



# Stable Value Versus Money Market Funds

Historically low rates highlight key advantages for stable value.

August 2020

With the Federal Reserve policy rates at or near zero and money market fund managers back to waiving management fees in order to maintain positive money fund yields, now is a good time to revisit the comparison between money market funds and stable value funds.

Stable value strategies continue to offer a uniquely attractive risk/reward profile for defined contribution plans and participants who include principal preservation components, like stable value and money market funds, in their investment lineups.

In steady and falling interest rate environments, a stable value portfolio, with its longer duration and higher risk profile, typically maintains a higher yield and can outperform other principal preservation options, like money market funds.

Given the Federal Reserve's current near-zero interest rate policy, in the near term, we believe stable value funds could perform at the higher end of their historic yield advantage relative to money market funds. Furthermore, in this challenging economic environment, the Federal Reserve may keep the federal funds rate target low for extended periods of time. Against this backdrop,

some money market fund managers have already been forced to reduce or waive money market fund management fees in order to maintain a positive fund yield while policy rates remain near zero.

Stable value has held up well during the coronavirus crisis. It can be argued that the strategy has not only outperformed money market funds in terms of yields and return, but also in terms of structure as the Fed once again had to step in and provide liquidity facilities to support money market fund investments.

History has shown that stable value funds have performed well relative to money market funds, other short-term bond investment options, and inflation across various interest rate environments. Over the past two decades, stable value funds have largely maintained a sizable yield advantage over money market funds, with the only exceptions occurring during brief periods when the Fed was hiking rates to combat inflation (Figure 1).

With a low interest rate environment as a backdrop for the foreseeable future, now is a good time to compare key metrics for money market funds and stable value funds to assess the capital preservation option for plan participants. In Figure 2, we highlighted some of the most common comparisons and key metrics.



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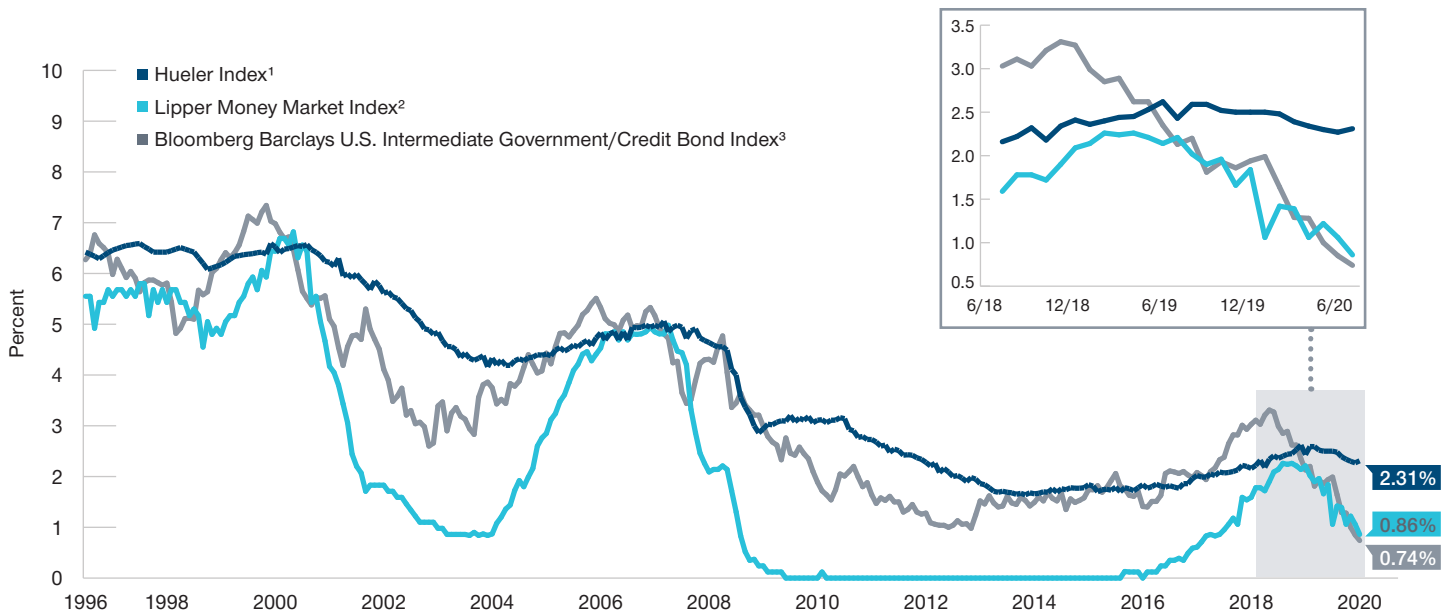
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## Historical Yield Comparison

