Policy pivot

BlackRock.

US Cash Management investment commentary

Q3 2025

Market outlook

- We believe the Federal Open Market Committee (FOMC or the Committee) will move to adjust the federal funds target range modestly lower should data continue to reflect softness in the labor market and if inflation remains contained.
- Net Treasury Bill (T-bill) supply is expected to remain healthy in the fourth quarter following a sharp increase during the prior period.
- Funding levels are likely to experience ongoing volatility amid growing net T-bill issuance and a marginal decline in reserve balances at the Federal Reserve (Fed).

Q3 highlights

- The FOMC reduced the federal funds target rate by 0.25% at its meeting on September 17, 2025, to a range of 4.00% to 4.25%. This was the first change in the target rate since December 2024. Stephen Miran, a member of the Federal Reserve Board of Governors who recently joined the Committee, dissented in favor of a 0.50% cut.
- The statement[1] released in conjunction with the meeting was updated to acknowledge that the unemployment rate has "edged up" amid a slowing in job gains, and to note that inflation has "moved up."
- The Committee still sees "uncertainty about the economic outlook" as "elevated," and reiterated that it is "attentive to the risks to both sides of its mandate," while now warning that "downside risks to its employment have risen."
- The median federal funds rate forecast contained in the Summary of Economic Projections (SEP) for 2025, released in conjunction with the FOMC meeting, declined to 3.6% from the 3.9% projection released in June 2025, implying in our estimation, two additional cuts of 0.25% before the end of 2025.[2]
- The updated SEP for 2025 reflected a slightly higher economic growth projection, and unchanged unemployment rate and core inflation forecasts relative to June 2025. Core inflation is not projected to fall to the FOMC's 2.00% objective until 2028.
- The One Big Beautiful Bill Act signed into law in early July raised the statutory debt limit by $5 trillion, and net T-bill supply rose $613.4 billion[3] during the quarter.
- The Reverse Repurchase Agreement Program (RRP) utilization registered $49.1 billion at the end of the third quarter, down from $460.7 billion on June 30, 2025 and above a low of just $11.4 billion on September 19, 2025.[4]
- Assets across the US money market fund (MMF) industry increased $286.486 billion during the third quarter. Assets of government, prime and tax-exempt MMFs increased by $248.107 billion, $38.009 billion, and $0.371 billion, respectively.[5]

We believe the FOMC will move to adjust the federal funds target range modestly lower, dependent on further softness in the labor market and contained inflation.

Net T-bill supply we believe will remain healthy, while RRP utilization is generally expected to be minimal.

Our assessment of the timing and amount of any reductions in the FOMC's key policy rate relative to market pricing will likely continue to affect our investment strategies.

Sources 1,2: US Federal Reserve statement as of 17 September 2025. 3: US Treasury as of 30 September 2025. 4: New York Fed as of 30 September 2025. 5: Investment Company Institute as of 1 October 2025.

Money market fund strategy

Government & Treasury funds

Similar to the government money market fund (MMF) assets across the industry, BlackRock government MMFs experienced net inflows in the third quarter.

Following the Federal Open Market Committee's (FOMC) rate cut in mid-September, short-term treasury rates were lower by the end the quarter. The 4-month Treasury bill ended the period 39 basis points (bps) lower at 3.93%.[6] The 6-month Treasury bill ended the period 42 bps lower at 3.84%.[7] The 12-month tenor decreased 29 bps, finishing the period at 3.68%.[8]

At the start of the quarter, the weighted average maturities (WAMs) in our government funds were near 48 days for repurchase agreement (Repo) eligible funds and 55 days for non-repo funds.[9] By the end of the quarter, these figures were 45 and 42 days, respectively, with the team positioning portfolios for the evolving 2025-2026 rate path.

Purchases throughout the quarter were mostly comprised of 2-to-12-month Treasury Bills (T-bills) at average yields of 4.06% to 4.29%.[10]

Following the resolution of the debt ceiling debate, Treasury issuance in the third quarter trended higher, including T-bills quarter to date. Year to date, T-bill and coupon issuance hit $1,122 billion of net supply. Supply was skewed towards bills, with around $608 billion coming to market by the end of September. Additional projected issuance is expected to be skewed towards coupons.[11]

The Secured Overnight Financing Rate (SOFR) stepped up at quarter end but was relatively contained overall and RRP take-up was down significantly from usage at the end of Q2. SOFR remains subject to upside pressure from a depleted RRP balance, a rising Treasury General Account (TGA) balance, and a decline in reserves at the Federal Reserve (Fed) although, in our view, an outsized spike reminiscent of September 2019 is generally not expected.

At quarter-end, we saw a slowing economy backstopped by fiscal and monetary easing. Markets were pricing in over 1.5 rate cuts for the remainder of 2025. We remain cautious of a rebound of weakening economic data. Supply remains elevated and strong demand continues We are focused on maintaining the duration of our funds.

Prime funds

Consistent with the increase in assets of prime MMFs across the industry, BlackRock prime MMF's experienced net inflows during the third quarter.

We believe investors exhibited demand for prime funds to take advantage of the incremental yield and diversification. At quarter-end, the spread between institutional government and prime MMF yields was 0.18%, in line with historical averages.[12]

Tier 1 Commercial Paper (CP) outstandings decreased by $21.3 billion to $393.8 billion during the quarter. As expected, CP rates continued to reprice in line with expectations for the future path of monetary policy. Fixed rate investments with final maturities of 3 months to 1 year were added at yields of 3.96% to 4.48%. Floating rate investments with maturities of 6 months to 1 year were added at spreads of 0.15% to 0.37% over SOFR.[13]

Purchases during the period primarily consisted of certificates of deposits, time deposits, CP and overnight repo for eligible portfolios.[14]

Towards the end of the quarter, we extended the duration of the portfolios while the curve was more positively sloped. We continue to look to maintain duration through select trades that still offer the best trade off of current yield and duration. At the end of September, our target WAM ranges was 40 to 45 days, and the funds had an average weekly liquidity of approximately 52%.[15]

We continue to selectively add a mix of fixed and floating rate exposure as the Fed rate path continues to be reassessed by markets. Additionally, we believe there is a need for heightened geopolitical caution, and we remain selective when adding credit risk. Our funds aim to maintain current durations.

