US Rates Strategy

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Non-financial CP: Still strong

Non-financial CP rates have increased since the Iran-conflict began. But despite higher rates, non-financial outstandings are near-record levels and daily issuance remains solid.

- **Since the start of the Iran conflict, 30d non-financial CP rates have increased and the spread between AA and A2/P2 paper has widened** to its highest level since the March 2023 bank failures. But we do not see signs of a flight out of CP into cash.

- Despite higher rates, non-financial CP outstandings continues to grow. **In fact, non-financial CP volumes are 30% higher than in December 2025** and are hovering at record highs.

- Outstandings reflect both the pace of daily issuance and its maturity. Investor defensiveness would make it harder for issuers to roll their paper resulting in a decline in issuance, a shortening of WAMs and an eventual decline in outstandings.

- **But none of these seem to have occurred since the start of the Iran conflict**. The daily issuance pace of AA and A2/P2 paper has been steady since late February. Likewise estimated issuance WAMs are flat.

- **Together with data on large bank C&I lending, the CP outstandings data suggest that there has been no dry-up in the ability of non-financial companies to raise working capital**.

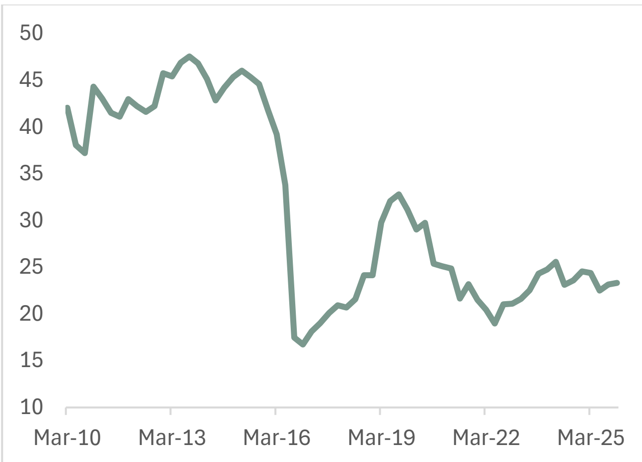
- **AA non-financial CP is purchased by prime money funds. Their holdings of this paper have increased since last fall but fell at the end of March.** While we have less information about the buyers of A2/P2 paper our sense is that demand is unchanged.

Higher rates

Non-financial CP is typically issued by large, investment grade companies to finance working capital or other short-term expenditures. And while money funds still purchase a significant share of this debt, they are no longer the biggest holders as money fund reforms have reduced prime fund balances (Figure 1). Money funds' purchases are limited to higher rated AA rated paper. Other buyers, such as non-US investors and corporate cash pools can purchase lower-rated (but still investment grade) A2/P2 paper. Nearly all this paper is issued by non-financial companies in industries like healthcare, utilities, and consumer discretionary.

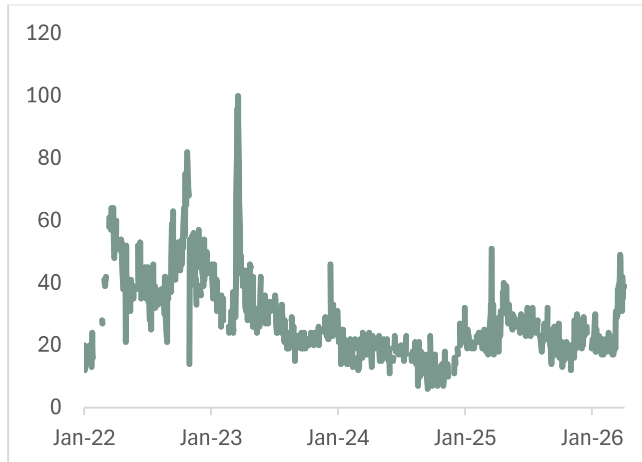
Since the start of the Iran conflict rates on 30d non-financial CP have increased. And while rates on AA paper have risen 10bp, those on A2/P2 CP have increased 50bp. Most of this widening has occurred since mid-March. The spread between credit levels is nearly twice as wide as its 2025 average and is now at its widest since the March 2023 collapse of SIVB (Figure 2).[1] **Is this a sign that the conflict is causing investors to reconsider their short-term credit risk and move into bills or cash?**

Figure 1: Money fund holdings (% CP)



Source: Federal Reserve, BEA, SMBC Nikko

Figure 2: 30d A2/P2 less AA non-fin CP (bp)



Source: Federal Reserve, SMBC Nikko

Our sense is that this might be premature. As we observed recently, there is still no sign of a defensive flight into cash. Gov-only money fund balances fell in March and have partly recovered in early April. The April 15 tax deadline muddies gauging investor sentiment from gov-only fund flows. However, money is not leaving prime money funds which, all things equal, might be expected to shed balances if investors were getting nervous about credit exposures and defensively shifting cash. And while deposits at the largest banks increased $93bn in March, they rose more in February ($160bn). Likewise, funding markets remain calm – quarter-end repo pressure last month was the mildest it has been in months. Bill demand remains as robust as it has all year.

