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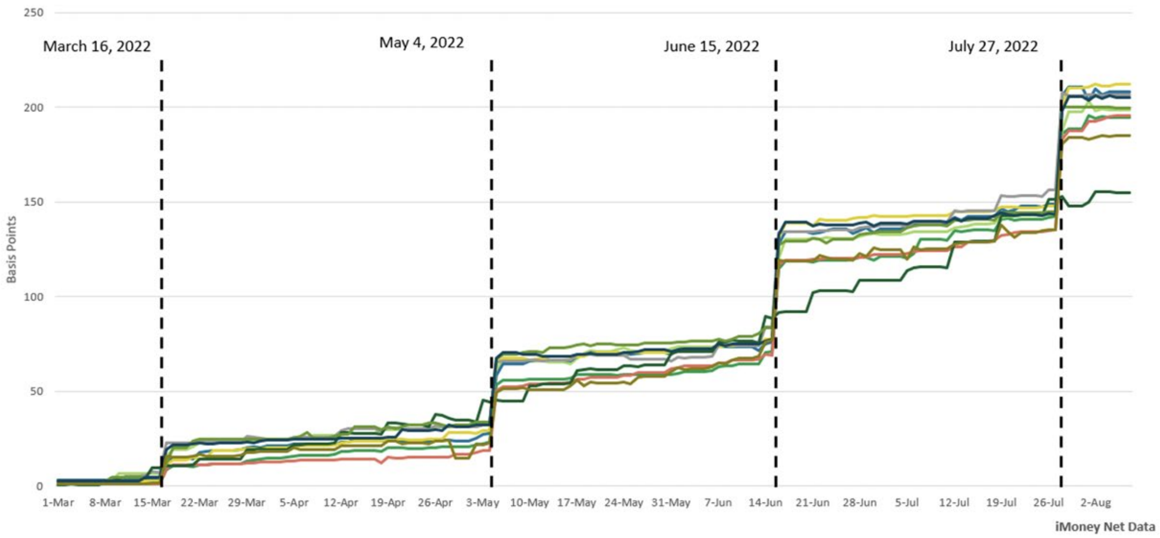
COMMENTARY • AUGUST 2022

Are Bank Deposits or MMFs the Place to Keep Cash as Rates Rise?

The economic and geopolitical developments over the past few years have made it an extraordinarily difficult time for companies to manage business, leading corporate treasury organizations to stockpile cash to weather the impact the pandemic has had on operations.

At the beginning of this year, 71% of institutional investors responding to ICD's 2022 Client Survey said they expected to maintain or even increase their cash balances, and that number increased to 78% in a poll from a July ICD Insight webinar with Invesco. These numbers confirm reports that say while cash balances are trending down in some industries, they are still higher than pre-pandemic levels. What companies are doing with their cash now that the US Federal Reserve (Fed), the European Central Bank (ECB), and the Bank of England (BoE) are increasing interest rates to fight inflation is a tale of two investments. The market is shifting cash allocations from banks to money market funds as rates rise and corporate treasury looks for ways to maximize working capital.

Yield for Top 10 US Government Funds on ICD Portal Post Rate Hikes



A Look at the Data

Historically, one of the most common places to park cash is bank deposits. However, cash is now flowing into money market funds as yields quickly respond upwards with rising rates and companies max out their Earnings Credit Rates (ECRs) used to offset rising bank fees. With fund providers keeping the duration of the instruments in their portfolios short, institutional investors are seeing higher yields in money market funds immediately as rates increase. Interest rates are projected to continue their upward trend throughout the year with the Fed targeting 3.5-3.75%, the ECB 1.25% and the BoE 2.75% by the end of 2022.* Moreover, as fund company fees are based on a fixed percentage of assets, the step up in yield from rate hikes passes through directly to institutional investors.

As companies go out to market to invest in money funds, they are looking to independent investment portals to provide them with a wide selection of options. In the second quarter of 2022, new clients onboarding ICD Portal rose 300% over the same period last year, and the average daily balance of new clients investing was almost 2.5 times higher over that same time period.

** Source: Bloomberg as of 08/08/2022. Federal Reserve, Bank of England, European Central Bank as of 08/04/2022.*

"Corporates aren't necessarily leaving those balances sitting idle and accepting a higher ECR when they've got better yield opportunities out there."

