# Harbor Money Market Fund

**Manager Commentary**
*As of 06/30/2019*

**Subadviser:** BNP Paribas Asset Management USA, Inc. *( Since 12/27/1987)*
**Portfolio Manager:** Kenneth J. O'Donnell, CFA

2nd Quarter, 2019

**"We became more optimistic during the last quarter as markets stabilized and economic data contradicted recent negative sentiment."**

BNP Paribas Asset Management USA, Inc.

### Market in Review

The global growth slowdown continued in the first half of 2019, challenging major central banks to consider increasing monetary policy stimulus measures. The European Central Bank, which recently ended balance sheet asset purchases, adopted a more dovish posture as economic weakness persisted in Europe, signaling a willingness to restart crisis-era measures, if needed.

U.S. fixed income investors became increasingly pessimistic given the global backdrop, sending benchmark 10-year U.S. Treasury yields below 2%. Short-term yields trended lower as expectations for several steps of monetary policy easing enveloped markets. After reaching the lower estimates of the Federal Reserve's neutral range in December 2018, markets are currently pricing a 100% probability of an easing in monetary policy in 2019.

### Portfolio Performance

In the second quarter of 2019, the Harbor Money Market Fund (Institutional Class) returned 0.53%, underperforming its benchmark, the ICE BofAML U.S. 3-Month Treasury Bill Index, which returned 0.64%.

U.S. Treasury bill yields declined as markets reversed the path of monetary policy rates ahead of the June Federal Open Market Committee (FOMC) meeting. Three-month Treasury bills outperformed shorter maturity money market instruments during the period. U.S. money markets are dominated by government funds, which has led to strong demand for U.S. Treasury bills. The relative yield advantage from U.S. agency discount notes has been compressed to extremely low levels as the demand for short-term government securities has risen significantly.

### Portfolio Positioning

Valuations in money market securities remain closely tied to monetary policy expectations. The recent shift has resulted in a decline in money market yields, and the potential turn in the cycle and an active Fed has increased volatility in the money market space. We have been actively managing exposures in response to increased market expectations for monetary easing by reducing portfolio duration as the market may have overestimated the need for stimulus.

In addition, U.S. debt ceiling concerns have recently pushed agency yields through Treasury bills, resulting in a yield disadvantage. As a result, the Harbor Money Market Fund ("Fund") retains a reduced allocation to agency securities, adding to exposures on an opportunistic basis.

**Outlook**

Recent economic developments have led us to conclude that the peak in the interest rate cycle was likely reached in December of last year. The dramatic shift in market expectations for the path of short-term interest rates has supported risk assets and resulted in a general easing of financial conditions. This significant market repricing may force the Fed to accommodate market expectations by reducing interest rates. While above-trend growth and a strong labor market should favor tighter monetary policy, the slowdown in global economic growth, persistent weakness in global manufacturing, and moderation in private investment may warrant an insurance cut in short-term interest rates. We believe the Fed will reduce policy rates by 25 to 50 basis points later this year, though markets are currently forecasting a more aggressive path of easing by year end. Market anxiety appears to stem from the fading tailwinds from the federal tax cut, ongoing bilateral trade discussions, and a moderation of global growth momentum.

The U.S. TIPS market is currently pricing modest expectations for future inflation at roughly 1.70% for 10 years. This decline from last year reflects weakness in sentiment stemming from the recent spike in volatility. Survey-based measures have also trended lower since the turn of the year. Our expectations for U.S. inflation remained stable during the quarter. The "core" PCE price index is defined as personal consumption expenditures (PCE) prices excluding food and energy prices. The core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. We believe Core PCE will likely trend higher, but remain below the Federal Reserve’s 2% target level during the calendar year. Benign inflationary pressures provide the Fed with significant flexibility in the face of rising uncertainty and may provide the rationale for the recent shift in the FOMC’s balance of risks.

We became more optimistic during the last quarter as markets stabilized and economic data contradicted recent negative sentiment. This is in sharp contrast to pessimistic views, which dominated market sentiment at the turn of the year. The tightening cycle has generated opportunities to tactically position the portfolio ahead of each FOMC meeting. Markets currently indicate that the tightening cycle has ended, and the next adjustment by the Fed will be to lower policy rates. If the Fed fails to meet market expectations, markets will need to significantly reprice for higher short-term interest rates. Additionally, exogenous market disruptions continue to provide tactical opportunities during this cycle.

