UWEALTH

U Wealth : Your partner in mastering financial instruments.

# GUIDE TO UNDERSTANDING ASSET CLASSES : MONEY MARKET

We want you to feel comfortable making suitable investment decisions based on knowledge of the opportunities and risks of given financial instruments.

September 2026

# FINANCIAL INSTRUMENTS: OPPORTUNITIES AND RISKS

The higher the complexity of a financial instrument, the higher its potential risk – but the higher, too, the opportunities for returns.

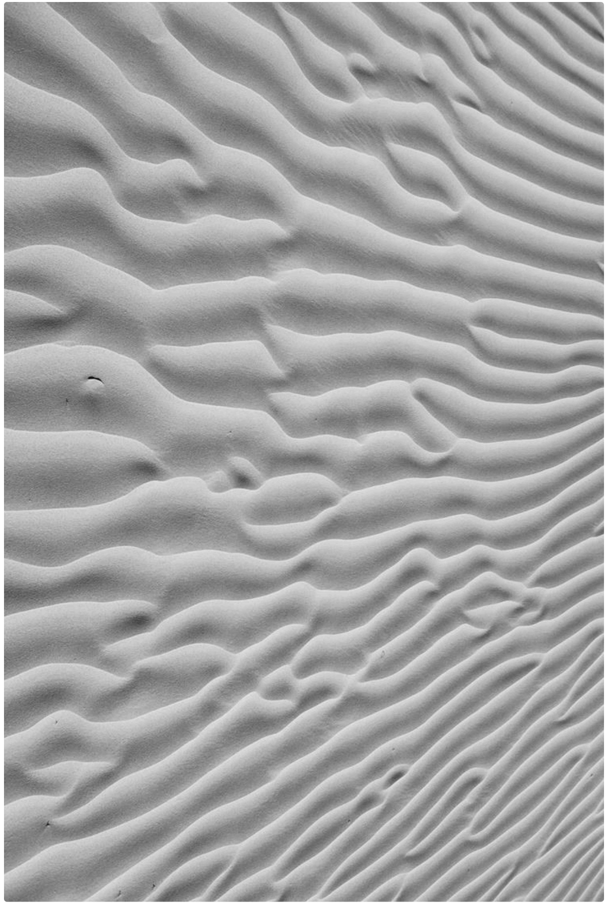
# WHAT ARE MONEY MARKET INVESTMENTS?

Money market investments are **highly liquid** securitised or unsecuritised short-term investments. They are essentially debt obligations.

Money market instruments can serve as a 'stopover' for excess cash between longer-term investments.

**Money market investments include:**

- **call deposits:** placements, movements (increase/decrease), and redemptions possible with 48 hours' notice
- **time deposits:** the money is lent for a specific period of time, usually between one week and one year.



# ADVANTAGES/DISADVANTAGES

## ADVANTAGES

- **Higher returns** than a savings account
- **Liquidity:** depending on the time frame chosen, money can be withdrawn quickly.
- **Less volatile** than alternative short-term investments
- **Low default risk** (depending on the counterparty, even guaranteed investments)
- **Access** to short-term interest rates
- **Low fees** and taxes

## DISADVANTAGES

- **Lower returns** compared to riskier/more volatile short-term investment instruments
- **Interest-rate risk** on roll-over
- **Inflation risk:** as rates are usually low, the return can be diminished by inflation.
- **Account minimums** usually apply
- **Credit risk:** risk of the bank holding the deposit becoming insolvent

# IMPORTANT RISKS TO CONSIDER

## ISSUER'S CREDIT RISK

Money market investments are debt obligations. Evaluate the issuer's creditworthiness, as it impacts direct time/call deposits (investing directly with a bank) and fiduciary deposits (bank invests for your risk).

## LIQUIDITY RISK

Money market investments can be less liquid than other instruments, meaning they might not be readily convertible to cash depending on their terms.

## MARKET RISK

Low interest rates expose investments to inflation risk, potentially diminishing returns. There's also reinvestment risk (not securing the same rate) and currency risk for foreign currency investments.

