



 **Daniel Bernardo**
Co-Head of
Money-Market
Strategies
OFI INVEST AM

MONEY-MARKET INVESTMENTS

Euro money markets: calm under scrutiny

WHAT IS YOUR TAKE ON MONEY-MARKET FUNDAMENTALS AS 2026 BEGINS?

The European Central Bank (ECB) appears to have hit an equilibrium point. Market scenarios are pricing in a long phase of stability in interest rates, and euro zone inflation is close to settling in at 2%.

We now have clear visibility on what the ECB will do, and our scenarios therefore do not assume any more shifts in very-short-term rates in 2026 – just 3 basis points between now and the ECB meeting of 29 October 2026. Its easing cycle, which played out in steps of 25 basis points, ended in early June 2025. Since then, it has been in status quo.

This is steering our money-market strategies towards a scenario of stable rates, in phase with the market's current outlook.

Like the ECB, which remains in a data-dependent posture, we are nonetheless keeping a close eye on shifts in economic data, given the prevailing volatility. The environment looks quiet but does pose sizeable challenges, including trade tensions, lack of clarity on US tariff policy, a highly shaky geopolitical context, growing dealignment of major central banks, political uncertainties in France and elsewhere in Europe, and doubts on the sustainability of public debt. In short, these are issues that have spilled over from 2025 into 2026. Donald Trump's presidency has just begun and, in our view, these issues will require very close monitoring of economic data.

In practice, if rates do stabilise, money-market funds should maintain yields at around 2.15%⁽¹⁾.

HOW ARE OFI INVEST'S MONEY-MARKET STRATEGIES DESIGNED?

We design our money-market funds with most geographical allocations above 50% for France for various reasons, such as the depth of the Bank of France's statistics and greater liquidity. Other investments are allocated to other euro zone and OECD countries. There is little direct exposure to the United States (1%-2%).

We are nonetheless keeping a close watch on changes in US Federal Reserve policy, as that could influence the ECB, but this has no direct impact on how we manage our investments on a day-to-day basis. The cash that we manage is in euros.

As for types of emissions, money-market funds generally track the market structure. According to the Bank of France, 60% to 70% of issues in the short sections of the curve are from the banking sector, 15% to 20% are from non-bank corporates, and 6% to 10% are from quasi-public issuers.

Banking sector yields are key to performance

So, yields on offer in the banking sector are the main driver of funds' performance. When a fund is weighted more than 50% on France, this is due mainly to the predominance of French banking issuers. Despite political tensions, the one-year spread⁽²⁾ has kept at about €STR⁽³⁾ + 30 basis points about. This has been the case since December 2023. There has been no notable widening, although such might have been the case given the challenges and developments that have run counter to France's ratings. This lack of widening is supporting money-market yields.

In practice, our banking investments are mainly in maturities of about 1 year and less so in the 1-3-month segment. Bank issuance is in very-short (1 to 3 days) and long (greater than 200 days) maturities. Non-financial issuers⁽⁴⁾ fall between 10 and 100 days. Ultra-short paper (overnight/tom-Next) ensures daily fund liquidity; longer maturities provide yield.

Think back to the Covid period. French banks stayed active on the market: bid/ask ranges⁽⁵⁾ did widen during phases of market stress, but bank treasuries continued to issue.

On each money-market fund, whether short-term or standard, we maintain a bond allocation of various sizes, as we have noted that during market stress, liquidity is sometimes better in bonds than certain money-market issues. Some non-financial issuers have rather low volumes registered at the Bank of France (between 200 and 400 million euros). Divesting such issuers can be more challenging during phases of market stress. Bond issues, in contrast, may amount to about 2 billion euros, making selling easier. If the premium is several basis points in favour of bonds, we lengthen the maturity to capture that liquidity and the potential yields.

WHAT ROLE DO EXTRA-FINANCIAL CRITERIA (ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PLAY IN YOUR MONEY-MARKET STRATEGIES?