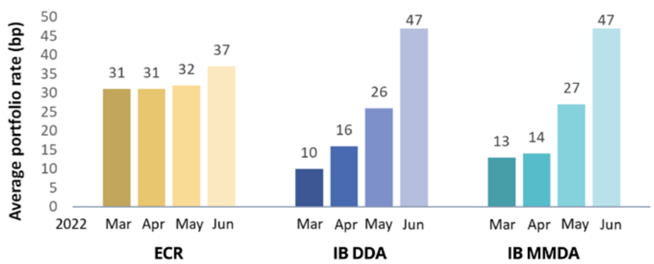
PAUL LAROCK, Director at Treasury Strategies, a division of Curinos

Flows from Interest-Rate Sensitive Accounts at Banks

According to the proprietary bank data sets of both Treasury Strategies and Curinos, Inc., the average rates for Interest-Bearing Demand Deposit Accounts (IB DDA) and Interest-Bearing Money Market Deposit Accounts (IB MMDA) are now at 47bps, while Earnings Credit Rates (ECR) increased to 37bps.

The average rate move for ECRs has increased 7bps, while the rate moves on IB DDA and IB MMDA were 35bps on average. "But this is not enough to maintain all those cash balances – those are moving," says Paul LaRock, Director at Treasury Strategies, a division of Curinos, a research company with banking data covering over $1.7 trillion in commercial deposits.

Commercial Bank Average Portfolio Rate (Mar to Jun '22)*



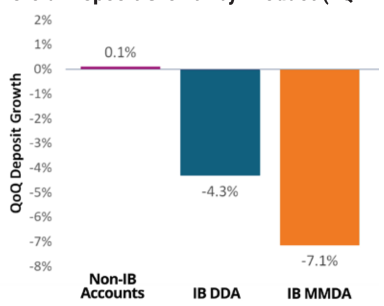
Given the slow rate rise at the banks, corporate treasury investors are keeping minimal balances to maximize ECRs but are not incentivized to keep excess balances in these accounts once ECRs are achieved, given the 'use it or lose it' nature of most ECR agreements.

Curinos data indicates commercial balances overall have experienced a modest 1.1% year-over-year decline. "We would attribute current balance levels to a range of factors, including easing seasonal pressures, rotation from increased consumer spending, renewed willingness by banks to selectively compete directly with money fund rates and stronger commercial lending performance," LaRock says.

"The combination of these factors seems to have moderated the earliest impacts of quantitative tightening on overall commercial balance levels. We continue to believe that the likeliest scenario is negative year-over-year total deposit growth with wide variance by bank."

According to Curinos data, operating balances associated with non-interest bearing commercial accounts (Non IB Accts) have remained relatively stable, while balances in interest-bearing demand deposit accounts and interest-bearing money market deposit accounts have declined by 4.3% and 7.1% respectively. This shift reflects the sensitivity of customers using these accounts to the overall interest rate environment as central banks aggresively step up rates.

Total Commercial Deposit Growth by Product (2Q22 vs 1Q22)*



Curinos expects that banks are planning their annual fee increases north of 5% in the back half of this year and into 2023 to shore up gross margins, making money market fund returns even more attractive. "Corporates aren't necessarily leaving those balances sitting idle and accepting a higher ECR when they've got better yield opportunities out there," says LaRock.

About Curinos

Curinos is the leading provider of data, technologies and insights that enable financial institutions to make better, and more profitable, data-driven decisions faster. Born out of the combination of two familiar industry powerhouses, Novantas and Informa's FBX business, Curinos brings to market a new level of industry expertise across deposits, lending and digital experience solutions and technologies.

About ICD

ICD is treasury's trusted, independent portal provider of money market funds and other short-term investments. We provide intuitive technology and unbiased access to over 350 investment products through ICD Portal, a model in the industry for trading, reporting and analysis. Through our Global Trade Desk, we offer follow-the-sun support and expert service. Visit icdportal.com or contact us at info@icdportal.com.

Keep tabs on a broad range of domestic and offshore institutional money market funds with ICD's Daily Yield Report.

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** Source: Curinos, Inc.*