

Cash Remains King in a Low-Rate Environment Due to COVID-19 – And Now What?

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SWOAFP February: Liquidity Management

Presenter Bio



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PNC Bank

- The PNC Financial Services Group, Inc. (NYSE: PNC) is one of the largest diversified financial services institutions in the US with assets of \$462 billion
- Expanding national franchise with pending acquisition of BBVA USA
- Official bank of the Cincinnati Reds

Our presenter

- 17 years in financial services
- Current day-to-day responsibilities:
 - Core DDA deposits, Specialty DDA and Branch Services
 - Rate and revenue strategy
 - Product technical development and management
- Holds a B.A degree from John Carroll University; MBA from Cleveland State University



How We Got Here



Market Changes, Challenges and Opportunity



Why focus on Liquidity Management



Considerations for Effective Cash Management



A Quick Look at How We Got Here

COVID-19

Still Lingering Effects and Ramifications





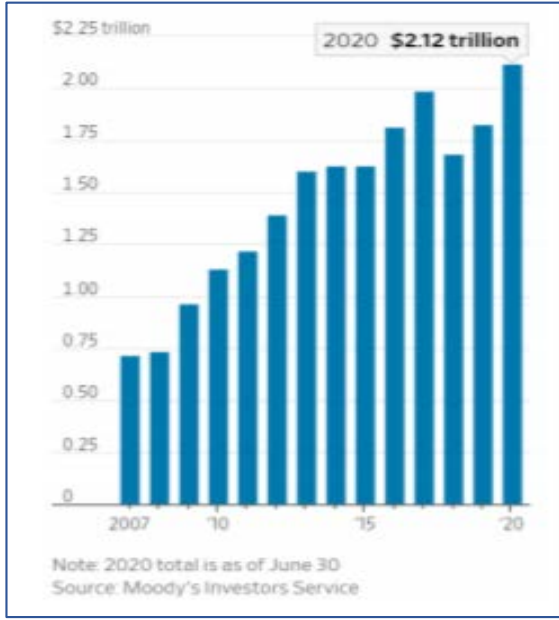
Market Changes, Challenges, & Opportunity

COVID-Driven Impacts to Liquidity

Fed Action causes Cash Flood

- Fed response to the coronavirus was swift and sustained in 2020 and is expected to continue
- Most impactful – Fed cut rates to zero, halting the recent stable-rate environment
- CARES Act delivers headline programs to flood the market with liquidity:
 - Paycheck Protection Program
 - Qualitative Easing (\$700B)
 - Additional and ongoing lending programs

Total Year-End Cash Holdings at U.S. Non FI Companies



Snapshot of Fed Relief Programs

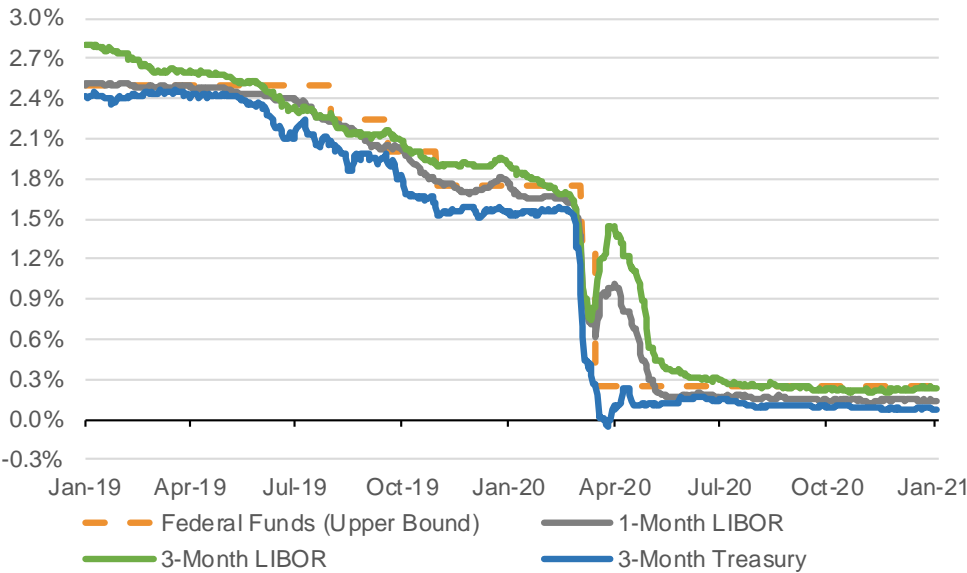
Announcement Date	Operational Date or Proposed	Facility	Funded by CARES?	Acronym
March 17	April 14	Commercial Paper Funding Facility	No	CPFF
	March 20	Primary Dealer Credit Facility	No	PDCF
March 18	March 23	Money Market Mutual Fun Liquidity Facility	No	MMLF
	June 29	Primary Market Corporate Credit Facility	\$50 Billion	PMCCF
March 23	May 12	Secondary Market Corporate Credit Facility	\$25 Billion	SMCCF
	June 17	Term Asset-Backed Securities Loan Facility	\$10 Billion	TALF
	April 16	Paycheck Protection Program Liquidity Facility	No	PPPLF
April 9	June 15	Main Street Lending Program	\$75 Billion	
	May 26	Municipal Liquidity Facility	\$35 Billion	

