



Why Now is the Time for Certificates of Deposit

By Kevin Bannerton, Chief Product Officer, R&T Deposit Solutions



In today's dynamic economic environment, managing interest rate risk and liquidity strategies is central for banks and depositors navigating uncertainty. The recent 0.50% reduction in the Federal Funds Target Rate by the Federal Open Market Committee (FOMC) shifts the focus towards the "terminal federal funds rate," crucial for achieving the FOMC's dual mandate of price stability and full employment.

As the debate about whether the economy will experience a "soft landing" or a downturn continues, banks and depositors confront varied challenges, from regional economic trends to the demand for lending and the unique needs of businesses. These conditions underscore the importance of a strategic approach to liquidity management, preparing stakeholders for potential shifts in interest rates and risk tolerance.



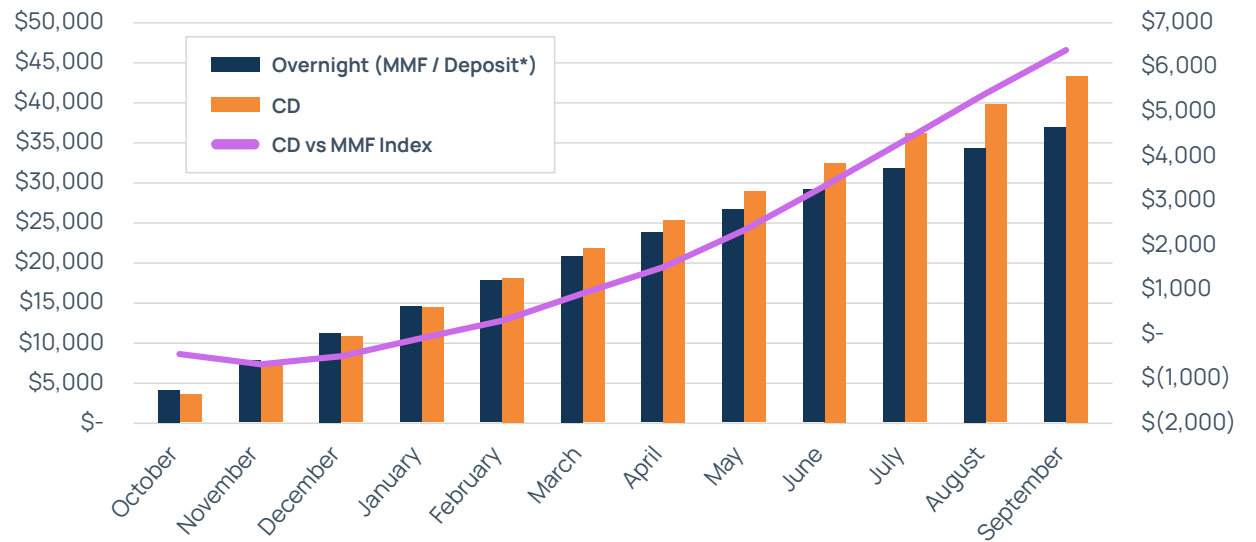
The Growing Relevance of CDs in Today's Market

Certificates of Deposit (CDs) have become essential for managing interest rate risks in today's volatile environment. Over the past year, CD deposits grew by 23%, and by over 150% compared to the previous year, serving as a protective strategy against potential future interest rate declines and offering a predictable income source.

Looking ahead to the fourth quarter of 2024, further rate cuts are anticipated, with futures markets forecasting a potential decrease in the Federal Funds Target Range to 4.00%-4.25% by year end and 3.00%-3.25% by June of 2025. Despite these anticipated changes and the fact that overnight rates still exceed most longer-term rates, some CDs can still offer value, providing higher interest and more stable returns compared to overnight deposits or money market funds as markets adjust. For example, a 1-year CD with a 4.30% rate could yield over \$6,000 in additional interest on a \$1 million deposit compared to other short-term investment options if the FOMC decreases rates in line with market expectations.

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Cumulative Interest Comparison



*Overnight (MMF/Deposit Rate) is represented by the Effective Federal Funds Rate (EFFR) <https://www.newyorkfed.org/markets/reference-rates/effr>

CDs: Strategic Benefits for Banks and Depositors

CDs offer multiple benefits in uncertain economic times:

For Banks

They provide a predictable way to manage Net Interest Margins (NIM), Interest Rate Risk (IRR), and Economic Value of Equity (EVE), helping institutions extend their liabilities and reduce reliance on volatile funding sources.