Extra-financial criteria have altered money-market managers' scope of action. A few years ago, we invested more in US and Canadian banks, but our investments are now hinged on extra-financial ratings and the use of certifications, such as the official French ISR⁽⁶⁾ (Investment Socialement Responsable [socially responsible investment]) label.

At Ofi Invest Asset Management, we have long excluded exotic banks (Qatar, China, and Dubai/Middle East) and securitisations – not just to meet ESG requirements, but also to remain as vanilla as possible⁽⁷⁾. Our portfolio is concentrated on France and, more generally, the euro zone and OECD member-countries.

In addition to our management strategies, we stand out in our determination to offer a money-market range in which all funds are certified ISR in its latest (V3) version. The V3 ISR has been a game-changer in that it is more demanding, with exclusions expanded from 20% to 30%, the switch to best-in-universe from best-in-class, and monitoring of Principal Adverse Impacts (PAI)⁽⁸⁾ indicators, which has discouraged some other market participants.

⁽²⁾ The spread is the difference in interest rates of a corporate issue with the benchmark money-market rate.

⁽³⁾ €STR (Euro Short-Term Rate) is the benchmark overnight money-market rate in the euro zone.

⁽⁴⁾ A non-financial issuer is an issuer of short-term debt carried out by a non-financial company.

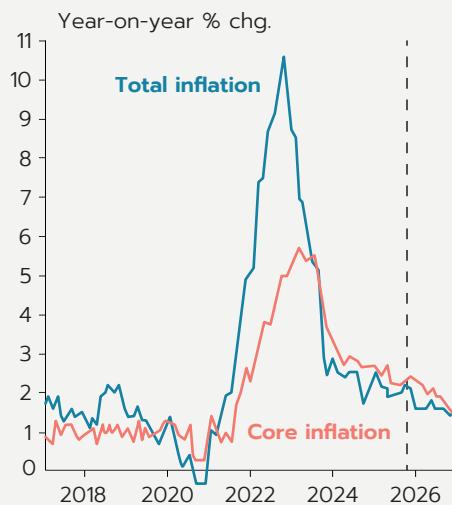
⁽⁵⁾ The bid/ask range is the difference between the price at which a buyer is willing to buy an asset (bid) and the price at which a seller is willing to sell that same asset (ask).

⁽⁶⁾ Established in 2016 by the French Ministry of the Economy and Finances, the ISR label aims to identify investment funds that are managed in accordance with ESG (environmental, social and governance) criteria.

⁽⁷⁾ A vanilla issue is a conventional issue whose specifications are follow market practice, as opposed to a structured or exotic issue.

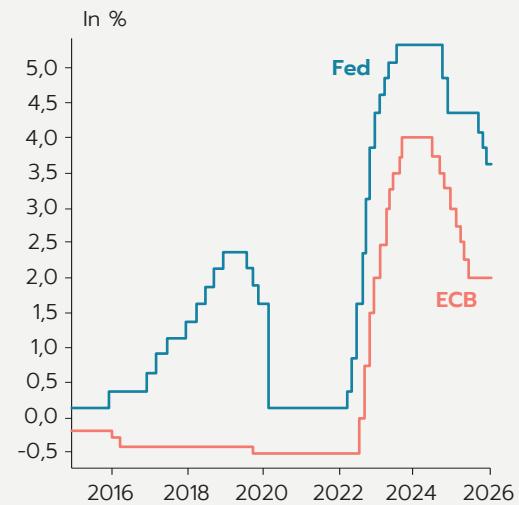
⁽⁸⁾ Principal Adverse Impact (PAI) indicators are standardised measures defined by the European Union under the Sustainable Finance Disclosure Regulation (SFDR). They are used to assess and report the main negative impacts that an investment may have on environmental, social and governance (ESG) sustainability criteria.

EURO ZONE INFLATION



Sources: Macrobond and Ofi Invest AM as of 07/01/2026

KEY RATE TRENDS



Sources: Macrobond and Ofi Invest AM as of 02/01/2026

On the heels of the central bank pivot of 2024, 2025 saw a shift back in the direction of neutral rates.

