

Quarterly money market commentary

First American Money Market Funds

What market conditions had a direct impact on the bond market this quarter?

The third quarter brought a meaningful shift in the rate environment as resilient economic activity, higher energy prices, and escalating geopolitical risks kept inflation concerns elevated. Oil prices rose sharply in July, while renewed conflict-related uncertainty contributed to higher bond-market volatility. Despite these risks, domestic demand remained firm, supported by consumer spending and continued investment in technology, software, and artificial intelligence infrastructure.

Economic Activity – Economic growth remained resilient and was increasingly supported by business investment. Second-quarter real GDP growth was revised higher to 2.2%, with technology investment contributing approximately 0.4 percentage points as firms continued to invest in information-processing equipment, software, and related infrastructure. This spending supported domestic demand and potential productivity growth, although related financing and infrastructure needs also contributed to heavier corporate issuance and inflationary pressures in select areas.

Consumer spending remained strong, although its durability became less certain. Slower job creation and moderating wage and income growth may weigh on purchasing power, particularly as consumer spending continues to outpace income growth and the savings rate declines. Higher energy costs represent another potential constraint. The labor market nevertheless remained stable as the “low-hire, low-fire” environment continued. The unemployment rate ended the quarter at 4.2%, while the three-month average of 51,000 new jobs remained broadly consistent with the pace needed to keep unemployment stable.

Inflation remained the central economic challenge, with limited progress toward the Federal Reserve’s 2% target. Higher energy prices continued to affect headline inflation, while elevated core measures and rising business costs increased the risk that price pressures could broaden. Resilient growth and a labor market broadly consistent with full employment gave policymakers confidence that the economy could withstand tighter policy, allowing the Fed to remain focused on restoring price stability.

Have an investment goal?
Let's talk.



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Monetary Policy – The quarter marked an important shift in Federal Reserve policy. The Federal Open Market Committee held rates unchanged in July amid divided views among policymakers, but limited progress on inflation strengthened the case for additional tightening. At its September 16 meeting, the FOMC unanimously raised the federal funds target range by 25 basis points (bps) to 3.75% to 4.00%, its first increase since July 2023. Federal funds futures subsequently reflected expectations for at least one additional rate increase in 2026.

Although views differ regarding the timing and pace of future policy actions, inflation remains above the Fed's preferred target and monetary policy appears likely to retain a tightening bias. The precise path will depend on how inflation, labor-market conditions, economic growth, and geopolitical developments affect the yield curve and the Fed's assessment of the appropriate policy stance.

What were the major factors influencing investment-grade fixed income this quarter?

A more hawkish Federal Reserve and resilient economic activity prompted markets to reprice the expected policy path, driving U.S. Treasury yields higher across the curve. The September rate increase accelerated that move, with intermediate- and longer-term Treasury yields reaching their highest levels in decades.

The 3-month Treasury ended the quarter at 4.11%, an increase of 30 bps. The 2-, 5-, 10-, and 30-year Treasury yields ended the quarter at 4.89%, 5.09%, 5.28%, and 5.63%, representing quarterly increases of 72, 86, 81, and 68 bps, respectively.

Rising yields weighed most heavily on longer-duration securities. The ICE BofA 3-month and 2-year U.S. Treasury indices returned 0.89% and -0.24%, respectively, while the 5- and 10-year Treasury indices returned -2.70% and -5.17%. Income helped cushion the effect of higher yields, but shorter-maturity securities outperformed as the yield curve shifted higher.

Spread-sector performance was mixed as strong fundamentals and investor demand competed with higher rates, increased volatility, heavy issuance, and rich valuations. Federal agency and supranational issuance remained limited, keeping spreads near historically tight levels and constraining excess-return opportunities.

Investment-grade corporate bonds continued to benefit from healthy fundamentals and strong investor demand. However, elevated issuance and rich valuations limited the potential for additional spread compression. Wider spreads in September improved potential entry points, but a cautious and selective approach remained warranted.

AAA-rated asset-backed securities benefited from resilient consumer fundamentals and favorable collateral performance. However, stretched valuations reinforced the importance of security selection and supported allowing portfolio allocations to decline through natural paydowns where relative value was less compelling.

Agency mortgage-backed securities came under pressure as higher mortgage rates and elevated interest-rate volatility weighed on the sector, particularly in September. Although valuations improved, near-term risks remained skewed to the downside. Agency commercial mortgage-backed securities were more resilient earlier in the quarter but weakened as rates and volatility rose toward quarter-end. Favorable structures and limited extension risk continued to provide support, although rate uncertainty warranted a selective approach.

What were the major factors influencing money market funds this quarter?

