



FIFTH THIRD BANK

# Managing Liquidity in a Rising Rate Environment

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# Agenda

## I. Where are we in terms of rates?

- A. Historical Short Term Rates

## II. Legislative changes that impact solution sets available to you

- A. Dodd-Frank Wall Street Reform and Consumer Protection Act (2011)
- B. Money Market Reform Act (2016)
- C. US Investment and Job Creation Act (2018)

## III. A Bank's perspective

- A. Increased Importance of deposits
- B. New Regulatory Environment
- C. Funding variables

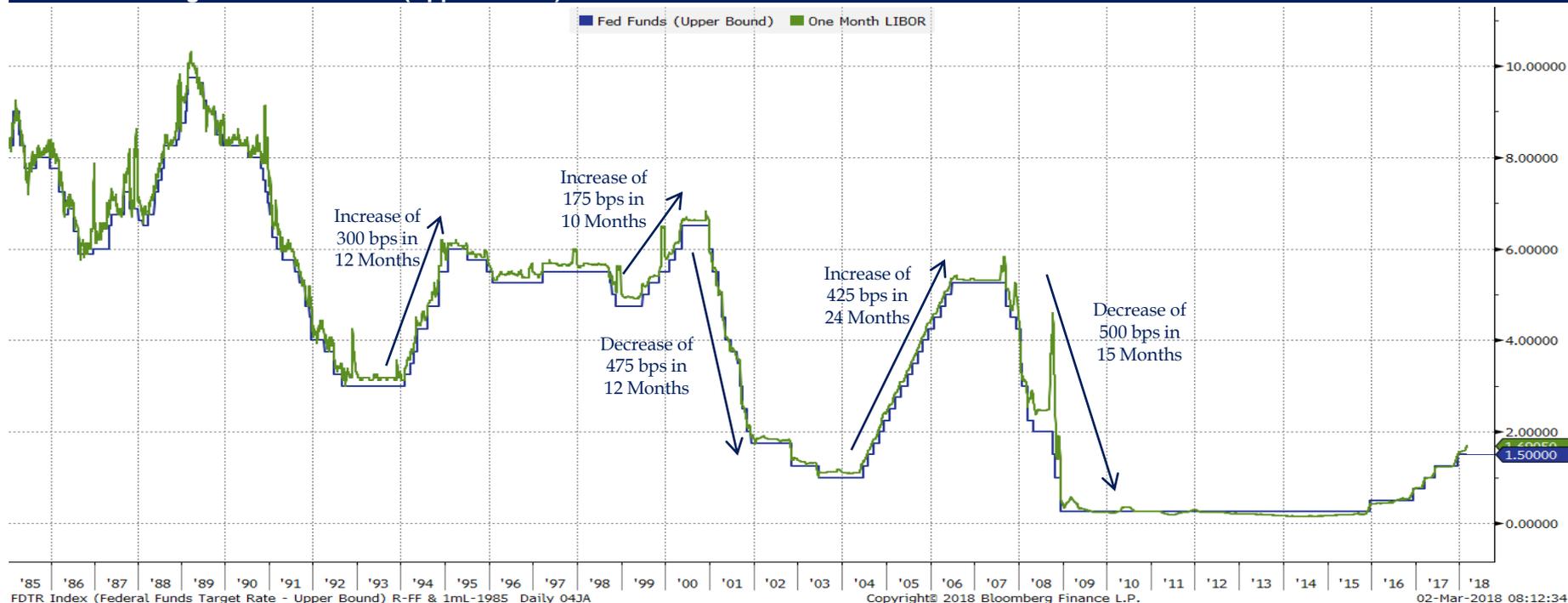
## IV. A Client's Perspective

- A. What's old is now new again
  - i. Time value of money
  - ii. Risk associated with various alternatives for cash
- B. Update investment policies to include impact of legislative changes and any changes in company appetite
- C. Liquidity Continuum
  - i. Investment Alternatives

# Interest Rate Environment

## Prior FOMC Rate Hike Cycles - How Much and How Fast?

### • Historical Target Fed Funds Rate (Upper Bound) and One Month LIBOR



Source: Bloomberg as of March 2, 2018

Swap transactions may not be suitable for all entities or persons, involve the risk of loss and should only be undertaken by those who are Eligible Contract Participants as defined in Section 1(a)18 of the Commodity Exchange Act. There is no assurance that any transaction will achieve its anticipated objective. Past performance is not indicative of future results. Any pricing herein represents an indicative quote only and is subject to change.

# Impactful legislative changes affecting liquidity management

## **Dodd-Frank Wall Street Reform and Consumer Protection Act (2011):**

Repealed Reg Q. Allows interest to be paid to Business and Commercial Demand Accounts.

## **Money Market Reform (2016):**

Prime MMF changed to floating NAV to increase market transparency to investor. Government funds stay at a fixed NAV.

## **U.S. Investment and Job Creation Act (2018):**

Creates an environment that would encourage U.S. companies that do business abroad to bring profits back into the U.S.

