The operating environment remained challenging during the first quarter of 2019, albeit less so than the more volatile environment that closed out 2018. Still, many uncertain geopolitical risks continued to overhang the market, with Brexit and U.S.-China trade negotiations unresolved, recent European Union (EU) elections resulting in more fragmented European governments and new tensions emerging over U.S. policies with Mexico and Iran. Asset-quality conditions were benign, but issuers have been setting aside additional provisions based on lower economic assumptions. Central banks have remained accommodative, with negative to zero interest rates prevailing in Europe and Japan while the U.S. appears to be on hold with a more patient approach to its interest-rate policy. Although the aforementioned geopolitical pressures have served to dampen sentiment and cool expansionary momentum in a number of markets, the slightly slower global economic growth and improved labor markets have been supportive of a stable credit environment.

Against this backdrop, earnings for a number of sectors rebounded during the first quarter of 2019 from a downtrodden fourth quarter of 2018, although the overall level of performance was mixed. While the outlook is more cautious going forward, the large financial and corporate issuers that comprised our money market approved list maintained strong credit fundamentals and solid balance-sheet flexibility in order to meet their financial obligations in a timely manner commensurate with minimal credit risk.

Our views on the various sectors are as follows:

**U.S. BANKS**

U.S. banks reported favorable earnings during the first quarter of 2019, although lackluster capital market results weighed on profitability of the large banks. While all of the major banks saw higher advisory revenues, underwriting was weaker, with equity underwriting down across the board due to the December partial government shutdown, geopolitical uncertainties and risk aversion among issuers and investors. Fixed income, currencies and commodities (FICC) revenues were also lower, reflecting a decline in currencies and rates and lower client activity. A further drag on overall revenues was a decline in mortgage banking income and lower asset- and wealth-management fees. While net interest income increased on the back of higher interest rates, the pace of loan growth has slowed, loan pricing remained competitive and funding costs were up. Overall net interest margins were wider, but the directional trend going forward is clouded as the Federal Reserve has taken a more patient approach towards its interest-rate policy. Cost discipline was evident in spite of continued expenses related to technology and business investment. While credit provisions were modestly higher, the credit environment remained benign. Deposit remixing continued with non-interest-bearing...
deposits down and interest-bearing deposits continuing to grow as clients shift money to higher-yielding accounts. With total loss-absorbing capacity (TLAC) rules in effect as of January 2019, capital ratios at all large U.S. banks comfortably exceeded minimum requirements at quarter-end. Going forward, deregulation in the U.S. will create a more tiered banking system with less burdens placed on the smaller regional banks and only a slight easing in the more stringent requirements placed on the large systemically important U.S. banks.

**CANADIAN BANKS**

Canadian banks reported higher earnings and improved returns. Revenue growth was broad-based and driven by balance-sheet growth and net interest margin expansion, while increased expenses were due to continued business investments, particularly in technology. The banks saw continued good loan growth in the commercial portfolios and more measured growth in consumer loans. Canadian mortgage loans continued to grow at a slowing pace, reflecting recent macro-prudential measures. Housing-related exposures remained well collateralized, with loan-to-values (LTVs) on uninsured mortgage exposure in the low fifty percentage range—a solid cushion to absorb a potential house-price correction. Moreover, mortgage-related loans showed no indication of weakening as bank asset quality remained excellent. Earnings were also enhanced by continued favorable performance in the banks’ U.S. and international businesses, and higher fee-based revenue driven in part by market appreciation. On average, capital market revenues were lower, reflective of a decline in equity trading revenues and lower advisory fees. Even as the banks all have sound capital levels, their regulator, the Office of the Superintendent of Financial Institutions (OSFI), raised the domestic stability buffer for a second consecutive time by 25 basis points to 2% of risk-weighted assets, effective October 31, 2019. As a result, the total regulatory capital and the Common Equity Tier 1 (CET1) requirement would be 15.25% and 10.00%, respectively, leaving the banks well positioned against key vulnerabilities and system-wide risks.

**EUROPEAN BANKS**

European bank earnings bounced back from a notably weak fourth quarter of 2018, although first-quarter 2019 performance was below the same period a year ago on lower net interest income. The ongoing low-rate environment continued to pose a headwind to net interest income growth despite decent lending volumes. Competition from non-bank lenders has become a headwind as these institutions have looked for higher-yielding, low-risk, long-term assets for their excess cash, which has taken away market share from traditional lenders. The banks remain focused on increasing fee-generating businesses as freed-up capital from the disposals of weaker-performing business segments have been redeployed. While there has been increased speculation of domestic or cross-border mergers in Europe, potential consolidation has been met by regulatory and labor-union obstacles. Operating expenses, excluding bank taxes, remained relatively flat and the banks continued to invest in digital efforts to drive customers to websites and mobile phone apps. Litigation expenses and associated regulatory fines have also dwindled, but a handful of banks remain under investigation for alleged money laundering and other conduct matters in what has been a persistent theme for European banks. Loan impairments were once again very low thanks to solid asset quality and tighter lending standards. Although income growth remains elusive, the balance sheets of the European banks we cover were solid. Impaired loans continued their gradual descent, capital levels remained well ahead of regulatory requirements, and funding and liquidity ratios were stable as investor appetite for European bank issuance remained strong. These trends were applicable to the UK banks as well, whose performance was not impacted by the uncertainty of Brexit in a meaningful way, except that the UK banks set aside additional reserves to guard against lower economic assumptions and a potential deterioration in credit quality, which to date has not materialized.

