Cash rates are currently attractive. But CIO expects such high rates to be relatively short-lived. (UBS)

What should I do with my cash holdings?

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Central bank rate rises have increased the appeal of cash deposits for many investors. But we expect interest rates to fall in 2024, reducing the return of cash and increasing reinvestment risks. We believe investors should limit overall cash balances and optimize yields in the year ahead.

Over the long term, balanced portfolios have historically outperformed deposits over most time horizons.

Cash deposits have become more appealing to many investors as central banks tightened policy.

- In the US, the federal funds rate target range now stands at 5.25–5.5%, while the 2-year Treasury yield was 4.6% as of 4 December.
- In the Eurozone, the deposit rate stands at 4%, compared with a 2-year German Bund yield of 2.7%.

But such elevated deposit rates may not last too long.

- Both the Federal Reserve and the European Central Bank kept rates on hold at their most recent policy meetings, and we expect both central banks to begin cutting rates in 2024.
- Attractive yields on bonds can be locked in, providing the added benefit of diversification and the potential for capital gains if economic growth slows more sharply than expected.
- A balanced portfolio of equities and bonds has historically outperformed cash over most time horizons—with a 60/40 portfolio beating cash around 80% of the time over a five-year period.

So, investors should consider strategies to optimize yields on cash holdings, while attractive interest rates are still available.

- A combination of fixed-term deposits, a bond ladder, and select structured investment strategies can help optimize yields while balancing counterparty, 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.
- Investors can also consider borrowing as a means of meeting liquidity needs while remaining invested—albeit mindful of the risks and as part of a financial plan.

Did you Know ?

- Inflation has reliably eroded the real value of cash deposits, with a 21% decline in purchasing power for euros since 2007, 23%for US dollars, and 25% for sterling.
- 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.
- The Federal Reserve left rates unchanged for a second consecutive policy meeting on 1 November. The European Central Bank left interest rates unchanged at 4% at its October policy meeting, following an unprecedented run of 10 rate hikes.

Investment view

Cash rates are currently attractive. But we expect such high rates to be relatively short-lived. We think central banks are likely to start cutting policy rates in 2024. Investors can optimize and future-proof yields by using a combination of certificates of deposit, bond ladders, and select structured solutions.

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