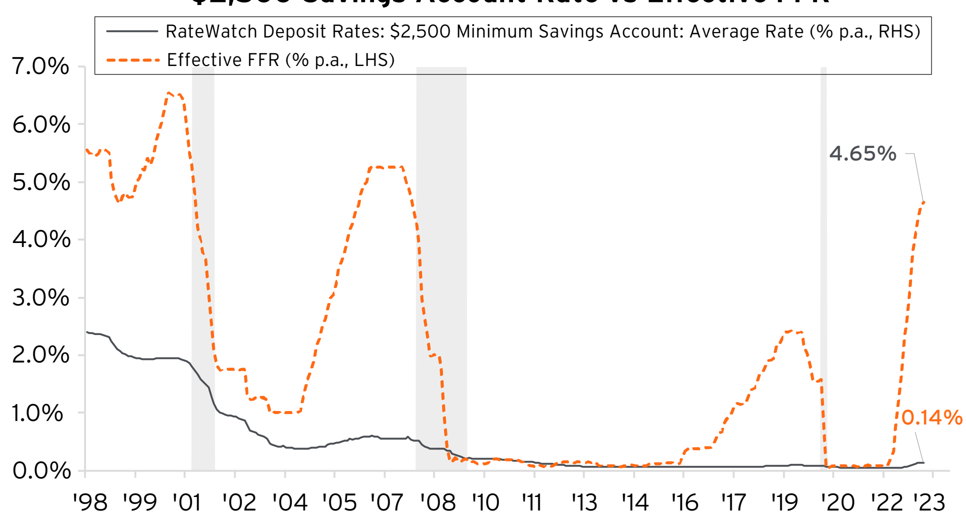
INTEREST RATES, MONEY MARKETS, AND SAVINGS ACCOUNTS

In our previous two Monthly Market Updates, we spoke about the attractiveness of money market rates. Money market rates rise and fall in tandem with the Fed Funds rate. This is the rate that the Federal Reserve has been steadily raising over the past year. It now sits at a target range of 4.75% to 5.00%. Money market rates generally have a slightly lower yield.

The rate paid in a savings account in a bank is not tied to the Federal Funds rate. These rates are determined by the bank in question. Many banks have left their savings deposit rate at very low levels, despite the rise in rates for other securities. This is illustrated in the graph below, courtesy of our friends at Strategas Research Partners:

$2,500 Savings Account Rate vs Effective FFR



This chart uses the effective Federal Funds Rate as a proxy for money market rates. The rates in this graph are as of March 31, 2023. As you can see, and perhaps experience at your own bank, average bank rates remain near zero. Perhaps not surprisingly, this has contributed to the recent instability in some banks. When customers realize they can make approximately 4.5% in a money market, they naturally withdraw their money and place it elsewhere.

Please reach out with question on this or any other topic, or if you would like advice on how to earn more on your cash.

Sincerely,

Mike and Steve

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