

Weekly CIO Letter

29 SET
2026

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Cash Is Becoming Price-Sensitive

With nearly \$8 trillion in U.S. money market funds, policy rates back near 4%, and digital tools reducing the friction of moving cash, the banking system's cheapest source of funding is becoming more competitive.

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Executive Summary

The Federal Reserve raised the federal funds target range by 25 basis points to 3.75%-4.00% on 16 September. Its September projections also showed a median policy-rate path of roughly 4.1% at the end of both 2026 and 2027, reinforcing the message that attractive front-end yields may persist rather than disappear quickly.

That matters because cash has already become an asset class of its own. U.S. money market fund assets stood at \$7.94 trillion on 23 September, according to the Investment Company Institute. Government funds alone held \$6.53 trillion, while institutional money market assets totaled \$4.82 trillion.

\$7.94tn

U.S. money market fund assets, 23 Sep 2026
ICI

3.96%

J.P. Morgan Prime MMF 7-day SEC yield, 25
Sep 2026

0.1%

FDIC national average checking APY
Apollo / FDIC

The yield gap with traditional deposits is large. J.P. Morgan's Prime Money Market Fund offered a 3.96% seven-day SEC yield on 25 September, and its 100% U.S. Treasury fund offered 3.78%. Apollo's latest work contrasts those market-linked yields with a national average checking-account rate of roughly 0.1%.

This is not evidence of a bank run. Federal Reserve data show commercial-bank deposits near \$19.6 trillion and bank credit still expanding. The issue is more structural: as savers

become more price-sensitive, deposits can become a more expensive and less stable source of funding.

Our central view is that deposit stickiness is becoming a macro variable. Banks may need to choose between paying more for cash or allowing more cash to migrate elsewhere. Either outcome raises the marginal cost of funding and changes how monetary policy reaches the real economy.

1. Cash has already migrated into a parallel liquidity system

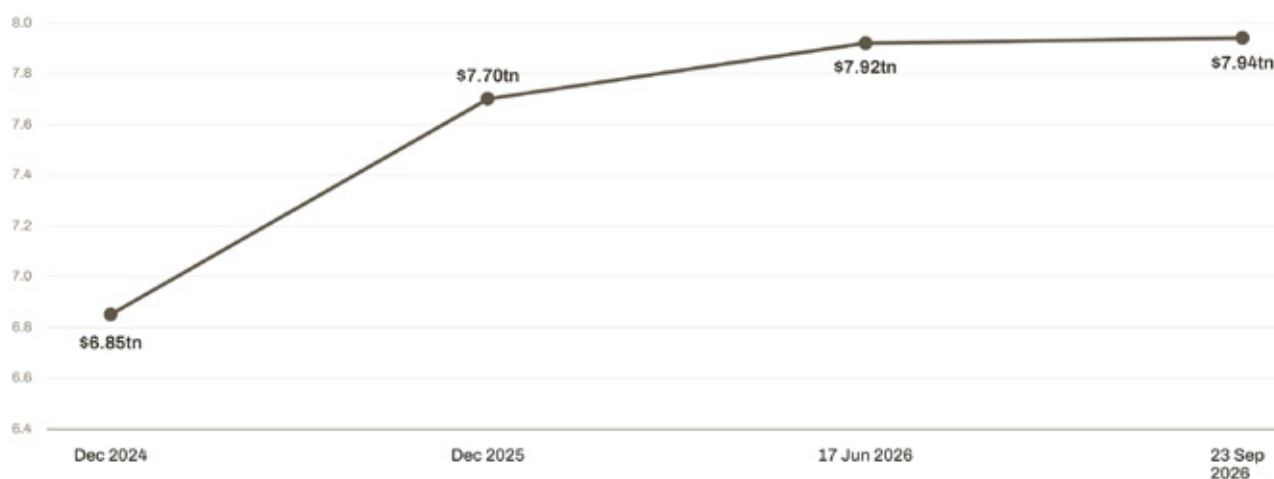
Money market funds are no longer a small parking place at the edge of portfolios. Their asset base has expanded from \$6.85 trillion at the end of 2024 to about \$7.70 trillion at the end of 2025 and almost \$7.94 trillion today.

