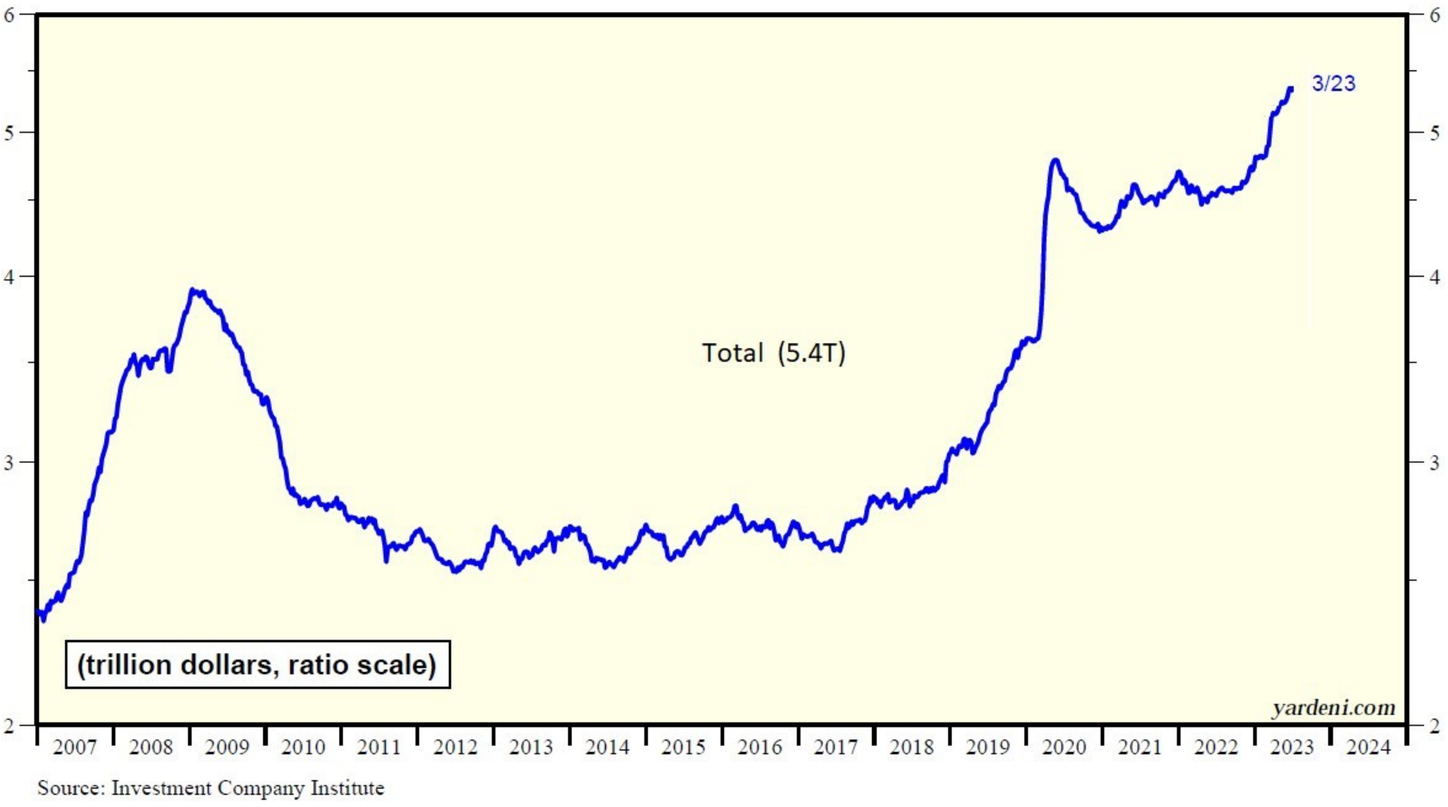
Chart of the Month

March 2023

Money Market Mutual Funds



Silicon Valley Bank and Signature Bank collapsed earlier this month, becoming the second and third biggest bank failures in U.S. history. In addition, First Republic Bank received a liquidity infusion of $70 billion in deposits from a number of banks plus loans from the Federal Reserve in the hopes of rescuing the 14th largest bank in the country by total assets. Furthermore, UBS, Switzerland's biggest bank, acquired its smaller rival Credit Suisse for $3.2 billion, the largest takeover of a troubled financial institution since 2008.