- Corporate cash levels at all-time highs
- Surplus cash generated from operations and/or stimulus could be deployed
- Rate environment – low rates limit alternatives

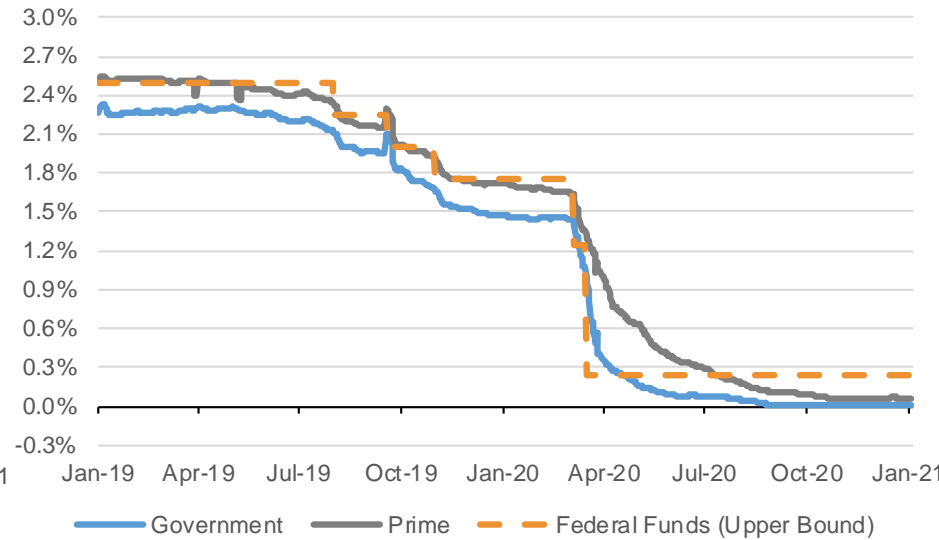
Market Rate Environment

Short-term Rates and Impacts on Corporations

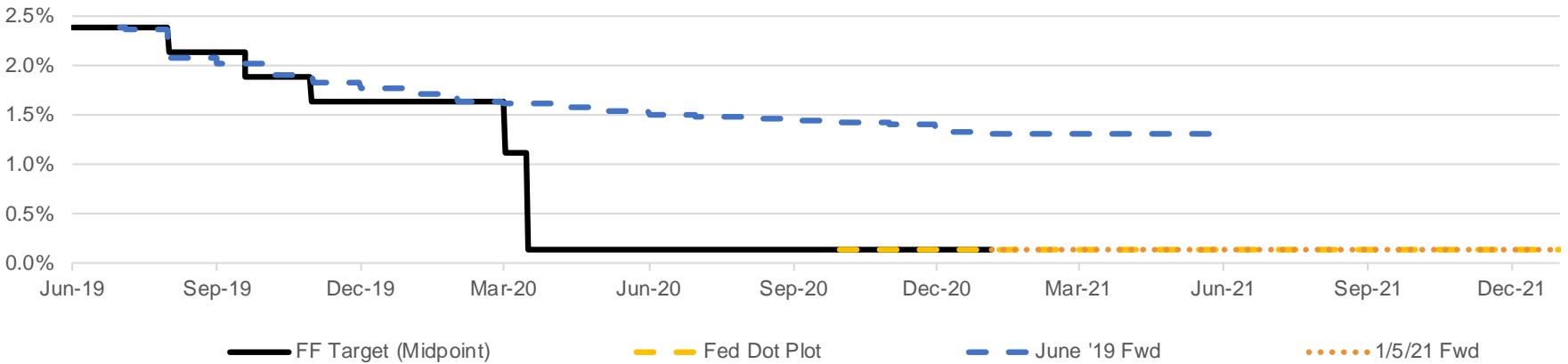
Short-Term Rates



Money Market Fund Yields



Fed Funds Target - Historical and Forward Rates



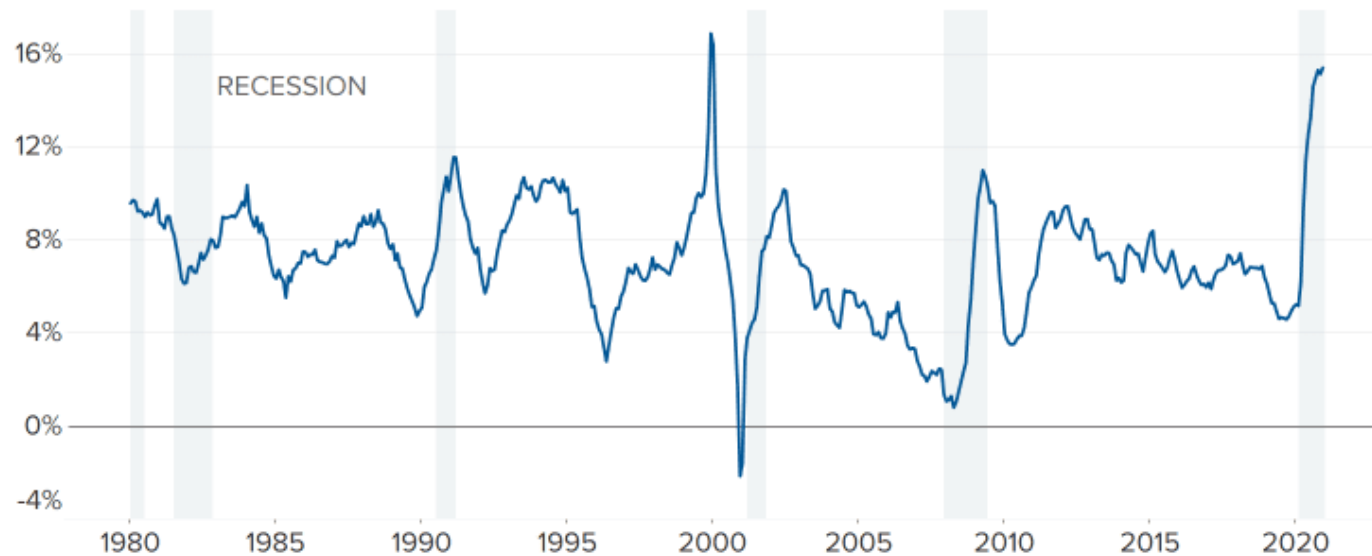