# WHAT TO EXPECT FROM MONEY MARKET INVESTMENTS

| Investment horizon | Income expectation | Market expectation |
|---|---|---|
| **Short term** | **Regular interest** | **Independent** |

# IMPORTANT TO KNOW BEFORE INVESTING IN TIME AND CALL DEPOSITS

## MAXIMUM GAIN

Interest earned

## MAXIMUM LOSS

Theoretical possibility of total loss of investment in case of default of the debtor

## PROFIT/LOSS

- Rates offered depend on maturity and investment volumes.
- Minimum investment volumes apply: usually CHF 250,000 for call deposits and CHF 100,000 for time deposits.
- There is an interest-rate risk on roll-over/reinvestment of the capital at maturity.
- When investing for longer time periods, inflation can eat up a certain part of the return.

# A CLOSER LOOK AT MONEY MARKET

# BASIC PROPERTIES OF MONEY MARKET INVESTMENTS

- Trading of money market instruments is done either
  - **over the counter** (OTC), i.e. directly between the lender and the borrower (debtor), or
  - at an **exchange**, if the product is standardised (e.g. US Treasury bills [1]).
- The time to maturity is usually **short** (up to approximately one year).
- The main counterparties are larger institutions such as banks, other financial institutions, countries/governments, or industries.
- Contracts have a **minimum denomination** and size.

## Main instruments by counterparty

| Banks | Non-banks |
|---|---|
| Time/call deposits | Registered money market claims |
| Fiduciary deposits | Commercial papers |
| Certificate of deposit | US Treasury bills |
| Repurchase agreements | |

# INTEREST AND INTEREST RATES

- Money market investments (like other instruments, e.g. fixed income) offer interest in return for a loan.
- The basis of the interest rate offered is a reference rate minus a spread representing the service margin. Important reference rates are:
  - **LIBOR** (London Interbank Offered Rate): the Libor is the interest rate at which banks offer each other short-term funding. It is fixed daily as an average of the rates offered by the reference banks.
  - **EURIBOR** (Euro Interbank Offered Rate) is a reference rate of 41 large banks for fixed-term deposits.
  - The LIBOR/EURIBOR interest-rate benchmarks will disappear and a transition to alternative reference rates (ARRs), also known as risk-free rates (RFRs), will take place. ARRs are overnight interest rates that incorporate little or no credit risk. Furthermore, the markets underlying the ARRs are significantly more active than the markets underpinning the IBORs. Hence, while IBORs rely significantly on expert judgement, ARRs are purely transaction-based.

# ALTERNATIVE INTEREST RATE

| Currency | Current rate | Alternative reference rate (ARR) | ARR description |
|---|---|---|---|
| **CHF** | LIBOR | Swiss average rate overnight (SARON) | • Secured (overnight repo* rate)<br>• Fully transaction-based |
| **USD** | LIBOR | Secured overnight financing rate (SOFR) | • Secured (overnight repo rate)<br>• Fully transaction-based<br>• Solid underlying market |
| **GBP** | LIBOR | Sterling overnight index average (SONIA) | • Unsecured and overnight<br>• Fully transaction-based<br>• Solid underlying market |
| **JPY** | LIBOR | Tokyo overnight average rate (TONAR) | • Unsecured and overnight<br>• Weighted by transaction volume |
| **EUR** | EONIA, EURIBOR | Euro short-term rate (ESTR) | • Unsecured and overnight<br>• Reflects the financing costs of banks in the eurozone |

Interest income is calculated by using specific **day-count conventions**, i.e. the number of days in a month/year.

