| 2023 Q4 |

Strategic Treasurer's

# Earnings Credit

## Program Report


Strategic Treasurer

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Feenix SMS
SPEND MANAGEMENT SOLUTIONS

# Overview

Welcome to the fifth Earnings Credit Report, covering the final quarter of 2023. This report is powered by Feenix, Strategic Treasurer's Fee Management Solution. The purpose of this report is to provide companies with current information on actual earnings credit rates (ECR) applied by banks to their customers. This information and analysis are made possible by the many companies and organizations who submit their account analysis statements (AAS) to Strategic Treasurer.

Historically, most of our account analysis-related data was gathered on an annual basis. In order to provide current information, we increased the frequency of this data gathering and added more companies into our pricing / compensation program. Thank you for your support and for participating in this program. We trust this cache of interesting and useful data provides a worthy ROI for your participation.

*Note: The full report is strictly confidential and may only be used by organizations that have submitted their AAS to Strategic Treasurer for the preceding quarter.*

## Let us review your fees today.

**For more information, contact Jill Selgrad at**

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# Executive Summary

In many areas around the globe, inflation has moderated due to the steady increases in interest rates by central banks. As a recap, interest rates began moving off the floor (0%–.25%) at the start of 2022 to combat the inflation that was clearly not "transitory." The set of very rapid rate increases brought the Fed Funds Rate to the current target range of 5.25%–5.50% in July of 2023. The Fed continued to hold this rate steady through 2023 Q3, Q4, and now Q1 of 2024. As of March 26th, the CME FedWatch Tool shows 91% expecting rates to stay at 5.25-5.50 at the May 1st meeting, with 9% expecting a drop to 5.00-5.25. The market expectations and indications by the Fed show a likely shift down to the 4.50%–4.75% band by the end of 2024 (70.8% expecting this level or lower; 21.8% in the 4.75-5.00% range; 6.7% anticipating a rate of 5.00-5.25%; and 0.8% expecting no change).

As we stated in the last report, the ECR earned by companies in changing rate environments results in rapid decreases and slower increases. In the current environment, rates have been decreasing for Government MMF, Institutional MMF, CDs, and brokered deposits. The speed of the rate increases by the central bank is likely continuing to cause individual banks to respond with inconsistent changes to their ECR as they try to navigate the potential of two different undesirable outcomes:

## Bank Concerns:

1 | Failing to secure adequate deposits at a reasonable cost. Banks seem to be comfortable with the level of deposits they are maintaining, so they may lower rates quickly to maintain their interest rate margins once the Fed begins cutting rates, and possibly before.

2 | Lowering rates too quickly or comprehensively. Paying more interest (or ECR) than is required would unnecessarily reduce interest income.

## Corporate Points:

1 | Rates are very uneven, impacting the overall "cost" of services. A sizeable minority of companies are paying close attention and are active in having healthy conversations with their banks about ECR. Knowledge and data fuel better conversations and results.

2 | ECR varies significantly. When looking at the rate gap, we still find significant spreads between the 1st quartile and the 3rd quartile. The spreads between the top decile and the bottom decile are extreme in this environment.

3 | Rates are starting to decline across asset classes. Corporates may expect to see a reduction in their rates if they are in the top quartile. Others will want to work to ensure they are competitive throughout the rate reversal.

For our reporting, we focus on the top and bottom ends of the middle 50% of all account analysis statements (1st and 3rd quartile). The AAS in the upper 25% and the lower 25% are not included in this range. Companies are well served by understanding the competitive position of interest rates, ECR, and bank fees in times of stability. It is far more urgent in times of rapid change and high volatility that treasury groups monitor this activity more closely and secure competitive rates quickly. We appreciate that those who are participating in this program agree that having more current information and data provides value to your company as you seek to be a good steward over your organization's resources and relationships.

Thank you for sharing AAS information to help provide this broad and deep look at the dynamic ECR changes. Please let us know if you have any suggestions, and we invite you to encourage colleagues from other companies to add their data into the rapidly growing data set.

