With interest rates likely to fall in 2024, investors should re-evaluate their cash holdings, progressively lock in yields, and ensure they are sufficiently invested and diversified. (UBS)

What does Fed policy mean for cash holdings?

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CIO expects interest rates to fall in 2024. This means cash should progressively deliver lower returns, creating a risk for investors who do not proactively manage cash holdings.

CIO believes investors should build a liquidity strategy beyond cash and money market funds, in favor of a combination of fixed-term deposits, bond ladders, and structured investment strategies to cover expected portfolio withdrawals over the next five years.

The Fed indicated that three rate cuts remain on the table this year.

- The Fed's updated Summary of Economic Projections in March showed that the median "dot" of policymakers' assumptions for the federal funds rate was unchanged at three cuts in 2024.
- This relieved market concerns that the new forecasts could have pointed to only two cuts.

We continue to expect interest rates to fall this year.

- During the press conference, Fed Chair Jerome Powell said that inflation remains too high and "the path forward is uncertain", but he also acknowledged "considerable progress".
- Our base case remains that the Fed will cut rates three times (25bps each) before the end of 2024, starting in June.
- The Swiss National Bank has moved to cut rates ahead of other central banks, reinforcing our views that a global rate-cutting cycle is imminent.

So, investors should re-evaluate their cash holdings, lock in yields, and stay invested and diversified.

- Attractive yields on quality bonds can be locked in, providing the added benefits of diversification and potential capital gains.
- A combination of fixed-term deposits, a bond ladder, and select structured investment strategies can help investors optimize yields while balancing counter-party, interest rate, credit, and liquidity risks.
- We believe assets in excess of 2–5 years of expected withdrawals should be invested in a diversified range of longer-duration financial assets.

Did you Know ?

- History suggests that peak rates don't last long. In the 10 instances of Fed rate-hike cycles since 1970, interest rates stayed at the peak for a median of three months.
- A 60/40 portfolio of US large-cap securities and bonds beat cash around 80% of the time over a five-year period, based on data going back to 1926.
- Historically, cash only outperformed bonds early in the hiking cycle—as we saw in 2022—with global bonds starting outperforming even before rates peaked.

Investment view

We believe investors should limit their overall cash balances as interest rates fall this year. This will reduce the return of cash and increase reinvestment risks. Beyond cash and money market funds, investors should diversify their liquidity strategy with a combination of fixed-term deposits, bond ladders, and structured investment strategies to cover expected portfolio withdrawals over the next five years.

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