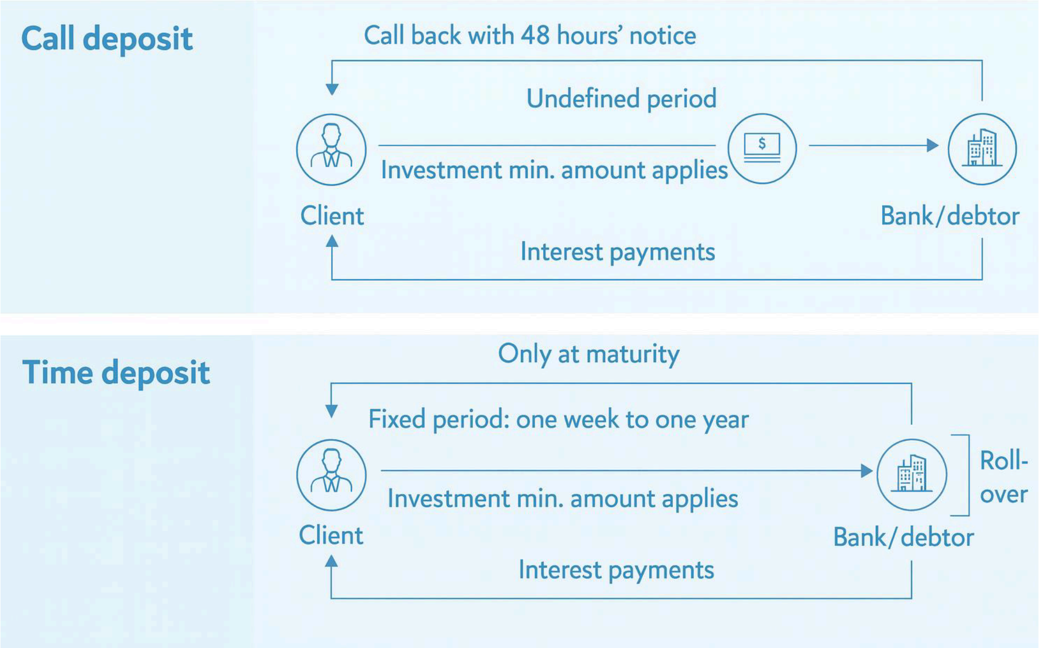
Day-count conventions have developed historically as a result of the need for easy calculation and time-period constancy.

A number of different conventions exist, such as the **'30/360 method'** (counting 30 days for each month, and 360 days for the full year), the **'actual/actual method'** (actual days of the months and 365—or 366 in leap years—for the year), and the **'actual/360 method'** (actual days in month and 360 for full year).

# HOW MONEY MARKET WORK

### Example: Call and time deposits

- Call deposits have an undefined maturity. The money is callable within a notice period of 48 hours.
- Time deposits are made for a fixed period of time and are redeemed at the end of that period.



# SPECIFIC PROPERTIES

## Call and time deposits

| Call deposit | Time deposit |
|---|---|
| The minimum investment volume is CHF 250,000 or foreign currency equivalent. | The minimum investment volume is CHF 100,000 or foreign currency equivalent. |
| The interest rates differ, depending on the investment horizon, investment volume, and counterparty risk. | The interest rates differ, depending on the investment horizon, investment volume, and counterparty risk. |
| Call deposits are generally available in major non-domestic currencies. | Time deposits are generally only available in domestic currencies. |
| Interest is paid on a quarterly basis. | Interest is paid at maturity. |
| Commission is charged on quarterly basis. | Commission is charged at the starting date. |

# IMPORTANT RISKS TO CONSIDER (I)

## Call and time deposits

Money market instruments are regarded as being among the safer investments. However, as with any investment, certain risks remain.

There is a low risk on the capital invested: the default (credit) risk of the custody bank becoming insolvent.

Since they are regarded as safe investments, returns are lower than for other types of investments. When investing for an extended period (by rolling over the investment), inflation can eat up part of the return from the investment.

If the deposit is done in any currency other than the home currency, there is also a currency risk.

Money market instruments are short-term investments. As debt obligations, however, they may be less liquid than other types of financial instrument.

