19 April 2023

The liquidity lowdown: your monthly update from Aviva Investors

Central bank rates

	€	£	$
Central bank base rate	3.0%	4.25%	5.0%
Movement	+ 50bp	+ 25bp	+ 25bp

Source: Bloomberg.

Central banks continued hiking base rates in the first quarter. At their latest rate-setting meetings, the Federal Reserve (Fed), European Central Bank and Bank of England all raised rates to their highest levels in many years.

Forecasts – year-end 2023

	€	£	$
Market-implied	3.63%	4.73%	4.55%
Economist forecasts – median	4.05%	4.30%	5.05%

Source: Bloomberg, 17 April 2023.

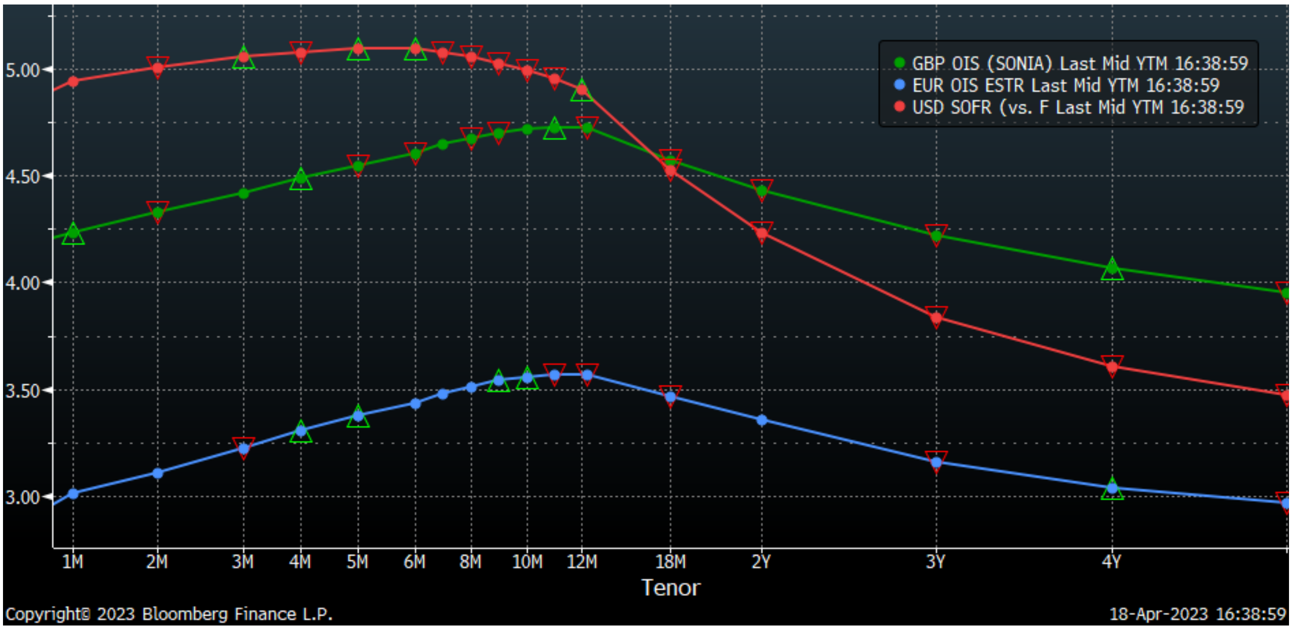
Market pricing suggests central bank rates will continue to rise for euros and sterling, before beginning to plateau or fall later this year. In contrast, the market is pricing rate cuts from the Fed in the latter half of 2023. Economists concur in euros, expecting further rate rises; however, in both sterling and dollars, economists expect rates to remain stable rather than fall. There’s a lot of uncertainty baked into these forecasts; the swing factor is and will remain inflation.

Fund yields

	€	£	$
Monthly trend			
Gross yield	2.95%	4.29%	5.02%

Source: Aviva Investors, 17 April 2023, one-day yield.

Chart of the month – forward curves



Source: Bloomberg, 18 April 2023.

Forward-rate curves are humped. This indicates market participants are pricing in higher short-term than long-term rates. This is most evident in US dollars: while market participants believe cash rates will increase for the next year or so in sterling and euros, they believe cash rates in dollars will being to fall in around six months' time. Liquidity funds can take advantage of this environment to lock in rates at attractive valuation points.

Our latest thinking

An introduction to money market funds

Why inflation is likely to prove sticky

Bank securities – Unloved, but Why?

Our annual letter to company chairpersons

Why fixed income, why now?

Opportunities in cash – Our 2023 liquidity outlook

Key Risks

The value of an investment and any income from it can go down as well as up. Investors may not get back the original amount invested.

The Fund invests in money market instruments such as short term bank debt the market prices/value of which can rise as well as fall on a daily basis. Their values are affected by changes in interest rates, inflation and any decline in creditworthiness of the issuer.

This is not a guaranteed investment, an investment in a Money Market Fund is different from an investment in deposits and can fluctuate in price meaning you may not get back the original amount you invested. This investment does not rely on external support for guaranteeing liquidity or stabilising the NAV per unit or share. The risk of loss of the principal is to be borne by the investor.

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Where relevant, information on our approach to the sustainability aspects of the fund and the Sustainable Finance disclosure regulation (SFDR) including policies and procedures can be found on the following link: https://www.avivainvestors.com/en-gb/capabilities/sustainable-finance-disclosure-regulation/

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416751 – 29/09/2023