The latest weekly data show that this pool remains near record levels even after the Fed resumed tightening. That matters because money market funds reprice quickly with Treasury bills, repos and other short-term instruments. Traditional bank deposits often reprice much more slowly.

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U.S. money market fund assets remain near record highs

Total assets, US\$ trillions.



Source: Investment Company Institute. Dec. 2025 from ICI 2026 Fact Book; latest weekly data through 23 Sep. 2026.

The implication is broader than technology spreads. New AI financing competes for capital with Treasury issuance, traditional corporate borrowers, mortgages, infrastructure and private assets. When demand for capital rises faster than the supply of savings, the clearing price is a higher cost of capital.

J.P. Morgan reaches the same conclusion from the issuer side. Hyper-scaler corporate bond issuance rose from \$17 billion in 2024 to \$109 billion in 2025. It had already reached \$194 billion in the first half of 2026, and J.P. Morgan estimates \$279 billion for the full year, followed by another \$220-\$300 billion in 2027. Technology

spreads now trade wider than the broad investment-grade benchmark, reversing the sector's long-standing premium status.

This is not evidence of a credit crisis. It is evidence that supply is becoming

economically meaningful. The market is beginning to price not only the credit quality of individual issuers, but also the amount of paper investors are being asked to absorb.

2. The yield gap is turning inertia into a price decision

Apollo's latest research makes the competitive pressure explicit. A range of fintech and digital cash products currently advertise yields between

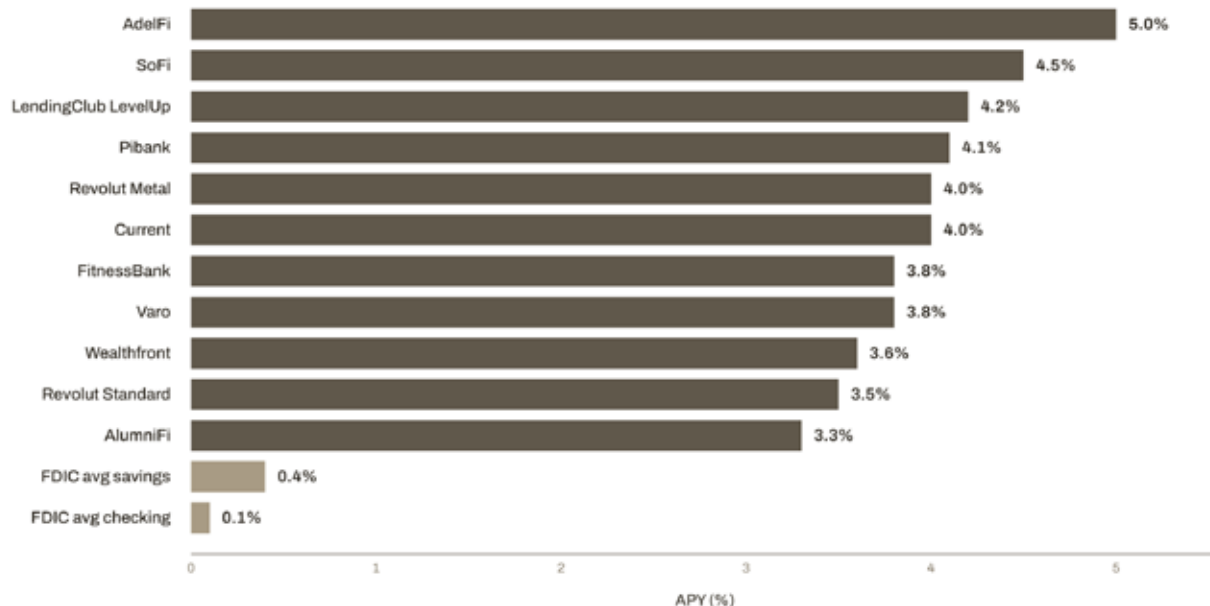
roughly 3.3% and 5.0%, compared with national average bank rates of about 0.4% on savings accounts and 0.1% on checking accounts.