**From the Strategic Treasurer Team**

# Rates

## ECR Data

The following sections report ECR data across several different dimensions. These dimensions, or breakouts, include:

- **Overall.** All datasets in aggregate without any dimensional cut. Some comparison will be made within a quarter and from Q4 2022 to Q4 2023.
- **Deposit Level.** Detecting whether companies with larger balances are receiving more competitive rates.
- **Fees Paid.** Analyzing correlations between ECR and fees paid.

**ECR Data Explanation.** In some of these charts, we show the mean (average of the data set) or the median (middle number from the set) and two quartiles (the 1st and the 3rd). The 1st quartile is the value found by starting from the bottom ECR and moving up through one quarter of the dataset. The 3rd quartile is the rate found by taking the full dataset and moving from the top ECR down through one quarter of the population and selecting that rate.

### Overall:

ECR being paid and ECR changes vary significantly between companies. The mean (average) rate of ECR during the 4th quarter of 2023 sat at 1.87%. The gap between the Q4 1st quartile (0.66%) and the 3rd quartile (2.76%) had a full 2.10% spread, the largest so far. This demonstrates the significant disparity of compensation rates being received. This is an increase from the previous quarter (Q3 2023), which had a 1.75% spread.

**Quarterly Rates:**

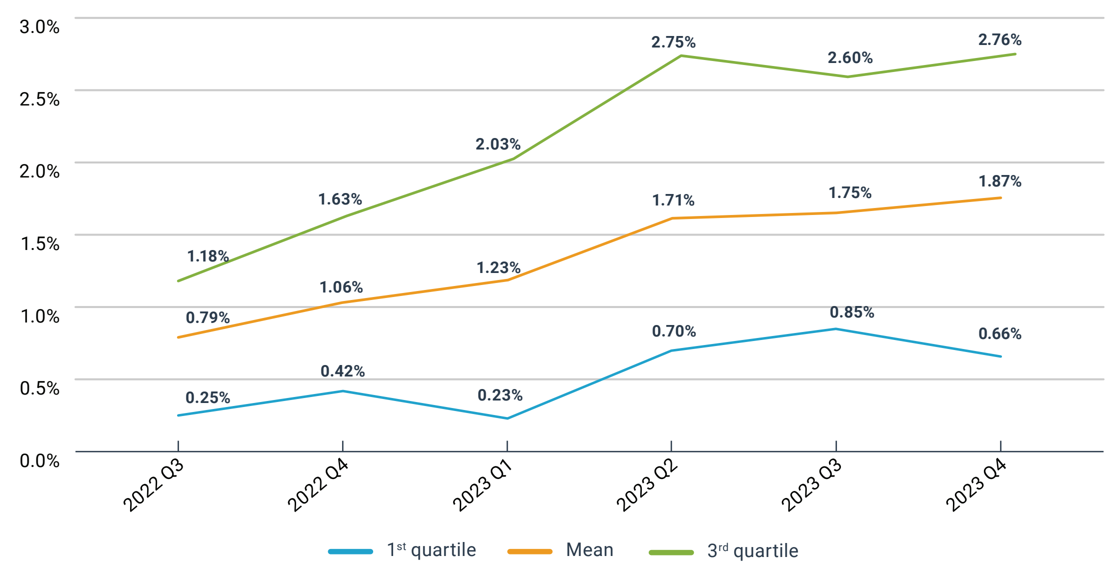
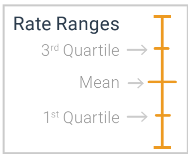



**Chart 1:**
*Mean has continued increasing for over a year*




**2022–2023 data shown.*

**Monthly Rates:**

| MONTH | 1ST QUARTILE | MEDIAN ECR (MIDDLE) | 3RD QUARTILE |
|---|---|---|---|
| October | 0.68% | 1.90% | 2.73% |
| November | 0.66% | 2.05% | 2.72% |
| December | 0.66% | 2.47% | 2.85% |
| Increase during the period | -2 | 57 | 12 |

