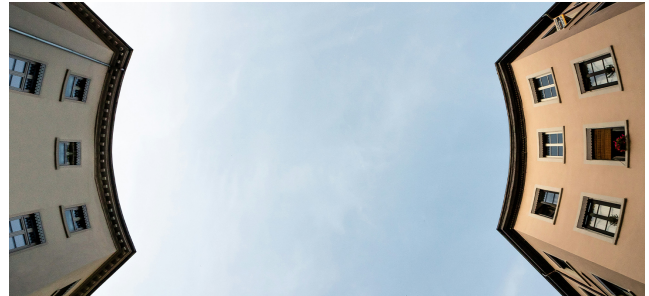


The king is dead, long live the king

CIO Essentials

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- The Federal Reserve cut rates by 25bps last week, and 75bps more in cuts are expected by the end of the first quarter, joining other major central banks in reducing returns on cash.
- Since 1945, cash has underperformed a strategy of phasing into a diversified portfolio of US stocks and bonds on around 83% of five-year horizons.
- Investors should review cash allocations and deploy excess cash in globally diversified portfolios to help preserve income, reduce portfolio volatility, and capture potential growth from transformational innovative opportunities in AI, Power and resources, and Longevity.



Source: Unsplash

The phrase “The king is dead, long live the king” signifies a transition. In finance, “cash is king” has long underscored the importance of maintaining healthy cash flow for both businesses and individuals. Cash offers stability and generates income through deposits, typically with minimal risk.

Following the pandemic, interest rates rose rapidly to levels not seen since the global financial crisis. Uncertainty prompted many investors to increase cash holdings, seeking both safety and attractive deposit income. Market conditions have evolved since then. Central banks have begun lowering interest rates to support businesses facing higher borrowing costs, and the recent 25-basis-point cut by the Federal Reserve reflects a global move toward lower rates. As a result, cash deposits have become less appealing, especially as persistent inflation gradually reduces the purchasing power of cash.

What does that mean for portfolios?

A lower interest rate environment presents an opportunity to reassess cash allocations. Limiting cash holdings to medium-term spending needs can help optimize portfolio performance. Once essential cash levels are set, surplus funds may be invested in diversified portfolios that blend stocks and bonds, supporting long-term wealth preservation

and risk reduction.

High-quality bonds stand out in the current climate. As interest rates decline, bond yields typically decrease more slowly than cash deposit rates, and falling yields can lead to rising bond prices. Bonds may help smooth fluctuations in portfolio value and offer the potential for greater returns than cash, especially if economic growth slows and central banks cut rates further. Current expectations suggest mid-single-digit returns for quality government and investment grade corporate bonds over the next year, particularly those with maturities of four to seven years.

For those seeking to increase equity exposure, global stocks are expected to deliver gains over the next six to twelve months, although the path may be bumpy. Adopting a disciplined approach—such as following a structured investment plan—can help capture long-term growth. The CIO team has placed particular emphasis on transformational innovation themes like AI, Power and resources, and Longevity, which are seen as driving both innovation and earnings in the years ahead.

To conclude, falling interest rates are likely to reduce returns on cash, erode inflation-adjusted gains, and challenge the sense of security associated with cash balances. Exploring

a broader range of investment opportunities may enhance portfolio resilience and growth potential. Cash is not always the king.

Appendix

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