The Carfang Group

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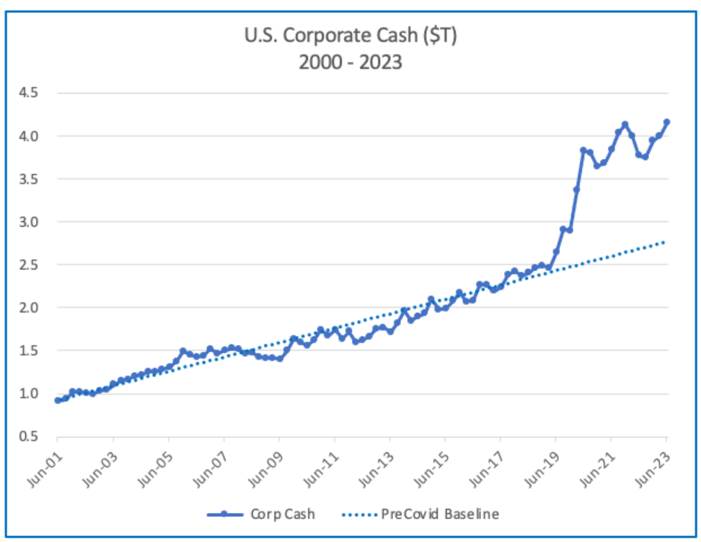
U.S. Corporate Cash Sets Record

Now at $4.15 Trillion
Up $165 Billion Year to Date

September 13, 2023. Cash held by U.S. corporations climbed $165 billion in the first half of 2023 to an all-time record. At $4.15 trillion, U.S. corporate cash levels are a staggering $1.38 trillion above their long-term trendline.

After a pause in 2022, corporations continued adding to their enormous cash buffers accumulated during the pandemic according to The Carfang Group's analysis of the Federal Reserve's Quarterly Flow of Funds report just released. A $104 billion increase in money market funds and a $84 billion increase in other time deposits offset a $42 billion decline in U.S. bank checkable deposits held by corporations in the first half.

According to Anthony J. Carfang, Managing Director at The Carfang Group, "Now that interest rates have climbed and the opportunity cost of holding cash has declined, companies are adding to their substantial cash buffers. We see companies still harboring concerns about the economy, interest rates, inflation, and the soundness of the banking system. Treasurers are very worried about the hidden risks of quantitative tightening following the unprecedented decade-long monetary expansion that is now being reversed."



Source: Federal Reserve, The Carfang Group

The Fed more than doubled its assets from $4.1T to $8.9T in 2020-21, then began reducing its massive balance sheet in late 2022. It again reversed course in March in response to the banking turmoil. They have now resumed that quantitative tightening, leading to reduced money supply and bank deposits, threatening the economic status quo. *We believe corporate treasurers are increasing their $1.38 trillion above average levels of cash as a precaution against this economic, banking and policy uncertainty*.

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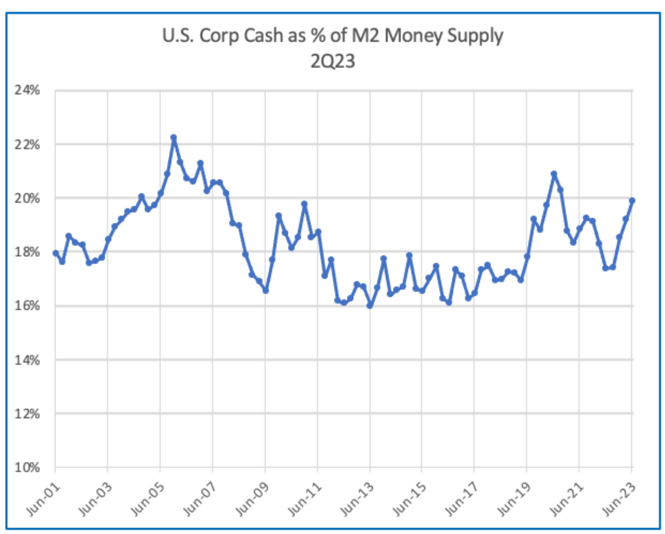
Corporate cash grew faster than GCP and stands at 15.5% of US nominal GDP, well above the long-term trendline. During the pandemic, cash soared to 20% of GDP but that percentage has since declined. In part, that is because real GDP rebounded, and inflation emerged.

There had been a decades long upward trend in cash as a share of GDP, so a reversion back toward the trendline would be welcome. However, these levels are still unprecedented, and the long-term effects remain to be seen. Since cash is a stranded asset, these levels could become an economic drag.

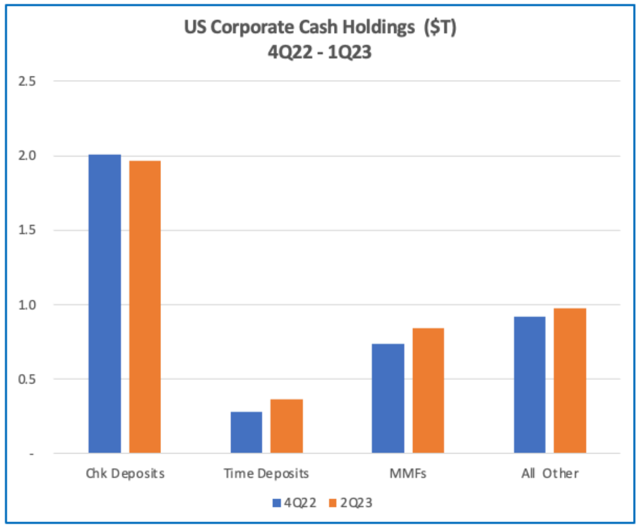
Source: Federal Reserve, The Carfang Group

Of greater concern is cash as a percentage of the U.S. M2 Money Supply. At 19.9% this quarter, cash is creeping up toward its pandemic high.