# A Bank's Perspective

## I. Deposits have become even more important

**A. Deposits** continue to be one of the least costly and most stable funding source for financial institutions

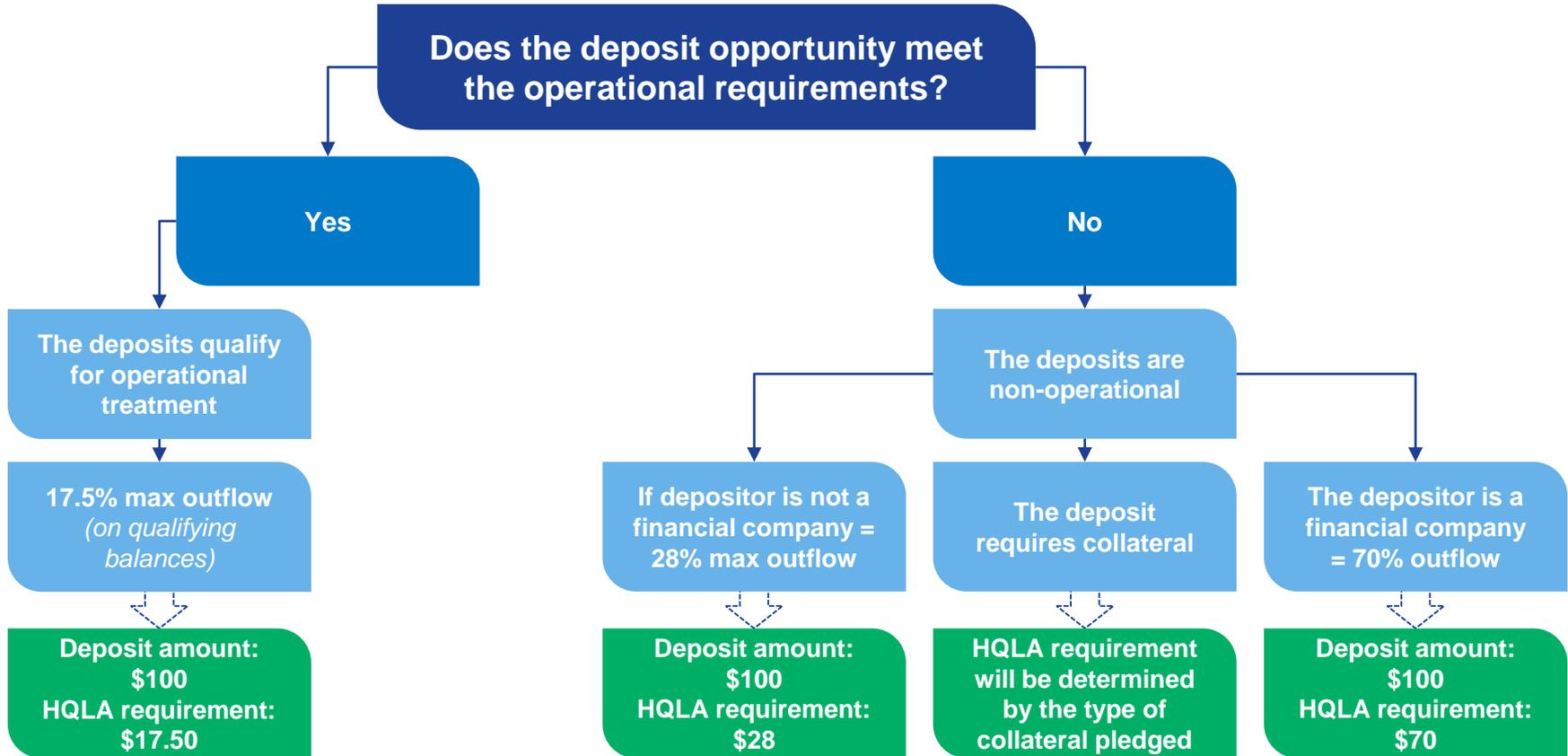
**B. New regulatory environment** focuses on the strength of a bank's liquidity which can be determined by it's core balance sheet liquidity and deposit composition

- i. Liquidity Coverage Ratio (LCR) is a measurement of the stability of the deposit composition during challenging economic times. It has changed the manner in which banks view different types of deposits. Different size banks are impacted in different ways. Deposits linked to operational transaction volumes are now valued higher than other deposits.