Source: Bloomberg, Data as-of January 5, 2021

Currency Cash(Pile)

COVID Stimulus, Policy drives Run

U.S. currency in circulation

Percent change from prior year



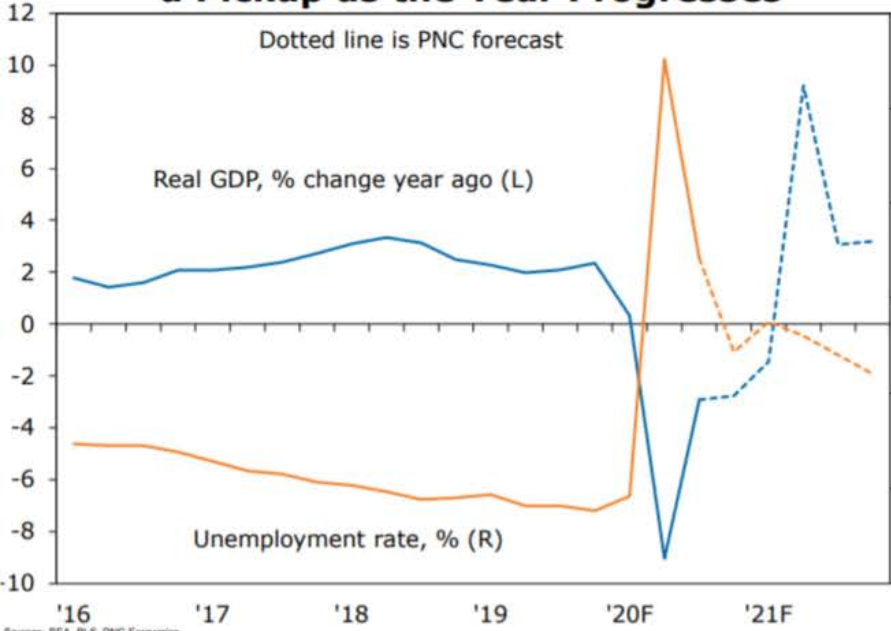
SOURCE: Board of Governors of the Federal Reserve System, retrieved from FRED, Federal Reserve Bank of St. Louis

- Currency in circulation levels at highest-levels since WWII
- 11.6% yearly increase is largest since 1945
- Demand from foreign national banks also fueling run on cash

