Dreyfus MF Symposium Survey Says Prime Inflows Should Accelerate

A press release entitled, “Prime Money Market Inflows Expected to Accelerate, Finds Dreyfus Survey,” which was released early to Crane Data, examines the likelihood that institutional investors’ will return to Prime money market funds in the coming months. Subtitled, “Widening spreads prompting investor demand for ‘riskier’ assets,” it says, “While U.S. money market reforms, which went into effect in October 2016, resulted in massive asset flows from prime to government funds, widening spreads are luring more capital back to higher yielding prime funds, according to a survey of more than 100 money market professionals and investors conducted by BNY Mellon Cash Investment Strategies (CIS), a division of The Dreyfus Corporation.”

The update explains, “Conducted at Crane’s Money Fund Symposium in Atlanta on June 21 and 22, 2017, the survey found that 38 percent of respondents would consider allocating more assets to prime funds once spreads reach 35 basis points (bps) relative to government funds. As spreads have widen to 29 bps, it may not be long until conditions become attractive enough to lure more investors from government funds to prime funds.”

Tracy Hopkins, Chief Operating Officer of BNY Mellon CIS, comments, “As investors become accustomed to the new rules following money market reform, we are already seeing a gradual reallocation of institutional cash back from government to prime, a trend we don’t see reversing anytime soon. Although it is likely prime money market funds may not reach pre-reform highs as spreads widen, we expect assets to continue to flow from government to prime funds.”

The release tells us, “More than half of respondents are waiting for spreads to widen further before committing more capital to prime funds, with 28 percent holding out for at least 45 bps and 28 percent waiting until spreads reach 55 bps. For 6 percent of respondents, 25 bps is the magic number they require to put more cash to work in prime funds.”

Regarding “Rising Rates and Floating NAVs,” Dreyfus’ release states, “Aside from widening spreads, the actions of the Fed are also being closely watched by money market professionals and investors alike. Nearly 7 in 10 (68 percent) expect cash allocations to money market funds to increase as interest rates rise, while only 5 percent expect to see cash move into other investment vehicles in a rising rate environment. The remainder (27 percent) do not expect rising rates to impact cash allocation to money market funds.”

Hopkins states, “As with any investment portfolio, diversification can be a key to managing potential risk, even in a low-risk asset class such as money markets. While rising rates bode well for money market funds, it is our view that investors should look to diversify their cash holdings across prime, government and municipal funds. We believe each asset class provides attractive opportunities that can only be captured through a diversified investment approach.”

The release adds, “Among the reforms put in place in money market funds, was the requirement that institutional prime and municipal money market funds transact at a market-based NAV, rounded to four decimal places (e.g. USD 1.0000). The result is that small fluctuations above or below the $1.00 can be a challenge in that not all investors are permitted or able to invest in such products due to compliance and technological restrictions, despite the potential for higher yields. However, investor demand for such products is strong, with 55 percent indicating they are interested in increasing their exposure to floating NAV funds.”

Finally, it says, “Established in 1951, Dreyfus is among the pioneers of U.S. mutual fund investing with $300 billion in assets under management (as of March 31, 2017). As part of BNY Mellon Investment Management, Dreyfus enables U.S. retail investors to access mutual funds through BNY Mellon’s globally diversified investment boutiques, with investment solutions spanning global, international and domestic equity, fixed income, alternatives, retirement and cash investment strategies.”

Crane Data subscribers and Money Fund Symposium conference attendees may access the recordings, Powerpoints and final binder via our Money Fund Symposium 2017 Download Center. (See also our June 27 News, Major Money Fund Issues 2017 Features Hopkins, O’Callaghan, Weaver,” which features Dreyfus’ Tracy Hopkins.)
For more information, please reach out to your BNY Mellon Fixed Income Sales representative or call our Institutional Servicing group at 1-800-346-3621.

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