**Q4 2023*

**Chart 2:** *1st and 3rd quartiles and median ECR by month*

## By Deposit Level:

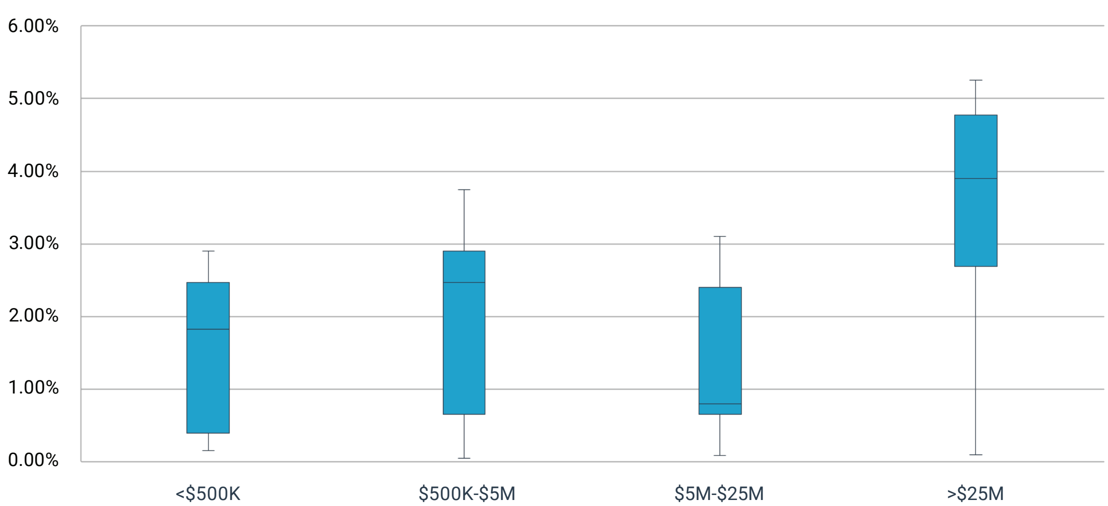
A correlation continues to exist between companies maintaining a higher collected balance and those earning a higher ECR. It is reasonable to assume that treasury groups would both expect and require higher rates from their banks as they hold larger balances. As you can observe from the nearby chart (Chart 3), companies with higher collected balances receive higher ECR, with a continued exception in the $5M–$25M average collected balance cohort.

*Additional information: Our analytical model excludes values that fall outside a certain percentage of the median, 1st quartile, and 3rd quartile and treats them as anomalies.*

| COLLECTED BALANCES | 1ST QUARTILE | MEDIAN | 3RD QUARTILE |
|---|---|---|---|
| <$500K | 0.40% | 1.83% | 2.47% |
| $500K–$5M | 0.66% | 2.47% | 2.90% |
| $5M–$25M | 0.66% | 0.80% | 2.40% |
| $25M + | 2.69% | 3.90% | 4.77% |

**Q4 2023*

**Chart 3:** *Larger balances typically correlated to higher ECR (except for balances between $5M and $25M this period).*




**Q4 2023*

**Chart 4:** *Chart of collected balance and ECR does not include statements that reflect an average collected balance of zero.*

## By Fees Paid:

In general, companies that pay more in bank fees are correlated with those receiving a higher ECR. The nearby table and graph show this correlation. For fees in the $1M+ category, the data points were limited in number, so we are unable to offer assurances that this data represents the category with statistical confidence.

| EST. ANNUAL FEES PAID | 1ST QUARTILE | MEDIAN | 3RD QUARTILE |
|---|---|---|---|
| <$250K | 0.62% | 1.90% | 2.88% |
| $250K–$1M | 0.75% | 2.60% | 2.90% |
| *$1M +* | *0.66%* | *0.66%* | *1.90%* |

**Q4 2023*

**Chart 5:** *Chart of account analysis fees paid and ECR does not include statements that reflect an average collected balance of zero.*

