# Why a Money Market Account? We'll Give You Three Good Reasons.

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At Umpqua Wealth Management, we've always believed that money market accounts are a smart addition to any portfolio. In today's roller-coaster market, that's never been more true. We'll get into why in a moment—but first, let's take a quick look at how money market accounts came to be.

## A Brief History of Money Market Accounts

1980 was a big year. Mt. St. Helens erupted. The Post-It note was invented. And in the financial world, the Depository Institutions Deregulation and Monetary Control Act began to phase in the deregulation of bank deposits.

Two years later, the Garn-St. Germain Depository Institutions Act was passed by Congress, which deregulated savings and loan associations for good. This newfound freedom led to a smorgasbord of new bank products; the money market account was one of them.

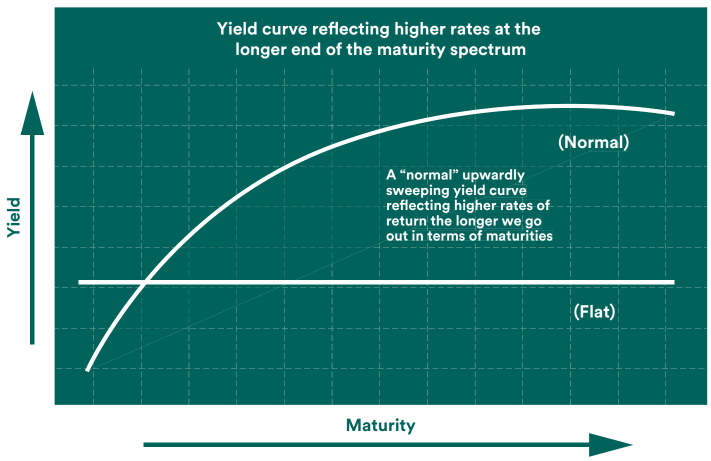
Today, money market accounts can be a great way to stash your cash in uncertain times while still earning a bit of interest.  Similar to a savings account, they're insured by the FDIC up to $250,000.

That's the backstory on money market accounts—and here's why we think they may deserve a place in your portfolio:

## 1. We're Facing a Flattening Yield Curve

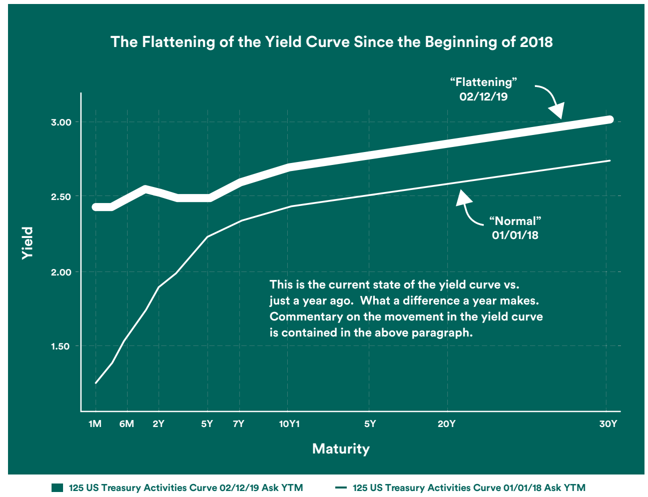
The yield curve is a chart that represents the US Treasury rate's yield on short- to long-term bonds. It's also a powerful economic litmus test that can sometimes help predict a recession.

Under normal circumstances, earning a higher rate of return will generally require longer durations of investment. On the flip side, a shorter investment horizon generally brings lower rates of return. On a chart showing short-term to long-term yield rates, you'll typically end up with a curve swinging upwards from left. (That's good.) In the chart below, you can see how the yield curve reflects higher rates at the longer end of the maturity spectrum:




## However, the curve doesn't always curve up.

When investors (who are lending money) start to believe that there will be less demand for borrowing in the future (due to an economic slowdown, for instance) they may loan money at a lower interest rate to stimulate demand. When this happens, long-term rates become lower than short-term rates, and a flattened, or even inverted yield curve can occur. In the chart top right, you can see what a normal yield curve looks like compared to a flat or inverted one:




Source: US Dept. of Treasury. Beginning of 2018. Treasury.gov.

## Where does the yield curve currently stand?

As of the date of this report, 1-month Treasuries (i.e. the short end of the yield curve) have risen over 114 basis points (from 1.29% to 2.43%) since the beginning of 2018. On the other hand, 30-year Treasuries (i.e. the long end of the yield curve) have risen a paltry 19 basis points
(from 2.81% to 3.0%). This disproportionate rise in the short end vs. the long end of the yield curve has effectively flattened the overall yield curve since the beginning of 2018.

## What does this mean for markets?

It's important to note that the yield curve isn't inverted—yet. However, if international growth conditions remain sluggish, expectations for real consumption growth remain flat, and the Fed continues to tighten monetary policy, we could be headed for an inversion.

So what can you do to prepare for a possible downturn? Keep your powder dry, as the saying goes—that's where money market accounts come in.