## C. Funding variables

- i. Banks fund day-to-day cash needs similar to other businesses
- ii. Cost of funds varies from bank to bank depending on competition, financial strength and geography
- iii. Deposit mix, LCR and deposit to loan ratios

# Regulatory perspective – Modified LCR



# A client's perspective

## I. What is old is new again

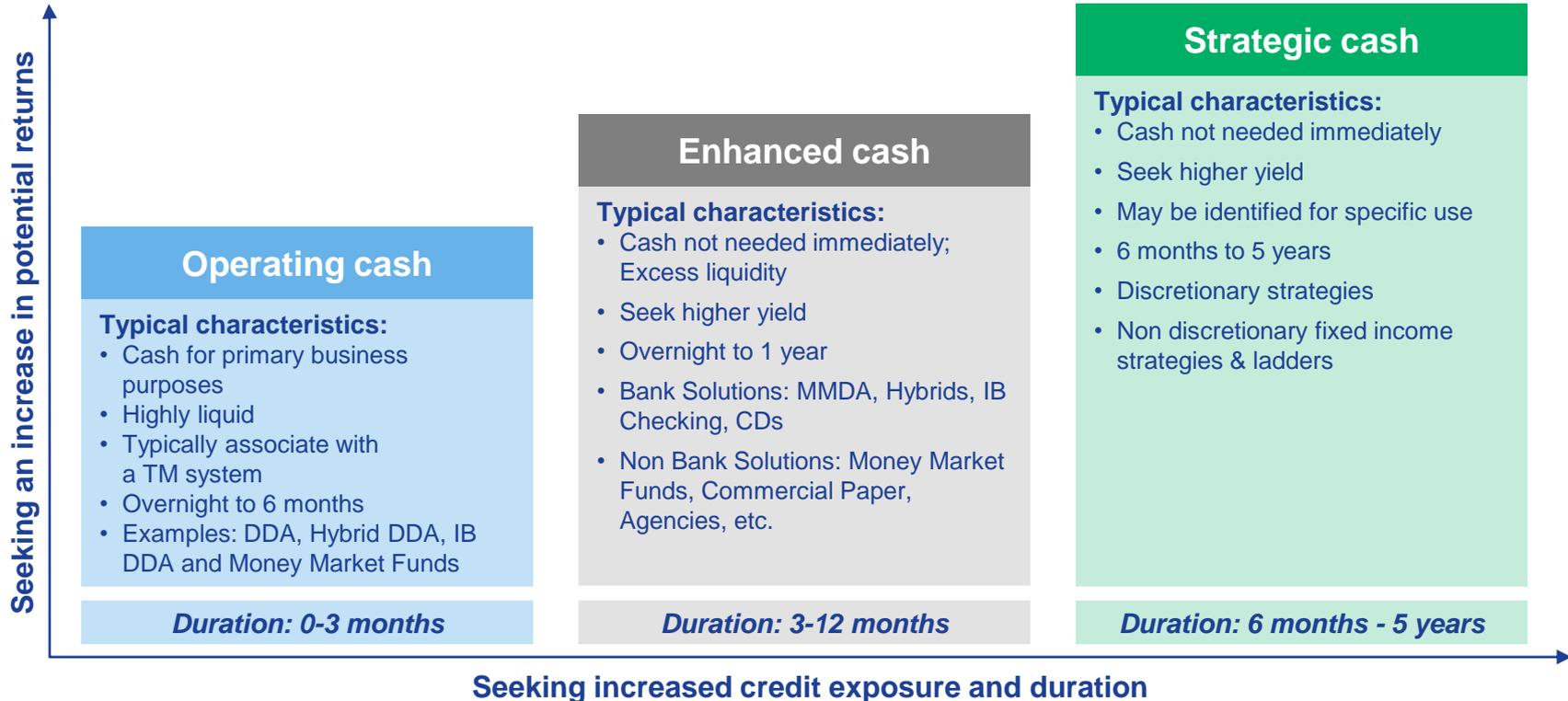
- A. Time value of money
- B. Risk associated with alternative investment options
- C. Review both the investment and debt approaches to reflect long term strategy of the company

## II. Update investment policies

- A. Has the company's risk appetite changed?
- B. Account for legislative and solution changes
- C. Include potential for sudden changes in the future

# Liquidity continuum

## Liquidity objectives



# Potential investment alternatives

## Corporate liquidity and investment

- As corporations enter 2018 with historical levels of excess liquidity two potential tail winds have emerged; a rising interest rate environment and lower corporate tax rates.
- As a result, corporations are being more strategic by investing excess cash in not only bank deposits, but they are also seeking investment alternatives that may re-price more rapidly and may provide an economic advantage over bank deposits and the tax advantaged earnings credit rates.
- Information Portals and Money Portals are tools to manage liquidity broadly

## Bank Deposits

- Analyzed DDA
- Hybrid DDA
- Interest Bearing DDA
- MMDA
- CD's

## Money Market Funds

- Money Market Fund portals
- Provide a high level of safety coupled with daily liquidity

## Laddered Bond Strategies

- Invest excess cash to specific dates to meet cash flow needs or create a customized portfolio to enhance yield in products such as commercial paper, U.S. Agency Securities, corporate bonds, municipal bonds, broker CD's, mortgage backed securities, etc.

## Managed Portfolio

- Discretionary fixed income asset management customized to meet a client's short term liquidity, intermediate, and long-term needs

# Questions?

Thank you