Federated®

July 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	Ammf Fitch	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 NAIC List*	PRM	GOFXX
		IS	GOIXX
		CAP	GOCXX
		SS	GOSXX
		TR**	GORXX
Federated Government Obligations Tax-Managed Fund	AAAm S&P Aaa-mf Moody's NAIC List*	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: No more normal?

July 2, 2018

For the Federal Reserve over the last 2½ years, business as normal has been the business of normalizing policy. It looks as if the Fed has finally shifted to tightening.

In mid-June, it raised rates to a target range of 1.75-2%, closer than the Fed has been in more than a decade to its comfort zone. With its summary of economic projections now indicating two more hikes in 2018 (our house call, as well) and three in 2019, quantitative tapering (QT) set to expand to $40 billion per month in July and Chair Jerome Powell's upbeat assessment of the economy, it appears expansionary policy will soon run its course. We likely are near a bona-fide tightening cycle.

In addition to gushing about the economy, Powell announced that starting in July, he would be holding press conferences after every Federal Open Market Committee (FOMC) meeting instead of every other one. This is the culmination of years of trying to make the Fed's decision-making transparent, a far cry from its tradition of keeping monetary policy a secret. Powell's reasoning is that the markets have stopped even considering rate action in meetings when he doesn't speak. That is true, but the extra pressers could result in occasional unintentional transmitting of information. Case in point: June's hike. While the committee simply indicated it expected to issue two more 25 basis-point increases this year, Powell painted that info a hawkish hue by using the word "great" to describe the economy when speaking to the press. As the Fed tightens, hikes will become more and more critical and Fedspeak more and more scrutinized because too many hikes might precipitate a recession. The "plain-spoken" Powell will need to choose his words carefully.

In June, the 1-month London interbank offered rate (Libor) rose from 1.98% to 2.09%; 3-month increased from 2.31% to 2.34%; and 6-month rose from 2.47% to 2.50%. The bump in the short end made floating-rate securities attractive for cash managers. The prime space saw a substantial supply of these and other short-term instruments, such as commercial and bank paper, and even Treasuries fit because of their still attractive yields on elevated supply. We kept the weighted average maturity (WAM) of our prime funds in a 30-40 day range, and at the short end of that for good measure. Our municipal WAM range dropped to 25-35 days, but our government funds remained within 25-35 days.

In June, institutional prime products industry-wide continued to show only minor net asset value (NAV) movement. This stability played a large part in investors returning cash to the sector, as the appeal of the additional 25-30 basis points in spread over government funds with next-to-no concern of loss of principal. Lastly, the spread between 3-month Libor and the Overnight Index Swap (OIS) remained wide in the month, not due to poor bank credit but excess short-term Treasury issuance from the Treasury Department and supply coming from Fed QT.

Treasury Yields as of 6/30/18	3-Month	6-Month	2-Year	5-Year
	1.93%	2.13%	2.52%	2.73%

Libor Rates as of 6/30/18	1-Month	3-Month	6-Month	1-Year
	2.09%	2.34%	2.50%	2.76%

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.

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

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41805 (7/18)

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