



CIO believe optimizing cash holdings and seeking durable income should remain a strategic priority for investors. (UBS)

A reminder of the need to optimize cash holdings

20 March 2025, 12:51 pm EDT, written by US Editorial Team UBS Editorial Team

US stocks rallied on Wednesday after Federal Reserve Chair Jerome Powell downplayed the potential impact of tariffs on inflation, with the S&P 500 rising 1.1%. This marked the benchmark's best response to a Fed meeting since July, following heavy selling pressure over the past few weeks amid investor concerns over the health of the US economy.

Powell's message helped reassure equity investors. It also serves as a reminder of the need to optimize cash holdings. Cumulative returns on stocks (S&P 500) are more than 200 times higher than for cash since 1945, underlining that the long-term underperformance of cash is a structural phenomenon. In our view, the importance of putting excess cash, money-market-fund assets, and expiring fixed-term deposits to work has continued to grow this year.

Cash rates could fall quickly in the event of surprise weakness in economic data. While Powell remains confident in US economic conditions, the Fed's latest Summary of Economic Projections showed slower GDP growth (1.7% versus 2.1% previously) and higher core inflation (2.8% versus 2.5% based on the personal consumption expenditures index) for this year in response to the potential impact of tariffs. Our base case is for the US economy to slow to around its 2% trend rate this year, but it could weaken further if the Trump administration ultimately resorts to a highly aggressive trade policy. A contraction of growth, while not our base case, would be possible if consumer spending and labor markets weaken significantly. Cash rates could fall more sharply in such a scenario.

Taking on manageable levels of risks with excess cash may improve return potential and combat the corrosive effects of inflation. Switching cash into high-quality bonds and diversified fixed income portfolios can lock in yields, provide robust income, and help dampen portfolio volatility. With the current 10-year US Treasury yield remaining at the

higher end of its distribution since 2008, it should help cushion the total return outlook amid potential yield volatility. Historically, the probability of bonds outperforming cash rises with longer holding periods.

So, we believe optimizing cash holdings and seeking durable income should remain a strategic priority for investors. We recommend staying invested in stocks with hedges, and think that quality fixed income should remain an integral part of a resilient portfolio. Investors can also consider diversified fixed income strategies, senior loans, private credit, and equity income strategies to build diverse and durable portfolio income.

Original report: [Putting cash to work should remain a priority, 20 March 2025.](#)

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