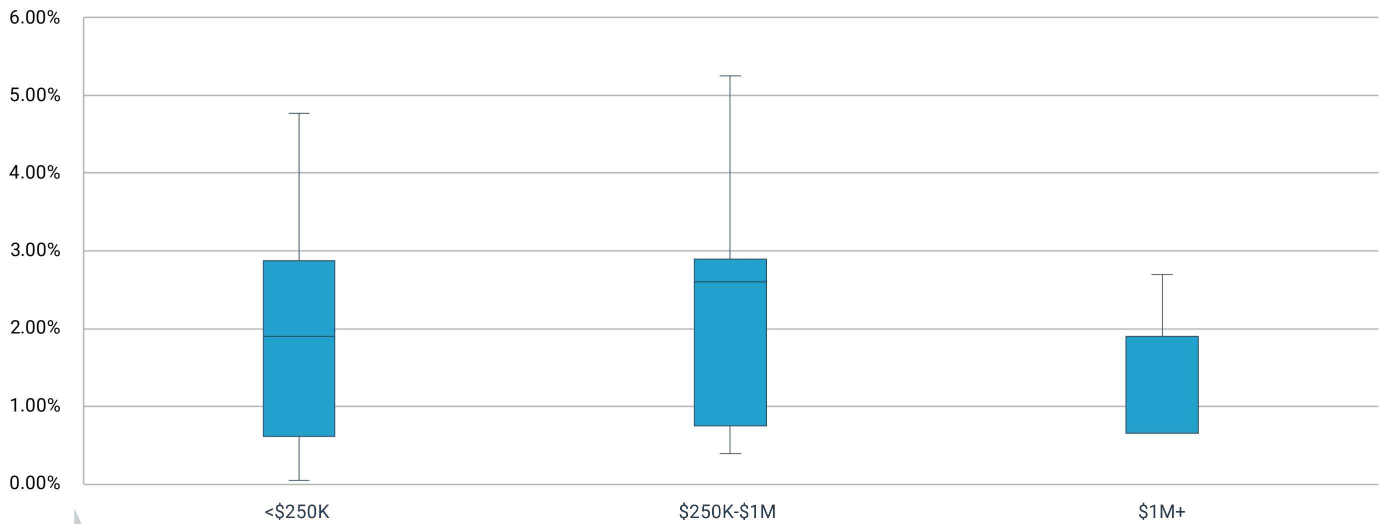



**Chart 6:** *Graph of fees paid and ECR ranges based upon a subset of the account analysis fees paid category. This graph does not include statements that reflect an average fees paid of zero.*

**Q4 2023*

# Central Bank Rates

Central banks are now holding their rates steady to allow higher rates to tamp down inflation. As stated earlier in this report, the Fed (US) did not increase the rate at all in the fourth quarter of 2023 (shown in Chart 7).

