash allocations with a longer investment horizon might be able to take slightly more duration and credit risk than their short-term counterparts, offering the potential for return uplift.

For investors, diversifying across different strategies and maturities will continue to be crucial in balancing the pursuit of competitive returns with maintaining security and liquidity.

From a portfolio construction perspective, the low correlation of money market funds with other asset classes allows investors to reduce risk in their multi asset portfolios.

What should I consider when selecting a MMF strategy?

Cash segmentation

Ensure your cash management strategy considers the different requirements for your operational, core and strategic cash balances.

Investment horizon

With continued uncertainty around interest rate expectations, the length of investment should play a key role in determining your strategy.

Risk tolerance

Transitioning into longer-dated cash-like strategies or fixed income can result in greater risk. Have you considered your risk appetite?

In conclusion

We continue to see the importance of actively managing that strategy. MMFs invest in short-term, high-quality debt securities and offer investors a relatively stable, less volatile way to earn a return on their cash.

Want to know more?

cashmanagement@blackrock.com | blackrock.com/cash

L&LM0924E/M-3847818-2/4

Disclosures related to institutional prime and municipal funds: You could lose money by investing in the Fund. Because the share price of the Fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The Fund may impose a fee upon sale of your shares. The Fund generally must impose a fee when net sales of Fund shares exceed certain levels. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

Disclosure related retail funds: You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The Fund may impose a fee upon sale of your shares. An investment in the Fund is not bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

Disclosure related to government and treasury funds: You could lose money by investing in the Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not a bank account and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The Fund's sponsor is not required to reimburse the Fund for losses, and you should not expect that the sponsor will provide financial support to the Fund at any time, including during periods of market stress.

In EMEA, in the UK and Non-European Economic Area (EEA) countries: this is Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: + 44 (0)20 7743 3000. Registered in England and Wales No. 02020394. For your protection telephone calls are usually recorded. Please refer to the Financial Conduct Authority website for a list of authorised activities conducted by BlackRock.

In the European Economic Area (EEA): this is Issued by BlackRock (Netherlands) B.V. is authorised and regulated by the Netherlands Authority for the Financial Markets. Registered office Amstelplein 1, 1096 HA, Amsterdam, Tel: 020 – 549 5200, Tel: 31-20-549-5200. Trade Register No. 17068311 For your protection telephone calls are usually recorded.

In Italy, for information on investor rights and how to raise complaints please go to https://www.blackrock.com/corporate/compliance/investor-right available in Italian.

In Switzerland, for qualified investors in Switzerland: This document is marketing material. Until 31 December 2021, this document shall be exclusively made available to, and directed at, qualified investors as defined in the Swiss Collective Investment Schemes Act of 23 June 2006 ("CISA"), as amended. From 1 January 2022, this document shall be exclusively made available to, and directed at, qualified investors as defined in Article 10 (3) of the CISA of 23 June 2006, as amended, at the exclusion of qualified investors with an opting-out pursuant to Art. 5 (1) of the Swiss Federal Act on Financial Services ("FinSA"). For information on art. 8 / 9 Financial Services Act (FinSA) and on your client segmentation under art. 4 FinSA, please see the following website: www.blackrock.com/finsa

For investors in Israel: BlackRock Investment Management (UK) Limited is not licensed under Israel's Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 5755-1995 (the "Advice Law"), nor does it carry insurance thereunder.

In South Africa, please be advised that BlackRock Investment Management (UK) Limited is an authorized financial services provider with the South African Financial Services Board, FSP No. 43288.

In Latin America, no securities regulator within Latin America has confirmed the accuracy of any information contained herein. The provision of investment management and investment advisory services is a regulated activity in Mexico thus is subject to strict rules. For more information on the Investment Advisory Services offered by BlackRock Mexico please refer to the Investment Services Guide available at www.blackrock.com/mx

In **Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. This material is for distribution to "Professional Investors" (as defined in the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong) and any rules made under that ordinance) and should not be relied upon by any other persons or redistributed to retail clients in Hong Kong.

In **Singapore**, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N) for use only with accredited and institutional investors as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

In **Australia**, issued by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975, AFSL 230 523 (BIMAL) for the exclusive use of the recipient, who warrants by receipt of this material that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth).

This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. Refer to BIMAL's Financial Services Guide on its website for more information. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction. This material is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. BIMAL is a part of the global BlackRock Group which comprises of financial product issuers and investment managers around the world. BIMAL is the issuer of financial products and acts as an investment manager in Australia.

BIMAL, its officers, employees and agents believe that the information in this material and the sources on which it is based (which may be sourced from third parties) are correct as at the date of publication. While every care has been taken in the preparation of this material, no warranty of accuracy or reliability is given and no responsibility for the information is accepted by BIMAL, its officers, employees or agents. Except where contrary to law, BIMAL excludes all liability for this information.

Any research in this document has been procured and may have been acted on by BlackRock for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. They do not necessarily reflect the views of any company in the BlackRock Group or any part thereof and no assurances are made as to their accuracy.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

In U.S., distributed by BlackRock Investments LLC, member of FINRA.

NOT FDIC INSURED; NO BANK GUARANTEE; MAY LOSE VALUE.