With further rate cuts signaling an end to the period of easy income on cash, investors should act to invest excess cash, money-market holdings, and expiring fixed-term deposits. (UBS)

Why deploying cash makes sense from a portfolio risk management perspective

12 December 2024, 4:58 pm CET, written by UBS Editorial Team US Editorial Team

With the Fed almost certain to press ahead with its monetary policy easing this month amid the global rate-cutting cycle, the imperative for investors to put cash to work is growing.

More interest rate cuts are on the way globally. The Swiss National Bank on Thursday lowered rates by 50 basis points, its biggest cut in almost a decade. That took the main policy rate to 0.5%, the lowest since late 2022. That followed a 50-basis-point cut by the Bank of Canada on Wednesday, bringing its cumulative reduction this year to 175 basis points. The European Central Bank (ECB) is also expected to cut rates in a few hours. Top central banks continue to signal more easing ahead, and we anticipate a further 100 basis points of cuts from the Fed, the ECB, and the Bank of England in 2025. We expect one further rate cut from the Swiss National Bank.

Cash's long-term underperformance compared to other asset classes is a structural phenomenon. Historically, stocks have beaten cash in 86% and 100% of all 10- and 20-year holding periods, respectively, while the probabilities of bonds outperforming cash in the same periods are 85% and 90%. Our analysis shows that USD 100 invested in a 60/40 balanced portfolio in 1945 would be worth over USD 86,000 today, and over USD 405,000 invested in stocks. If it had stayed in cash, it would be worth less than USD 1,800 today.

Deploying cash also makes sense from a portfolio risk management perspective. Quality bond ladders and structured investment strategies can help investors manage their liquidity needs over the next five years, while high-quality fixed income can help dampen portfolio volatility. We also believe equity income strategies are appealing in a falling-rate environment, as they can provide a steady income stream while potentially enhancing returns.

So with further rate cuts signaling an end to the period of easy income on cash, investors should act to invest excess cash, money-market holdings, and expiring fixed-term deposits. A combination of bond ladders, investment grade bonds, diversified fixed income strategies, and equity income strategies can all play a role in sustaining portfolio income.

Main contributors: Solita Marcelli, Mark Haefele, Daisy Tseng, Frederick Mellors, Jon Gordon, Alessandro Bee

Original report: **Put cash to work as global easing gathers momentum, 12 December 2024.**