Quarterly money market commentary

First American Money Market Funds

What market conditions had a direct impact on the bond market this quarter?

Economic Activity – The fourth quarter (Q4) closed out a strong year for the U.S. economy with economic activity continuing to exceed expectations and growing at an above-trend pace throughout the year. U.S. gross domestic product (GDP) is projected to grow near 2.5% for Q4 amid still-firm domestic demand and consumer spending. Personal consumption remained healthy throughout the quarter as growing real wages and household wealth helped offset persistent headwinds from elevated prices and high interest rates. Labor market data was volatile during the quarter due to hurricane and strike-related impacts, but overall condiations suggest a resilient market that continues to normalize with stable hiring activity and low numbers of layoffs. November U.S. job openings rose modestly to 8.1 million open positions, while total unemployed workers in the labor force as of December were unchanged at 6.9 million. Monthly non-farm payrolls (NFP) growth remains healthy, averaging 170,000 during Q4 and the U3 unemployment rate was 4.1% in December, matching the level from September. Average hourly earnings growth is off its highs but remains solid at 3.9% year-over-year (YoY). The Consumer Price Index (CPI) increased to 2.7% in November versus 2.4% in September reflecting an uptick in energy prices. Core inflation's downward momentum stalled during the quarter with CPI ex- food and energy rising 3.3% YoY in November, consistent with the pace in September. The Federal Reserve's (Fed) preferred inflation index – the PCE Core Deflator Index – increased 2.8% YoY in November. The path back to the Fed's 2% inflation target remains elusive as minimal progress has been made to curtail elevated core services prices. While recent easing pressures within shelter costs offer an encouraging sign, the Fed is becoming increasingly wary of inflation risk leading to the potential for a longer pause in rate cuts to start the new year.

Monetary Policy – The Fed lowered its federal funds target range twice during the quarter, by 25 basis points (bps) at both the November 7 and December 18 meetings, ending the year at 4.25% to 4.50%. The Fed's post-meeting statement was little changed in December, only adding "the extent and timing" of additional rate moves will be based on the incoming data, the evolving outlook, and the balance of risks. The Fed also continues to implement its balance sheet reduction program (quantitative tightening), with a monthly cap of $25 billion in Treasury securities and $35 billion of agency mortgage-backed securities. The December rate cut was viewed as a "hawkish cut" by market

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participants with the Fed appearing to lay the groundwork for a slower pace of policy easing, including an anticipated pause at the upcoming meeting in January.

The Federal Open Market Committee (FOMC) released its updated Summary of Economic Projections at the December meeting which indicates additional rate cuts are coming, but later than previously forecast. The median projection for the federal funds rate at the end of 2025 was revised higher to a range of 3.75% to 4.0%, signaling 50 bps of rate cuts during the year versus 100 bps previously. The median dots show further rate cuts of 50 bps in 2026 and 25 bps in 2027, and the estimated longer-run neutral rate was increased to 3.0% (previously 2.875%). The FOMC's economic projections were revised to show higher expected core inflation in 2025 (2.5% vs. 2.2%) and 2026 (2.2% vs. 2.0%) compared to the prior release while revisions to GDP growth and unemployment forecasts were minimal. While the economic projections and dot plot are helpful in determining committee member's current expectations, we do not put too much stock in them as evolving economic conditions can quickly render them out-of-date. Additionally, the timing and economic impact from the incoming Trump Administration's policies on taxes, regulations, tariffs, and immigration will have an influence on the path of monetary policy in 2025.

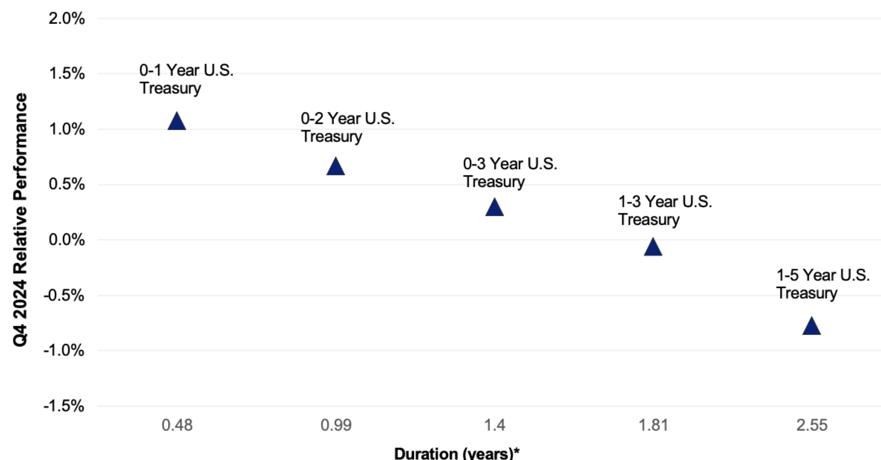
Fiscal Policy – In an all too familiar scene, the federal government once again narrowly avoided a shutdown near the end of December, with Congress passing a continuing resolution to fund government operations at existing spending levels through March 14. The spending bill also included $100 billion in disaster and $30 billion in agricultural aid but did not include an extension of the debt ceiling, a late request by incoming President Trump. The debt ceiling, which was reinstated January 1, 2025, is not expected to become a binding issue until later in the year as the Treasury can use extraordinary measures and incoming tax receipts to continue funding the government over the near-term. The next year is anticipated to be an active period for fiscal policy. In addition to passing an annual budget and addressing the debt ceiling, legislation surrounding tax cuts and areas of spending reduction are expected to be high on the agenda for the new Congress and incoming Administration. On the municipal side, strong stock market performance in 2024 along with solid sales and property tax collections will aid state and local government budgets. As federal COVID money runs out, municipal entities that aligned the one-time revenues with one-time expenses will fare better than those that spent it on reoccurring expenditures.

