On May 1, 2023, US Secretary of the Treasury Janet Yellen updated Congress regarding the Treasury Department’s ability to continue to finance the operations of the federal government. In the letter, Secretary Yellen communicated that it was likely that cash and extraordinary measures to satisfy all the government’s obligations would be exhausted by early June and potentially as early as June 1. While we believe the probability of the US Treasury defaulting on its debt is low, here are some important questions to consider.

**What is Dreyfus’ overall view?**

- We believe Dreyfus money market funds remain well positioned for volatility tied to the debt ceiling and have no exposure to Treasury securities maturing during June.

- As we approach the debt ceiling X date, investors may experience dislocated markets with increased volatility for Treasury securities. However, the markets are assigning a high probability that the debt ceiling will be raised in time.

- In the event of a technical default, we believe the US Treasury will prioritize payments on Treasury interest and principal payments versus domestic liabilities, such as government and military pay, to prevent a default on Treasury securities.

- Due to the political backdrop and limited time for Congress to act, we believe there is a high probability of debt ceiling negotiations running close to the expected X date. However, it should be a short-lived event as market disruptions and investor sentiment should move Congress to act.
How likely is it that the debt ceiling limit will be breached without resolution?
We believe it is likely that Congress will resolve the current debt ceiling debate. Congress has faced debt ceiling concerns 78 times since 1960 and, in every instance, has raised or suspended the debt limit.

What is the likelihood that a failure to raise the US debt ceiling would result in a technical default?
We believe a technical default is unlikely as the US government has never failed to raise or suspend the ceiling since it was introduced in 1917. Also, the US Treasury has indicated that, if the debt ceiling is not raised or suspended in a timely manner, they would have the ability to prioritize Treasury principal and interest payments over other non-debt payments to preserve the full faith and credit of the United States. A technical default will have serious ramifications for the US economy and financial markets, very likely pushing Congress to solve the debt ceiling quickly. Even in the worst-case scenario of a default, markets expect that the Treasury would ultimately make investors whole on any missed principal or interest payments.

How would money market funds handle a technical default of a Treasury held in a portfolio?
A technical default would not require the immediate sale of US Treasury or government securities. There are no cross-default provisions on US Treasuries, meaning that a technical default would be security-specific and not applicable to all US government debt. Additionally, money market funds normally carry higher daily and weekly liquidity levels than required by Rule 2a7, which helps cushion net asset value (NAV) volatility and fund liquidity.

Further, all government money market funds calculate a “shadow NAV” each day, which calculates a portfolio’s NAV based on mark-to-market pricing and quantifies the impact from any Treasury pricing changes. With the narrow universe of Treasuries impacted by the X date, we don’t believe there will be a material impact to shadow NAVs.

Are the credit ratings of the US government at risk, and if so, how would a downgrade impact money market funds?
The United States is currently rated Aaa/P-1 by Moody’s, AA+/A-1+ by S&P®, and AAA/F-1+ by Fitch, each considered a high grade rating. All three rating agencies maintain a stable outlook. The rating agencies view the risk of a technical default by the US as low. There is some variance as to how the rating agencies would address outcomes pertaining to the debt ceiling. For instance, Fitch differs from Moody’s and S&P in that Fitch would view prioritization of debt service payments over other obligations as being inconsistent with a AAA rating, although the magnitude of such a rating action is expected to be limited. Moody’s would classify it as an event of default; however, they indicated that the rating would likely remain close to the highest level based on the expectation that the default would be short-lived with a recovery rate of 100%. Similarly, S&P and Fitch have indicated that they could temporarily assign a technical default rating (SD from S&P or RD from Fitch) if payments are delayed, with ratings returning to a level close to the highest level once the technical default is resolved.

Importantly, a technical default would not require immediate sale of US Treasury or US government securities. There are no cross-default provisions on US Treasuries, so a technical default would be security-specific and not applicable to all US government debt.
Could AAA-rated government or Treasury money market funds be downgraded?

We do not believe any AAA money market fund is at risk for a downgrade because of a Treasury technical default. In such a scenario, there is no expectation that the ratings on the underlying security would permanently change and/or fall below the threshold of required rating agency minimums. In addition, as outlined earlier, we don’t expect that any temporary mark-to-market pricing changes would materially impact overall portfolio pricing sufficiently to put AAA ratings in jeopardy.

Would the Dreyfus Fund Board consider fees or gates for government money funds?

Our government and treasury money market funds are not subject to fees and gates. Fund boards can choose to implement fees and gates but must provide a 60-day written notice to current investors. Dreyfus has never implemented fees and redemption gates on its government money market funds.

Could government money market funds “break the buck”?

"Breaking the buck" occurs when the mark-to-market value of a fund’s NAV drops below $0.9950, or more than 50 basis points below $1.00. We do not believe a short-term technical default would cause any money market fund to break the buck.