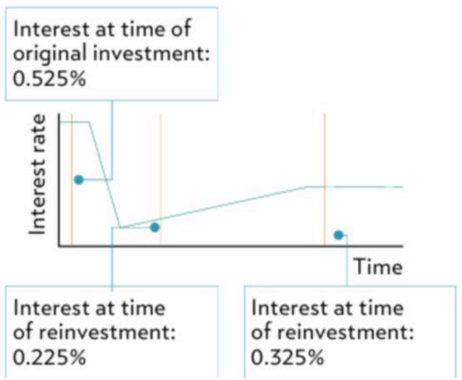
# IMPORTANT RISKS TO CONSIDER (II)

## Call and time deposits

The **interest rate** (return) of a money market deposit is known at the time of investment. However, interest rates change and thus affect **reinvestment/roll-over**. Below we outline three possible cases.

### BEST CASE

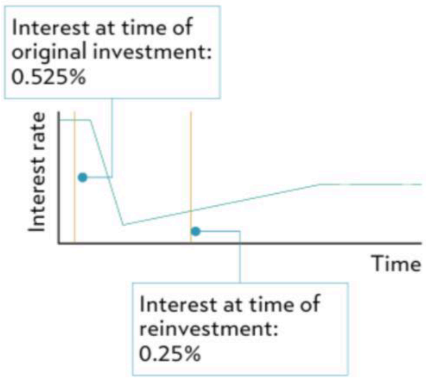
**Increasing and high interest rates**




- Increasing return on reinvestment
- The higher the overall interest rate, the higher the return

### REALISTIC CASE

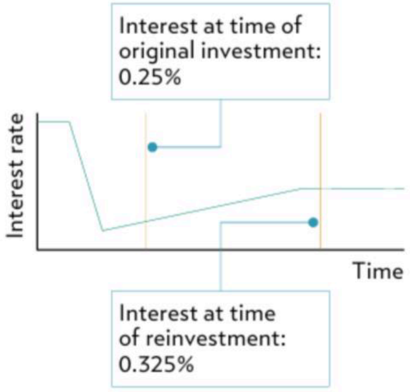
**Volatile interest rates**




- Varying returns on multiple reinvestments
- The higher the overall interest rate, the higher the return

### WORST CASE

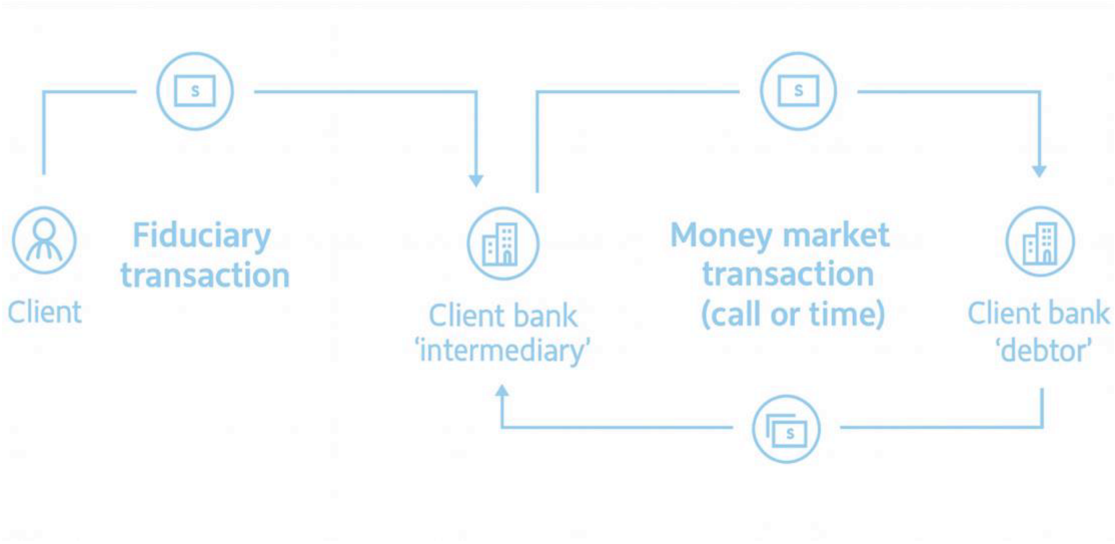
**Decreasing and low interest rates**




- Decreasing return on reinvestment
- Low overall return

# FIDUCIARY DEPOSITS

- Fiduciary deposits are money market transactions done by a bank in its own name, with a third-party bank, but on the account and risk of the client (i.e. the investor bears the counterparty risk).
- Both types of money market instruments previously described (i.e. call and time deposits) are available.