Credit Markets – The three-month to 10-year portion of the U.S. Treasury yield curve steepened a hefty 109.1 bps in the quarter, as short rates fell on two 25 bps Fed rate cuts and long-rates moved higher on markets reducing the number of expected Fed rate cuts and growing skepticism over future progress on inflation. The yield curve shift resulted in the first positively shaped curve since Q4 2022. The severe yield curve steepening resulted in short duration strategies outperforming longer duration strategies. Lower-rated credit spreads outperformed their higher-rated counterparts.

Yield Curve Shift

U.S. Treasury Curve	Yield Curve 9/30/2024	Yield Curve 12/31/2024	Change (bps)
3 Month	4.617%	4.314%	-30.3
1 Year	4.002%	4.143%	14.1
2 Year	3.641%	4.242%	60.1
3 Year	3.549%	4.273%	72.4
5 Year	3.558%	4.382%	82.4
10 Year	3.781%	4.569%	78.8

Duration Relative Performance



Duration estimate is as of 12/31/2024

For the year, the three-month to ten-year portion of the yield curve steepened 170.8 bps, with three-month yields falling just over 100 bps and ten-yield yields rising 69 bps. The severe steepening pivoted around the two-year yield which ended 2024 only 0.8 bps lower than the end of 2023.

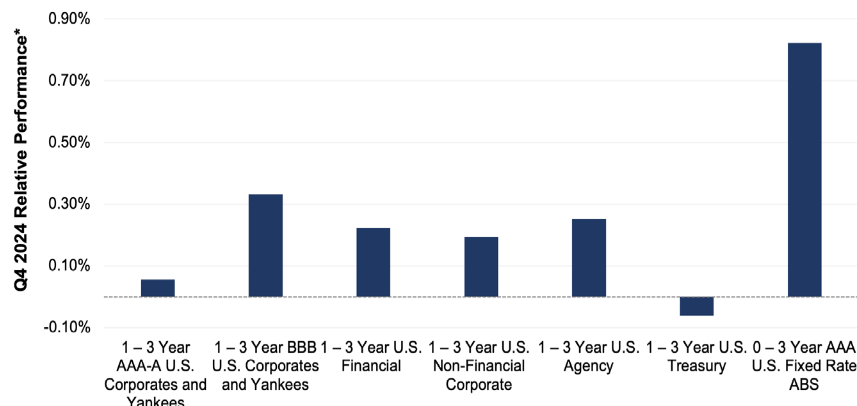
Credit Spread Changes

ICE BofA Index	OAS* (bps) 9/30/2024	OAS* (bps) 12/31/2024	Change (bps)
1-3 Year U.S. Agency Index	3	4	1
1-3 Year AAA U.S. Corporate and Yankees	7	14	7
1-3 Year AA U.S. Corporate and Yankees	26	30	4
1-3 Year A U.S. Corporate and Yankees	50	49	-1
1-3 Year BBB U.S. Corporate and Yankees	80	75	-5
0-3 Year AAA U.S. Fixed-Rate ABS	58	38	-20

Corporate credit spread performance diverged in the quarter, with higher quality issuers widening and BBB credit spreads tightening. Neither move was significant, but did result in solid outperformance for BBB corporates versus corporates in the AAA-A rated category. ABS spreads outperformed all corporate investment-grade sectors by tightening 20 bps in the quarter.

Option-Adjusted Spread (OAS) measures the spread of a fixed-income instrument against the risk-free rate of return. U.S. Treasury securities generally represent the risk-free rate.