Sources 6,7, 8: US Treasury as of 30 September 2025. 9,10: BlackRock Aladdin as of 30 September 2025. 11: Wrightston Treasury Data as of 30 September 2025. 12: iMoneyNet as of 30 September 2025. 13,14,15: BlackRock Aladdin as of 30 September 2025.

The BlackRock opinions expressed are as of 30 September 2025 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 strategy

Municipal funds

Tax-exempt money funds saw inflows for the third quarter, ending the period with $139.4 billion in industry assets, slightly up from $139 billion at the start of the quarter. [16] Total Variable Rate Demand Notes (VRDN) outstanding ended the third quarter around $102.7 billion as tax-exempt money fund industry assets continued to surpass VRDN supply.[17]

Notably in 2024, VRDN new issuance surpassed $15 billion for the first time since 2017.[18] Year to date 2025, VRDN new issuance stands at $13.4 billion, trending slightly up from $13.2 billion where it stood at this time last year. In the secondary market, VRDN inventory held on dealer balance sheets ended the period at $7.5 billion and averaged approximately $6.4 billion for the quarter, above the rolling 12-month average of $4.6 billion, demonstrating generally heavier supply on dealer balance sheets, thus putting upward pressure on the yields of 7-day municipal floating rate debt.[19]

The Securities Industry and Financial Markets Association (SIFMA) Index, which represents the average yield on 7-day municipal floating rate debt, began the quarter at 1.92% and ranged between 1.62% and 2.89%, where it ended the period.[20]

During this time, the SIFMA Index averaged 2.39%, below its average of 2.86% for the second quarter, which was pushed higher by tax-time in April.[21] Looking ahead, October and November tend to be stable to positive in terms of flows and demand for VRDN securities, with beginning of month reinvestment cash causing VRDN yields to reset lower.

MuniCash remained positioned in the 5- to 6-day WAM range during the third quarter with high levels of daily and weekly liquidity, as the Fund intends to invest solely in securities that are considered weekly liquid assets as defined in Rule 2a-7 under the Investment Company Act of 1940, as amended (the 1940 Act).

Though MuniCash intends to invest only in weekly liquidity assets, for broader market color in the fixed rate space, 1-year municipal bond yields decreased from 2.57% to 2.38% while 1-year municipal note yields decreased from 3.00% to 2.46% over the quarter.[22] Though overall annual note issuance remains lower than pre-pandemic levels, issuance increased by 17.3% to $32.0 billion in 2024 and we expect it to continue to gradually move higher in 2025. Through quarter-end, year-to-date note issuance stood around $28.9bn, trending approximately 6% higher year-over-year.[23]

Ultra-short bond fund

Consistent with the theme across the ultra-short bond industry, the BlackRock Short Obligations Fund experienced mild outflows to the industry's inflows in the third quarter.

Tier 1 Commercial Paper (CP) outstandings decreased by $21.3 billion to $393.8 billion during the quarter. Additionally, Tier 2 CP outstandings decreased by $14.3 billion to $95.9 billion at the end of September. Asset-Backed Commercial Paper (ABCP) outstandings increased by $1.5 billion to $402.1 billion.[24]

Yields in the Investment Grade (IG) space were slightly volatile throughout the quarter, with the yields on the JULI All Ex EM 1- to 3-year Index ranging between 4.06% and 4.54%, ending the period lower following the first rate cut in September.[25]

IG spreads tightened throughout the quarter largely due to strong demand continuously outpacing IG supply. IG yields during the quarter moved largely in line with rates and ended September lower as market expectations for rate cuts remained elevated for 2025 into 2026.[26]

Third quarter IG issuance remained strong with over $391 billion coming to market.[27] Overall, investors continue to assess the Federal Reserve's path of monetary policy and the outlook for economic growth.

Throughout the quarter, our focus was keeping the fund positioned by focusing purchases on fixed and floating CP maturing between 1-week and 12-months at yields ranging from 3.98% to 4.74%. Other investments consisted of fixed and floating corporate bonds with maturities of 1 to 2-years+ with yields ranging from 3.99% to 5.43%, and 2-year Asset Backed Securities at average yields ranging from 3.90% to 4.00%.[28]

At the quarter-end, markets were pricing in over 1.5 cuts over the balance of 2025, but expectations continue to remain contingent on inflation data following the implementation of tariff policy, employment data, and the trajectory of economic growth. In IG, with growing uncertainties in the United States and abroad, we remain selective when adding credit risk.

Sources 16: Investment Company Institute as of 1 October 2025, 17: Barclays, Electronic Municipal MarketAccess as of 3 October 2025. 18: BondBuyer as of 30 September 2025. 19: Bloomberg, Bank of America Merrill Lynch as of 30 September 2025. 20,21: Bloomberg, Securities Industry and Financial Markets Association (SIFMA) as of 24 September 2025. 22,23: MMD, Refinitiv as of 30 September 2025. 24:Federal Reserve as of 30 September 2025. 25,26: JP Morgan as of 30 September 2025. 27,28: BlackRock Aladdin as of 30 September 2025.

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