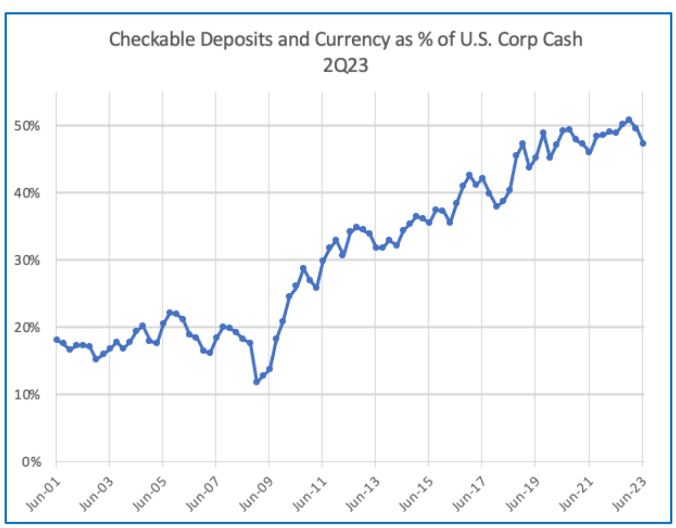
Source: Federal Reserve, The Carfang Group

Corporate cash allocations have shifted during the first half as the banking crisis continues to cause a reevaluation of deposit and investment options. Cash and checkable deposits decreased by $42 billion in the first half while time deposits increased by $84 billion and money funds increased by $104B. Holdings in other direct instruments increased by $57 billion.



Source: Federal Reserve, The Carfang Group

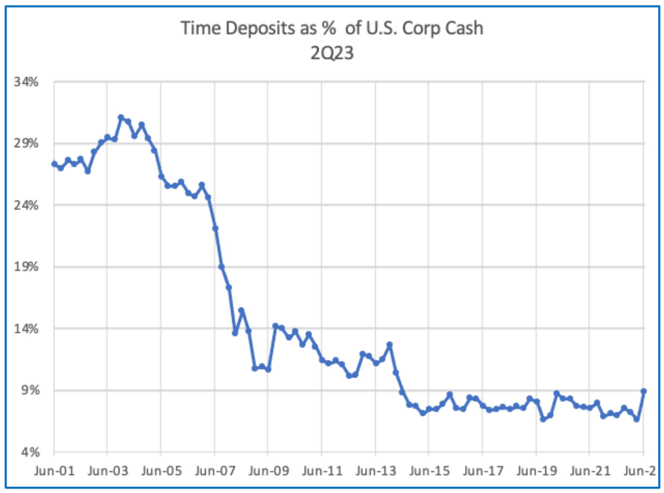
Checkable deposits and currency fell by $42 billion in the first half but are still very near their all-time highs, now at 47.3% of corporate cash. The percentage had been stable at 20% for more than ten years but began a long upward trend following the 2008 financial crisis as the Fed expanded the money supply and interest rates remained near zero. Now that rates are rising and some banks are under stress, we will see just how rate sensitive those deposits will be.



Source: Federal Reserve, The Carfang Group

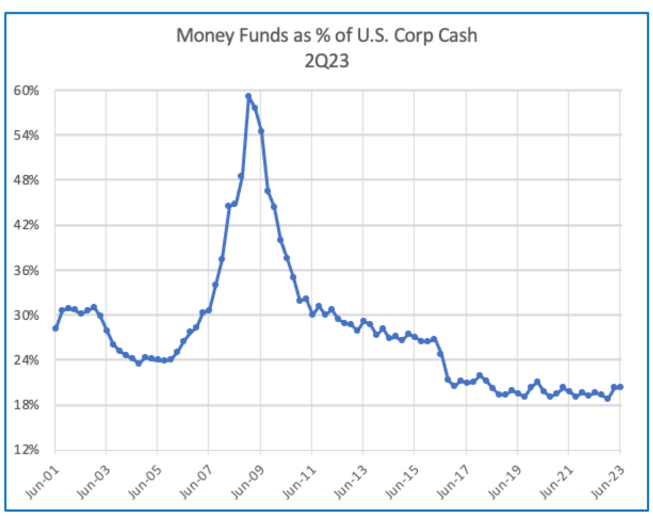
Time deposits jumped by nearly 30% or $84 billion in the half, now account for 8.8% of corporate cash, recovering from the all-time low set earlier this year.

Between 1990 and 2010, these deposits ranged between 15% to 30% of corporate cash. During the quantitative easing of the past dozen years, its share fell to a low of 6.6% before a large rebound this quarter.



Source: Federal Reserve, The Carfang Group

Money Market Funds were the star asset class of the first half, increasing by $104 billion as treasurers moved uninsured deposits out of the banking system and into MMFs. Assets notched up to 20.3% of corporate cash. Assets, however, are still well below the peak 59% level of December 2008.



Source: Federal Reserve, The Carfang Group

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In conclusion, current liquidity markets represent a challenge for both treasurers and bankers. Interest rate forecasts vary widely. The Fed's expectation of rates being "higher for longer" is at odds with its bank stress test scenarios anticipating sharply lower rates by late 2023, causing market confusion and concern.

The Fed has become such a dominant player that traditionally reliable market signals are both distorted and muted. Inflation, rising short term rates and the beginning of the Fed's balance sheet reduction are just a few of the wild cards. The stress in the banking system has raised concern about the health of banks, the credibility of banking industry supervisory bodies and the longer-term reliability of deposit insurance. Treasurers are remaining very cautious.

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