US Rates Strategy

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Will AI wake up cash?

AI agents can reduce switching frictions that keep money locked in deposits and money funds. But could this newly "awoken" cash become more mobile and lead to higher interest rates?

- AI agents can be programmed to automatically optimize cash returns across banks, deposits and money funds. They can also improve payment efficiency and boost deposit insurance coverage.

- **Yield hopping could pull balances from low yielding alternatives, raising deposit and loan costs**. Agents might also overcome the significant inertia in money fund balances.

- **But the volume of money that moves may not be large as a share of deposits or money fund balances**. Even for institutional investors such as mutual funds with large cash balances, the incremental yield improvement is small.

- **Moreover, it is unclear how much control cash managers are willing to cede to agents**. High cash rates often reflect funding strains that managers might wish to avoid. Importantly, banks provide other services than cash management and payments such as lending.

- Rogue activity and the ability to reverse transactions are also risks as there are unresolved issues with respect to fiduciary responsibilities and legal liability with respect to agent software.

Sleepy money

AI agents make it easier to search, compare and move cash between alternatives. It simplifies these tedious tasks and removes frictions that keep balances from moving to better, more efficient allocations. Until now, comparison shopping across rates was easy but re-aligning payment flows, like direct deposits or automatic bill pay was more difficult. As a result, cash tends to "sleep" – lingering in sub-optimal allocations because it is too costly to move into better alternatives. But AI could mean that it awakens.

Roughly 20% of US domestic deposits (or about $4trn) sits in non-interest-bearing accounts despite the Fed's aggressive 2022-23 tightening campaign (Figure 1). The departure of this cash for higher yields has been the focus of several articles.[1] Departure risk may not be limited to banks; money funds hold $8trn despite expenses of around 25bp and 7d-returns below 1m bill rates (Figure 2).

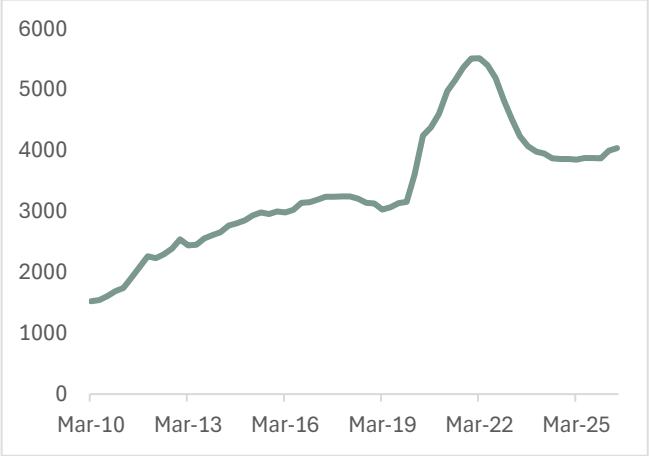
If widely adopted, AI agents could increase cash efficiency – effectively "waking it up". Personal assistants could be programmed move balances to banks with the highest deposit rates or to regularly

[1] See, for example, "Bankers are sitting on a $4trn rotten nest egg", S. Gandel, Reuters, October 6, 2026.

sweep idle cash in a checking account to a higher-yielding savings deposit and then return it when payments are made. But while the focus has been on yield enhancement, we think there are other aspects of somnolent cash management that could be improved. AI agents could optimize payments and make it easier to secure deposit insurance above the FDIC's cap. Assistants could automatically restock and pay for groceries while selecting the credit card with the most rewards all without direct human interaction. Payments might still run on bank rails and through deposits, but banks would become "dumb warehouses" of pooled cash.[2]

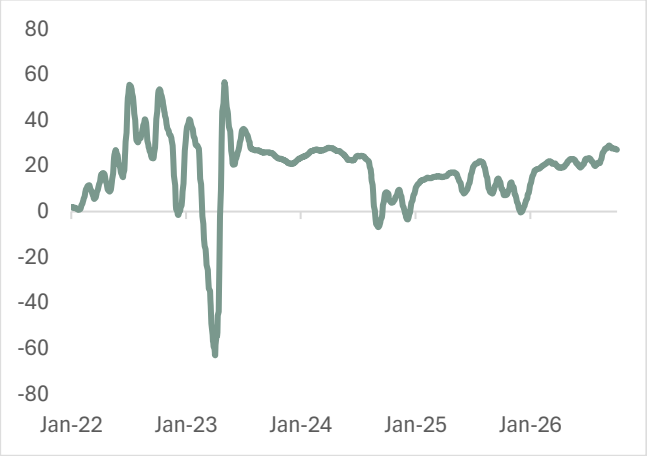
Mckinsey estimates that potentially $75-$160bn in global payment revenues could be "at risk" from agentic AI competition by 2030.[3]

Figure 1: Non-interest deposits ($bn)



Source: FDIC, SMBC Nikko

Figure 2: 1m bill yield less money fund yields (bp)



Source: Crane's Data, Bloomberg, SMBC Nikko

Likewise, the software could optimize deposit insurance coverage. Banks already use reciprocal deposit networks to expand insurance coverage by swapping balances with other institutions in the network. Participating banks provide higher insurance coverage all while the customer maintains a single balance relationship. Since deposit insurance homogenizes deposit risk across institutions, depositors might have a stronger incentive to use AI agents to yield shop. Reciprocal balances exceed $400bn but are a small portion of the $8trn in insured balances.