The third quarter of 2026 was characterized by an increasingly hawkish policy tone and heightened concern about the inflation outlook, culminating in the Federal Reserve's 25-basis-point rate increase at its September 16 meeting, which raised the federal funds target range to 3.75%-4.00%. Federal funds futures now price in at least one additional rate increase in 2026. With economic growth indicators remaining solid, labor data mixed, inflation persistently elevated, global debt levels high, and Federal Reserve guidance limited, the precise path of monetary policy remains uncertain. However, as inflation continues to exceed the Fed's preferred target, policy appears likely to retain a tightening bias.

Although views differ on the timing and pace of future FOMC actions, market consensus currently reflects at least one additional rate increase by year-end 2026. The primary challenge for managers will be assessing how geopolitical developments, economic conditions, inflation trends, and employment data will influence the yield curve and shape the timing and direction of future Federal Reserve policy decisions.

Across the industry, money market fund assets continued to increase during the quarter, as the product remained attractive relative to other short-term cash-equivalent alternatives.

First American Prime Obligations Funds

Amid uncertain monetary policy, geopolitical, and economic conditions, credit quality and trading conditions remained stable during the third quarter, while market rates moved higher as the probability of additional rate increases rose. Given the shape of the yield curve and a conservative cash-flow framework, the First American Funds maintained strong portfolio liquidity metrics, supported in part by shareholder composition. Management continued to apply heightened credit discipline, emphasizing investments with minimal credit and headline risk for fund investors.

During the quarter, our primary investment objective was to prioritize liquidity while opportunistically enhancing portfolio yield through a combination of fixed- and floating-rate securities consistent with our economic, credit, and interest-rate outlook. We believe the current credit environment, together with higher relative fund yields, supports the sector as an appropriate short-term investment option.

First American Government and Treasury Funds

The FOMC maintained its hawkish posture during the third quarter, as Kevin Warsh reaffirmed the Fed's commitment to its 2% inflation objective. Government money market funds adopted a more defensive stance, positioning portfolios to respond more effectively to the prospect of higher federal funds rates over the next three to twelve months.

Although breakeven yields remained economically attractive across the curve, shorter portfolio durations reflected an emphasis on front-end value while preserving flexibility to capitalize on potentially higher rates in the months ahead. Current market conditions support a more measured barbell strategy, with an emphasis on one- to four-month securities that offer favorable breakeven value relative to overnight repo, complemented by investments in the 12- to 13-month sector when yields rise during periods of heightened volatility and accelerating rate-hike expectations. For money market fund investors, the positive implication is that fund yields are positioned to increase as higher policy rates and term premiums are reflected in market yields.

A more normalized repo/SOFR rate environment has made short-term Treasury bills and GSE discount notes logical substitutes for repo, creating opportunities for yield enhancement. When attractive relative value emerged, managers also added floating-rate investments expected to benefit shareholders over their holding periods. Going forward, investment strategy will remain focused on the pace and direction of potential policy actions as markets assess the Fed's tolerance for inflation, labor-market volatility, and economic growth, all of which will influence the timing and magnitude of future decisions.

First American Tax-Free Fund

Municipal VRDN yields were volatile during the third quarter as seasonal reinvestment cash flows, heavy new-issue supply, and shifting expectations for Federal Reserve policy influenced market conditions. Strong investor demand periodically compressed yields in July and August, with the SIFMA Municipal Swap Index falling as low as 1.64%. These favorable technical conditions gave way to higher resets in September as municipal supply increased and the Federal Reserve raised short-term interest rates.

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By quarter-end, the SIFMA Municipal Swap Index had climbed to nearly 4%, while one-year high-grade municipal note yields had risen by approximately 85 bps from the beginning of the quarter. This repricing lifted short-term municipal yields significantly and improved relative value across much of the tax-exempt money market universe heading into the fourth quarter.

What near-term considerations will affect fund management?

Prime fund yields should continue to benefit from modest spread widening relative to government securities amid ongoing market uncertainty and volatility. At the margin, this dynamic is expected to further widen the yield differential between Prime and Government portfolios. In addition, front-end corporate yields should remain supported by ample supply, term-risk premiums, and a steepening front-end yield curve.

In the coming quarters, we will continue to capitalize on investment opportunities that appear attractive based on our market outlook and breakeven analysis. The Institutional and Retail Prime Obligations Funds should remain compelling short-term investment options for investors seeking enhanced yields on cash positions while assuming minimal incremental credit risk. Yields in the government-sponsored enterprise (GSE) and Treasury sectors are expected to move in line with anticipated and realized Federal Reserve policy actions. Government and Treasury fund yields may trend higher as portfolios add higher-yielding securities. However, with short-term rates likely to remain elevated, duration strategy should remain somewhat defensive as managers seek to avoid overexposure to any single policy outcome.

