Bond Case Briefs

Municipal Finance Law Since 1971

For Public Cash Managers, Rewards — and Risks — in a Fast-Changing Landscape

With the Federal Reserve raising interest rates, the yields on money market funds, state investment pools and bank accounts lag the payouts on safe securities. Staff needs to do its upside/downside homework.

For two years, the term "cash management" has been an oxymoron, because there was no point in managing governments' operating cash when its return was nil. For financial staffers, the theme was "park it and forget it" while putting their time to better use elsewhere. But now it's time for that sleepy money to come out of hibernation. Public cash managers can now re-engage in their craft to generate serious revenue. As always, a changing market landscape brings a changing risk environment.

Throughout the COVID-19 pandemic, the Federal Reserve suppressed interest rates, pushing the so-called federal funds rate close to zero. As a result, traditional liquidity products used by cash managers didn't fare much better. In the money market fund industry, for example, the prevailing yield in recent years has been just one basis point (0.01 percent). Banks likewise have paid virtually nothing on their money market deposit accounts and short-term certificates.

Continue reading.

governing.com

by Girard Miller

April 26, 2022