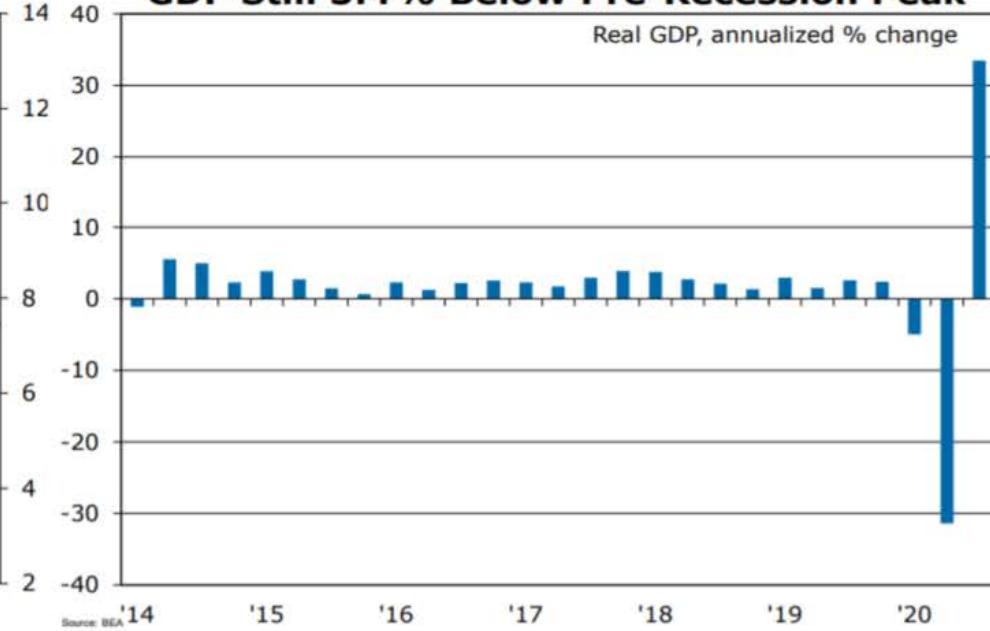
Market Outlook

Early 2021 Thoughts

Slower Growth in Early 2021, Then a Pickup as the Year Progresses



Record Growth in Third Quarter, But Real GDP Still 3.4% Below Pre-Recession Peak



- Unemployment results continue to paint a mixed picture of a broad economic rebound
- Containing coronavirus proved challenging in Q4'20, but vaccine rollout commenced, spurring positive sentiment
- Sizeable economic stimulus (~\$1.9T) top priority for new Biden administration

SOURCE: PNC Economics

Short-Term Cash Environment:

Low and Stable



Low Rate Environment

- Cash levels at all-time highs
- Shift to liquidity safety vs. yield
- Excess cash stockpiled due to economic / market uncertainty
- Rate environment - low rates compress yields across the board with little differentiation
- Changing regulation impacts everyone



Stable Rate Environment

- Fed committed to zero rates through 2024, maybe beyond
- Cash levels continue at all time highs
 - With potential additional stimulus
- Extreme excess cash generated could be deployed
- Potential for corporate growth to uptick somewhat
- Stabilized cash positioning as pandemic recovery holds form