## 2. Cash Remains King

By keeping a portion of your assets in cash equivalents like a money market account, you not only maintain liquidity, you can also stay nimble in today's uncertain economic climate. Given today's low rate environment, a money market may provide an opportunity to cover the impact of annual inflation.

### Holding cash is an opportunity, not a cost.

Holding cash doesn't mean waving goodbye to meaningful yields—you just have to look at cash a little differently. Consider this:

- Holding some cash can help you preserve your net worth when what appears to be an inevitable market drop arrives. Cash can cushion your losses and potentially help you come out ahead in the long run.
- For those looking to maintain an optimal level of liquidity, overnight deposits or money market accounts can be a great way to go.

Sure, there's a tradeoff to holding cash—after all, it doesn't compound very quickly. But in today's low interest rate environment, a healthy dose of cash can potentially stabilize your portfolio while maybe turning out to be one of the smarter investments you own.

## 3. Money Market Accounts Help You Navigate in a Volatile Market

December 2018 capped off a difficult 12 months for investors, with nearly every corner of financial and commodity markets ending firmly in the red. December was particularly rough for domestic equity markets, with the S&P dropping 9% in its second-worst December on record. (December 1931 holds the dubious honor of worst-ever, when the index lost 14.5%.)

In other words, we could be in correction territory.

Just as analysts were starting to wonder if we were headed for a broader bear market, the S&P bounced back 8% in January, giving investors a serious case of whiplash. Needless to say, attempting to navigate volatile markets like these requires some steady nerves and smart planning.

One approach used by investors is asset allocation and diversification. This is based on the idea that different assets (like stocks, bonds and money market account instruments) offer different rates of return. By maintaining a mix of investments across these and other asset classes, you can help limit your losses in volatile markets—and boost the potential for higher returns.

No matter how volatile the market gets, two things are crystal clear:

1. You can't sit on the sidelines. While market volatility can make you feel skittish, it's important to stay in the game and focus on the long term. The market is going to ebb and flow—it always does. And given the historically high degree of returns generated by participating in the market, it may be worth staying put. After all, a rising tide lifts all boats.

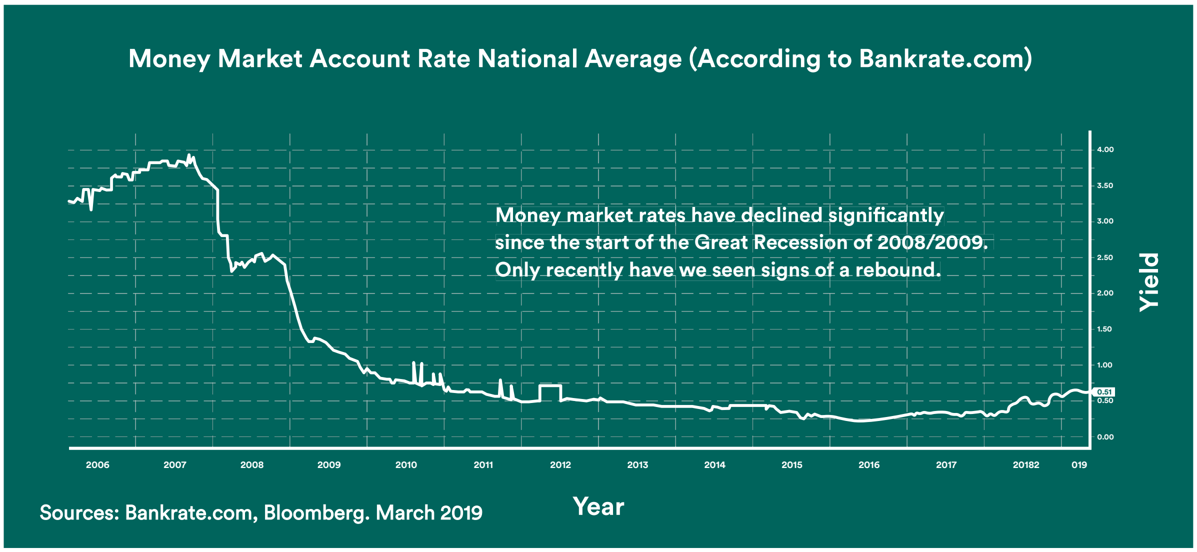
2. You've got to mix it up. Strategic asset allocation and broad diversification can help provide a buffer for your portfolio in times of market chaos. Not only does this approach help preserve your assets when the going gets rough, it can enhance returns over the long term.

## Looking Ahead: Money Market Account Trends

To figure out where money market account rates are headed, it helps to know where they've been. Prior to the Great Recession of 2008, money market rates in the United States hit a high of 3.9%. Then the Federal Reserve stepped in with a series of policies designed to stimulate the economy after the recession. As a result, rates took a nosedive, finally hitting the bottom in 2016 at around 0.25%.

