SAWGRASS
ASSET MANAGEMENT LLC

+1 (904) 493-5500
www.saw-grass.com

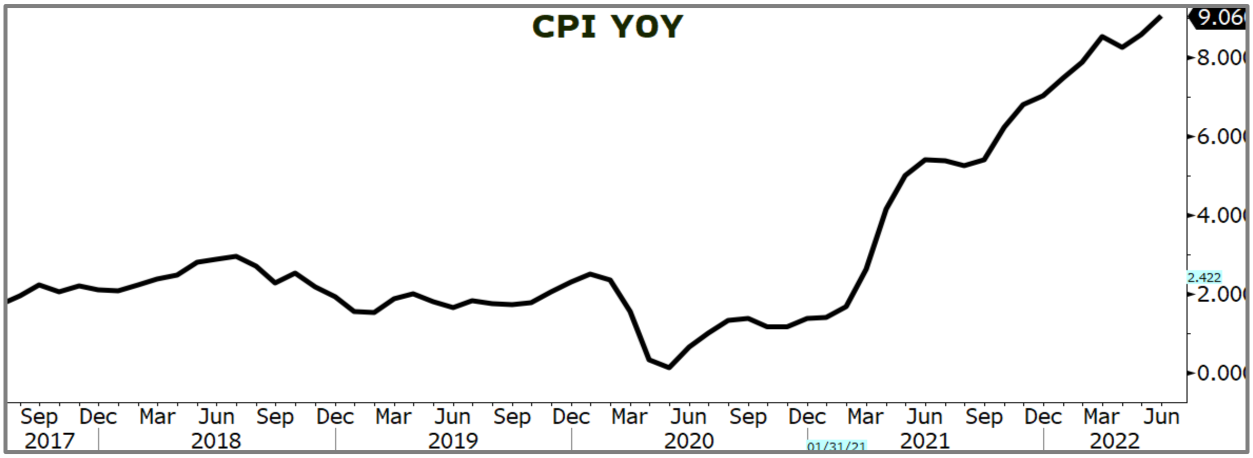
Could Cash Be King Again?

Short-Term Investing Opportunities in Today's Landscape

David Siegel, CFA – Fixed Income Portfolio Manager

As the Federal Reserve implemented various forms of quantitative easing dating back to 2008, it was difficult for short-term investors to be anything but frustrated as yields remained stubbornly low. While this had the effect of propping up several asset classes, such as the stock market, it also made it extremely difficult to earn a meaningful yield on cash-like investments.

However, as we sit here today and for the first time in a long time, there are opportunities for short-term investors to earn more than what has recently been available to them. **And it makes us wonder; could cash be king again? And what are the best ways to take advantage?**