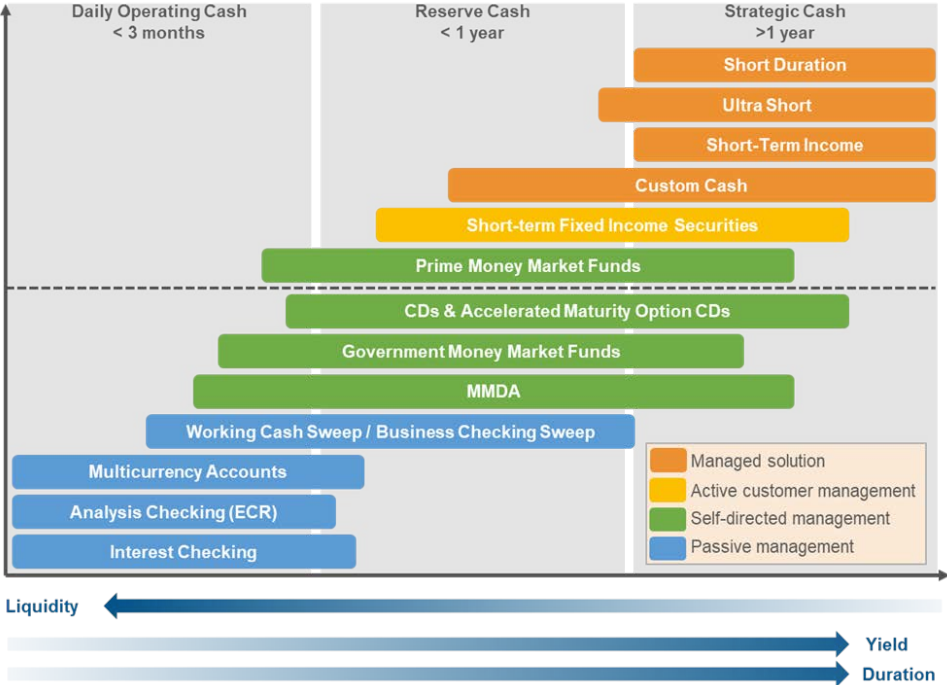
Why Focus on Liquidity Management

Liquidity Management

What is it and why it is important

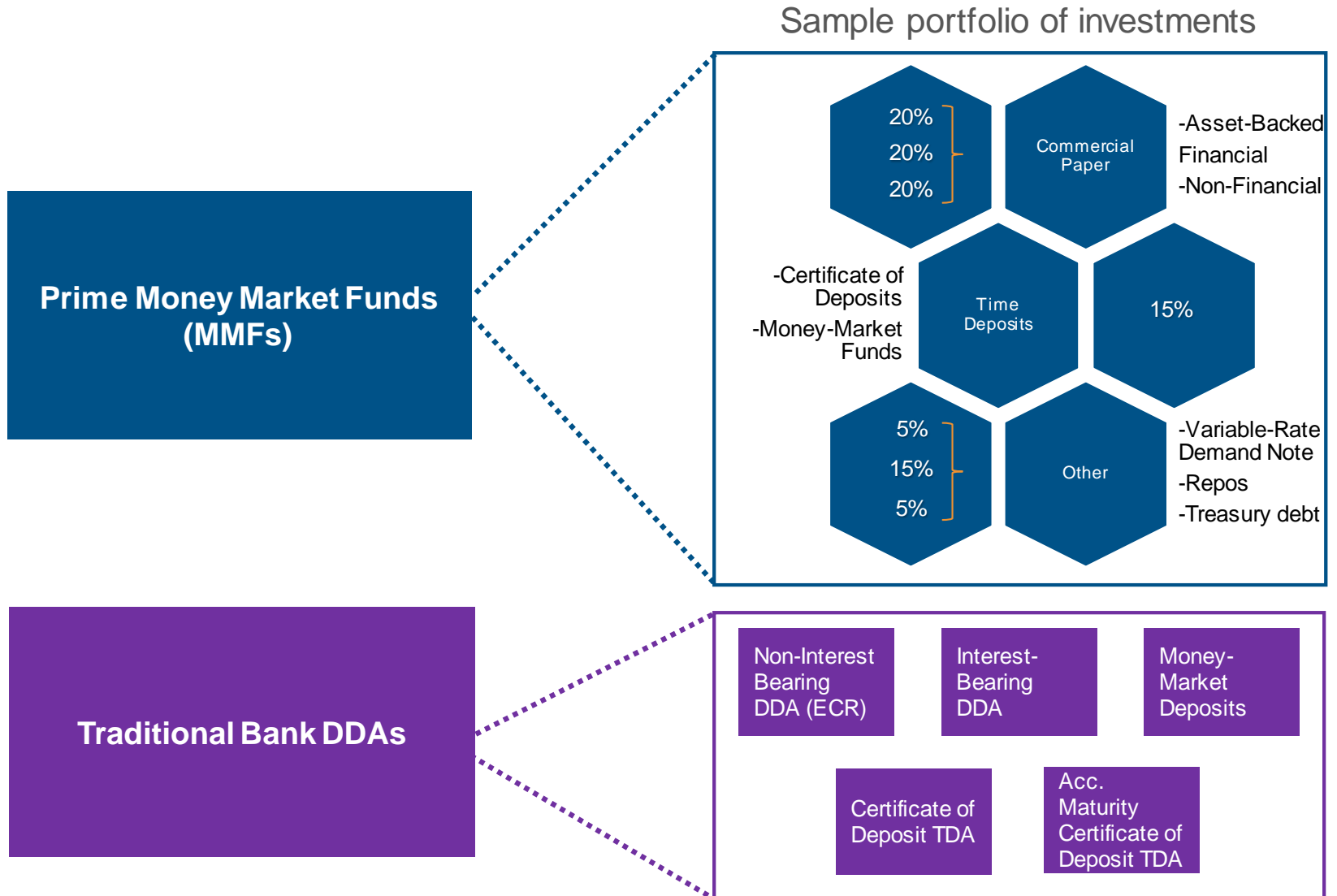
Liquidity Management is a set of strategies that ensures companies are able to properly manage their cash in order to support operations and plan for the future

