

Putting cash to work as summer ends...and rates fall

CIO Essentials

Author: UBS CIO GWM, UBS Switzerland AG

- We believe the Federal Reserve is set to cut rates by 25bps next month and 75bps more by early 2026, joining other major central banks in reducing returns on cash.
- Cash underperforms in the long run, with US stocks (S&P 500) delivering higher returns than cash in 86% of all 10-year periods and 100% of all 20-year periods since 1926 based on CIO analysis, highlighting the long-term opportunity cost of holding cash.
- CIO likes shifting surplus cash into diversified portfolios—especially quality bonds and equities—to help investors preserve income, reduce volatility, and capture long-term corporate profits growth, especially linked to innovations like AI.



Source: Shutterstock

Summer holidays are a time for easing. As they end, investors are turning their attention to what's next for the world economy and financial markets. September is shaping up to be a pivotal month. Another type of easing looms.

We expect the Federal Reserve to resume interest rate cuts. We believe the Fed will ease by 25 basis points next month, and a further 75bps thereafter by early 2026. Central banks in the Eurozone, UK, and Switzerland have already cut borrowing costs, reducing returns on cash. In Switzerland's case, interest rates are back to zero. Fed rate cuts may coincide with market volatility.

Falling interest rates reduce the interest paid on cash—and raise the risks of holding too much of it.

Historically, cash has underperformed other asset classes. For example, US stocks have beaten cash in 86% of all 10-year periods and 100% of all 20-year periods since 1926 based on our analysis.

The Chief Investment Office thinks investors' first task after summer could be to look again at cash.

Having planned for cash needs up to five years' ahead, we like putting excess cash to work.

Investors with long-term financial goals to fund can first consider putting surplus cash in diversified portfolios. This approach can help preserve and grow wealth over the long term, while reducing the risks of trying to time the market. Phasing into balanced portfolios—combining stocks and bonds—can help investors benefit from market dips and rebounds, while avoiding emotional decision-making.

High-quality bonds may be especially interesting now. When rates fall, yields on bonds typically fall less quickly than interest on cash. And falling bond yields mean rising bond prices. So, bonds can steady swings in wealth and potentially deliver greater gains than cash in adverse scenarios where economic growth disappoints and central banks cut rates more deeply. CIO expects mid-single-digit returns for quality government and investment grade (corporate) bonds over

the next year, especially those with a 5-7 year tenor.

For investors who hold fewer equities than their long-term goals, CIO sees market twists and turns as a potential reason to buy stocks on dips.

We expect global stocks to deliver gains over the next 6-12 months, with bumps along the way. Rather than trying to time the market, CIO suggests making a plan and adding exposure to stocks.

This disciplined approach can help investors capture long-term growth, especially as new technologies in artificial intelligence, electrification, and longevity drive earnings and innovation.

How does this fit in a portfolio? Our investments in equities and highly-rated government bonds seek to benefit from falling interest rates, to lock in elevated yields, and position for AI's structural innovations and strong earnings growth.

Falling rates look set to reduce the returns on cash today, erode inflation-adjusted returns for years to come, and diminish the sense of security some investors feel from holding large cash balances. We think putting cash to work should be the first "to-do" as investors return refreshed from summer.

Appendix

Risk Information

UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.

The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.

Generic investment research – Risk information:

This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools ("AI Tools") in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.

In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.

Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.

Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in

general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein. This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.

Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.

External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.

USA: This document is not intended for distribution into the US and / or to US persons.

For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.

Additional Disclaimer relevant to Credit Suisse Wealth Management

You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website. In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.

Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).

Version A/2025. CIO82652744

© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.