

Schwab Money Funds

Schwab Asset Management® utilizes a team-based, research driven approach to security selection and portfolio management and has a disciplined and dynamic investment process, which focuses on thoughtful risk management.

Schwab Asset Management provides a broad choice of prime, government/treasury, and municipal money market funds for clients.

Market Overview and Outlook

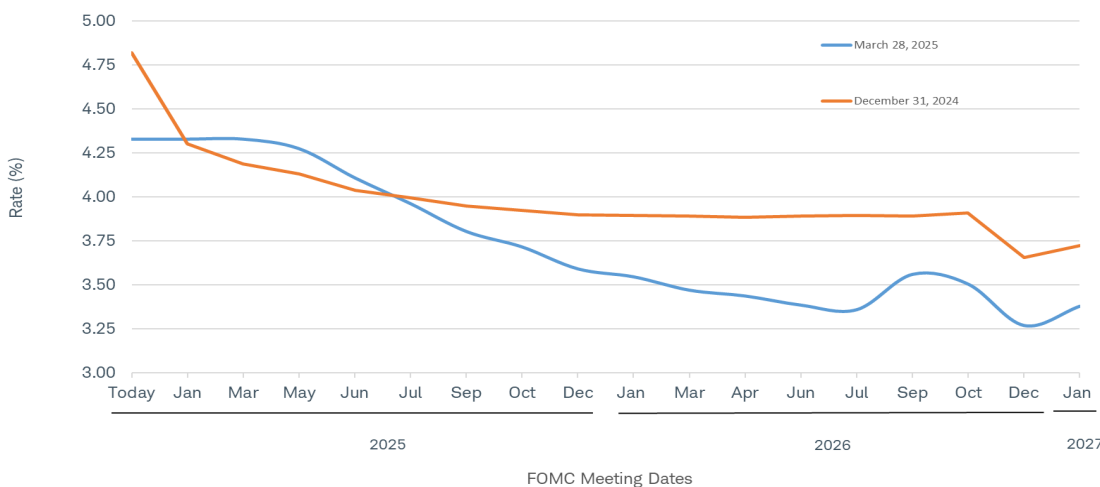
Economic growth decelerated during the first quarter of 2025; even as inflationary pressures intensified. A key driver of this dynamic was heightened policy uncertainty, particularly surrounding the implementation of new tariffs and the growing risk of a trade war. These developments contributed to a rise in short-term inflation expectations and exacerbated volatility in financial markets. Despite these challenges, the U.S. labor market exhibited continued strength, which led the Federal Reserve (the Fed) to maintain its target federal funds rate at 4.25%–4.50% throughout the quarter.

While the Federal Reserve’s policy stance remained steady, investor sentiment became increasingly cautious. Market participants grew more concerned about the inflationary and growth-related consequences of fiscal policy, particularly considering the evolving geopolitical and trade environment. By the end of Q1, futures markets reflected expectations for three rate cuts in 2025—exceeding the Federal Reserve’s own projection of two, as outlined in its March Summary of Economic Projections.

In addition to monetary policy considerations, fiscal dynamics further complicated the macroeconomic outlook. Following the debt limit reset to \$36.1 trillion in January, the U.S. Treasury began operating under extraordinary measures to remain within the statutory cap. The Congressional Budget Office (CBO) has estimated a potential “X-date”—when the Treasury may exhaust its borrowing capacity—sometime between August and September. Consequently, the supply of Treasury bills declined by approximately \$212 billion during the first quarter.

Despite these developments, interest rate risk appears relatively contained, with expectations centered on a gradual and orderly decline in rates. Ample liquidity and stable credit conditions continue to support narrow credit spreads, suggesting a relatively resilient financial environment in the face of elevated macroeconomic and policy uncertainty.

Market Projected Fed Funds Rate



Source: Bloomberg, Schwab Asset

Management.

Money Market Fund Sector Highlights

Government/Treasury Funds:

Yields across the Schwab Government and Treasury Money Funds declined quarter-over-quarter, reflecting the lingering effects of the Fed's December 2024 rate cut. While expectations for future rate cuts remained fluid, weighted average maturities (WAMs) across the funds decreased, and weighted average lives (WALs) increased as portfolios increased allocations to floating rate securities to capture attractive yields. Meanwhile, exposure to longer-duration fixed-rate securities was reduced.

Prime Funds:

The prime money market yield curve flattened in Q1, with one-year maturities declining by 15 basis points (bps) to 4.35%, just 2 bps above overnight prime yields. Schwab Value Advantage Money Fund WAMs increased by four days to 27, while WALs remained stable at 51 days. Liquidity metrics in the Value Advantage fund were steady, with daily and weekly liquidity levels at approximately 44% and 55%, respectively—well above regulatory requirements. The credit environment remained robust, with banks and financial firms maintaining strong balance sheets. Credit spreads widened slightly toward the quarter's end due to heightened economic uncertainty, though they started the year at historically tight levels.

Municipal Funds:

Short-term municipal yields exhibited their usual volatility, with Variable Rate Demand Obligations (VRDO) yields fluctuating between 1.83% and 3.62% over the quarter. On average, the SIFMA Weekly VRDO Index tracked at 65% of the Federal Funds Effective Rate. Tax-exempt fixed-rate yields declined as markets priced in a higher probability of two Fed rate cuts for 2025, with the 12-month MIG 1 Fixed Rate Muni Index falling by 23 bps to 2.84%.

Schwab Municipal Money Fund WAMs remained in a relatively narrow range, averaging 27–29 days. Despite seasonal reinvestment pressures in January and February, liquidity remained strong. Spreads in the municipal market widened in January due to the California wildfires, particularly for issuers such as the City of Los Angeles and the Los Angeles Department of Water and Power. Some short-term debt spreads widened by over 100 bps before narrowing by 40 bps as rating agencies provided updated assessments. While these yield moves were volatile, they did not materially impact net asset values or liquidity in the municipal money fund space.

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Schwab Asset Management

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Investors should consider carefully information contained in the prospectus or, if available, the summary prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by visiting schwabassetmanagement.com/prospectus. Please read the prospectus carefully before investing

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