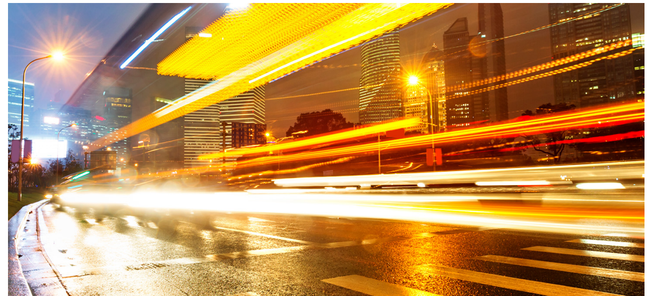
Strategic: Put cash to work

Put cash to work

Author: Sagar Khandelwal, Strategist, UBS Switzerland AG

Why? We still expect cash returns and bond yields to decline alongside falling rates. Diversified portfolios, fixed income, or equity income strategies are likely to improve long-term performance, while annuities can boost income predictability as lifespans lengthen.



Source: Shutterstock

Cash's long-term underperformance compared to other asset classes is a structural phenomenon. Stocks (S&P 500) have beaten cash (Treasury Bills) in 86% and 100% of all 10- and 20-year holding periods, respectively, and by more than 200 times overall since 1926.

Yet, investors may be reluctant to put cash to work in today's environment of tariff and US policy uncertainty and in the wake of a sharp rebound in US equity markets. While the S&P 500 Index stood close to bear market territory in the wake of President Trump's "Liberation Day" tariff announcements, tariff pauses and trade deals, limited signs so far of tariffs passing through into inflation, and solid second-quarter corporate earnings have led the benchmark US equity index to rebound to fresh highs, surpassing the 6,300 mark, while global equities (MSCI AC World) have rallied around 25%. Implied US equity volatility, as measured by the VIX Index, has fallen from highs of 51 to around 17, below the long-run average of 20.

On balance, we believe investors should seek to put cash to work systematically for potential long-term gains, rather than try to time the market to maximize near-term profits. History shows that forward returns are typically strong after periods of market turbulence. When the VIX exceeds 30, the S&P 500's average 12-month forward return has been over 15%. Balanced portfolios (60/40) have delivered positive returns in 88% of rolling five-year periods in the US, and since 2003, in 85% and 87% of periods for Europe and Switzerland, respectively.

A robust cash management framework can help investors avoid myopic focus on day-to-day needs, segmenting liquidity into everyday cash, core liquidity, and investment cash. Core liquidity—covering known expenses or emergencies over a 1-3-year horizon—should balance flexibility and yield. One of the most effective tools for this segment is the bond ladder.

A bond ladder involves purchasing a series of bonds with staggered maturities, so that a portion of the portfolio matures at regular intervals (e.g., every six months or annually). This approach provides predictable cash flows, reduces reinvestment risk, and allows investors to capture higher yields available on longer-dated bonds while maintaining access to liquidity as bonds mature.

Investors can efficiently construct bond ladders using dedicated investment tools designed to mature in specific years, with a cash flow profile of individual bonds that matches the investor's needs but a portfolio construction that may have better diversification and liquidity than if a single investor buys their own selection of bonds.

To further enhance core liquidity, investors can complement bond ladders with exposure to short-duration bond vehicles. Some focus on global short-term corporate bonds, attempting to capture a yield premium over cash with limited interest rate risk. Others seek a specific focus on credit in certain currencies: one example would be tools that provide exposure to high-quality Swiss franc-denominated credits (including some judicious

This report has been prepared by UBS Switzerland AG. **Please see important disclaimers and disclosures at the end of the document.**

exposure to senior unsecured bonds, covered bonds, and subordinated debt). This approach balances yield and capital preservation for Swiss-based investors in a period where Swiss government and investment grade bond yields are generally very low.

By combining bond ladders with complementary funds, investors can potentially achieve a diversified, flexible, and yield-enhanced core liquidity allocation. This approach not only helps protect against the risk of negative real returns. It also aims to provide liquid funds when needs arise, potentially supporting both short-term obligations and long-term financial goals.

Investment cash is the segment of liquidity earmarked for needs up to five years out, where the focus shifts from immediate access to maximizing returns while accepting some price fluctuation and lower liquidity. This allocation is best built using medium-term government or investment grade bonds, as well as diversified multi-sector bond investment approaches, in our view.

We also recommend phasing into diversified portfolios over time by adhering to a disciplined, phased approach that puts cash into portfolio building blocks of stocks, bonds, commodities, and alternative assets that match an investor's objectives and reflect their constraints. This 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. While it is not possible to predict how long the current period of uncertainty will last, there are proven strategies to manage it. By phasing in, maintaining diversification, and sticking to a long-term plan, investors can position portfolios to benefit from future market recovery and growth.