Operating Cash	<ul style="list-style-type: none"> Supports daily operations Short term in duration Safety primary characteristic Passively managed
Reserve Cash	<ul style="list-style-type: none"> Cushion for unforeseen events Up to 1 year duration Liquidity primary characteristic Actively or passively managed
Strategic Cash	<ul style="list-style-type: none"> Reserved for a particular duration and purpose Up to 2+ years duration Yield primary characteristic Actively managed



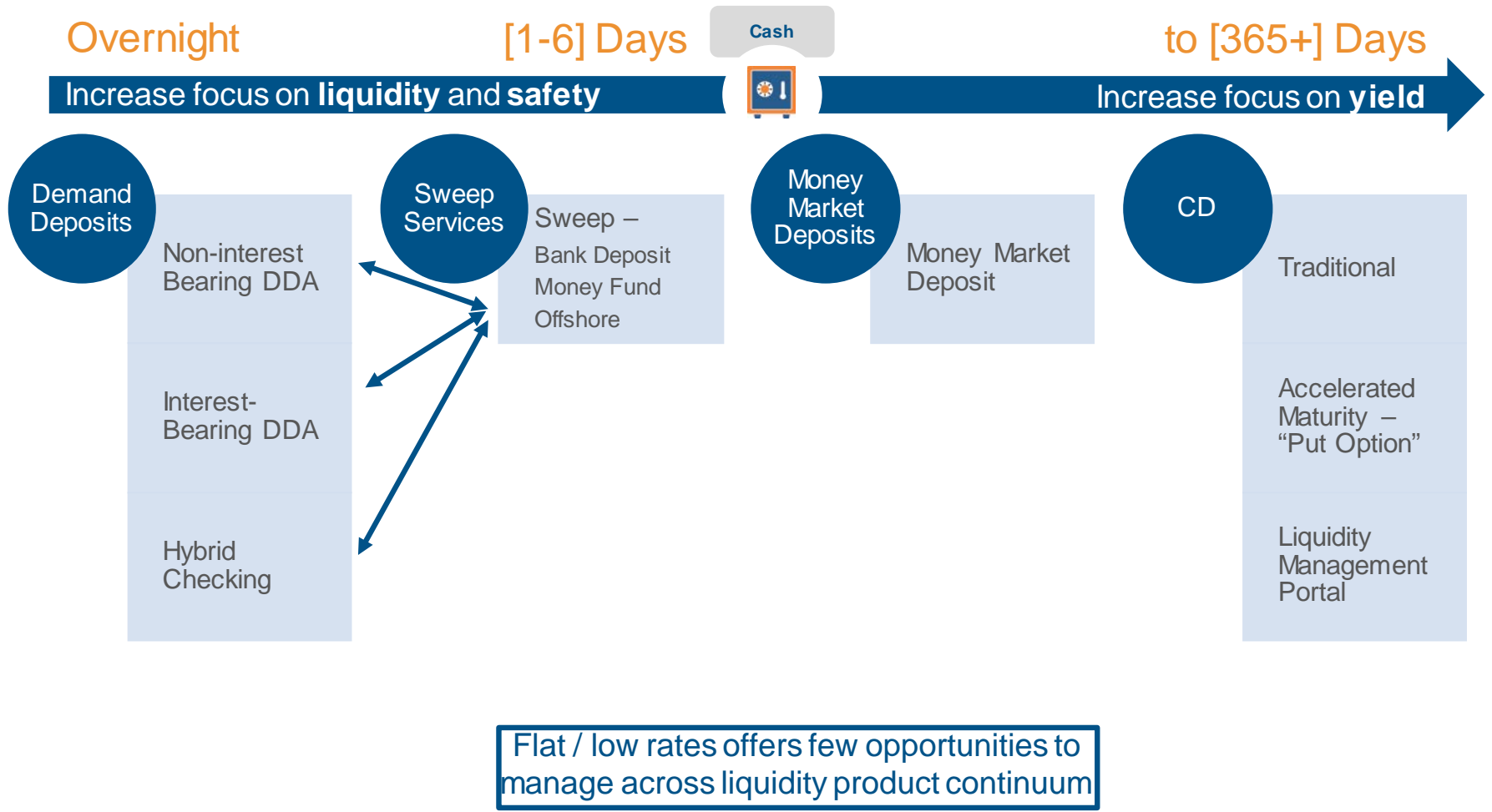
Universe of Liquid Investment Options

What's the right balance of risk vs. reward?



Traditional Bank Deposit Product Options

Managing Short-Term Operating Cash



Considerations for Effective Cash Management Strategies

What Does This Mean for Cash Managers and Treasurers?