From June 2024 and June 2025, the ECB carried out a monetary easing cycle with eight rate cuts. Its deposit rate stabilised at 2%, a rate that the ECB regards as appropriate.

The Fed has lowered its rates less rapidly and to a lesser extent than the ECB. The Fed cut its key rates on three occasions in the second half of 2025, to a 3.50%/3.75% range in December, while flagging a pause for 2026. So, the Fed has not yet reached a neutral stance, but it is not very far off. Resilient growth and inflation that is still relatively high have put it on a rather cautious posture, much to the regret of Donald Trump and his supporters, who are pushing the Fed for lower rates. Trump's attacks on Jerome Powell have cast regular doubt on the Fed's continued independence.

Other central banks have followed suit, such as the Bank of England, which lowered its rate to 3.75%, while the Bank of Japan has stuck to its moderate tightening, raising its main key rate from 0.50% to 0.75% in December, a notable divergence from Western banks.

2026 OUTLOOK

The central banks have served clear notice of their intentions for the coming months. **No moves are expected in the near term by the ECB, which could keep its deposit rate at 2% all year long.** Its next move could be either upward or downward, depending on economic conditions. **The Fed is also expected to wait and see before lowering its rates any further.**

We share the views of the market consensus, which is pricing in two more rate cuts this year in the US. That would push the Fed Funds⁽⁹⁾ rate into neutral territory at between 3.0% and 3.5%, but probably no lower, due to US economic resilience and inflation that will certainly stay above 2%. The replacement of Powell as Fed chair could exert downward risks but these seem to be limited. Meanwhile, **the Bank of Japan (BoJ) is likely to raise its rates further this year but while taking a characteristically highly cautious approach.**

⁽⁹⁾ Federal Funds (Fed Funds): the Fed's interest rate for its overnight bank loans.

OFI INVEST AM'S MONEY-MARKET FUND OFFERING

Our offering has **two categories of money-market funds: short-term money-market funds and standard money-market funds**. Each fund has its own restrictions and risks. These are described in regulatory documents and make it possible to adjust risk on the basis of expected returns and, hence, to obtain both liquidity and yield.

In our money-market funds, investment horizons are about 1 to 3 days for short-term funds and six months for our longest standard fund. We implement **various strategies to generate a little more yield** (with lower overnight liquidity requirements) on standard funds, whereas in our short-term funds we focus on high-density maturities in the short sections of the curve, so as to feed the fund without being forced to sell too much paper in the event that shifts go against us on the liability side.

IMPORTANT NOTICE

This marketing document has been produced by Ofi Invest Asset Management, a portfolio management company (APE code: 6630Z) governed by French law and certified by the French Financial Markets Authority (AMF) under n° GP92012, with EU VAT number FR51384940342. It is a société anonyme à conseil d'administration [joint-stock company with a board of directors] with share capital of 71,957,490 euros and its registered office at 127-129, quai du Président Roosevelt 92130 Issy-les-Moulineaux, France. It has been entered into the Nanterre, France Registry of Trade and Companies under number 384 940 342. This document is not to be construed as a form of prospecting, nor as any offer to buy or sell financial securities or instruments. It contains information and quantified data that Ofi Invest Asset Management regards as well-founded or accurate on the date they were produced. No guarantee is offered as to information or quantified data drawn from external sources. The analyses presented herein are based on the assumptions and expectations of Ofi Invest Asset Management as of the production date of this document. These may fail to be realized fully or partially on the markets. They do not constitute a commitment to returns and are subject to change. The value of an investment may fluctuate upward or downward and may vary with shifts in exchange rates. Because of the state of the economy and general market risks, no guarantee is given that the products or services presented can achieve their investment objectives. Past performances are not a reliable indicator of future performances. Ofi Invest Asset Management may not be held liable for any damages or losses resulting from the use of all or part of the information contained herein. Photos: Shutterstock.com/Ofi Invest. FA26/0724/M