We continue to expect supply dislocations and broader market dynamics to provide opportunities for funds to purchase short-term Treasury bills and GSE discount notes as effective substitutes for repo. Floating-rate securities will remain a core component of the overall investment strategy, contributing incremental yield, enhanced diversification, and price stability.

For more information about the portfolio holdings, please visit

<https://www.firstamericanfunds.com/index/FundPerformance/PortfolioHoldings.html>

Sources

Bloomberg Finance L.P.

ICE BofA Indices

Definitions

Basis Point (bps) is one one-hundredths of a percentage point. This term is often used in describing changes in interest rates. For example, if a bond yield increases from 7.50% to 7.88%, it has moved up 38 basis points.

Duration is a measure of a security's price sensitivity to changes in interest rates. Securities with longer durations are more sensitive to changes in interest rates than securities of shorter durations.

Federal Reserve (Fed) is the United States central banking system. It is comprised of 12 regional central banks, known as the Federal Reserve Banks, which are owned by private banks. The Fed is governed by a seven-member Board of Governors, who regulates interest rates, availability of bank credit and sets other monetary policies such as legal reserve requirements for banks.

Government-Sponsored Enterprise (GSE) is a quasi-governmental entity established to enhance the flow of credit to specific sectors of the American economy. Created by acts of Congress, these agencies, through privately held, provide public financial services. GSEs help to facilitate borrowing for all sorts of individuals, from students to farmers to homeowners.

Gross Domestic Product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

ICE BofA 3-Month U.S. Treasury Index tracks the performance of a single U.S. Treasury issue with approximately 3 months to maturity, purchased at the beginning of the month, held for a full month, and then rolled over.

ICE BofA 0-2 Year U.S. Treasury Index tracks the performance of U.S. dollar denominated sovereign debt publicly issued by the U.S. government in its domestic market with maturities less than two years.

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Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as an annual percentage increase. As inflation rises, every dollar you own buys a smaller percentage of a good or service.

Monetary Policy is the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that replaced the London Interbank Offered Rate (LIBOR).

SIFMA is the Securities Industry and Financial Markets Association Municipal Swap index, which is a 7-day high-grade market index comprised of tax-exempt VRDOs reset rates that are reported to the Municipal Securities Rule Making Board's (MSRB's) SHORT reporting system.

Treasury is negotiable debt obligation of the U.S. government, secured by its Full Faith and Credit and issued at various schedules and maturities. The income from Treasury securities is exempt from state and local, but not federal, taxes.

Variable Rate Demand Note (VRDN) is a debt instrument that represents borrowed funds that are payable on demand and accrue interest based on a prevailing money market rate, such as the prime rates. The interest rate applicable to the borrowed funds is specified from the outset of the debt and is typically equal to the specified money market rate plus an extra margin. Also referred to as a variable rate demand obligation (VRDO).

Yield Curve is a line tracing relative yields on a type of bond over a spectrum of maturities ranging from three months to 30 years.

The information and views expressed are provided by the funds' portfolio manager(s) and are current only through the date on this report. They are not intended to provide specific advice or to be construed as an offering of securities or a recommendation to invest. One cannot invest directly in an index. This information is subject to change at any time based on upon market or other conditions and may not be relied on as a forecast of future events or a guarantee of future results. Fund holdings, sector and portfolio allocations are subject to change at any time and are not recommendations to buy or sell any security. **Past performance does not guarantee future results.**

Mutual Fund Investing Involves Risk. Investors should carefully consider the fund's investment objectives, risks, charges and expenses before investing. The prospectus contains this and other information: call 800-677-3863 or visit www.FirstAmericanFunds.com for a copy. Please read it carefully before investing.

For U.S. Treasury, Treasury Obligations and Government Obligations – You could lose money by investing in the fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

For Retail Prime Obligations and Retail Tax-Free Obligations – You could lose money by investing in the 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 sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

For Institutional Prime Obligations – You could lose money by investing in the fund. Because the share price of the fund will fluctuate, when you sell your shares they may be worth more or less than what you originally paid for them. The fund may impose a fee upon sale of your shares. An investment in the fund is not a deposit of U.S. Bank National Association and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The fund's sponsor is not required to reimburse the fund for losses, and you should not expect that the sponsor will provide financial support to the fund at any time, including during periods of market stress.

Income from tax-exempt funds may be subject to state and local taxes and a portion of income may be subject to the federal and/or state alternative minimum tax for certain investors. Federal income tax rules will apply to any capital gains distribution.

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