# ADVANTAGES/DISADVANTAGES FIDUCIARY DEPOSIT

## ADVANTAGES

- **Increased confidentiality:** the deposit at the third-party bank is done in the name of the client's bank only.
- **Risk diversification:** the counterparty risk can be diversified by placing money with different counterparties.

## DISADVANTAGES

- **Minimum terms and investment volumes**
- **Costs:** the client's bank is due a fee for the services provided.
- **Credit risk:** the credit risk the client is exposed to is no longer the one of its own bank but that of the third-party bank, where the money is deposited.
- **Country/liquidity/market risk:** note that the third-party bank may be in another country, which can shift the corresponding risk exposure, compared to a straight money market investment.

# CERTIFICATE OF DEPOSITS AND REPURCHASE AGREEMENT

## CERTIFICATE OF DEPOSITS

- A certificate of deposits (CDs) is a savings certificate entitling the bearer to receive interest. CDs are generally issued by a deposit institution (such as a bank, credit union, or a finance or insurance company).
- The deposit is short term, usually ranging from one to nine months and may be rolled over at the end of the term.
- The deposit is securitised by the issuing bank, i.e. it can be sold prior to maturity.
- High minimum denominations apply.
- Interest rates may be fixed or variable.
- Depending on the specific investment, CDs may be insured (minimising counterparty risk) or callable by the issuer (adding the risk of early termination by the debtor).

## REPURCHASE AGREEMENT

- This is an agreement to sell a security and to repurchase it afterwards.
- The return offered is the 'repo rate', i.e. the difference between the sale and the repurchase price.
- Changes in the value of the security during the lifetime of the contract are compensated through a margin account. Thus, if the security loses value, the buyer (i.e. the lender) can generally issue a margin call and demand more money or securities to protect his or her investment.
- Note that due to the mark-to-market compensation, the seller of the agreement bears an additional risk to the ones already mentioned.

# REGISTERED MONEY MARKET CLAIMS AND COMMERCIAL PAPERS

## REGISTERED MONEY MARKET CLAIMS

- These are debt obligations of the Swiss Confederation.
- They are unsecuritised discount papers with a maturity of up to 12 months that serve as short-term funding.
- They are issued using a tender process.

## COMMERCIAL PAPERS

- Commercial papers are issued by private companies (banks, industrial companies).
- They serve as short-term funding (up to nine months).
- They usually have high minimum denominations.
- Commercial papers are issued by sound entities. However, the investor bears the credit risk of the issuing counterparty.

# COUNTERPARTY RISKS AND RATINGS

- Money market investments aim to be short-term investments with low risk. They are thus only made with trustworthy counterparties.
- The instruments described in this document all have different counterparties. For example, in the case of registered money market claims, the counterparty is a state (in this case, the Swiss Confederation) that is regarded as among the safest counterparties, while commercial papers are issued by private companies.
- The credit quality of a counterparty for short-term debts is rated by an independent agency such as Moody's. The table below provides an example of such a rating.

| Moody's rating | Explanation |
| --- | --- |
| **Prime–1** | Very strong capacity to meet financial commitments. |
| **Prime–2** | Strong capacity to meet financial commitments. |
| **Prime–3** | Capacity to meet financial commitments. |
| **Not prime** | Not prime–speculative. |

- Note that ratings are not investment advice – they are just additional information for the investor.
- Short-term ratings differ from long-term ratings for the bond market. For more on the latter, please refer to U Wealth's educational material on fixed income.

**FOR FURTHER INFORMATION ON RISKS OR ON OTHER AVAILABLE FINANCIAL INSTRUMENTS, PLEASE REQUEST TO YOUR RELATIONSHIP MANAGER ON U WEALTH EDUCATIONAL MATERIAL.**

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