What steps have we taken to enhance the ability of Dreyfus money market portfolios holding US Treasury or government securities to maintain stable NAVs?

Dreyfus money market portfolios continue to maintain stable NAVs with liquidity levels well in excess of the daily and weekly requirements of Rule 2a-7, which is the principal rule governing money market funds. Moreover, our approved repurchase agreement (repo) counterparties are carefully reviewed by our Credit Team, approved by our Credit Committee, and subject to ongoing monitoring. As mentioned previously, we do not have any exposure to Treasury securities maturing in June.

Further, we routinely perform scenario analysis and stress tests on our money market funds against a range of hypothetical events. Our stress-testing practices are designed to assist portfolio managers in positioning portfolios to withstand reasonably foreseeable adverse market scenarios with minimal NAV impact.

How does Dreyfus mitigate the risk of mark-to-market values of Treasury collateral supporting repurchase agreements?

Repurchase agreements are a cornerstone of the money markets and facilitate liquidity and late-day trading for money market funds. We maintain repo relationships with highly rated financial institutions, which are approved as counterparties on an unsecured basis, so having collateral pledged in a repo transaction represents an extra layer of security. Should any of the repo collateral decline in value, such as US Treasuries affected by debt ceiling concerns, the triparty custodian is obligated to increase the collateral to fully collateralize the position. Collateral agreements between Dreyfus and the repo counterparty define specifically what collateral is allowed.
Is Dreyfus buying Treasury securities with maturity dates within the expected X-date window?

Secretary Yellen recently communicated to Congress that the expected X date is in June 2023. Dreyfus money market funds have avoided buying Treasury securities in the X-date window and have no exposure to Treasury securities maturing in June. While we do not believe a technical default is likely, we believe it is prudent to manage Rule 2a-7 money funds for maximum safety and liquidity.

What dynamics are you currently seeing in the Treasury market?

Treasury markets remain bifurcated with dramatic yield differences between Treasury securities maturing inside of the expected X-date window and those outside. We expect pricing volatility to continue as we approach the current X-date window of June 2023.

How are Dreyfus’ money market funds positioned in relation to the debt ceiling?

The Dreyfus money market funds currently have no exposure to Treasury securities maturing in June 2023. Also, while we believe the risk of a technical default of a US Treasury security remains extremely low, we are maintaining a defensive position and carrying higher amounts of liquidity.
John Tobin  
Chief Investment Officer

John is the Chief Investment Officer for Dreyfus. John is responsible for the investment management for Dreyfus’ money market mutual funds, Undertakings for Collective Investment in Transferable Securities (UCITS), cash separately managed accounts (SMAs) and ultra short ETF. He also manages the firm's collective short-term investment trusts.

John returned to Dreyfus from J.P. Morgan Asset Management, where he was Managing Director, Global Head of Portfolio Management for the Global Liquidity business, a position he had held since 2001. In that role, John oversaw the Global Cash portfolio management teams across the U.S., EMEA, and Asia. His team was responsible for AUM across seven currencies. While at J.P. Morgan, John was a senior member of the Global Liquidity Operating Committee (GLOC). He also held the Vice-Chairman role for both the Global Cash Investment Policy Committee (GCIPC) and Trading Practices Oversight Committee (TPOC).

John began his financial career at Dreyfus in 1991, trading money market securities. Subsequently, he spent three years as a principal and senior portfolio manager at State Street Global Advisors, managing short duration portfolios prior to joining J.P. Morgan in 2001.

John earned a BBA in finance from Hofstra’s Zarb School of Business and an MBA from the MIT Sloan School of Management.
Frank Gutierrez  
Head of Portfolio Management & Trading

Frank is the Head of Portfolio Management & Trading for Dreyfus. Frank is the lead portfolio manager overseeing the Dreyfus portfolio management and trading teams for Dreyfus money market funds, BNY Mellon offshore liquidity funds, sub-advised money market funds, and BNY Mellon’s collective investment funds. With a career spanning more than two decades, Frank has deep expertise in government and credit portfolio management and trading as well as Federal Reserve policy and macroeconomics.

Previously, Frank was a senior portfolio manager and trader with J.P. Morgan Asset Management in Global Liquidity. He had direct responsibility for the day-to-day management of over $250 billion in assets, across U.S. treasury, government and credit in various vehicles including money market funds, Undertakings for Collective Investment in Transferable Securities (UCITS), and separately managed accounts (SMAs). He has also developed deep expertise in repurchase agreements, repo blockchain, Federal Reserve policy and macroeconomics. Frank has been in the investment industry since 1999.

Frank earned a BA from Rutgers University with a major in economics. Frank is also a board member for Dominicans on Wall Street (DOWS), a nonprofit focused on financial literacy, education and professional development of Hispanic professionals and students.
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