- Changing market conditions and political/regulatory environment may prompt need to review and update investment policy
- Renewed focus on the risk and return of allowable investments
- Understand re-introduced and emerging short-term investment products
- Closer management and allocation of operating, reserve and strategic cash in low-rate environment
- Prepare for shift in liquidity needs as pandemic recovery stabilizes, for it may lead to Increased capital expenditure, M&A activity, or changes to lending approach
- Do corporates need to contemplate negative rates

Liquidity Needs

Daily Operating Cash

Needed to support daily operations

- Overnight to short-term
- Transactional in nature

Reserve Cash

Cushion for unforeseen events

- Short-term to medium-term
- Operating cushion decreases with certainty

Strategic Cash

Reserved for a particular duration and purpose

- Medium-term to permanent
- True excess liquidity

Invest / utilize cash accordingly

Determining Appropriate Cash Segmentation

Cash Management Style and Investment Considerations

Cash Characteristics (purpose and term)

The intended use of excess cash and a sense of when the funds will be needed are critical in determining an appropriate liquidity management solution

Key things to consider

- Balance predictability and perceived term
- Liquidity requirements
- Intended use of cash



Cash Management Style

Each company has unique preferences for managing liquidity. An appropriate solution will align with the cash manager's stylistic preferences.

Key things to consider

- Active, passive or outsourced
- Level of sophistication
- Time and staffing available
- Knowledge of investment alternatives



Investment Policy, Risk Tolerance, Tax Status

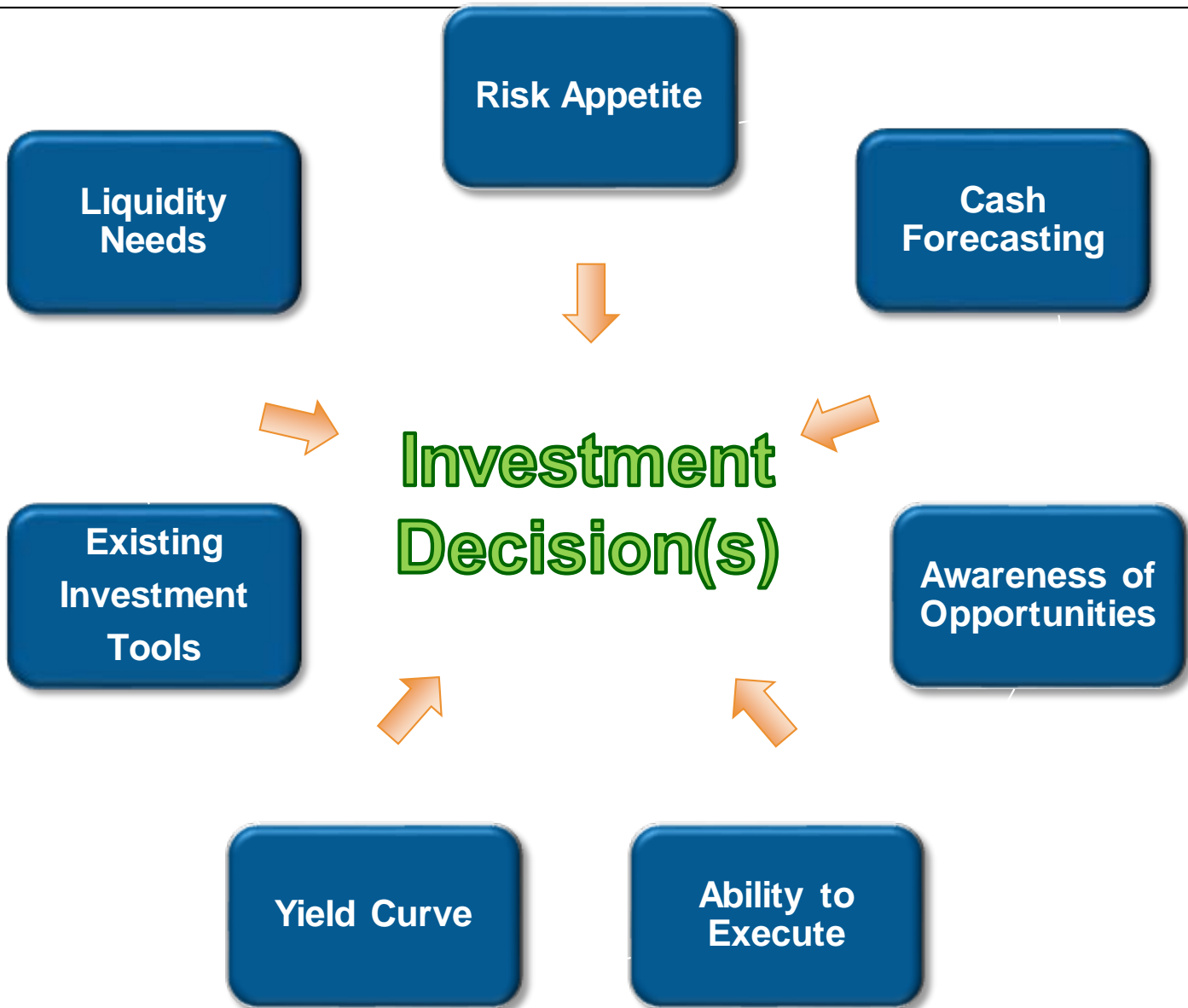
All cash managers must also consider the risk, diversification, and tax implications of the liquidity management solutions they employ.

