AFP LIQUIDITY SURVEY SUGGESTS
FINANCE PROFESSIONALS REMAIN CAUTIOUS

A see-saw of tax, regulatory and trade decisions emerging from the presidential administration has kept business leaders shifting back and forth from optimism to caution. The result is that cash balances remain high, acting as a buffer against market uncertainties, according to the 2018 Liquidity Survey by the Association of Financial Professionals (AFP).

With recent moves to less regulation, a lower corporate tax rate and a business-friendly environment, the overwhelming expectation by economists was that organizations would loosen their grip on deposit balances, thereby giving the economy a long-awaited boost. Many anticipated that these changes would encourage organizations to spend more on capital investments and increase wages and bonuses as well. However, this optimism was short-lived. Treasury and finance professionals have yet to regain enough confidence in the economy to adjust their companies' cash management and investment strategies.

No discernable change in spending

In fact, there has been no apparent change in organizations' spending, and 40% of survey respondents continue to be uncertain about some of its provisions and do not anticipate changes in spending at their companies. One-fourth of companies plan to pay down debt, while 24% plan to repatriate their off-shore funds. Of the 24% of companies anticipating repatriation, only 27% have actually repatriated funds. The other 73% of companies that expect to repatriate funds have forecasted it within the next 12 months.

Cash balances growing faster in the United States

Cash balances are growing faster within the United States than they are outside the U.S. The main rationale is that companies want to improve operating cash flow, which seems to be a trend that will continue over the next year.

Companies that decreased cash flow did so for several reasons, including increased capital expenditures, paying down or paying off debt, acquisition activity, and increased share repurchases.

Objectives of current investment policies

With rising rates and a changing economic environment, a lot of companies have started to look at their current investment policies, if they haven't already adjusted them.

Safety and liquidity continue to be the two most important short-term cash objectives for companies.

- Safety remains still respondents' primary objective (as selected by 65% of survey respondents, down just 2% from 2017).
- Liquidity comes in second (as noted by 31% of respondents).
- Yield continues to rank a distant third with only 4% of respondents selecting yield as their primary objective.

Current asset allocation

In reference to current asset allocations, the typical organization maintains 49% of its short-term investment portfolio in bank deposits. This is down 4% from the 2017 survey and is at its lowest point since 2011.

The majority of companies allocate a large share of their short-term investments to safe, liquid investment vehicles such as bank deposits, money market funds (MMFs) and treasury securities. MMFs account for 19% of organizations' short-term investment portfolios, down 2% from what was reported in 2017, but 2% higher than the 2016 figures. Government MMFs account for 13% of allocations, close to the 14% reported last year.

Little change predicted in investment mix

As for investment mix, 59% of treasury and finance professionals surveyed do not anticipate a change in short-term investment portfolios as a result of the TCJA 2017, or any macroeconomic factors. Only 11% of survey respondents are projecting a shift. The anticipated investment mix changes are likely to be in prime/diversified MMFs and government /treasury MMFs (24% of respondents expect an increase in this area). Another 20% expect an increase in commercial paper (CP) and bank deposits.

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Careful consideration of banking relationships

Since banks play a key role in cash management strategies and investment conversations, treasury and finance professionals are choosing their financial institutions carefully. An organization's current or potential relationship with its banks is their primary consideration, followed by that bank's credit quality.

Finance professionals provide stability

Treasury and finance professionals continue to provide a layer of stability for their organizations' cash liquidity needs. Safety remains the primary objective among the majority of organizations, as reflected in their investment policies. Treasury and finance professionals are inclined to invest their organizations' cash in short-term vehicles other than bank products, such as CP, government MMFs, treasury securities and prime funds.

Impact of interest rates

With the Federal Reserve considering two more interest rate hikes in 2018, and additional potential hikes in 2019, organizations may continue to focus more on yield and loosen their grip on their short-term investments.

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READY TO HELP

PNC's Liquidity Management services can help you optimize liquidity, manage your short-term investment portfolios, gain access and visibility into daily cash balances, and increase returns on idle cash. PNC offers a full spectrum of liquidity solutions to meet your needs for managing operating, reserve and strategic cash. By understanding your cash segmentation strategy, we can work with you to create an appropriate liquidity strategy for your unique needs and objectives.

For a copy of the entire AFP Liquidity Survey, or for more information about PNC Bank's Liquidity Management services, please visit us at **pnc.com/treasury** or contact your Treasury Management Officer or Relationship Manager.

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