



A combination of government and investment grade bonds, diversified fixed income, and equity income strategies can help investors sustain portfolio income. (UBS)

# How should investors put cash to work?

23 December 2024, 1:48 pm CET, written by UBS Editorial Team US Editorial Team

**The Federal Reserve has signaled a more gradual pace of policy easing for 2025. But central banks around the world are still likely to cut interest rates next year, and we believe putting excess cash to work and seeking durable income should remain a strategic priority for investors.**

Government and investment grade bonds, diversified fixed income exposure, and equity income strategies can all play a role in sustaining portfolio income.

## **The Fed has signaled a more gradual pace of policy easing for 2025.**

- The Federal Reserve cut interest rates by 100 basis points in 2024.
- However, its latest projections imply only 50bps of rate cuts in 2025, down from expectations for 100bps previously.
- Elsewhere, the larger-than-expected 50bps rate cut in Switzerland in December means we only expect a further 25bps of cuts from the Swiss National Bank in 2025.

## **But the global rate-cutting cycle still has further to go.**

- We expect the Fed to cut rates by 25bps in both June and September. However, it remains data dependent, and weaker labor market or inflation data could bring a March rate cut back on the table.
- We see potential for sharper rate cuts in the Eurozone, where we forecast 100bps in 2025. We also expect a further 100bps of cuts from the Bank of England.

- Cash rates could fall more sharply in the event of surprise weakness in economic data.

**So we believe putting cash to work should remain a strategic priority for investors.**

- We recommend that investors deploy excess cash, money-market holdings, and expiring fixed-term deposits into assets that can offer more durable income.
- Absolute fixed income yields remain attractive, in our view, and can be locked in.
- We believe government and investment grade bonds, diversified fixed income, and equity income strategies are valuable in a portfolio context and can help investors generate sustainable income.

**Did you know?**

- Cash 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 1926.
- 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**

While the Fed may take a more gradual approach to policy easing in 2025, we believe the global rate-cutting cycle is likely to continue. 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. A combination of government and investment grade bonds, diversified fixed income, and equity income strategies can help investors sustain portfolio income.

**Original report:** [How should investors put cash to work?, 20 December 2024.](#)

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