Outstandings and issuance

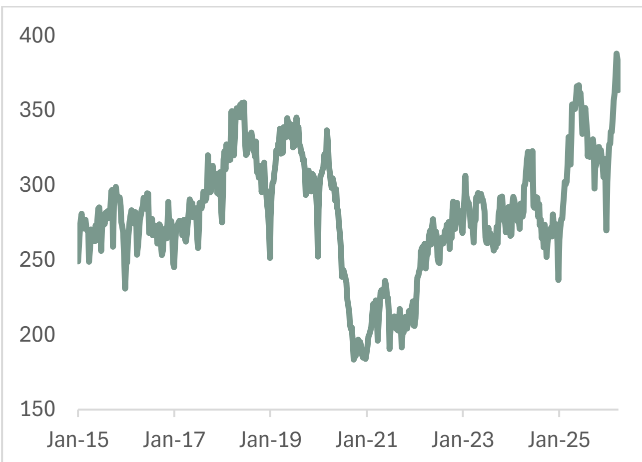
The higher rates on non-financial CP do not seem to have dampened investor appetite or kept borrowers from accessing the market. Non-financial outstandings totaled $380bn on April 8 and were just shy of the record $388bn reached on March 18. Non-financial CP is 27% overall CP debt outstanding (of $1.4trn) – up from an average share of 24% in 2025. **Since December, non-financial CP outstandings have risen 30%** (Figure 3). Moreover, outstandings have continued rising after the conflict began – albeit more slowly. Non-financial CP outstanding has increased 6.5% since the start of the conflict (compared to 17% between December and February). While this is faster than the growth in large bank C&I lending, neither has fallen since the conflict began. **Instead, there is little evidence of any dry-up in non-financial firms' ability to raise working capital**.

Outstanding CP is a function of both the daily issuance pace and its maturity or how quickly it rolls off. Nervous investors typically do not roll their maturing paper – or, only roll it at shorter maturities. As it gets harder to roll paper, daily issuance (and eventually, outstandings) decline. **We do not see signs of**

[1] Non-financial CP issuance was sporadic in 2022. Since these rates apply to newly issued paper if there is no issuance the Fed has nothing to report.

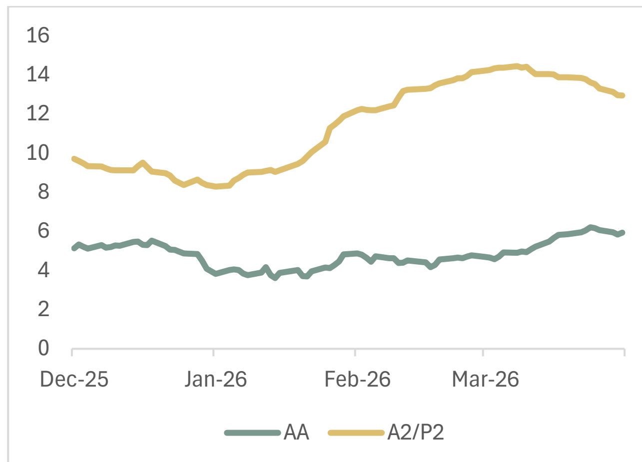
defensiveness in either the daily issuance pace or the maturities. The issuance pace for both AA and A2/P2 paper has increased since December. The increase in A2/P2 has been larger with daily new issuance volumes running about $13bn/day since mid-February (Figure 4). Separately, the WAMs of this issuance have not shortened. The Fed collects the maturities of this issuance in buckets. As a result, we are only able to roughly estimate its WAM by assuming the dollar value of all the issuance is concentrated at the mid-point of the buckets.[2] We estimate that the WAMs of AA and A2/P2 paper are 14 and 10d, respectively. **The issuance maturity of AA paper has *lengthened* about 2d since the start of the Iran conflict**. And while A2/P2 WAMs were longer at the start of this year (nearly 12d), nearly all the decline occurred *before* the conflict – since the end of February, WAMs on A2/P2 paper have largely been steady.

Figure 3: Non-financial CP outstanding ($bn)



Source: Federal Reserve, BEA, SMBC Nikko

Figure 4: Daily non-financial CP issuance ($bn)



Source: Federal Reserve, SMBC Nikko

Buyer caution?

Data on CP buyer behavior has become more difficult to track down since money funds are no longer the biggest holders of paper. But while their holdings have shrunk with money fund reform, they still account for nearly a quarter of total CP outstandings. All their holdings are AA rated and most are from AB-CP or financial issuers. That said, money funds have increased their non-financial CP holdings since last year. Balances have increased to $32bn in February from $20bn in September. But at the same time, the WAM of their holdings has shrunk to 27d from 59d. Money funds reduced their holdings at the end of March although we look for them to rebound next month. Offshore money funds hold twice as much non-financial CP and we suspect that this, too, has increased since last year. A2/P2 buyers include corporate cash pools (16%) as well as non-US buyers (11%) for which we have no data.

[2] We assume all the issuance in the >80d bucket is 80d.

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