Federated

October 2018 Money Market Commentary

Fund Name	Ratings	Share Class	NASDAQ
PRIME INSTITUTIONAL[1]			
Federated Institutional Money Market Management	AAAm S&P AAAmmf Fitch	IS	MMPXX
		CAP	MMLXX
		SS	MMSXX
		EAG	MMMXX
Federated Institutional Prime Obligations Fund	AAAm S&P AAAmmf Fitch	IS	POIXX
		CAP	POPXX
		SS	PRSXX
		TR	POLXX
Federated Institutional Prime Value Obligations Fund	AAAm S&P AAAmmf Fitch	IS	PVOXX
		CAP	PVCXX
		SS	PVSXX
MUNICIPAL INSTITUTIONAL[1]			
Federated Institutional Tax-Free Cash Trust	AAAm S&P AAAmmf Fitch	PRM	FTFXX
		IS	FFTXX
PRIME RETAIL[2]			
Federated Prime Cash Obligations Fund	AAAm S&P Aaa-mf Moody's AAAmmf Fitch	WS	PCOXX
		CAP	PCCXX
		SS	PRCXX
MUNICIPAL RETAIL[2]			
Federated Municipal Obligations Fund	N/A	WS	MOFXX
		CAP	MFCXX
		SS	MOSXX
Federated Tax-Free Obligations Fund	Aaa-mf Moody's AAAmmf Fitch	WS	TBIXX
		SS	TBSXX
GOVERNMENT/TREASURY[3]			
Federated Government Obligations Fund	AAAm S&P Aaa-mf Moody's AAAmmf Fitch	PRM	GOFXX
		IS	GOIXX
		CAP	GOCXX
		SS	GOSXX
		TR	GORXX
Federated Government Obligations Tax-Managed Fund	AAAm S&P Aaa-mf Moody's	IS	GOTXX
		SS	GTSXX
Federated Treasury Obligations Fund	AAAm S&P Aaa-mf Moody's NAIC List*	IS	TOIXX
		CAP	TOCXX
		SS	TOSXX
		TR**	TOTXX
Federated U.S. Treasury Cash Reserves	AAAm S&P Aaa-mf Moody's NAIC List*	IS	UTIXX
		SS	TISXX

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Month in Cash: Coming around to our way of thinking

October 1, 2018

In recent weeks, we've begun to see a stirring in the financial press about the renewed worthiness of cash and money markets, especially prime institutional. What was once "in the doldrums," "left for dead" and dealt a "fatal blow" is now regaled with statements such as "prime time returns," "cash comes into focus" and having "increasing attractiveness."

Hmmm. This all sounds strangely familiar. Might that be because we at Federated—not to mention this column—have been saying this for months and quarters? What a Bloomberg article recently called, "Rising rates lift relative appeal of cash to decade high," we have said in marketing campaigns and presentations for some time. In particular, our mandate has been to focus liquidity clients on the comparisons between banks and prime. It's important to remember that, industry-wide, prime products tend to be more responsive than bank deposits to rising rates because they trade using the London interbank offered rate (Libor), which traditionally traces Fed hikes faster and that money funds provide a market rate, not an administrative one chosen by a bank or similar institution. It's a reason assets are flowing back into prime money funds in general; diversification is another one.

Well, better late than never for the popular press, which Reuters colorfully said a few days before the Federal Open Market Committee (FOMC) raised rates in its September meeting: With the "anticipated rate action, cash will join the party."

In addition to a much-expected 25-basis-point hike in the target range to 2-2.25%, the FOMC summary of economic projections indicated it expects one more hike before the end of 2018 and three similar hikes in 2019. The forecast extended to 2021 this time, with a rate of 3.4% implying no additional tightening.

A bit of inside baseball is that the Fed did not choose to further lower the interest paid on excess reserves (IOER) target compared to the upper end of the fed funds rate. Both rose a quarter point, so the difference between them remains 20 basis points.

We would expect yields on prime securities to continue to move higher over the fourth quarter and issuance of Treasuries to remain strong. Given the outlook for higher rates, we continue to invest in floating-rate securities and maintain the weighted average maturity (WAM) of our prime funds in a 30-40 day range and 25-35 days for government funds, with our municipal call shifting down five days to 25-35. Libor rose over the month, with 1-month at 2.26%, 3-month at 2.40% and 6-month at 2.60%.

Treasury Yields as of 9/30/18	3-Month	6-Month	2-Year	5-Year
	2.19%	2.36%	2.81%	2.94%

Libor Rates as of 9/30/18	1-Month	3-Month	6-Month	1-Year
	2.26%	2.40%	2.60%	2.92%

Past performance is no guarantee of future results.

Views 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.

London Interbank Offered Rate (Libor): The rate at which banks can borrow funds from other banks in the London interbank market. The Libor is fixed on a daily basis by the British Bankers Association and acts as a benchmark for other short-term interest rates.

**This fund is on the National Association of Insurance Commissioner's list as a U.S. Direct Obligations/Full Faith & Credit listing. This designation denotes that the fund meets certain quality and pricing guidelines such as: a rating of AAAm or Aaa-mf by a Nationally Recognized Statistical Rating Organization (NRSRO), maintains a constant NAV $1.00 at all times, allows a maximum seven-day redemption of proceeds, invests 100% in U.S. government securities. This is subject to an annual review.*

***Share class is not currently on the NAIC List.*

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