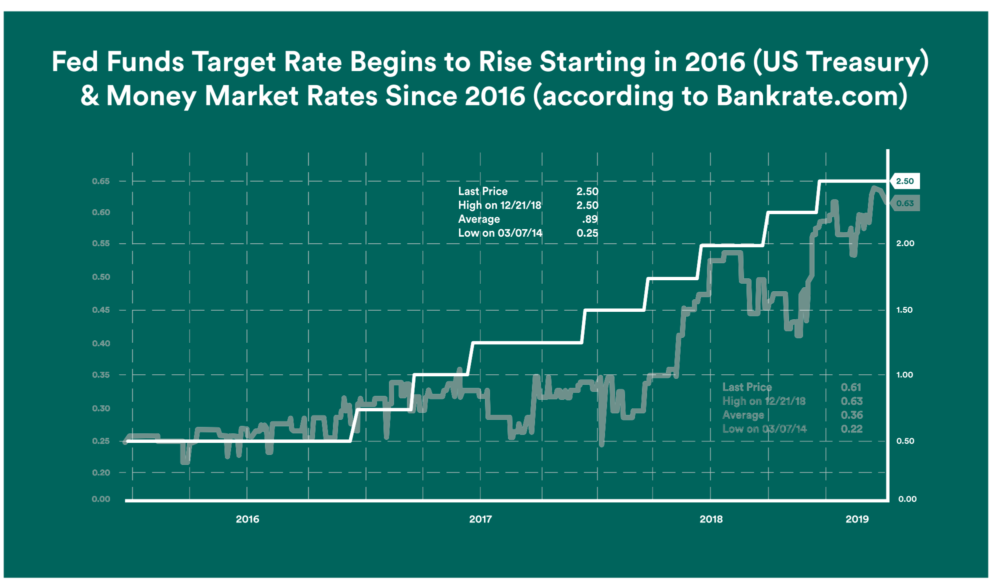
While at the time of writing this report the national average for rates is still anemic  at 61 basis points according to Bankrate.com, things are looking up. The trajectory has been showing recent improvement through 2018, rising almost 30 basis points since the beginning of the year. On the chart below, you can see how rates are starting to gradually rise:

**Money Market Account Rate National Average According to Bankrate.com**




The main contributor to this rise is the boost of the Federal Funds Target Rate, which is the interest rate at which depository institutions lend reserve balances to other depository institutions overnight.

The Fed gradually began raising the rate in 2016, and this shift in policy has had a direct impact on money market account rates. See comparison chart below.




The FOMC has started to retreat from an accommodative policy to one of balance sheet normalization. As a result, we have seen a rise in the Fed Funds Target Rate that will impact short term interest rates.

## Holding cash is an opportunity, not a cost.

Besides keeping an eye on the Federal Funds Target Rate, we've also been paying close attention to commentary from the Fed. As recently as February 2019, Federal Reserve Chairman Jerome Powell reiterated a "patient" stance on future interest rate hikes, noting that the U.S. economy should keep expanding at a solid (though somewhat slower) pace in 2019. Source: Federal Open Market Committee (FOMC) policy meeting; Washington, U.S., March 20, 2019

Factor in a sluggish global economy, volatile financial markets, and uncertainty regarding US trade policy, and we think the Fed will maintain a measured pace in 2019. That being said, we do believe that there will be at least one rate raise this year, which will contribute to a moderate rise in money market rates.

Based on these trends, we believe that intelligent cash management and allocation is playing an increasingly important role in each client's portfolio. With global markets appearing to exhibit increased volatility as the business cycle enters its ninth year of recovery following the Great Recession, the outperformance of cash as an asset class in 2018 isn't terribly surprising. It does, however, underscore the importance of cash not only from a short-term tactical perspective, but also as a long-term component of an asset allocation profile.

## Opportunities Are Everywhere

While last year was a reminder of how unpredictable markets can be, there are plenty of reasons to be optimistic, too. Consider this:

- Assets that have traditionally had an inverse correlation to the US Dollar (like crude oil and foreign stocks) had a rough period of performance in 2018. We believe that as the Fed remains on a broad course toward policy normalization, this will create a headwind for these asset classes.

- Policy decisions from non-US market regulators are creating opportunities too. For instance, equity markets in China are starting to respond to policy easing by the Chinese government. This, in addition to an easing of trade war tensions, is creating some optimism for growth in the year to come.

- Combine these underperforming asset classes along with foreign policy decisions, and we could see periods of tactical outperformance—which may be the perfect opportunity to buy. In this case, you'll want to consider having cash on hand to take advantage of these short-term opportunities.

## What's the big takeaway?

Given where we are in the macroeconomic cycle, and considering the valuation of equity markets today, there's a fair degree of uncertainty about how to allocate future investment funds. That's why it may make sense to lean towards cash right now. (In fact, the US Dollar Index was one of the best performing asset classes of 2018.)

So while we've said it before, it bears repeating: money market accounts can be a vital part of any portfolio, whether you're looking to protect the wealth you have or grow it even further.

Of course, money market accounts are just one part of a larger strategy—and everyone's financial goals are different. The best approach is to sit down with a financial expert who knows how to listen, ask the right questions, and take a big-picture approach to your portfolio.

*We're here to help you make sense of the market—and help your money grow. For personalized financial advice,* **Connect with a Private Wealth Advisor today**.
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