## FED: Rate Increases and Ranges

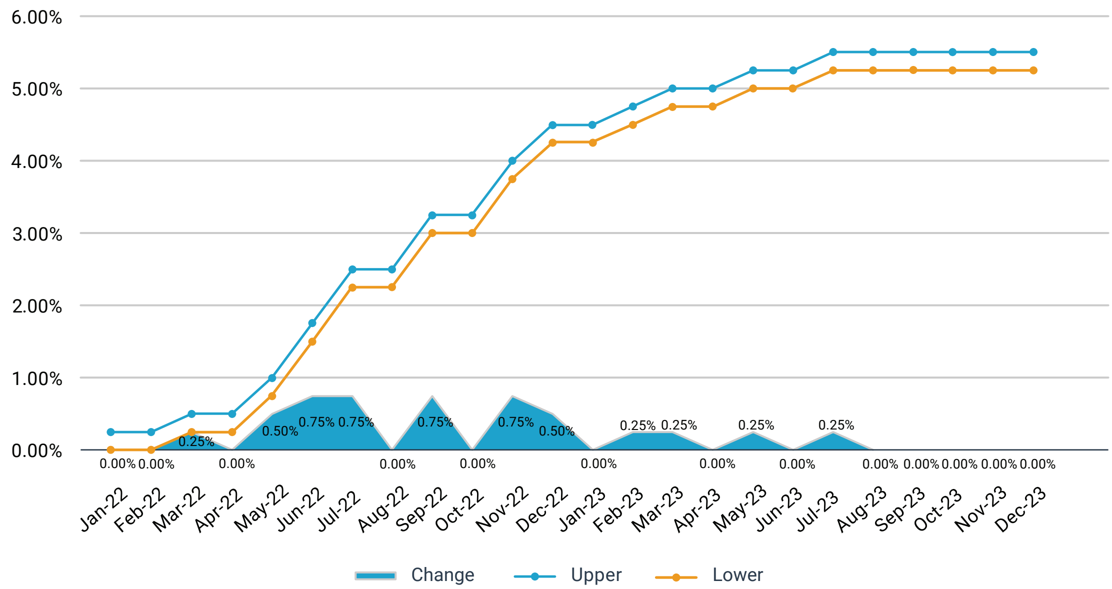



**Chart 7:** *Interest rate changes (shaded blue) and Fed Funds Rates from 2022 to current.*

**2022–2023 data shown.*

## Central Bank Interest Rates:

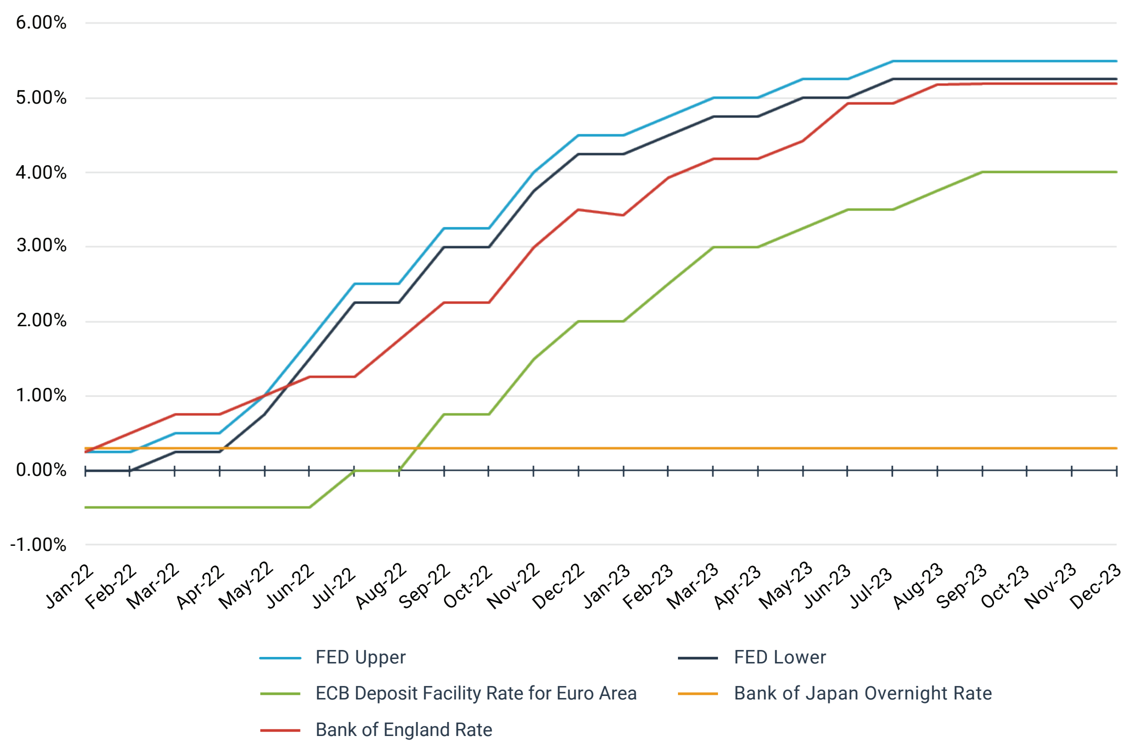



**Chart 8:** *Interest rates of the following central banks: FED (US); BoE (UK); ECB (EU); BoJ (Japan).*

**2022–2023 data shown.*

## Rate Comparison

Average composite rate for short-term funds held steady in Q4, providing banks sustained interest compensation.

