The Standard®

Stable Value Funds

Cash-equivalent investment options in a volatile rate environment

Plan sponsors generally have two types of investment alternatives in the cash-equivalent category: money market funds and stable value funds. While interest rates impact performance of cash equivalents, it's important for fiduciaries to take a long view when making selections for plan investment options.

Investment Strategy Drives Performance

Money market funds are restricted to investing in fixed income securities with short-term maturity, while stable value funds are able to invest in longer maturity investments for a higher potential yield.

The investment strategy of each type of fund will dictate how they will perform in a volatile interest rate environment. Money market funds seek to provide a constant net asset value of $1 per share to investors and have stringent investment requirements. Stable value fund managers can invest in longer maturity securities, but since longer maturity securities have a higher risk of declining in value, they purchase a contract to provide a guarantee that investors will receive their principal and accrued interest.

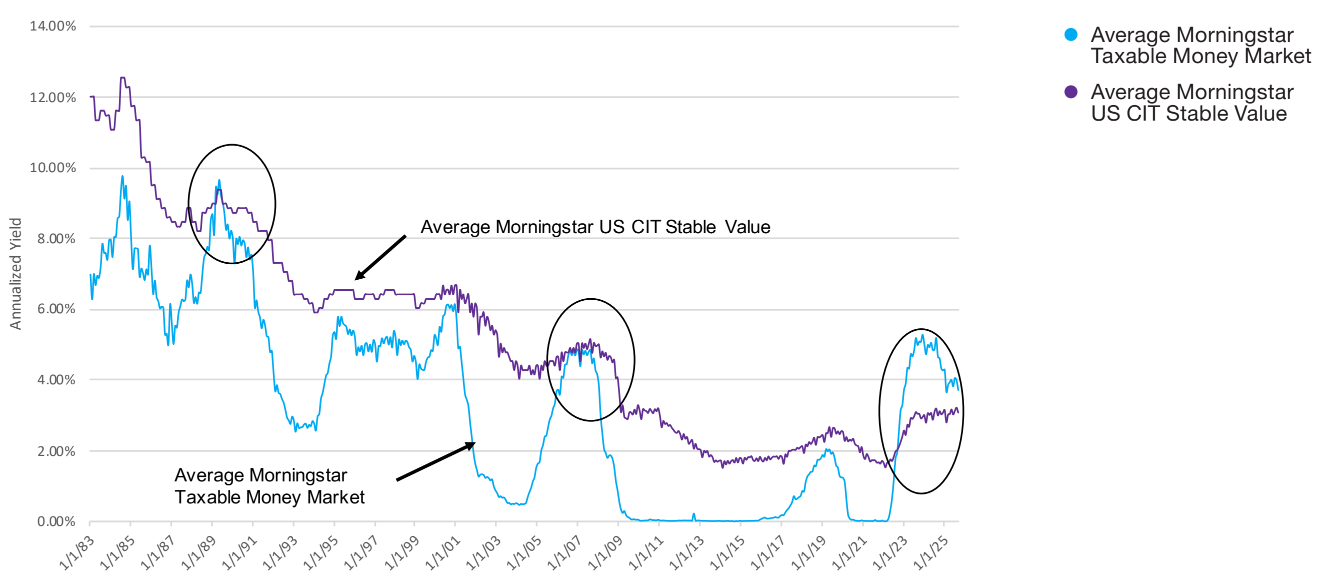
Since money market funds invest in very short maturity debt-based financial instruments, as short-term interest rates increase, the rate on these funds will increase at roughly the same pace. Stable value fund portfolios, with their longer maturities, will take longer to turn over the existing portfolio into new higher yielding investments. Therefore, stable value fund crediting rates will not respond as quickly to volatile interest rates as money market fund rates.

Conversely, in a rapidly falling rate environment, money market funds rates will drop quickly, whereas stable value funds tend to slowly decline over time as the underlying portfolio turns over assets. Choosing between a stable value or money market fund should depend in part on the long-term investment strategy needs of your plan.

The Effect of Interest Rate Changes

In past rising rate environments, money market funds occasionally looked as or more attractive than stable value funds, but these periods had historically been short lived. The following chart shows the history of stable value yields relative to money market yields. Between 1983 and 2023, there were only two periods where average money market fund yields approached average stable value fund yields, and only three months in total when average money market fund yields exceeded average stable value fund yields.

History of Stable Value and Money Market Yields



As of September 2025. Data provided by Morningstar Direct, 2025, available via subscription-only.

History of Stable Value and Money Market Yields

The recent interest rate changes seen during 2022 and 2023 were more substantial, however. The pace and duration of interest rate change drives how quickly relative yields between money market funds, stable value and insurance company general account funds change. When the adjustment is more gradual, as it had been in the past, money market rates may not even catch up with stable value rates. But when rates rise significantly for a prolonged period, as they did during that period, it takes more time for the longer-term investment strategies to regain any potential advantage over money market funds as the funds' assets eventually mature and are gradually replaced with higher yielding investments.

With interest rates now being anticipated to decline, particularly on short maturity investments, the yield difference between the two types of investments has narrowed in recent months. Absent another interest rate shock, this trend should continue. Knowing how cash-equivalent investment alternatives will behave will help plan sponsors make an educated choice for their plans. Recent interest rate volatility has made money market funds temporarily look more attractive than stable value funds. However, the ability to invest in longer maturity assets can be an advantage for these funds as they have typically, over time, provided higher yields.

Please contact us at 844.239.3561 to learn more about conservative, risk-controlled, stable value solutions for retirement plans.

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