(Fig. 1) Stable value can offer more attractive yields relative to money markets



As of June 30, 2020.

**Past performance is not a reliable indicator of future performance. Money market and stable value funds have different risks. It is important that you carefully review the legal documents for each type of vehicle prior to investment to determine if it is appropriate for you.**

Figures are calculated in U.S. dollars.

<sup>1</sup> The Hueler Pooled Fund Index is provided by Hueler Analytics, Inc., a stable value data and research firm, which has developed the Hueler Analytics Stable Value Pooled Fund Comparative Universe (Universe) for use as a comparative database to evaluate collective trust funds and other pooled vehicles with investments in GICs and other stable value instruments. The Hueler Pooled Fund Index is an equal-weighted total return average across all participating funds in the Universe and represents approximately 75% of the stable value pooled funds available to the marketplace. Universe rates of return are reported gross of management fees (see Additional Disclosures).

<sup>2</sup> Source for Lipper index data: Lipper Inc. (See Additional Disclosures.)

<sup>3</sup> The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is a component of the Bloomberg Barclays U.S. Government & Credit Index. The Government & Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than 1 year) and agencies (i.e., publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

There is no standardized industry-accepted benchmark for stable value portfolios; all information on this page is provided for illustrative purposes only.

Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see Additional Disclosures for information about this Bloomberg information.

While both investment options offer participants daily liquidity and a stable net asset value, stable value funds can offer yield advantages over money market funds. As highlighted in Figure 3, this yield advantage has translated into stronger long-term performance relative to money market funds in the past.

In addition to performing well relative to money market funds, given their longer underlying durations, stable value funds also perform well relative to other low-duration strategies, such as ultra

short-term bond and short-term bond, over a full market cycle. Additionally, stable value has kept pace with inflation as measured by the U.S. consumer price index (Figure 4).

Specific to periods of Fed easing, stable value funds have also held up well relative to money market funds and kept pace with low-duration fixed income strategies, like ultra short-term and short-term bond, through periods of Fed easing (Figure 5). As was the case in prior rate easing cycles, plans

## Comparison Table

(Fig. 2) Stable value and money market funds have some important differences

	Money Market Fund	Stable Value Fund
Net Asset Value (NAV)	Stable	Stable
Participant Liquidity	Daily	Daily
Plan Withdrawals	Daily	Subject to withdrawal provisions <sup>1</sup>
Participant Withdrawals	Daily	Daily
Participant-Directed Transfers	Daily	Daily to noncompeting investment options <sup>2</sup>
Annualized Yield <sup>3</sup>	0.86% <sup>4</sup>	2.31% <sup>5</sup>

<sup>1</sup> Most stable value portfolios are subject to a put provision, meaning that plan sponsors need to notify the asset manager and wait a set amount of time before exiting.

<sup>2</sup> Stable value participants generally may not directly exchange assets from stable value to a competing investment option (typically shorter-duration bond funds and money market funds) unless such transfer is first subject to a 90-day transfer into a noncompeting fund.