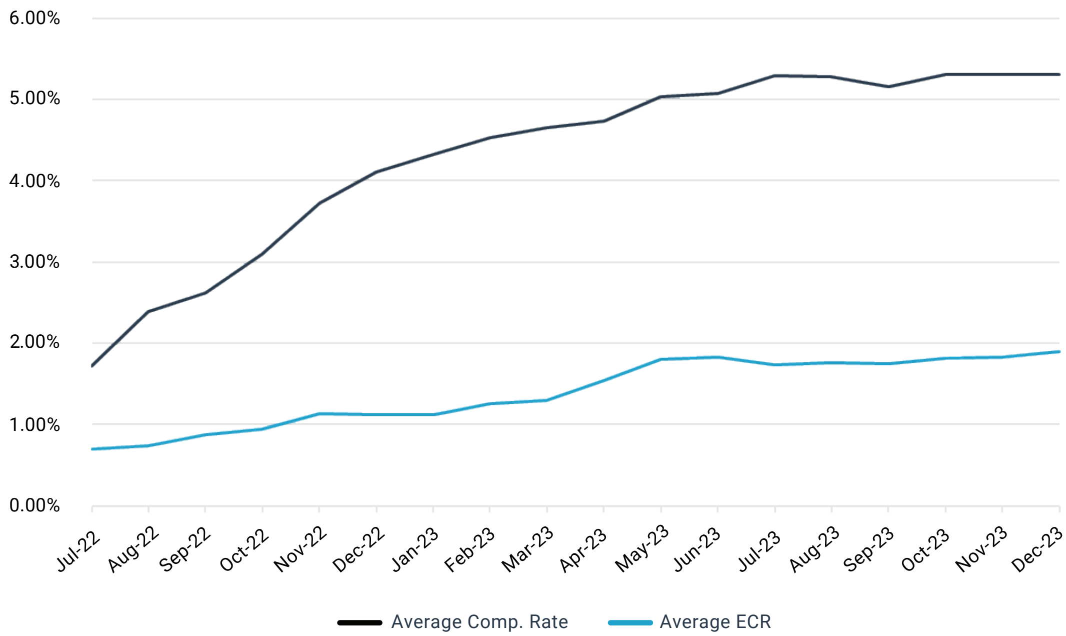



**Chart 9:** *Average composite rate uses eight different short-term investments and rates.*

**2022–2023 data shown.*

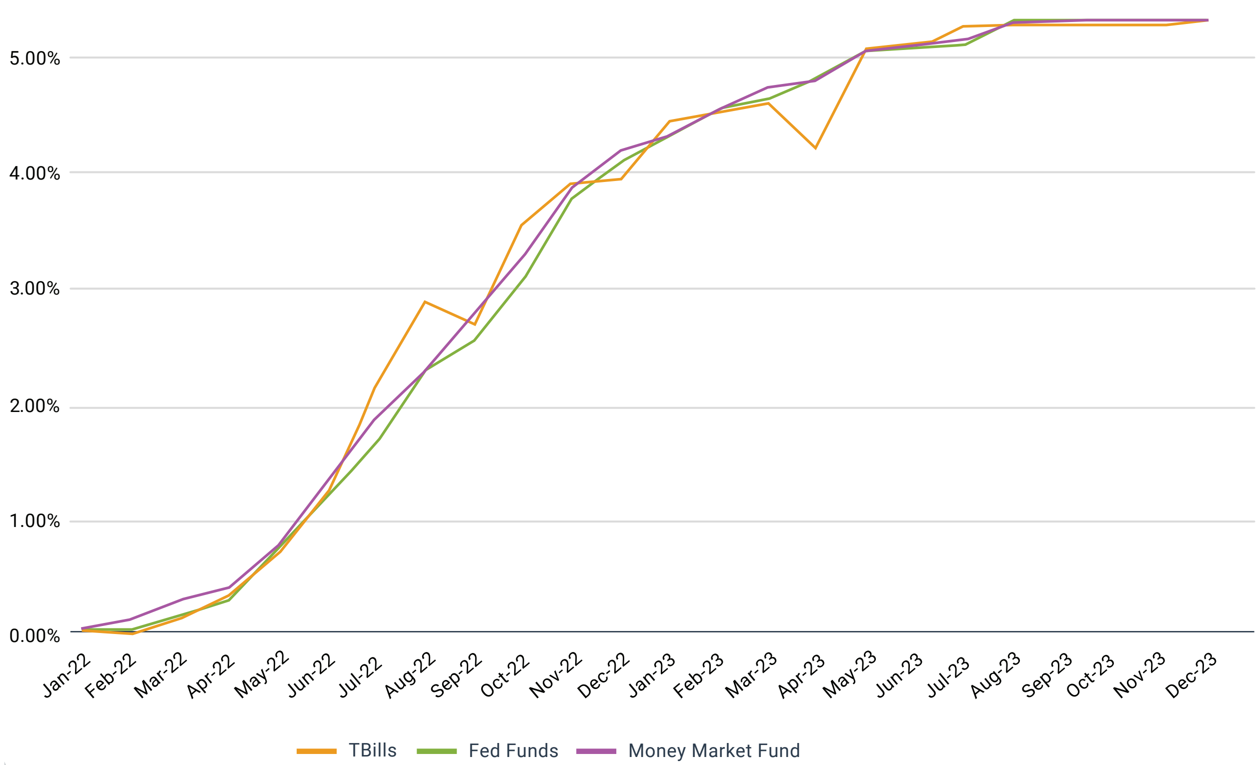



**Chart 10:** *Money Market Fund / Fed Funds / TBills, short-term rates and instruments.*

**2022–2023 data shown.*

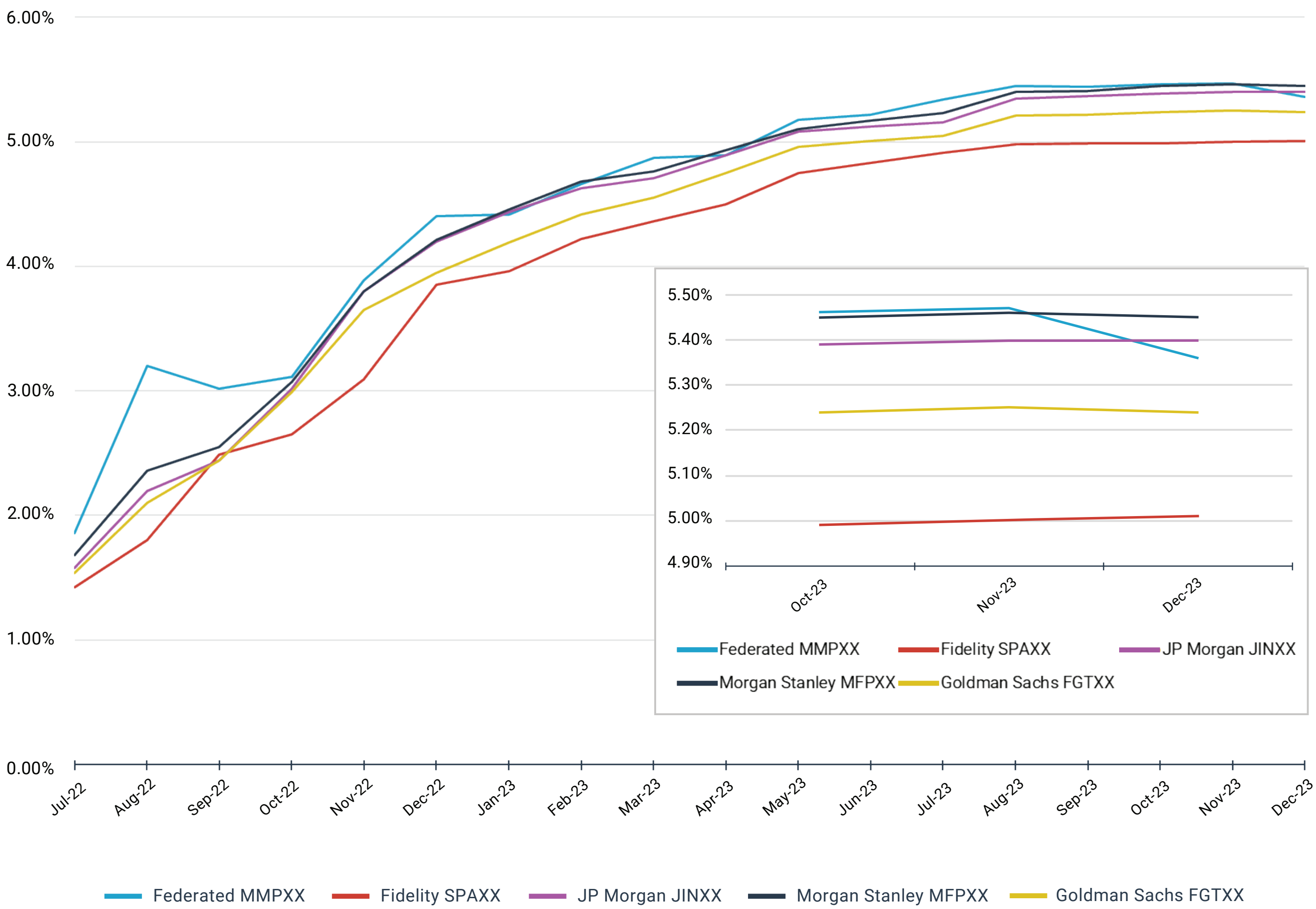



**Chart 11:** *Rates for various money and short-term funds.*

**2022–2023 data shown.*

# Next Steps...

Being armed with data allows you to have a reasonable and fact-based discussion with your banker about your ECR and the overall compensation you are providing to your banking partners. Relationships with your bankers include optimizing multiple important factors that extend beyond ECR. Key factors include the level of credit extended; advice and guidance provided; services and service level delivered; commitment to the relationship; and fees, rates, and overall compensation.

