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Asset Allocation
Chart of the Month

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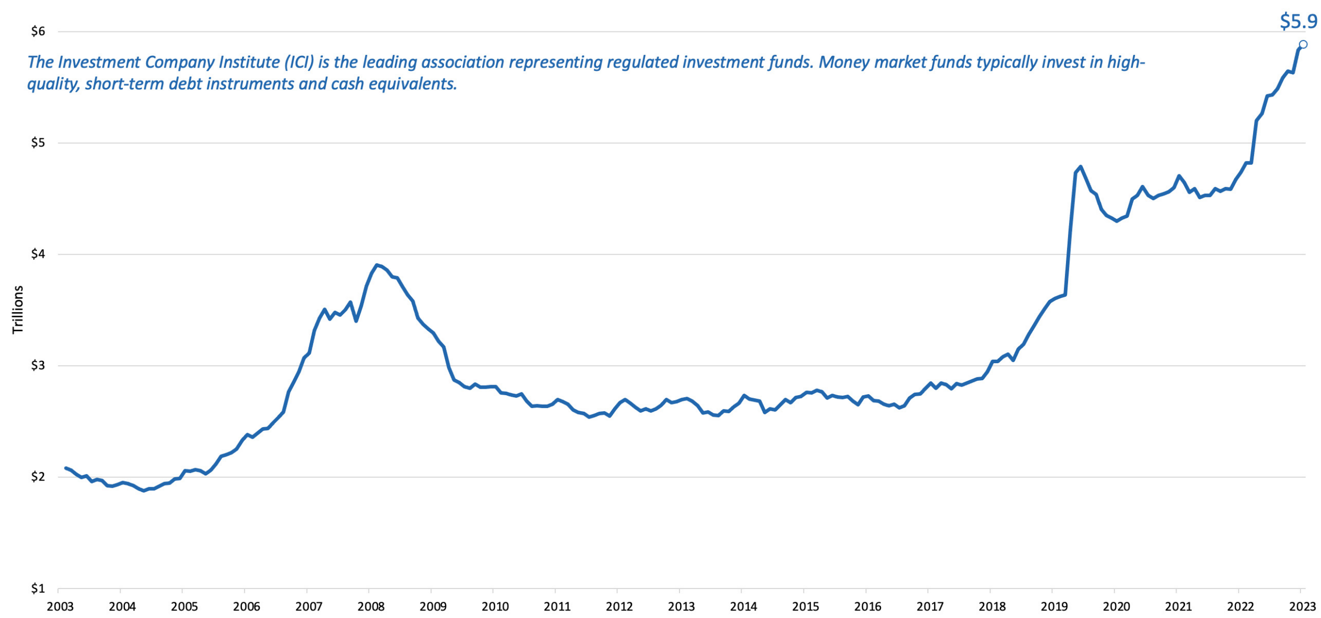
- Starting in 2020 the U.S. Government launched a set of stimulus programs that, combined, were larger than anything seen historically. This "helicopter drop" of money on consumers and businesses led to a significant build up in cash holdings. Then in 2022 the FOMC embarked on one of its most aggressive monetary tightening campaigns raising their Federal Funds rate target by over 500 basis points to 5.4% (mid-point of range). For perspective, In the 10 years preceding the Federal Funds rate averaged just 0.6%, and that included a tightening cycle from 2016-2019.
- As a result of this fiscal stimulus and a 10 fold increase in short-term interest rates Money Market Fund assets have grown to $5.9 trillion. It is a staggering sum, though maybe not all that surprising given the drivers.
- Not counted in this money market mountain is another $1 trillion in small denomination deposits (mostly CDs); it was less than $100 billion in the middle of 2022.
- It seems everywhere we look there is cash ready to be deployed. For example, of the $1.5 trillion committed to private credit over 25% is "dry powder" which is committed but not yet deployed.
- We believe that the FOMC is very likely to begin cutting rates this year and that lower rates will trigger an avalanche on this mountain of liquidity, putting a lot of other asset classes into play.
- Where will that money go? Likely in many directions, but we believe that it will have its largest impact on asset classes that are less liquid, which is natural given greater price sensitivity to asset flows, as well as cheaper and more economically sensitive sectors as investors anticipate economic support from lower interest rates.
- That leads us to U.S. small and mid-cap stocks which appear well positioned to benefit as they ring all three bells of lower liquidity, lower valuations and greater economic sensitivity. Also, while we remain slightly underweight to high yield given valuation, we did reduce our high yield underweight as we see less of a default burden and are attracted to current yields.

ICI Money Market Fund Assets



Source: Bloomberg. 20 years monthly date through Dec 2023

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