Harbor Funds

# Harbor Money Market Fund

**Manager Commentary**
*As of 06/30/2019*

**Subadviser:** BNP Paribas Asset Management USA, Inc. *( Since 12/27/1987)*
**Portfolio Manager:** Kenneth J. O'Donnell, CFA

## ECONOMIC SECTORS

| | % of Net Assets |
|---|---|
| Treasury Debt | 57.34 |
| Government Agency Debt | 41.03 |

## TOP TEN HOLDINGS

| Company Name | % of Net Assets |
|---|---|
| 1. U.S. Treasury Bills | 9.21 |
| 2. U.S. Treasury Bills | 8.67 |
| 3. U.S. Treasury Bills | 8.37 |
| 4. U.S. Treasury Bills | 7.55 |
| 5. U.S. Treasury Bills | 7.51 |
| 6. U.S. Treasury Bills | 7.43 |
| 7. Federal Home Loan Bank Discount Notes | 5.95 |
| 8. Federal National Mortgage Association | 5.45 |
| 9. U.S. Treasury Bills | 4.79 |
| 10. Federal Home Loan Bank Discount Note | 4.45 |

## ADDITIONAL HOLDINGS

| Company Name | % of Net Assets |
|---|---|
| US TIPS Treasury Inflation-Protected Sec | 0.00 |

## TOTAL RETURNS

| | Three Months | 1 Yr. | 5 Yr. | 10 Yr. | Since Incp. (12/29/1987) | Expense Ratios Net | Expense Ratios Gross |
|---|---|---|---|---|---|---|---|
| **Harbor Money Market Fund** - *INST* | 0.53% | 1.99% | 0.79% | 0.45% | 3.13% | 0.28% | 0.36% |
| ICE BofAML US 3-Month Treasury Bill Index | 0.64% | 2.31% | 0.87% | 0.49% | 3.26% | | |

***Performance data shown represents past performance and is no guarantee of future results. Past performance is net of management fees and expenses and reflects reinvested dividends and distributions. Past performance reflects the beneficial effect of any expense waivers or reimbursements, without which returns would have been lower. Investment returns and principal value will fluctuate and when redeemed may be worth more or less than their original cost. Returns for periods less than one year are not annualized. Current performance may be higher or lower and is available through the most recent month end at harborfunds.com or by calling 800-422-1050.***

***Current 7-Day Subsidized SEC Yield – INST Class: 2.06%. Average annualized income dividend over the last 7 days. Reflects reimbursements or waivers of fees currently in effect.***

***Current 7-Day Unsubsidized SEC Yield – INST Class: 1.98%. Average annualized income dividend over the last 7 days. Does not reflect reimbursements or waivers of fees currently in effect.***

*Current yield is annualized and excludes gains and losses as defined by the Securities and Exchange Commission. The current yield more closely reflects the current earnings of the Harbor Money Market Fund than the total return.*

*This information should not be considered as a recommendation to purchase or sell a particular security. The holdings or countries mentioned may change at any time and may not represent current or future investments.*

*Expense ratio information is as of the Fund's current prospectus, as supplemented. Gross expenses are the Fund's total annual operating expenses. The net expense ratios for this fund are subject to a contractual management fee waiver and an expense limitation agreement, excluding interest expense, if any, through 02/29/2020.*

*The ICE BofAML US 3-Month Treasury Bill Index is comprised of a single U.S. Treasury Bill issue purchased at the beginning of each month and held for a full month, at which time that issue is sold and rolled into a newly selected issue. The issue selected each month is that having a maturity date closest to, but not beyond 90 days from the rebalance date.*

*You could lose money by investing in the Harbor Money Market Fund. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it cannot guarantee it will do so. An investment in the Fund is not insured or guaranteed by the FDIC or any other government agency. The Fund's sponsor has no legal obligation to provide financial support to the Fund and you should not expect the sponsor to provide financial support to the Fund at any time.*

*Views expressed herein are drawn from commentary provided to Harbor by the subadviser, BNP Paribas Asset Management USA, Inc., and may not be reflective of their current opinions or future actions, are subject to change without prior notice, and should not be considered investment advice.*

***Investors should carefully consider the investment objectives, risks, charges and expenses of a Harbor fund before investing. A summary prospectus or prospectus for this and other information is available at harborfunds.com or by calling 800-422-1050. Read it carefully before investing.***

***Harbor Funds is distributed by Harbor Funds Distributors, Inc.***