With interest rates likely to fall further, investors will earn progressively lower returns on cash and will need to find alternative, more durable sources of income. (UBS)

Rate cuts ahead signal a clear end to the period of easy income on cash

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Central banks around the world are cutting interest rates, and we expect the trend to continue. With returns on cash falling, investors should act to invest excess cash, money-market holdings, and expiring fixed-term deposits.

A combination of bond ladders, medium-duration investment grade bonds, diversified fixed income strategies, and equity income strategies can all play a role in sustaining portfolio income.

The global rate-cutting cycle is well under way.

- The Swiss National Bank lowered its policy rate on Thursday by a substantial 50 basis points to 0.50% to address weaker-than-expected inflation.
- Similarly, the Bank of Canada announced a 50-basis-point cut, reducing its rate to 3.25%.
- Meanwhile, the European Central Bank implemented a 25-basis-point reduction, bringing its rate down to 3.00%.

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- We anticipate that the Federal Reserve will lower rates by another 25 basis points this week, followed by a quarterly reduction pace in 2025.
- By the end of 2025, we expect the European Central Bank to implement an additional 100 basis points of cuts.
- Meanwhile, although we expect the Bank of England to keep rates on hold at its meeting this week, we forecast further easing in 2025.

This makes a case for redeploying excess cash.

- We think investors should invest excess cash, money-market holdings, and expiring fixed-term deposits into assets that can offer more durable income.
- Quality bond ladders and structured investment strategies can help investors manage their liquidity needs over the next five years.
- We also like high grade and investment grade bonds, diversified fixed income exposure, and equity income strategies.

Did you know?

- Cash's long-term underperformance compared to other asset classes is a structural phenomenon. Stocks have beaten cash in 86%and 100% of all 10- and 20-year holding periods, respectively, and by more than 200x overall since 1945.
- A bond ladder is a portfolio strategy involving the purchase of bonds with staggered maturities, allowing investors to receive a steady stream of income as bonds mature at different intervals. This approach allows investors to lock in current yields ahead of further rate cuts and offers both predictability and flexibility.
- Equity income strategies include dividend, covered call, and structured investment strategies. Such strategies may be particularly appealing in a falling-rate environment as they can provide a steady income stream while potentially enhancing returns.

Investment view

The overall direction of interest rates is clear, signaling an end to the period of easy income on cash. For investors, we believe this reinforces the case for redeploying cash, money-market holdings, and fixed-term deposits into other assets that can provide more durable income as cash rates fall.

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