(UBS)

What should investors do with cash in 2026?

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Central bank rate cuts in recent years have eroded returns on cash. This increases the imperative to put cash to work, and we believe investors should limit cash holdings to those needed for near-term expected portfolio withdrawals.

Investors can potentially improve upon cash returns by phasing excess liquidity into diversified portfolios to participate in long-term market gains. We also see quality bonds, select credit opportunities, and equity income strategies as potential ways to enhance portfolio income.

Cash has underperformed stocks and bonds over the long term.

- Historically, stocks beat cash in 86% and 100% of all 10- and 20-year holding periods, respectively, and by more than 200x overall in terms of returns since 1926.
- The probability of bonds outperforming cash rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively.
- We expect one more 25bps rate cut from the Fed in the first quarter of 2026. Rates are already low in much of Europe.

Quality bonds offer attractive risk-reward as an alternative source of portfolio income.

- For 2026, we believe quality bonds—specifically high grade government and investment grade corporate bonds—have an important role in portfolios as a source of yield and diversification.
- We expect medium-duration quality bonds (four to seven years) to deliver mid-single-digit returns, from a mix of yield and capital appreciation.
- Quality bonds can also help insulate portfolios in the event of an economic slowdown or equity market turbulence.

Equity income strategies and annuities can also be considered.

- Equity income strategies can help enhance portfolio income. Our preferred markets for dividend strategies are Switzerland and Southeast Asia.
- Annuities can help investors manage the risks of a market decline or overspending that impairs retirement assets and of investors outliving their wealth.
- In addition, systematically phasing cash into diversified portfolios, including through building-block approaches, can help average costs, buy markets on dips, and build long-term positions.

Investment view
Lower interest rates increase the imperative for investors to put excess cash to work, including by phasing into diversified portfolios. Investors seeking to enhance portfolio income can also consider quality bonds, diversified fixed income strategies, equity income strategies, and yield-generating structured investments.

Did you know?

- We are more cautious on riskier parts of fixed income like high yield given tight spreads. Nonetheless, we see merit in diversified fixed income strategies for investors looking to earn higher returns from fixed income. By combining investment grade bonds and select high yield and emerging market debt in a risk-controlled way, investors can enhance yield while managing credit and duration risks.
- Phasing into diversified portfolios over time may help manage the risk of poor timing, reduce the influence of emotion, and provide more opportunities to benefit from market dips and rebounds, in our view.

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