

Federal Reserve steps up to support liquidity markets

March 18, 2020

The Federal Reserve (Fed) late Wednesday established the Money Market Liquidity Facility (MMLF). While the Fed facility directly addresses money market funds, we believe it also will relieve potential stress on liquidity markets and allow government investment pools to efficiently offer competitive yields and maintain their valuable role in capital markets.

Federated Hermes had advocated for measures to enhance secondary market liquidity in the short-term high-quality money markets amid recent coronavirus-related disruptions. All Federated Hermes local government investment pools, money market funds and liquidity products in general are fully operational and have liquidity in excess of regulatory requirements.

Through the MMLF, the Federal Reserve Bank of Boston will make loans available to eligible financial institutions—dealers and banks—secured by high-quality assets purchased from money market mutual funds on or after March 18, 2020. This program is very similar but even broader in nature to one also facilitated through the Boston Fed during 2008 and 2009 and effective until Feb. 1, 2010, called the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), which accomplished similar secondary market liquidity.

We believe the MMLF addresses the liquidity concerns in the broader money markets and inventory capacity on the market makers' balance sheets. The MMLF allows dealers and banks to purchase commercial paper and other high-quality short-term paper from prime money market funds and fund these assets with the Federal Reserve Bank of Boston. The Fed has also given the banks and dealers that participate in this program regulatory capital relief.

The establishment of the facility is a move that has been recommended—and anticipated—to maintain efficient and timely functioning of the high-quality, short-term money markets that flow through directly to the prime money market funds and broader markets. We applaud the Fed's rapid assessment, action and ingenuity.

Views are as of the date above and are subject to change based on market conditions and other factors. These views should not be construed as a recommendation for any specific security or sector.

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