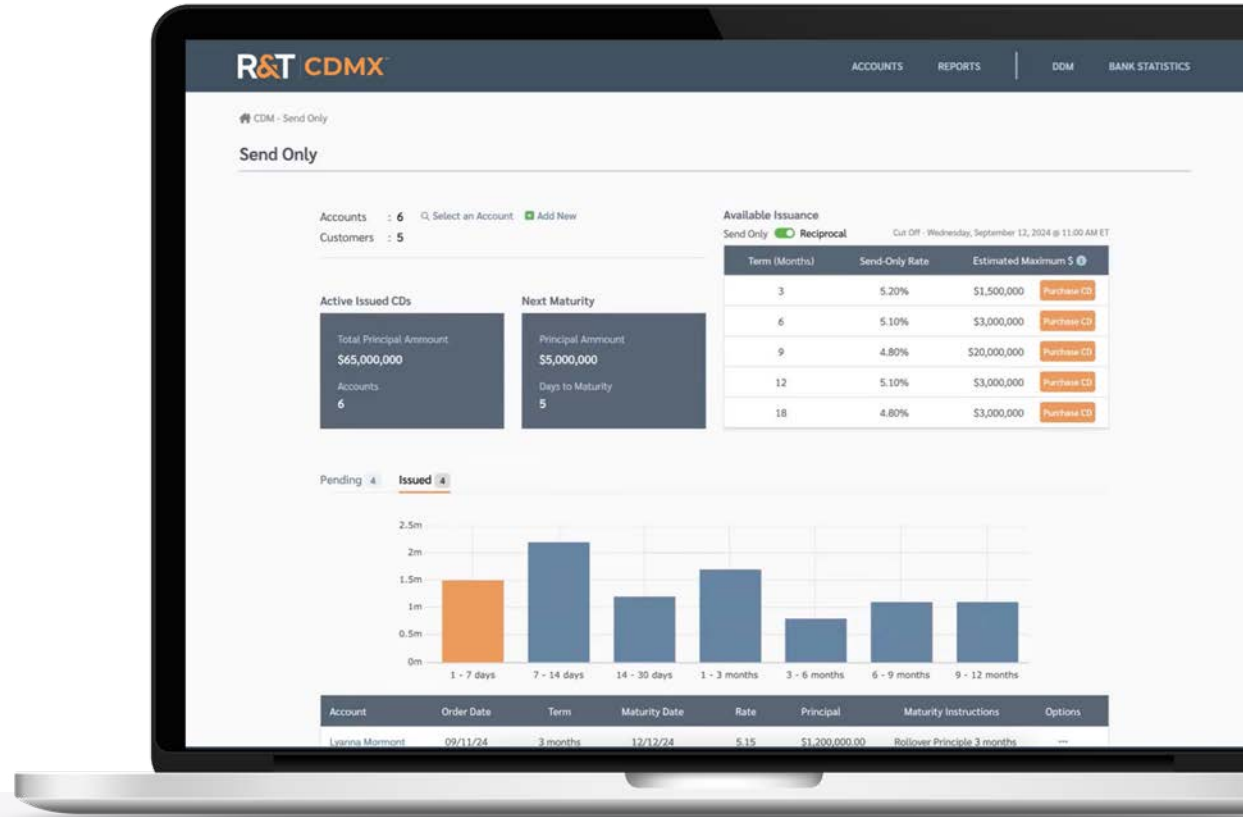
For Depositors

CDs offer competitive yields and safety, with access to FDIC insurance coverage enhancing their appeal. They also allow for interest rate risk mitigation through strategies like CD ladders, providing periodic access to funds optimized for various rate environments.



Introducing CDMXSM by R&T Deposit Solutions

This fall, R&T is launching the Certificate of Deposit Marketplace ExchangeSM (CDMXSM) program, a solution that will help banks and depositors better manage their liquidity and interest rate risk. The CDMX program offers flexible participation for banks and simplifies access to FDIC-insured CDs for depositors, matching maturities with liquidity needs while ensuring secure, insured investments.



R&T's Legacy of Innovation

With over 50 years of innovation in liquidity management, R&T's launch of the CDMX program expands our capabilities and continues our tradition of administering streamlined, efficient programs for managing deposits, reflecting our ongoing commitment to meet the evolving needs of banks and depositors through responsible innovation.

Why Now is the Time to Seize the Moment with CDs

As economic conditions continue to evolve, CDs remain a vital tool for navigating interest rate risks and liquidity challenges. The introduction of the CDMX program by R&T Deposit Solutions enhances our ability to support our partners and clients, optimizing the investment process and portfolio management. Now is the time to consider how CDs, backed by innovative platforms like the CDMX program, can enhance your financial strategy.



Contact us to learn more:

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