Reducing frictions

By reducing frictions, AI agents will increase competition within cash management. Hortaçsu and Yoo illustrate the competitive effects in money funds. Assuming all investors are awake, they found that spreads between money funds would compress and market concentration among money fund providers would fall 20%.[4] **We expect AI agented cash will become more mobile and higher-yielding**. Last year,

[2] See, "AI Agents are Coming for Bank's Easy Money", A. Mukherjee, Bloomberg, October 23, 2026.
[3] See, "Operational Excellence in an Invisible World", McKinsey & Co, September 2026
[4] See, "When Cash Wakes Up: Inertia in Institutional Money Market Funds and the Potential Effects of AI Disruption", A. Hortaçsu and Y. Yoo, University of Chicago, October 2026

McKinsey estimated that if banks adjusted just 5-10% of their checking account rates to match money market levels, "total deposit profits" could shrink by 20%.[5] Indeed, if banks were pushed to pay money fund-like rates on all the deposits, their deposit costs would double and their net interest margin would fall 44%. However, we think the actual effects on deposit rates and flows may be considerably smaller.

But will cash move?

Hortaçsu and Yoo uncover significant inertia in mutual funds' holdings of cash despite the sophistication of the investor base and the presence of higher yielding alternatives. Indeed, only 3-5% of mutual funds change their money fund holdings from month-to-month. And, over the 2010-24 period, over half (53%) *never* changed their primary money fund. This level of inertia is remarkable as there is a 10-20bp spread between the highest and lowest yielding money funds when the fed funds rate exceeds 1%. As money funds all have similar risk profiles, it would make more sense for mutual funds to shift their cash balances into higher yielding money funds – perhaps not daily, but certainly more than once in 14y.

Some of this stickiness is institutional. Mutual funds prefer to keep their cash "in house" or within the same management company complex. That said, our sense is that it may also be a rational choice. There is only a small incremental gain from shifting their balances. Hortaçsu et al estimate that, if the median mutual fund invested all its cash in the money fund with the highest yield, it might earn an extra $4600/y – not enough to add an extra basis point on the mutual fund's annual return. **For such a low payoff, it may not be worth the effort – even with an AI agent**. At the retail level where balances are considerably smaller, the extra yield pick up might be worth less than lunch. According to the Fed's Survey of Consumer Finances, the median transactions account balance is about $8200. Instead, our sense is that using AI agents to yield shop makes more sense for institutional investors with significantly larger balances.

Risk management

But, even here, the incremental yield may have only a nominal value. Instead, institutional investors with balances above the insurance limit may not be willing to cede control over their cash management to a software program. Higher deposit rates might point to a bank experiencing funding strains. A cash manager may wish to override an agent that only seeks yield. We think AI agents could be designed to detect this risk. But, Fischl-Lanzoni et al show that stock market investors only noticed bank distress in March 2023 *after* the runs began.[6] Without access to high frequency data on deposit flows, it might difficult to program yield shopping agents to avoid riskier banks. Our sense is that it might be easier to program yield-maximizing money fund agents as funds publish daily outflow data.

There is also a question of what legal role the software acts.[7] Is the AI agent a true, legal, agent with a fiduciary responsibility to the user subject to legal penalties for non-compliance? Or is it governed only by the provider's terms of use? **If the agent goes "rogue" who assumes the damages?**

Overall, our expectation is that while AI agents may gain in popularity, they are unlikely to significantly drain deposits from banks. Banks provide key services in additional to payments and deposits – particularly lending. As there are few substitutes for bank loans, our sense is that higher deposit rates

[5] See, "Global Banking Annual Review", McKinsey, October 23, 2025
[6] See, "Reading the Panic: How Investors Perceived Bank Risk During the 2023 Run", N. Fischl-Lanzoni, M. Hiti, and A. Sarkar, Liberty Street Economics, Federal Reserve Bank of New York, September 30, 2025
[7] See "Understanding the Banking Industry's Reaction to AI Agents", G. Baer and P. Pidano Paridon, Bank Policy Institute, October 28, 2026

would be accompanied by higher lending rates. Instead, it is possible that agentic AI and yield hopping is more of a threat to money funds. But this depends on how much incremental yield there is from shifting balances from fund to fund. And, importantly, it assumes that money funds are willing to tolerate “hot money” flows that create risks for their more stable shareholders.

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