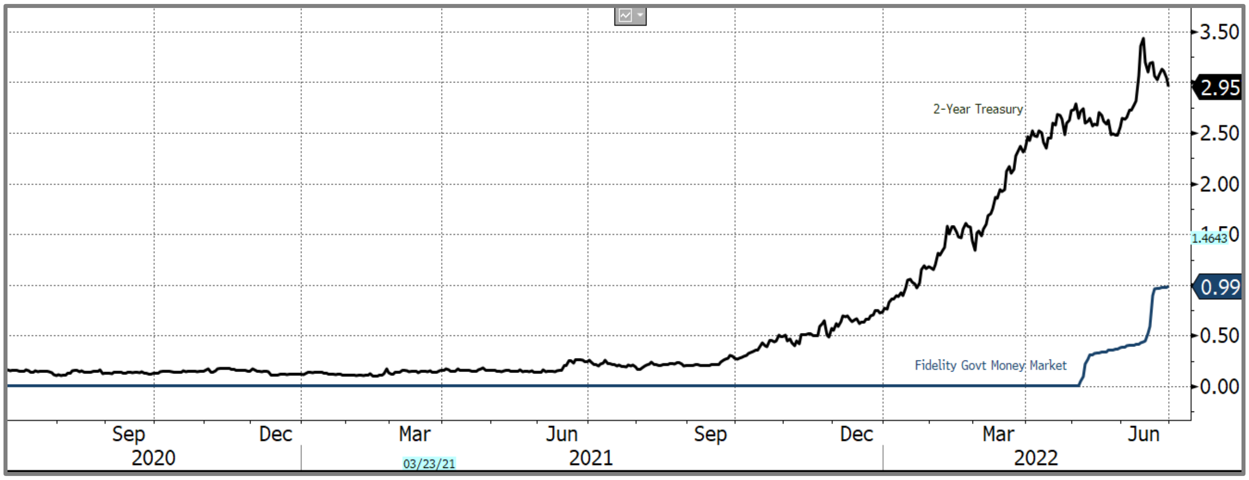


Source: Bloomberg

First, a step back into how we got to where we are in the market. Mainly due to persistent high levels of inflation over the last year, the Federal Reserve has been steadily increasing the Federal Funds Rate in 2022. This has caused interest rates to increase across the entire U.S Treasury curve but the most substantial increase has been on the front-end of curve, 5 years and shorter.

Typically, the concept of "cash" involves investing in a money market fund to protect oneself during times of volatility in other asset classes. **However, while money market rates have increased along with the general uptick of interest rates, they have lagged significantly when compared to short-term U.S. Treasuries.** The yield on the Fidelity Government Money Market fund, as of 6/30, is 0.99% while the 2-year Treasury is 2.95%.

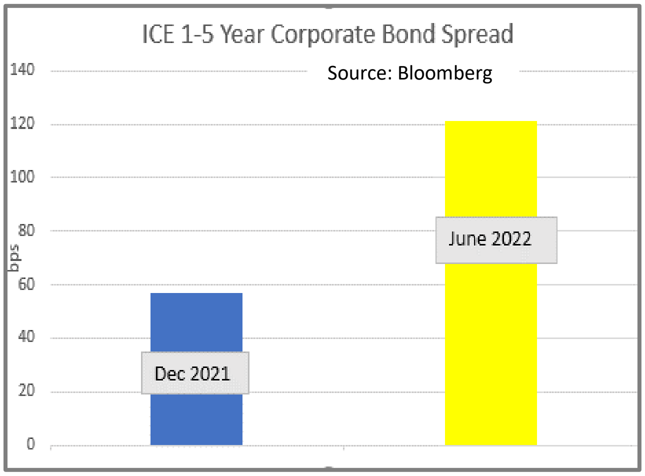
Two-Year Treasury Rate against Fidelity Government Money Market Fund
As of 6/30/2022



Source: Bloomberg, 7 day-yield

Investors that have mandates to focus on short-term investments are primarily concerned about liquidity and capital preservation. These higher Treasury rates now provide the ability to structure an investment portfolio that can earn a more attractive return than what has been available, while maintaining high levels of both safety and liquidity.

If the opportunity set is expanded to include investment grade corporate bonds, the short-term space looks even more appealing. At the end of 2021, the spread of investment grade corporate bonds over their equivalent U.S. Treasury was at all-time lows. A strong economy coupled with Federal Reserve support propped up this asset class and diluted most of any reward available for owning a high-quality corporate bond. Economic concerns, along with the pull-back of Federal Reserve support, has cause those spreads to widen out significantly. Investment-grade companies with bonds of 5 years or less are now providing much more rewarding opportunities for conservative investors.



There is a substantial inflation problem that the United States (and the world for that matter) is facing. However, there are signs that the issue is beginning to subside. As Covid induced supply shocks ease and consumer demand cools, the levels of inflation should begin to come down. Given this scenario, the Federal Reserve may stop hiking rates, and potentially even begin cutting rates in 2023. If this were to happen, interest rates may stabilize or begin to decrease. Therefore, the level of yields available for short-term investors may not be as attractive, and it could prove to be prudent to invest at the yields that are available today.

If you have any questions or interest in seeing what is available in today's environment, please feel free to reach out to fixedincome@saw-grass.com.