Global Matters Weekly

04 November 2024

Piled up potential

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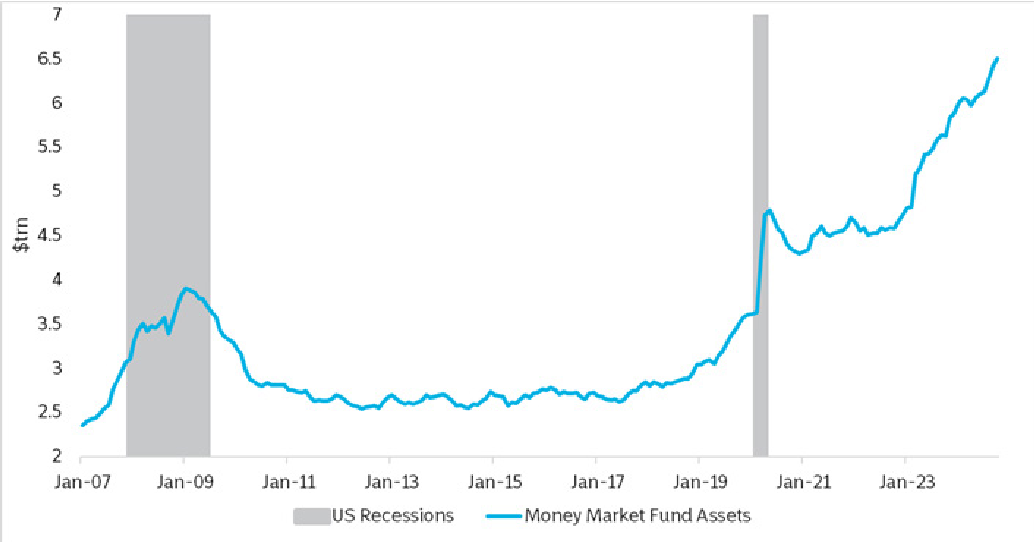
Chart of the Week



Sources: Momentum Global Investment Management, Bloomberg Finance L.P. data to 30 October 2024

What this chart shows

This chart shows the total assets in US money market funds from 2007 through to October 2024, showing a steep increase towards these cash-like investments. Money market funds hold highly liquid, short-term government securities, offering a safe, yield-generating option for investors. As at end October 2024, assets in these funds have surpassed $6.5 trillion - $200bn higher than just before the Fed's recent 50bp rate cut, and nearly doubling since pre-pandemic levels. The sharp rise has been driven by both monetary and fiscal responses to the pandemic and then elevated by higher interest rates, attractive yields and economic uncertainty. Over the last 18 months, reinvestment into these funds has also contributed to their expansion.

Why this is important

Earlier this year, we speculated that a rate cut from the Federal Reserve could be a trigger for investors to move assets from money market funds into riskier assets. However, after the Fed's 50bp rate cut in September, money market assets have continued to increase. This suggests that other factors are at play, such as election-driven caution as we now approach the US presidential election, leaving investors in a wait-and-see mode regarding potential policy outcomes and how these could affect markets. In addition, with the next Federal Open Market Committee meeting approaching on 7 November, the Fed's decision will be crucial. Since the September cut, data has generally come in stronger than expected, with Core CPI picking up slightly. If the Fed holds rates steady, yields on money market funds will remain compelling, likely keeping cash parked in these low-risk assets. A cut, however, particularly if it's another 50 basis points, could potentially prompt a gradual reallocation back into riskier assets. The timeline and extent of future cuts remains uncertain given ongoing inflation and economic resilience and as we near year-end, the unprecedented level of money market assets represents a substantial amount of dry powder on the sidelines, poised to potentially flow back into other asset classes. Yet, if investors wait until rates fall further and other markets begin to rally in anticipation, there's a risk of missing out on early gains.

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