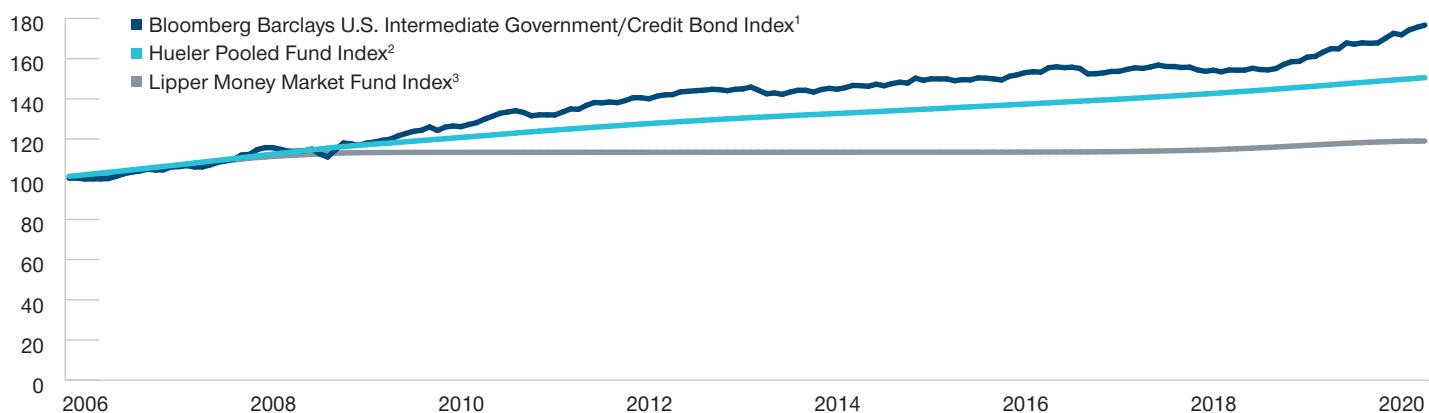
<sup>3</sup> As of June 30, 2020.

<sup>4</sup> Based on the Lipper Money Market Index.

<sup>5</sup> Based on the Hueler Pooled Fund Index.

## Growth of USD 100

(Fig. 3) Stable value can offer more opportunity for income relative to money markets



As of June 30, 2020

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<sup>1</sup> The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is a component of the Bloomberg Barclays U.S. Government & Credit Index. The Government & Credit Index includes securities in the Government and Credit Indices. The Government Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than 1 year) and agencies (i.e., publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government). The Credit Index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

