A combination of diversified fixed income, equity income strategies, and structured strategies may help investors enhance and diversify sources of yield, overcome low local interest rates, and manage risks. (UBS)

Putting cash to work should remain a strategic priority for investors

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The Federal Reserve has signaled a more gradual pace of policy easing for 2025. But other central banks like the European Central Bank and the Bank of England have continued cutting rates.

CIO believe putting excess cash to work and seeking durable income remain key. Government and investment grade bonds, diversified fixed income exposure, equity income strategies, and structured strategies can all play a role in sustaining portfolio income.

The Fed has signaled a more gradual pace of policy easing for 2025.

- The Federal Reserve kept rates on hold at its January meeting.
- Chair Jerome Powell indicated that policymakers are waiting to see further progress on curbing inflation before cutting rates again.
- The Fed's dot plot implies 50 basis points of rate cuts in 2025, after 100bps in 2024.

But the global rate-cutting cycle still has further to go.

- We expect two 25bps rate cuts from the Fed later this year.
- The ECB lowered rates by 25bps in January, and we expect another 75bps of cuts this year. The BoE cut rates by 25bps in February, and we foresee three more 25bps cuts in 2025.
- Cash rates could fall more sharply in the event of surprise weakness in economic data.

So, we believe putting cash to work should remain a strategic priority for investors.

- We believe the risk-reward outlook for medium-duration quality government and investment grade corporate bonds is compelling to lock in attractive yields and have capital appreciation potential if economic growth underwhelms.
- A combination of diversified fixed income, equity income strategies, and structured strategies may help investors enhance and diversify sources of yield, overcome low local interest rates, and manage risks.

Did you know?

- Cash's long-term underperformance compared to other asset classes is a structural phenomenon. Stocks have beaten 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.
- A bond ladder is a portfolio strategy involving the purchase of bonds with staggered maturities, allowing investors to receive a steady stream of income as bonds mature at different intervals.

Investment view

While the Fed has signaled a more gradual pace of policy easing this year, we believe the global rate-cutting cycle is likely to continue. For investors, we believe this reinforces the case for redeploying cash, money-market holdings, and fixed-term deposits into other assets that can provide more durable income. Government and investment grade bonds, diversified fixed income, equity income strategies, and structured strategies can collectively build durable income.

Original report: **How should investors put cash to work?, 17 February 2025.**

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