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Deposit competition is no longer marginal

Annual percentage yield (APY), in %.

■ Fintech and online banks ■ FDIC national average



Source: Apollo Chief Economist; Revolut, Varo Bank, AdelFi, Pibank, SoFi, FitnessBank, AlumniFi, LendingClub, Current, Wealthfront, FDIC, Haver Analytics. 27 Sep. 2026.

Not every advertised rate is available to every customer, and promotional conditions matter. The point is not that all deposits should move. The point is that the spread is wide

enough to make cash optimization economically relevant.

The same comparison is visible in institutional liquidity products. J.P.

Morgan's Prime Money Market Fund carried a 3.96% seven-day SEC yield on 25 September, while Morgan Stanley's Money Market Portfolio showed a 3.94% seven-day current yield. These products are not bank deposits, but they demonstrate how quickly market cash can transmit policy rates to investors.

Banks therefore face a deposit-beta decision. They can raise deposit rates and protect balances, but that compresses net interest margins. Or they

can keep deposit rates low and risk allowing more cash to migrate into money funds, fintech platforms, Treasury bills or brokerage sweep products.

Either path raises the economic value of a strong deposit franchise. A low-cost liability base becomes more valuable precisely when savers gain better alternatives.

3. More mobile cash changes monetary-policy transmission

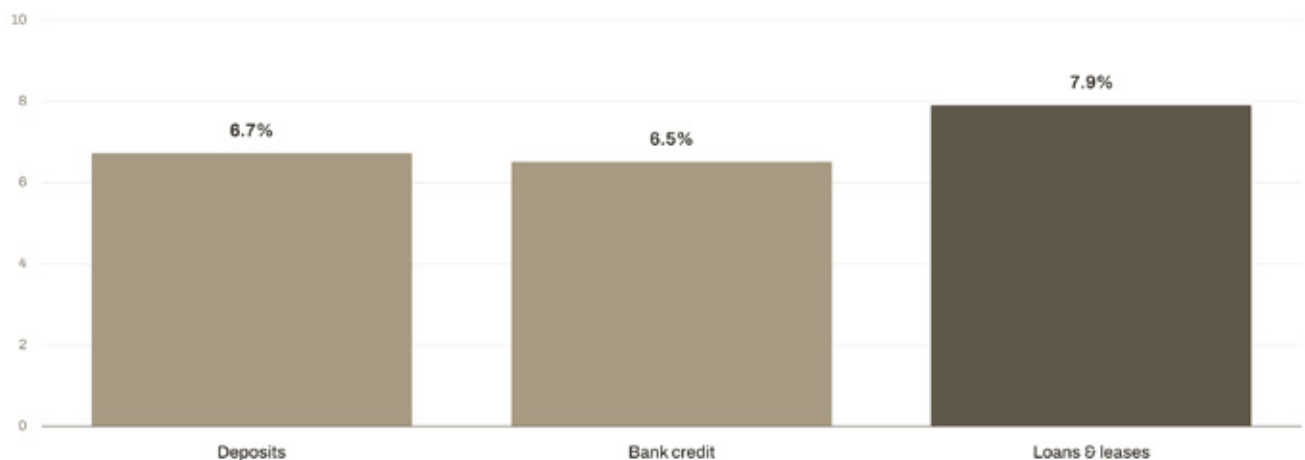
The important counterpoint is that the banking system is not contracting today. Federal Reserve H.8 data show deposits up roughly 6.7% from August

2025 to 16 September 2026, bank credit up about 6.5%, and loans and leases up almost 8.0%.

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The banking system is not contracting yet

Change from Aug. 2025 to 16 Sep. 2026, in %.



Source: Federal Reserve H.8, Assets and Liabilities of Commercial Banks in the United States, 25 Sep. 2026 release.