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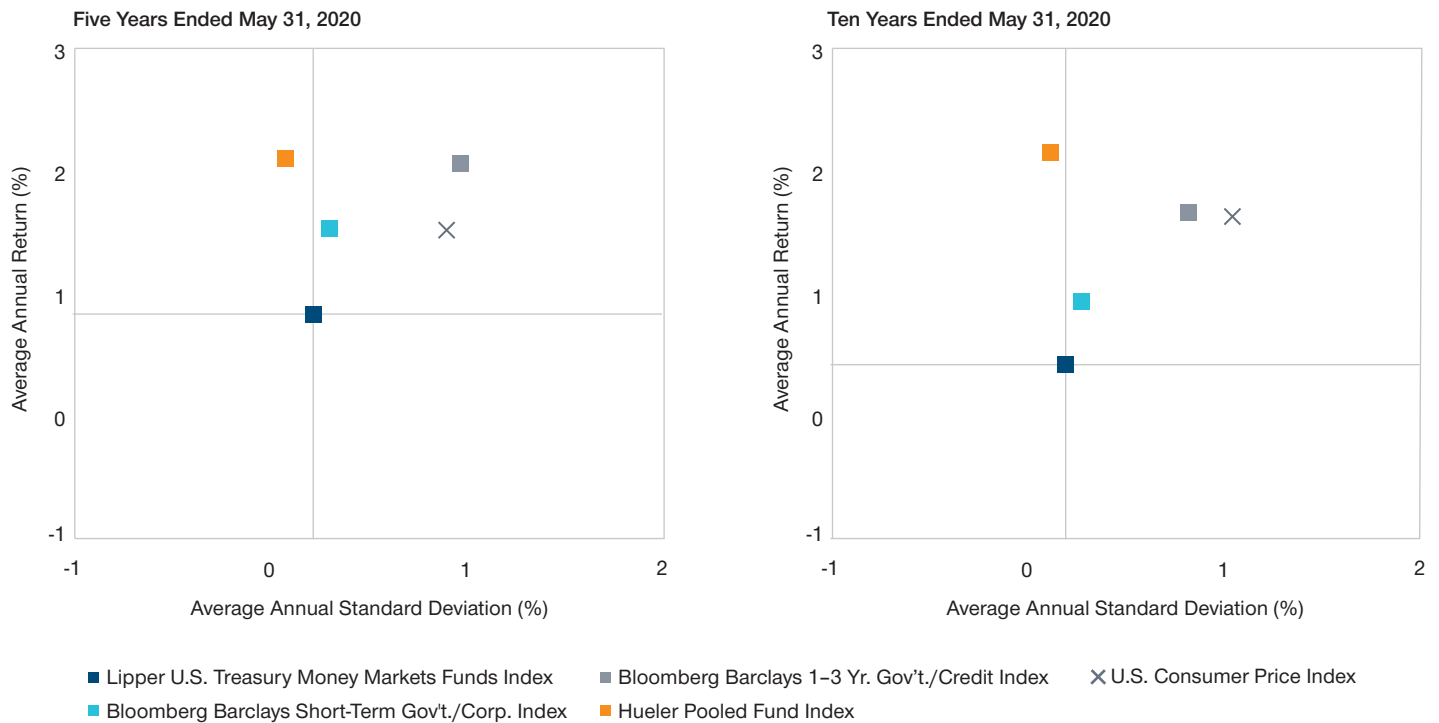
Source for Bloomberg Barclays index data: Bloomberg Index Services Limited. Please see Additional Disclosures for information about this Bloomberg information.

and participants have benefited from some of stable value's advantages, such as capital preservation but with access to attractive yields, during the current easing cycle and global crisis. Stable value remains an attractive investment option through multiple markets and interest rate environments.

Given stable value funds' performance history and risk/return profile relative to money market funds and other short-term bond strategies, now could be the time to reassess your plan's capital preservation options and consider a stable value fund.

## Historical Performance Comparison

(Fig. 4) Stable value has fared well compared with other low-duration strategies and inflation



**Past performance is not a reliable indicator of future performance.**

**Money market funds, trust, separate accounts, and mutual funds have different risks, including the possible loss of principal. It is important that you carefully review the legal documents for each type of vehicle to determine if it is appropriate for you prior to investment.**

