Money markets are all the rage today.

Estimated net flows from Morningstar, Inc. suggest that, except for the first quarter of 2020, investors are pouring more money into money markets than they have in years.

For good reason.

With annual percentage yields around 5%, money markets look compelling not only relative to traditional savings accounts, where yields are paltry, but also relative to the broader stock and bond markets, where return potential could be higher than 5%, but the potential for loss is also generally greater.

Our investment team within Morningstar Wealth sees the appeal as well. This wasn’t always the case: our price-conscious mentality demands we get paid for the risks we take, which includes the risk of inflation. With paltry yields for years, cash and short-dated bonds gave us little reason to carve out a meaningful stake within a multi-asset portfolio.

Today’s markedly different environment has caused us to adjust our positioning. Within portfolios where we can capture that higher cash or short-term bond yields—our unconstrained strategies, for example, or within the portfolios that rely on the Morningstar Mutual Funds—we’ve carefully increased our exposure.

But we’re not all in.

A 5% yield is attractive, no doubt, but there’s an opportunity cost associated with it. Consider this comparison. The starting yield for one-month Treasury bills—a common holding in money market funds—had climbed from about 0% at the start of 2022 to 2.8% by the end of September. Meanwhile, the broad U.S. equity market as measured by the Morningstar US Market Extended Index had fallen 25% from Jan. 1, 2022 through Sept. 30, 2022, and many saw a U.S. recession on the horizon.

Money markets, no doubt, seemed like the safer bet.

And yet over the one-year period since then, stocks have trounced money market returns. The Morningstar US Market Extended Index returned 21% from Oct. 1, 2022 to...
Opinions expressed are those of Morningstar Investment Management LLC and are as of September 30, 2023, such opinions are subject to change without notice.

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Morningstar Wealth includes investment advisory services from Morningstar’s Investment Management group which includes the Morningstar Wealth Platform, portfolio management software Morningstar OfficeSM, investment data aggregator ByAllAccounts®, and the individual investor experience across Morningstar.com®.

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Morningstar Portfolios

Portfolio construction and on-going monitoring and maintenance of the Morningstar Portfolios within the Morningstar Wealth Platform is provided on Morningstar Investment Services behalf by Morningstar Investment Management LLC.

Index Information

Individual index performance is provided as a reference only. Each index is unmanaged and is not available for direct investment. Since indexes and/or composition levels may change over time, actual return and risk characteristics may be higher or lower than those presented. Although index performance data is gathered from reliable sources, we cannot guarantee its accuracy, completeness or reliability. Index data sources are as follows.

S&P 500 Index—An index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. The S&P 500 is a market value weighted index.

MSCI EAFE Index (Europe, Australasia, Far East)—A free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

Bloomberg Barclays U.S. Aggregate Index—A market value weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

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through Sept. 30, 2023, while the Morningstar, Inc. category average return for tax-free money market funds returned less than 3%. Prime money market funds, which own corporate debt, returned about 4%.

Here’s the point: All else held equal — proper due diligence on the money market instrument in question and the appropriate consideration for accessibility and other concerns — investors opting for money markets in lieu of lower-yielding traditional bank accounts is a perfectly rational decision.

However, to the extent investors are selling stocks and bonds, which are typically earmarked for long-term financial goals, and hunkering down in money markets, the decision could prove far costlier, as we can see from the past year.

Our advice is tiresomely consistent: Working closely with your financial advisor, identify your financial goals, match those portfolios to the appropriate investment objective — which, particularly for longer-term goals, will have less in money markets and more in global stocks and bonds — and stick with it. Our experience tells us that will help you best achieve your financial goals, even with today’s higher cash yields.

As always, thank you for your business.