



# Investment Perspective

## Cash Management

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## Strategy and Outlook as of May 31, 2011

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### Money Market Overview

On Monday, May 16 the U.S. Treasury (the Treasury) reached its \$14.294 trillion debt ceiling. While the sky did not fall, markets were affected by supply constraints created in the two months leading up to the deadline. Hitting the debt ceiling prohibits the Treasury from issuing any new debt. However, Treasury Secretary Geithner already started putting into place a series of measures, including suspending investments in federal retirement funds, with the aim of creating some breathing room under the debt ceiling, allowing the U.S. to continue meeting its obligations without exceeding the debt limit. It is expected that the Treasury will exhaust all of these measures by Aug. 2, 2011. A politically charged “debt ceiling” debate is already underway, and combined with concerns over the Greek debt and the end of QE II in June, it is likely to generate uncertainty and volatility, mirrored only by the season’s weather.

A large supply of cash in the market combined with the lingering impact of the FDIC’s new assessment fee on overnight repurchase agreements (repo) rates, continued to create a drag on all other short-term rates throughout May. Overnight repo averaged just 3.9 basis points (bps) for the month, while one-month term repo rates continued to trade at 3 bps on average in May. Both are still solidly below their March 31 yields of 14.5 bps and 7 bps, respectively. One-month Treasury Bills were flat at one-half of a basis point for the first half of May, edging up to 3 bps by month-end. Three-month Treasury Bills fared negligibly better yielding 4.6 bps at the end of May.

Across the curve, Libor yields are at their lowest year-to-date, while possibly approaching historical lows. One-month Libor fell below 0.20% on May 11, and continued to trade lower ending the month at 0.190%. Similarly, three-month Libor rates also slipped lower in May, finishing the month at 0.253%. While we believe that three-month Libor levels will continue to remain bound by the Fed Funds target on the lower end, in the short term it could very well fall below 0.25% due to technical pressures.

Despite the low yield environment, flows into money market funds continued this month as total mutual fund assets increased to \$2.75 trillion for the week ended May 25, led by a \$18.26 billion increase in prime funds, likely because of broader economic concerns in the U.S. and Europe.

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### Outlook and Strategy

We remain vigilant regarding potential market volatility and imbalances in advance of the end of QE II. It is quite possible that uncertainty in the market could increase if the economic recovery appears to be on feeble ground

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once the Fed's asset purchase program is decommissioned.

In the meantime, we continue to relieve repo pressure by adding short-dated commercial paper as well as weekly VRDN securities to the Prime portfolios. We have also recently participated in extendible offerings with attractive spreads over Libor.

Discipline, knowledge, and consistency are the foundation for Invesco's long-term approach to short-term investing. As we continue to carefully monitor ongoing economic developments, Invesco Global Cash Management is dedicated to structuring your money market portfolios with safety and liquidity as our primary focus, while seeking to deliver a competitive yield.

**An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a Fund.**

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