Key things to consider

- Permissible investment options
- Diversification requirements
- Risk tolerance
- Tax status
- Interest rate risk



What Drives Your Investment Decisions?



Investment Alternatives and What You Should be Asking

Mission:

What is the objective for your cash portfolio?

Risk:

What level of risk are you willing to accept?

Confidence:

How confident are you in your ability to forecast cash?

Awareness/Alignment:

How does your company think about cash / cash flow?

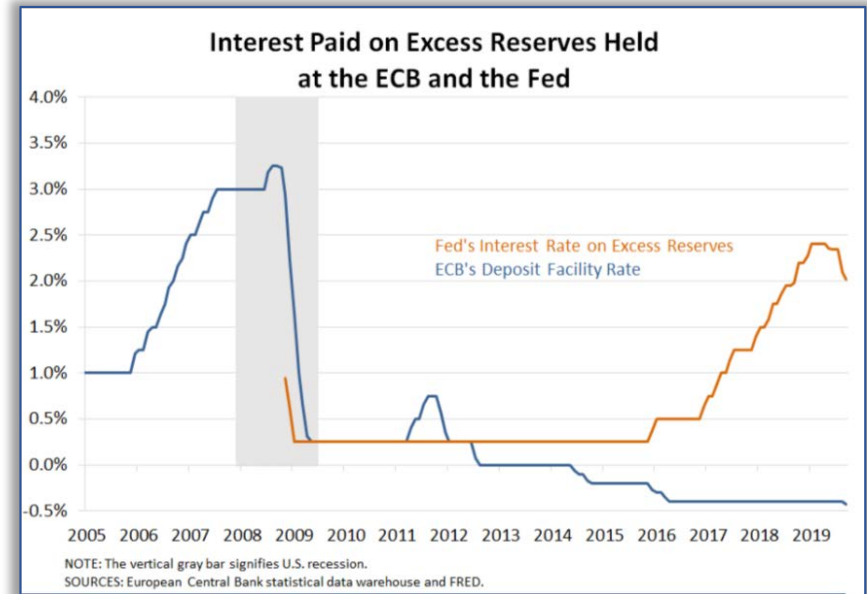
Ability to execute:

Are you flexible enough to pivot as needed

What About Negative Interest Rates

A Foreign Bank Phenomenon

- Many foreign central banks—such as the European Central Bank, the Bank of Japan and the Swiss National Bank—have implemented negative interest rates on bank reserves as a policy tool to stimulate demand for goods and services.
- The intent is a negative interest rate will induce firms to lend out the reserves by charging a lower interest rate on loans. In short, “use it or lose it.” More lending would stimulate spending on goods and services, which would lead to higher output and upward pressure on inflation.
- But a negative interest rate is just a tax on a banks’ reserves. The tax has to be shouldered by someone:
 - Banks would further lower rates to savers
 - Banks would pass through the incurred cost by way of account/balance fees to customers.
- Fed commentary has continually disavowed a negative rate strategy as a U.S. policy tool but continues to be debated



The ECB was the first major Central Bank to adopt negative rates in June 2014 as has remained in place ever since

“A New Year, a New Outlook”: A Call To Action

- Revisit investment policy
 - Review annually at a minimum
 - How does the policy address interest rate risk
 - Does the policy consider new and re-emerging investment products
- Evaluate and re-calibrate cash segmentation approach
 - Cash segmentation can influence investment duration as well as investment priorities of liquidity, safety, and yield
 - What are your business-specific cash requirements today and for tomorrow
- Understand the solutions you will use and employ sufficient expertise
 - Seek continued education and knowledge of short-term investment options
 - Meet with investment and banking advisors to renew views on products
 - Pay attention to market and rate conditions
 - Use knowledge and investment strategies to employ effective cash forecasting





Questions?

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