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A smarter approach to USD liquidity solutions

As the Fed outlook remains unsettled, investors have an opportunity to make USD liquidity work harder without losing sight of access, quality and risk control.

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For US-dollar cash investors, the policy backdrop remains unusually open. Under Kevin Warsh, Chair of the US Federal Reserve (Fed) since 22 May 2026, early communication has sought to reinforce the Fed's inflation-fighting credibility and signal firmness on price stability, but the direction of policy is still far from settled. Markets continue to weigh the potential policy direction from incoming economic data while Warsh's preference to move away from forward guidance makes the path ahead less explicitly signposted.

Cash remains attractive

In this environment, cash deserves continued attention. Even after easing from recent peaks, USD money market strategies still offer meaningful yield given the current Federal Reserve targeted fed funds range of 3.50-3.75%. Record levels of assets in US money market funds, together with continued inflows, suggest that investors continue to value liquid solutions that can also generate income.

The shape of the US yield curve matters too (for background, see box: "Understanding the yield curve"). As the earlier inversion has given way to a more normal configuration, the trade-off between staying entirely overnight and extending into short-duration instruments has changed. The spread between two-year and three-month US Treasuries illustrates the shift: this part of the curve has not been so positively sloped since late 2022.

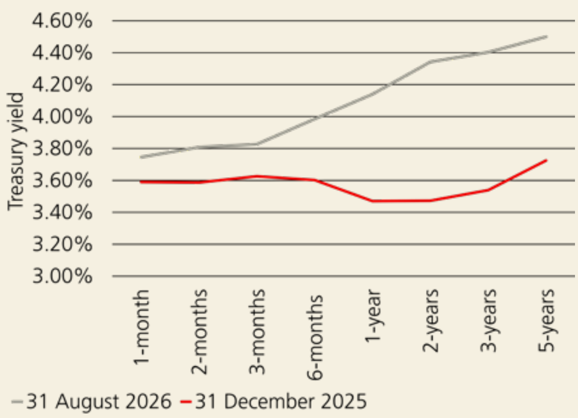
For cash that is not needed immediately, this opens the door to a more differentiated approach. Moving a measured portion into high-quality, short-duration liquidity solutions can improve income potential without turning cash into a broad risk allocation. The discipline lies in matching each cash bucket to its intended use, liquidity horizon and risk tolerance.

Understanding the yield curve

Why maturities matter for liquidity allocations

The yield curve compares yields across maturities, from overnight cash to longer-dated securities. When the curve is inverted, shorter maturities yield more than longer ones. As the curve normalizes, investors may receive more compensation for extending modestly beyond overnight cash.

An illustrative comparison of the US Treasury yield curve at year-end 2025 and today shows how this trade-off has evolved. It highlights where the curve has steepened and where investors may now receive additional yield for taking a measured step beyond overnight liquidity.



Source: UBS, Bloomberg, as of 31 August, 2026.

For liquidity investors, the question is not whether to extend for yield alone. It is whether the additional yield is appropriate for the incremental duration, price sensitivity and liquidity risk.

Built for different rate outcomes

Current yield levels also give liquidity investors more flexibility across scenarios. If rates remain high or move higher, proceeds from maturing securities can potentially be reinvested at attractive yields. If rates decline, holdings purchased at higher yields may continue to provide income and could benefit from price appreciation. The point is not to predict the Fed's next move, but to position liquidity solutions to remain useful across more than one outcome.

Risk discipline remains essential

Any additional yield should come from careful positioning, which doesn't necessarily require a broad increase in credit or liquidity risk. In credit-oriented options, this typically can mean staying investment grade only, focusing on exposure in the BBB to AAA credit-quality range.
Duration discipline is equally important. Keeping maturities short can help limit price sensitivity and potential unrealized losses if yields rise. The aim is therefore not simply to reach for more income, but to earn an appropriate yield while keeping capital preservation and liquidity at the center of the allocation.

A more structured approach to cash

In practice, USD liquidity solutions should be managed as part of a broader cash framework rather than as a single undifferentiated pool. Some balances need daily availability. Others may have a longer holding period and can therefore move modestly further along the liquidity spectrum.

That framework can combine different vehicles for different purposes, including money market strategies, ultra-short bond strategies and short-duration fixed income approaches. What matters is that each layer of liquidity is aligned with its role: ready access where it is needed, and appropriate income potential where investors can accept a measured step along the risk and maturity spectrum.

For investors navigating persistent inflation uncertainty, an unsettled Fed path and changing curve dynamics, the aim is not to make a rate call, but to keep cash accessible, productive and aligned with risk tolerance through a more intentional liquidity solution.

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