Credit Sector Relative Performance of ICE BofA Indexes



**AAA-A Corporate index outperformed the Treasury index by 8.6 bps.*

AAA-A Corporate index underperformed the BBB Corporate index by 27.6 bps

U.S. Financials outperformed U.S. Non-Financials by 3.0 bps

Given the jump in longer rates, absolute performance in longer fixed income indices was muted. AAA-rated ABS was the only notable outperformer, driven by the healthy 20 bps tightening in credit spreads. BBB credit outperformed the AAA-A-rated category on higher coupon income and better spread performance in the quarter.

What were the major factors influencing money market funds this quarter?

The fourth quarter of 2024 witnessed a continuation of the Fed's easing cycle, with rates lowered 25 bps at both the November 7 and December 18 Fed meetings, setting the federal funds target range to 4.25%-4.50% by year-end. Following the soft September jobs report, labor and inflation data firmed, softening the pace and expectation of additional rate cuts. The markets now indicate one additional 25 bps cut in 2025 as confidence in economic growth, employment and inflation stubbornness persist. There are varying opinions on the timing, depth and pace of future rate activity and the Fed will remain data-dependent. The challenge for managers will be determining how the economic, inflation and employment data will influence FOMC action.

Industry-wide, money market fund assets increased during the quarter as short-term yields continued to attract investors. Money market funds remain a viable option relative to other short-term cash equivalent options.

First American Prime Obligations Funds

Credit conditions and trading ranges appear stable, given the current rate environment. Given the yield curve and our conservative cash flow approach, the First American Funds were positioned with strong portfolio liquidity metrics influenced by Fund shareholder makeup. We continued to employ a heightened credit outlook, maintaining positions presenting minimal credit risk to the Fund's investors. During the fourth quarter, our main investment objective was to maintain liquidity while opportunistically enhancing portfolio yield, with a combination of fixed and floating-rate securities, based on our economic, credit and interest rate outlook. We believe the credit environment and higher relative fund yields make the sector an appropriate short-term option for investors.

First American Government and Treasury Funds

As the Fed continued its easing cycle, money market funds moved into defensive mode to preserve yields in the face of falling rates. Managers extended durations, investing in longer-term securities to get ahead of a forecasted lower yield environment. With QT and increasing debt needs, repo supply remained plentiful, which put marginal upward pressure on repo and secured overnight financing rate (SOFR) yields. These market dynamics support a more barbell investment strategy. For MMF investors, funds' extension into lower-yielding long-term securities puts marginal downward pressure on portfolio yields. However, the slowing pace of Fed activity and flat yield curve should mute the downward pressure on front-end rates and ultimately should slow the decline in money market fund yields. Strategically, when presented with appropriate value, managers purchased floating-rate investments anticipated to benefit shareholders over the securities holding period. Our investment strategy will be fluid in the coming quarters as we determine the Fed's comfort level with inflation and, ultimately, the timing and pace of future rate moves.

First American Retail Tax Free Obligations Fund

While the Federal Reserve has lowered rates by 100 bps since September, the immediate impact on tax exempt money market yields was modest through December. Comparing the average rates for SIFMA in Q3 versus Q4, we see a decline of only 10 bps. This seemingly muted reaction is partially attributed to the richer/lower variable rate demand notes (VRDN) levels experienced during the summer, when reinvestment demand from bond maturities and coupon payments was strong. Increasing volumes of new issuance in the broader municipal market just before the election boosted early fourth quarter VRDN resets as investors required cash to cover these bond settlements. SIFMA spiked higher again late in the year, reflecting the motivations of broker/dealers to keep inventories light. VRDNs have moved significantly lower to start 2025, which we anticipated based on municipal bond seasonal patterns, including heavy reinvestment from maturities and coupon payments in January and February. This outlook for lower VRDN rates shaped our strategies toward a portfolio with higher fixed-rate investment allocations, and a longer weighted average maturity (WAM) relative to our competitors.

What near-term considerations will affect fund management?

Industry-wide, prime fund yields will gradually decline as managers roll maturities into lower-yielding securities that are pricing in future rate cuts. Compression in credit spreads will also narrow SOFR floating rate coupons, putting marginal downward pressure on portfolio yields. However, front-end yields in credit securities should continue to benefit from the overall supply of Treasury securities, as well as the potential impacts of a smaller prime money market fund universe creating competition among credit issuers for the marginal dollar. Based on our market outlook and breakeven analysis, we will seek to capitalize on investment opportunities that make economic sense in the coming quarters. We believe the Institutional and Retail Prime Obligations Funds will remain reasonable short-term investment options for investors seeking higher yields on cash positions while assuming minimal credit risk.