That makes the current story forward-looking rather than crisis-driven. Banks still have funding and they are still lending. But the marginal economics of that funding may be changing faster than aggregate balance-sheet data reveal.

If deposit elasticity rises, monetary tightening can work through the liability side of banks as well as through borrower demand. A bank that must pay more to retain deposits can respond by charging more for loans, reducing balance-sheet intensity, increasing securitization or shifting activity toward fee businesses.

The effects will not be uniform. Large banks with diversified deposits, payments businesses and wholesale funding have more options. Deposit-dependent regional institutions

and lenders with concentrated customer bases may face more direct pressure. The result should be greater dispersion in bank profitability and credit availability.

Agentic AI could accelerate this process by reducing the friction of comparing and moving cash, but the mechanism does not depend on AI. Mobile banking, brokerage sweeps and money market platforms have already made liquidity more portable than it was in previous rate cycles.

The next stage of monetary transmission may be less about whether borrowers want loans and more about what banks must pay to fund them.

4. Portfolio implications: the deposit franchise is becoming an investment variable

Bank Equities

Deposit franchises should be analyzed as funding assets, not simply customer relationships. We favor diversified deposit bases, strong liquidity, fee income and limited

dependence on rate-sensitive wholesale funding. Banks able to retain cash without matching every market rate should preserve superior economics.

Cash & Liquidity

Cash now offers meaningful income. Operating cash, reserve cash and strategic cash should be segmented rather than treated as one undifferentiated pool. Money market funds

and short Treasury instruments can provide yield and liquidity, but instrument structure and protections still matter.

Short-duration Fixed Income

Front-end yields remain attractive and reprice quickly with policy. The trade-off is reinvestment risk if the Fed eventually cuts. We prefer liquid-

ity strategies that preserve flexibility rather than extending maturity solely to lock in today's yield.

Credit & Private Markets

Higher bank funding costs can push more borrowers toward bonds, securitization and private credit. That creates opportunity, but also requires discipline: attractive spreads should

compensate for borrower leverage, refinancing needs and the reason traditional bank balance sheets are retreating.

For investors, cash mobility changes the opportunity set across banks, short-duration fixed income and private credit. The most attractive exposures are likely to be those that benefit from higher cash yields without depending on permanently cheap bank funding.

Risks to the thesis

- Banks may successfully reprice deposits. If customers accept moderately higher bank rates in exchange for convenience, insurance and integrated services, the shift in funding costs could remain manageable.
- The Fed may eventually cut rates. A lower policy rate would narrow the yield gap between market cash and traditional deposits, reducing the incentive to move balances.
- Agentic cash management may develop more slowly than expected. Regulatory, security and behavioral frictions can preserve deposit stickiness even when yield differences are large.
- Money market funds are not bank deposits. They have different legal structures, protections, liquidity mechanics and risk profiles. Yield comparisons should not be treated as equivalence of instruments.

Our Perspective

The key point is not that a deposit run is imminent. The U.S. banking system remains well funded, and aggregate deposits and lending are still growing. The important change is that the price of cash is becoming harder to ignore.

For years, banks benefited from a large pool of deposits whose owners were relatively insensitive to market rates. Money market funds, brokerage platforms and digital cash products have already weakened that inertia. If automated tools reduce it further, deposit franchises will need

to compete more explicitly on price, service and convenience.

That should make funding structure more important in bank analysis and create a wider gap between institutions that possess durable, diversified deposit relationships and those that rely on rate-sensitive balances.

For portfolios, the broader lesson is simple: cash is no longer dead capital. It is yielding enough, moving fast enough and sitting outside banks in sufficient scale to influence the price and availability of credit.

Final Thoughts

The Federal Reserve has raised rates again, money market fund assets remain close to \$8 trillion, and high-quality liquidity products are still offering yields near 4%. At the same time, the average checking account pays almost nothing.

The next liquidity shock does not need to begin with bad loans. It could

begin with savers deciding that their cash deserves a market rate. The banking system can absorb that shift, but doing so may change who pays for monetary tightening — and where the next investment opportunities appear.

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