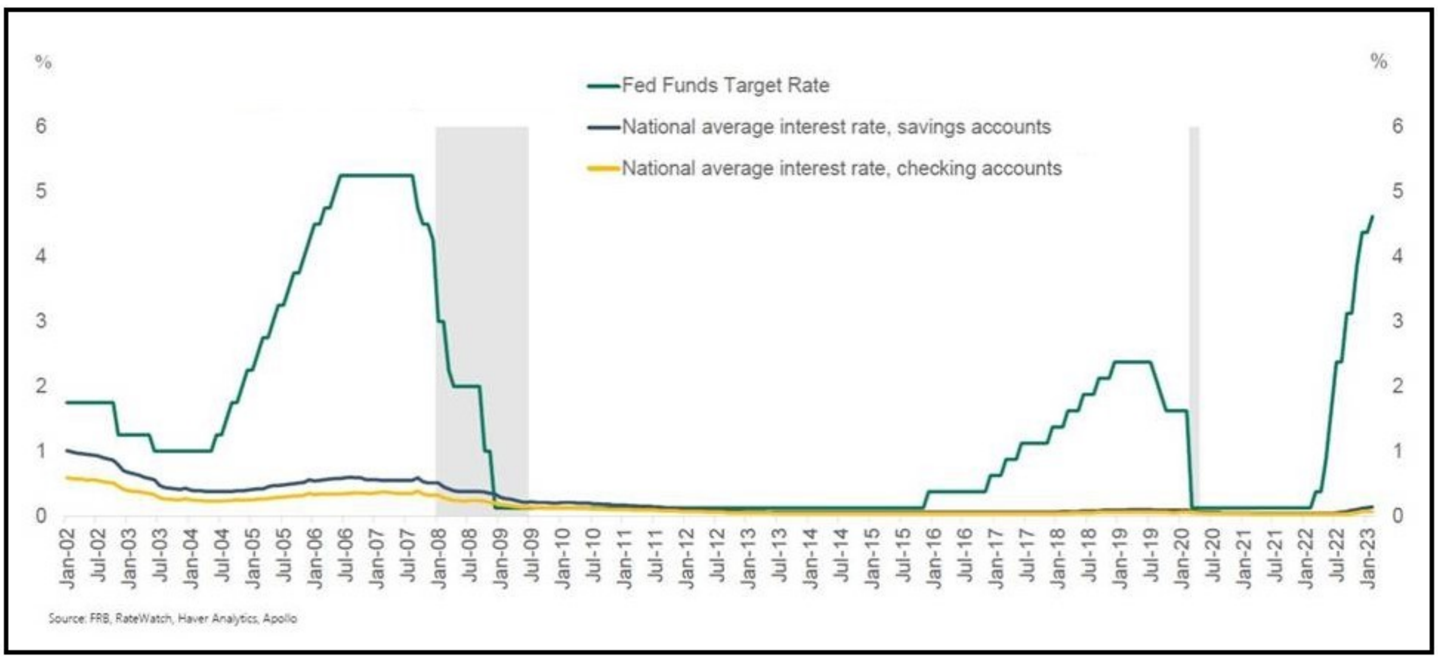
The Fed effectively guaranteed all deposits of the failed banks, including those above and beyond the Federal Deposit Insurance Corporation (FDIC) limit of $250,000. Nonetheless, depositors have been transferring a record amount of cash into money market mutual funds (MMMF), including more than $300 billion since the banking turmoil that rocked the industry these past few weeks, bringing the total to a record-breaking $5.4 trillion (as shown in the chart above).

The run on the banks is due to concerns over the safety of money as well as the fact that the money market mutual funds are paying a substantially higher rate of return vs. bank deposits. Using the fed funds target rate as a proxy, MMMF are yielding over 4% whereas checking and savings are earning next to nothing (see graph below). Banks simply have not kept pace with the rise in interest rates and customers are fleeing to MMMF as a more competitive alternative.

We have been actively managing the cash portion of client portfolios. We recently switched from the Schwab Value Advantage Fund (SWVXX) to the Schwab U.S. Treasury Money Fund (SNSXX) to upgrade to the highest-quality fund available. SNSXX is currently yielding 4.15%. By comparison, the Schwab Bank Deposit Program, which is the brokerage firm's sweep fund, is yielding only 0.45%. As a result, clients are earning an extra 3.70% due to our active management of the cash.

The yields on money market mutual funds are not fixed but instead fluctuate based on prevailing interest rates. We will continue to monitor the various yields and evaluate the best options as conditions and rates change. For the time being, we believe the U.S. Treasury Money Fund is the most prudent vehicle as it provides a combination of safety, daily liquidity, and a competitive yield.

Growing Divergence Between the Fed Funds Rate and Interest on Bank Accounts



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