## Program Update:

We are switching the quarterly ECR report to an annually published guide with more comprehensive bank pricing benchmark information. Those who purchase the guide will receive an updated copy mid-year with current ECR trends and statistics. Participating in the program by sending in your account analysis statements will earn you a significant discount on the new guide. To learn more, contact Jill Selgrad via email at ecr@strategictreasurer.com.

- **Loading Your AAS for Program Participation.** Please load your recent monthly analysis statements. Click on the upload icon to submit 1st quarter 2024 AAS.

**ANALYSIS STATEMENTS UPLOAD**

- **Sharing the ECR Report Information with Peers and Associates.**
  - **Within Your Organization.** Sharing this report within your organization is both allowed and encouraged. Feel free to forward this document along to them.
  - **Outside Your Organization.** If a colleague in another company or with your bank is interested in seeing this report, it will benefit everyone if they join the program. Since this report is confidential, it may not be shared with them.

- **Informed Conversations.** If you are talking with your banker, know the data and understand the overall relationship value to your organization and to the bank.

- **Assistance Needed.** If you want to see how we can help by reviewing your bank services, fees, or compensation or by streamlining the services you are using, please contact Jill Selgrad via email at ecr@strategictreasurer.com or phone at +1 678.466-2211 to see if getting some professional support here makes sense. For more information on our Feenix services, please go to strategictreasurer.com/feenix.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