# Cash management market update

BlackRock

July 2021

## Making progress

- The Federal Open Market Committee (FOMC or the Committee) made no change to the 0.00% to 0.25% range for the federal funds target rate at its July 28 meeting.[1] In a statement released in conjunction with the meeting, the Committee noted that by way of "progress on vaccinations and strong policy support, indicators of economic activity have continued to strengthen."[1]
- While no changes were made to the pace of asset purchases during the month by the Federal Reserve (Fed), the statement was updated to acknowledge "the economy has made progress toward" the FOMC's maximum employment and inflation goals and "the Committee will continue to assess progress in coming meetings."[1]
- The 2-year suspension of the U.S. debt ceiling expired at the end of July. We expect the U.S. Treasury to employ accounting exercises known as "extraordinary measures" to fund the government into early fall.[2] At this time, the debt limit would need to be addressed if action is not taken sooner.
- Net new Treasury bill (T-bill) supply contracted $133 billion in July on the heels of a nearly $700 billion reduction in issuance during the first half of 2021.[3] In our view, constrained net T-bill issuance during the current debt issuance suspension period will likely exacerbate the challenging investment conditions at the front end of the curve.
- The Fed's reverse repo program (RRP) continued to see high daily volume given the acute imbalance between supply and demand at the front end of the market, with record utilization of $1.039 trillion as of July 30.[4]
- The secured overnight financing rate (SOFR)—a broad measure of the cost of borrowing cash on an overnight basis collateralized by Treasury securities—held steady at 0.05% in July, in line with the RRP overnight offering rate.[5]
- The supply-demand picture also remains challenging in the credit space. The 3-month London Inter-bank Offered Rate (LIBOR) printed at an all-time low of 0.12% on July 30.[6] Similarly, the 3-month LIBOR-Overnight Indexed Swap spread (L-OIS)—a gauge of stress in the financial system—moved in a tight range of 0.03% to 0.05% during July.[6]
- In the municipal market, the Securities Industry and Financial Markets Association (SIFMA) Index of 7-day variable rate demand notes (VRDNs) fell, from 0.03% at the end of June, to 0.02% in early July and remained pegged at this level for the balance of the month.[7]
- Money market fund (MMF) industry assets declined $25 billion in July.[8] Across the 2a-7 universe, government MMFs fell $24 billion and municipal MMFs fell $2 billion, while prime MMFs were unchanged.[8]

Sources: **1:** U.S. Federal Reserve as of July 28, 2021, **2**: Congressional Budget Office as of July 31, 2021, **3:** U.S. Treasury as of July 31, 2021, **4:** Federal Reserve Bank of New York as of July 31, 2021, **5:** U.S. Federal Reserve as of July 31, 2021, **6:** Bloomberg as of July 31, 2021, **7:** Securities Industry and Financial Markets Association as of July 31, 2021, **8:** Investment Company Institute as of July 31, 2021

The BlackRock opinions expressed are as of August 6, 2021 and are subject to change at any time due to changes in market or economic conditions. Forecasts are based on estimates and assumptions. There is no guarantee that they will be achieved.

# Money market fund positioning

### Government & Treasury funds

BlackRock government MMFs experienced net inflows throughout the month, in contrast to declining industry flows. Despite being the second consecutive month of decline, Government MMF industry assets remained historically elevated at $3.9 trillion as of July 28.[9]

Following the Federal Reserve's technical adjustments to the Interest on Excess Reserves (IOER) and RRP rates in June, demand for government securities continued to exceed new supply and the increase in U.S. T-bill rates was short-lived. T-bill tenors between 1-month and 6-months traded at 0.04% throughout the month while 1-year T-bill tenors ended the month down a notch at 0.06%.[10] In our view, there are still many factors that will continue applying downward pressure on front-end rates, such as the expiration of the U.S. debt ceiling suspension, net T-bill paydowns and elevated levels of liquidity in the system.

The bulk of trading activity for July consisted of T-bills maturing within 3- to 6-months at an average yield of 0.05%. A smaller number of purchases throughout the month consisted of U.S. Treasury 2-year floaters and fixed U.S. agency debt at an average yield of 0.08% and 0.04%, respectively. Eligible BlackRock government MMFs continued to participate in the RRP program regularly throughout the month at 0.05%.

Since the June FOMC meeting, our investment bias has been to extend duration. The richer and flatter curve from the expiration of the U.S. debt ceiling suspension and net T-bill paydowns, reinforces our positioning for a longer duration profile. Going forward, we will maintain this bias and look for opportunities to add higher yielding debt while extending our portfolio WAMs and WALs accordingly.

| | WAM | WAL | Weekly Liquidity |
|---|---|---|---|
| BlackRock Liquidity Funds FedFund | 42 | 93 | 85% |
| BlackRock Liquidity Funds T-Fund | 42 | 96 | 100% |
| BlackRock Liquid Federal Trust Fund (BLFT)^ | 55 | 108 | 76% |
| BlackRock Liquidity Funds Treasury Trust Fund | 48 | 88 | 100% |

Fund data source: BlackRock as of July 31, 2021. ^On July 19, 2021, BlackRock's Federal Trust Fund was converted to the BlackRock Liquid Federal Trust Fund (BLFT).
**Past performance is no guarantee of future results.** Source as of July 31, 2021: **9:** Investment Company Institute, **10:** Bloomberg

### Prime funds

While total net assets in industry prime MMFs increased to $484 billion as of July 28[11], we believe most short-term investors continue to favor constant net asset value government MMFs amid an increase in confirmed cases of COVID-19 across the U.S.