Yields in the government-sponsored enterprise (GSE) and Treasury space will decline in concert with additional anticipated Fed rate cuts. As with non-government debt, government and Treasury fund yields will continue to gradually decline as managers roll maturities into securities with lower yields that are pricing in future rate reductions. Managers will defend against future cuts by extending to optimal spots on the curve relative to Fed rate forecasts, policy impacts and market volatility. We anticipate some moderate yield dislocations in Treasury, GSE and repo issues as Treasury supply fluctuates. We note that with the failed extension of the debt ceiling extraordinary measures will be implemented, reducing Treasury bill issuance until a resolution is reached. A supply decrease in Treasury bill issuance will put temporary downward pressure on Treasury bill yield and, ultimately, Government and Treasury Money Market Funds. However, in general, with a resolved/extended debt ceiling policy and the continuation of quantitative tightening, we believe Treasury bill yield should remain attractive. Any large supply changes in Treasury issuance may create yield volatility and opportunities on the front end as the forces of supply and demand seek optimization. We will continue to seek value in all asset classes and exploit market conditions that support domestic and global economic outlooks.

For more information about the portfolio holdings, please visit
https://www.firstamericanfunds.com/index/FundPerformance/PortfolioHoldings.html

Sources

Bloomberg

https://www.federalreserve.gov/monetarypolicy/files/monetary20241107a1.pdf

https://www.federalreserve.gov/monetarypolicy/files/monetary20241218a1.pdf

https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20241218.pdf

https://www.cbsnews.com/news/government-shutdown-congress-trump-elon-musk/

Definitions

Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Federal Reserve (Fed) is the United States central banking system. It is comprised of 12 regional central banks, known as the Federal Reserve Banks, which are owned by private banks. The Fed is governed by a seven-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.

Government-Sponsored Enterprise (GSE) is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, through privately held, provide public financial services. GSEs help to facilitate borrowing for all sorts of individuals, from students to farmers to homeowners.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

ICE BofA 0-1 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than one year.

ICE BofA 0-2 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than two years.

ICE BofA 0-3 Year AAA U.S. Fixed Rate Asset Backed Securities Index is a subset of ICE BofAML U.S. Fixed Rate Asset Backed Securities Index including all securities with a remaining term to final maturity less than three years and rated AAA.

ICE BofA 0-3 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than three years.

ICE BofA 1-3 Year AAA-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AAA through A3, inclusive.

ICE BofA 1-3 Year AA U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated AA1 through AA3, inclusive.

ICE BofA 1-3 Year BBB U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch US Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated BBB1 through BBB3, inclusive.

ICE BofA 1-3 Year Single-A U.S. Corporates & All Yankees Index is a subset of the BofA Merrill Lynch U.S. Corporate & Yankees Index including all securities with a remaining term to final maturity less than three years and rated A1 through A3, inclusive.

ICE BofA 1-3 Year U.S. Agency Index is a subset of ICE BofAML U.S. Agency Index including all securities with a remaining term to final maturity less than three years.

ICE BofA 1-3 Year U.S. Financial Index is a subset of ICE BofAML U.S. Corporate Index including all securities of Financial issuers with a remaining term to financial maturity less than three years.

ICE BofA 1-3 Year U.S. Non-Financial Corporate Index is a subset of ICE BofAML U.S. Non-Financial Index including all securities with a remaining term to final maturity less than three years.

ICE BofA 1-3 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than three years.

ICE BofA 1-5 Year U.S. Treasury Index is a subset of the BofA Merrill Lynch U.S. Treasury Index including all securities with a remaining term to final maturity less than five years.
Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.
Monetary Policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.
Non-farm payrolls (NFP) is the measure of the number of workers in the U.S. excluding farm workers and workers in a handful of other job classifications.
PCE Core Deflator Index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.
SIFMA is the Securities Industry and Financial Markets Association Municipal Swap index, which is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.
Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.
U3 Unemployment Rate is the commonly-referred to unemployment rate. It includes people out of work who have been actively seeking employment over the last four weeks.
Variable Rate Demand Note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rates. The interest rate applicable to the borrowed funds is specified from the outset of the debt and is typically equal to the specified money market rate plus an extra margin. Also referred to as a variable rate demand obligation (VRDO).
Yield Curve is a line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.

[Please see important disclosures on the following page.]

The information and views expressed are provided by the funds' portfolio manager(s) and are current only through the date on this report. They are not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. One cannot invest directly in an index. This information is subject to change at any time based on upon market or other conditions and may not be relied on as a forecast of future events or a guarantee of future results. Fund holdings, sector and portfolio allocations are subject to change at any time and are not recommendations to buy or sell any security. **Past performance does not guarantee future results.**

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For U.S. Treasury, Treasury Obligations and Government Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

For Retail Prime Obligations and Retail Tax-Free Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. The fund may impose a fee upon sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

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