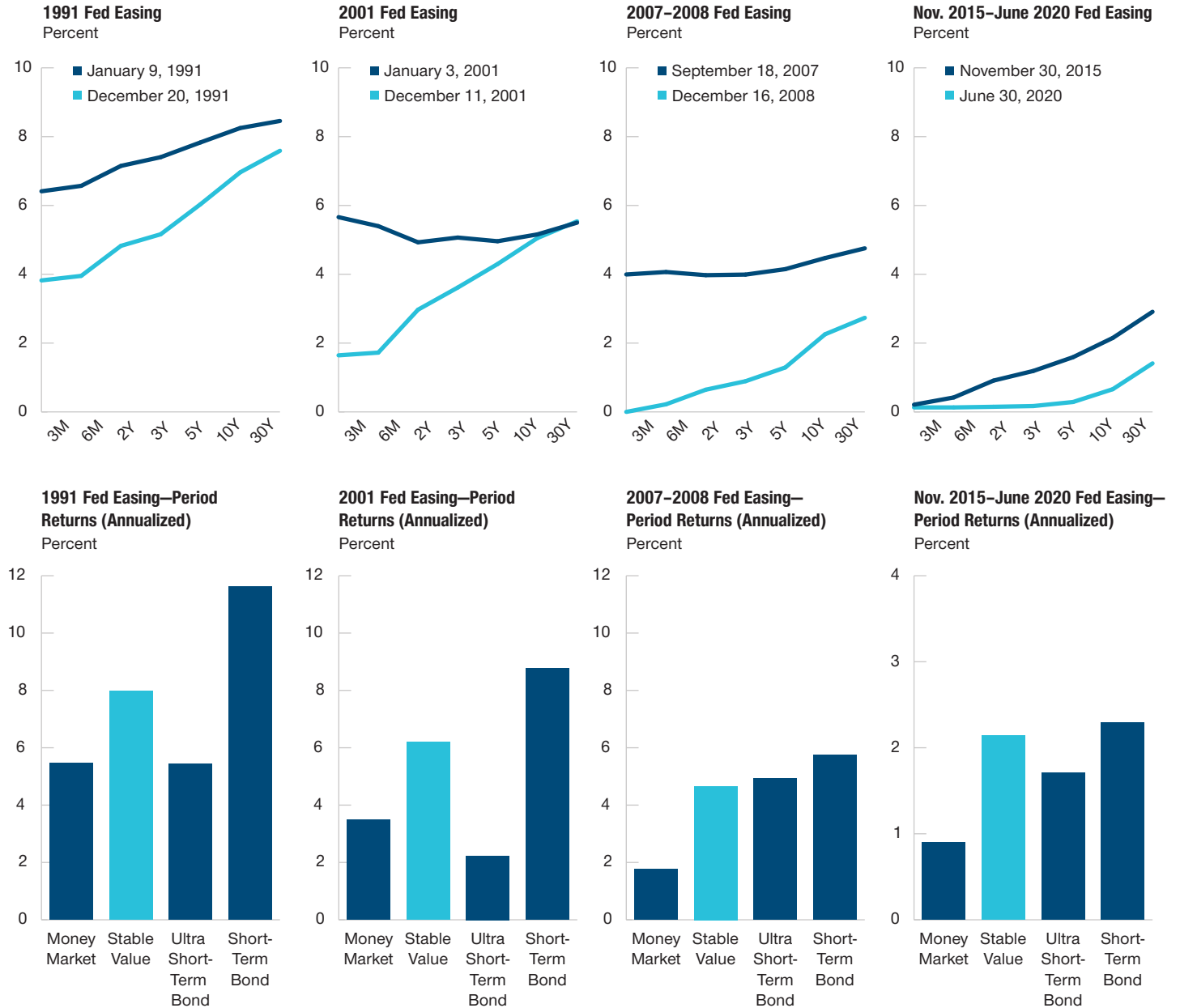
Figures are calculated in U.S. dollars using monthly data and are gross of fees. Returns would have been lower as the result of the deduction of applicable fees. The Lipper Money Market Funds Index is an equally weighted performance index of the largest qualifying funds in the Lipper category. Lipper index gross-of-fees performance data are not available.

Source for Lipper index data: Lipper Inc. (See Additional Disclosures.)

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## Historical Rate Easing Cycles

(Fig. 5) Stable value has been attractive through multiple market types



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Money Market is represented by the Lipper US Treasury Money Market Index; Ultra Short-Term Bond is represented by the Bloomberg Barclays 9-12 Month T-Bill Index; Short-Term Bond is represented by the Bloomberg Barclays U.S. 1-3 Year Government/Credit Bond Index; Stable Value is represented by the Hueler Pooled Funds Index.

Ultra Short-Term Bond is represented by the Bloomberg Barclays 6 month Bell Weather Index for the 1991 Fed easing cycle.

Sources: Hueler Analytics, Lipper, Inc. (see Additional Disclosure), U.S. Department of the Treasury, and T. Rowe Price.

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