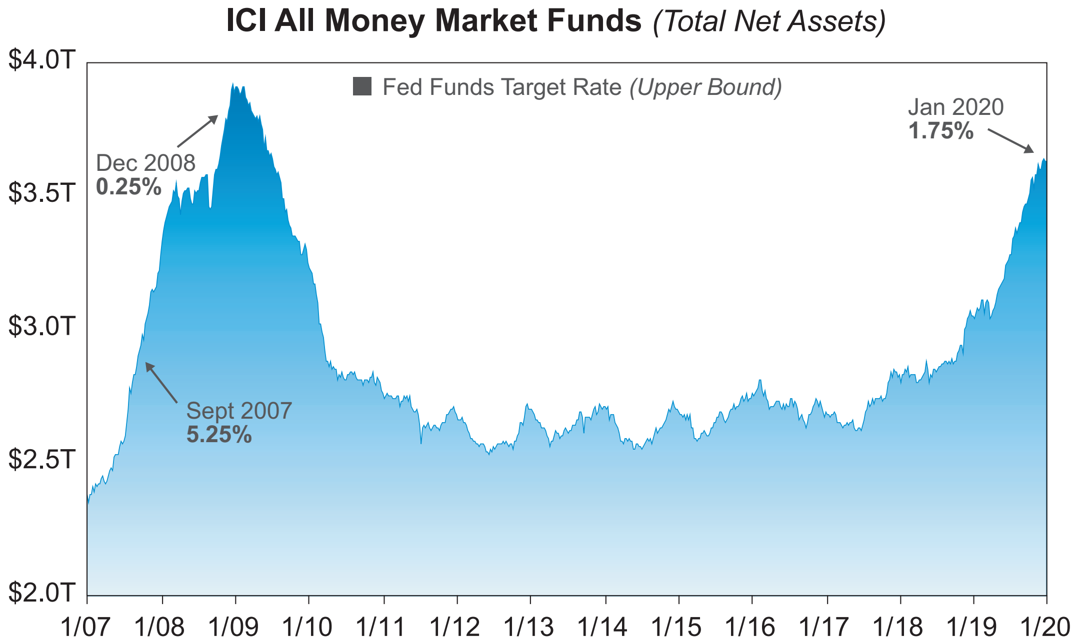
Money Market Fund Assets At Highest Level Since 2009



Source: Investment Company Institute (ICI). Weekly data points from 1/24/07 - 1/22/20.

View from the Observation Deck

1. Money market fund assets totaled $3.63 trillion as of 1/22/20. That is the highest level since 7/29/09, when total assets stood at $3.64 trillion.
2. July 2009 is interesting in that it marked the first month of the current economic expansion, according to the National Bureau of Economic Research. The current expansion is the longest in history.
3. We use the federal funds target rate (upper bound) in the chart as a proxy for short-term interest rates, such as those offered by taxable money market funds and other savings vehicles.
4. In hindsight, the 2008-2009 financial crisis inspired more than a few investors to shift capital into money market funds. As indicated in the chart, the Federal Reserve cut rates from 5.25% to 0.25% to help stimulate economic activity and mitigate the fallout from the crisis.
5. Net new cash flows to the category totaled $654.29 billion in 2007 and $637.70 billion in 2008, or a grand total of $1.29 trillion, according to the ICI. From 2009 through 2011, however, investors liquidated a net $1.19 trillion from the category, an indication the Fed's aggressive rate-cutting was building credibility in the markets. It also indicated that investors were willing to assume more risk to generate higher returns.
6. Year-to-date through November 2019, net new cash flows to money market funds totaled $488.93 billion, the highest since 2008. In light of the temporary inversion of the yield curve in the second half of 2019, there has been plenty of talk about the potential for a U.S. recession in 2020 in the financial media. Is that what is motivating the huge capital flows to money market funds?
7. If so, then investors should take note of the fact that the Fed cut rates three times in the second half of 2019, taking the federal funds target rate (upper bound) from 2.50% to 1.75%.
8. We will continue to monitor cash flows to see how investors respond to the Fed's actions.

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