Rates on overnight time deposits were pressured downward by strong demand, reaching 0.07% after nearly doubling to 0.08% last month during the technical adjustments to the Fed's administered rates.[12] Outstanding Tier 1* commercial paper grew by $5.8 billion as year-to-date supply grew to approximately $134 billion.[12] Tier 1 commercial paper yields increased modestly, as 30-day AA non-financial commercial paper ended the month at 0.05% with AA financial commercial paper at 0.08%.[12]

Our prime funds strategy in July mainly consisted of overnight time deposits, repurchase agreements and fixed-rate commercial paper maturing within 6-months, with a yield range of 0.05% to 0.16%. Even with this preference, we still pursue opportunities in tenors of 9-months to 1-year in fixed and floating rate securities that, in our opinion, represent convincing relative value. However, we are cautious when investing in certain credit sectors further out the curve that are subject to heightened risks associated with COVID-19 cases and we continued to seek positions with ample near-term liquidity.

| | MTM NAV | WAM | WAL | Weekly Liquidity |
|---|---|---|---|---|
| BlackRock Liquidity Funds TempFund | $1.0005 | 48 | 69 | 51% |
| BlackRock Liquidity Funds TempCash | $1.0006 | 43 | 66 | 48% |
| BlackRock Liquid Environmentally Aware Fund (LEAF®) | $1.0005 | 50 | 74 | 49% |
| BlackRock Wealth Liquid Environmentally Aware Fund | $1.0001* | 45 | 65 | 46% |

Fund data source: BlackRock as of July 31, 2021. *Note that this fund transacts with a constant $1.00 NAV. **Past performance is no guarantee of future results.**
Source as of July 31, 2021: **11:** Investment Company Institute, **12:** iMoneyNet

*A Tier 1 security is an eligible security rated "1" by a National Recognized Statistical Rating Organization (NRSRO), and if rated by two or more NRSROs, it must be rated "1" by at least two of the NRSROs. A Tier 2 security is an eligible security that is not a Tier 1 security. Source: Federal Reserve.
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## Municipal funds

As assets in the tax-exempt money fund industry moved lower throughout July, low overall yields contributed to reallocations into alternative asset classes. Municipal bond funds continued to be flush with cash from both inflows and maturities, and strengthened demand for short term municipal securities as an investment alternative. Accordingly, VRDN inventory on dealer balance sheets remained manageable, ending the month at $2.0 billion, below the year-to-date average of $2.5 billion.[13] The strong demand for municipal cash securities contributed to the slight decrease in the SIFMA Index.

As municipal state and local governments continued to benefit from fiscal stimulus monies as well as broad-based improvements in tax revenue streams, year-to-date note issuance continued at levels significantly lower than previous years. Within the fixed rate municipal cash space, yields on 1-year municipal notes moved lower by 0.04% to end the month at 0.08%.[14] Meanwhile, 1-year maturity municipal bonds began at 0.12% and ended the month at 0.05% as supply was unable to keep pace with elevated demand.[14] Municipal commercial paper yields remained steady over the course of the month, ending at approximately 0.06% to 0.09% for the 30- to 120-day maturity range, respectively.[15]

In July, we continued to increase our exposure to municipal commercial paper, laddering maturities across the 30- to 120-day range and seeking relatively attractive yields amid the persistent net negative supply environment. We maintained high liquidity levels through our overweight to VRDNs and other weekly par put securities. Portfolio WAMs remained neutral in our national fund strategy and slightly shorter in our state-specific funds as new issue note supply remained light.

| | MTM NAV | WAM | WAL | Weekly Liquidity |
|---|---|---|---|---|
| BlackRock Liquidity Funds MuniCash | $1.0006 | 10 | 10 | 90% |
| BlackRock Liquidity Funds California Money Fund | $1.0000 | 9 | 9 | 93% |
| BlackRock Liquidity Funds New York Money Fund | $1.0002 | 28 | 28 | 76% |

Fund data source: BlackRock as of July 31, 2021. **Past performance is no guarantee of future results.**
Sources as of July 31, 2021: **13:** Bloomberg, Bank of America, **14:** Refinitv, **15:** Bloomberg

## Ultra-short bond funds

As COVID-19 cases surged in July, U.S. Treasury yields reversed course and grinded lower despite strong inflation data. The credit spread on JULI 1-3 year index widened slightly while all-in yields fell by 0.05% month-over-month to 0.72% as of July 30.[16] Short-Term Bond funds also experienced their largest monthly asset increase since October 2020, with net inflows of $15.3 billion in July.[17] Given the recent rally in rates, we believe these inflows are driven by investors seeking to optimize yield while maintaining a shorter duration profile.

Following an impressive supply increase in June, gross investment grade issuance declined significantly in July, a month historically known for relatively little issuance. Outstanding Tier 1 and Tier 2 commercial paper increased month-over-month as the market welcomed a total of nearly $28 billion of new supply in July.[18] Still, commercial paper yields ended the month only marginally higher as robust demand outpaced new supply.

Portfolio allocations were generally unchanged throughout the month, while most trading activity consisted of commercial paper maturing within 3-months at an average yield of 0.18%. The BlackRock Short Obligations Fund also added fixed and floating investment grade corporate bonds at an average yield of 0.47% and certificates of deposit at an average yield of 0.23%.

The supply-demand imbalance in the front-end remains a challenge for investors. To combat this dynamic, we will look to remain opportunistic and active players in the primary market. We will continue to seek opportunities in the 13-month to 2-year part of the curve for secondary market corporate bonds, as well as commercial paper that offers solid yield per unit of duration. We will also closely monitor COVID-19 cases and macroeconomic indicators with implications for front-end rates.

**Past performance is not indicative of future results.**
Sources as of July 31, 2021: **16:** JP Morgan JULI 1-3 year index, **17:** Emerging Portfolio Fund Research. **18:** U.S. Federal Reserve
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