**ASIA-PACIFIC BANKS**

Japanese banks reported subdued results for the full year ended March 31, 2019, as restructuring costs
and challenging market conditions adversely affected results amid ongoing margin pressure from the zero-interest-rate environment. The restructuring costs varied from bank to bank, but included goodwill impairment charges on fixed assets in the retail bank, business affiliate and subsidiary realignment and costs to reduce losses on foreign bond holdings. These charges reflect the muted domestic growth opportunities in Japan and the challenges Japanese banks have faced as they have looked overseas for higher-yielding assets. To date, the overseas lending growth initiative has helped to diversify earnings and modestly offset the continued decline in domestic net interest margins. Credit costs were minimal in the most recent quarter, albeit not additive to earnings as they have been recently in a sign that such costs could be normalizing. Securities-related gains continued to remain supportive of earnings, but less so given the more volatile financial markets. As such, Japanese banks are targeting slightly lower earnings with moderate returns. However, overall credit profiles remain stable, supported by benign credit quality, a strong capital base that remains propped up by significant unrealized securities gains, solid liquidity and a deep deposit base.

Australian bank earnings and returns were pressured by remediation costs and restructuring charges reflective of deficiencies highlighted by the recent Royal Commission report. Underlying profitability was impacted by pressure in the retail banking franchises with slowed credit growth, a decline in net interest margins, lower fee income due to the disposal of certain businesses and waived fees as the banks sought to enhance their competitive positions. Business banking and capital market businesses proved to be more stable sources of earnings this quarter. While housing-related risks remained a headwind, interest-only and investor loans have continued to decline, a majority of mortgage loans are well secured and overall macro-prudential measures have been effective in gradually easing house prices. That said, there were signs of modest weakening in housing-related loans as the banks noted a slight increase in late-stage delinquencies, albeit from a low base, due to customers switching from interest-only to fully amortizing loans. The banks’ overall asset quality remained healthy, with a continued low level of nonperformers and credit losses. Capital remained a notable strength for Australian banks, with the major banks well positioned to meet the Australian Prudential Regulation Authority’s (APRA’s) required “unquestionably strong” minimum by January 2020.

CORPORATES

Overall first-quarter 2019 earnings were solid across the corporate sector on an organic, constant-currency basis. While higher raw material costs and other input expenses continued to be a headwind for many sectors, certain companies were able to offset this through higher pricing. Pharmaceutical companies’ results continued to be driven by new and innovative drugs. The oil and gas sector saw weaker results in the quarter due to lower commodity prices. Investment-grade technology posted a varied picture for the quarter. Revenue was generally up across the board on a year-over-year basis, but leverage and liquidity profiles were mixed at the individual level. Credit quality was relatively stable in the quarter with continued solid cash flow generation and adequate liquidity. We believe corporates will continue to focus on mergers and acquisitions (M&A). We believe most corporates in our coverage will work within current financial profiles in order to maintain solid investment-grade credit ratings. Looking ahead, the outlook for corporates remains cautious given increased competition, a number of geopolitical uncertainties, currency headwinds and higher costs associated with pressure on commodities and trade war-related tariffs. While we believe companies in our universe have the financial flexibility to offset these headwinds, they will still have a negative impact on operating income.

Past performance is not indicative of future results.
LEARN MORE | For more information, please call your Dreyfus Cash Solutions representative, or call 1-800-346-3621.

Investors should consider the investment objectives, risks, charges, and expenses of a mutual fund carefully before investing. Contact a financial advisor or visit Dreyfus.com to obtain a prospectus, or summary prospectus, if available, that contains this and other information about the fund, and read it carefully before investing.

You could lose money by investing in a money market 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 the sale of your shares or may temporarily suspend your ability to sell shares if the fund's liquidity falls below required minimums because of market conditions or other factors. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor has no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.

Views expressed are those of the author(s) and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. Dreyfus Cash Solutions is a division of BNY Mellon Securities Corporation, BNY Mellon Investment Adviser, Inc., and BNY Mellon Securities Corporation are companies of BNY Mellon. ©2019 BNY Mellon Securities Corporation, distributor, 240 Greenwich Street, 9th Floor, New York, NY 10286