For investors who have already built robust core portfolios, switching cash into high-quality fixed income portfolios can still be useful. Doing so can lock in yields, provide robust income, and help dampen portfolio volatility. While we cannot rule out periods of market volatility where bond yields climb on fresh US policy announcements, the steepening of many sovereign yield curves generally means that bonds can beat cash over a tactical investment horizon.

Annuities could also be considered, as they can help investors manage the risks of a market decline or overspending that impairs retirement assets (sequence of returns risk) and of investors outliving their wealth (longevity risk).

Allocating a portion of a portfolio to annuities can allow investors to lock in higher yields and secure a reliable stream of income that can last for the rest of their lives. Similar to a bond, an annuity becomes more valuable if interest rates fall in the future (because it would be more expensive to replace this stream of income when interest rates are lower). By the same token, existing annuities may become less valuable if interest rates rise. Unlike a bond (or any other investment), a lifetime stream of annuity income also appreciates in value if an investor's life expectancy increases due to good health and medical advances that improve longevity.

More resources:

Cash management: looking beyond the day-to-day

Finding fresh opportunities amid zero Swiss interest rates

UBS Wealth Way: Three reasons to seek annuity income

Appendix

Risk information
UBS Chief Investment Office's ("CIO") investment views are prepared and published by the Global Wealth Management business of UBS Switzerland AG (regulated by FINMA in Switzerland) or its affiliates ("UBS"), part of UBS Group AG ("UBS Group"). UBS Group includes former Credit Suisse AG, its subsidiaries, branches and affiliates. Additional disclaimer relevant to Credit Suisse Wealth Management follows at the end of this section.
The investment views have been prepared in accordance with legal requirements designed to promote the **independence of investment research**.
Generic investment research – Risk information:
This publication is **for your information only** and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. The analysis contained herein does not constitute a personal recommendation or take into account the particular investment objectives, investment strategies, financial situation and needs of any specific recipient. It is based on numerous assumptions. Different assumptions could result in materially different results. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. All information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness (other than disclosures relating to UBS). All information and opinions as well as any forecasts, estimates and market prices indicated are current as of the date of this report, and are subject to change without notice. Opinions expressed herein may differ or be contrary to those expressed by other business areas or divisions of UBS as a result of using different assumptions and/or criteria. UBS may utilise artificial intelligence tools (“AI Tools”) in the preparation of this document. Notwithstanding any such use of AI Tools, this document has undergone human review.
In no circumstances may this document or any of the information (including any forecast, value, index or other calculated amount ("Values")) be used for any of the following purposes (i) valuation or accounting purposes; (ii) to determine the amounts due or payable, the price or the value of any financial instrument or financial contract; or (iii) to measure the performance of any financial instrument including, without limitation, for the purpose of tracking the return or performance of any Value or of defining the asset allocation of portfolio or of computing performance fees. By receiving this document and the information you will be deemed to represent and warrant to UBS that you will not use this document or otherwise rely on any of the information for any of the above purposes. UBS and any of its directors or employees may be entitled at any time to hold long or short positions in investment instruments referred to herein, carry out transactions involving relevant investment instruments in the capacity of principal or agent, or provide any other services or have officers, who serve as directors, either to/for the issuer, the investment instrument itself or to/for any company commercially or financially affiliated to such issuers. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS and its employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, divisions or affiliates of UBS. Futures and options trading is not suitable for every investor as there is a substantial risk of loss, and losses in excess of an initial investment may occur. Past performance of an investment is no guarantee for its future performance. Additional information will be made available upon request. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign exchange rates may have an adverse effect on the price, value or income of an investment. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information.
Different areas, groups, and personnel within UBS Group may produce and distribute separate research products **independently of each other**. For example, research publications from **CIO** are produced by UBS Global Wealth Management. **UBS Global Research** is produced by UBS Investment Bank. **Research methodologies and rating systems of each separate research organization may differ**, for example, in terms of investment recommendations, investment horizon, model assumptions, and valuation methods. As a consequence, except for certain economic forecasts (for which UBS CIO and UBS Global Research may collaborate), investment recommendations, ratings, price targets, and valuations provided by each of the separate research organizations may be different, or inconsistent. You should refer to each relevant research product for the details as to their methodologies and rating system. Not all clients may have access to all products from every organization. Each research product is subject to the policies and procedures of the organization that produces it.
The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS Group as a whole, of which investment banking, sales and trading and principal trading are a part.
Tax treatment depends on the individual circumstances and may be subject to change in the future. UBS does not provide legal or tax advice and makes no representations as to the tax treatment of assets or the investment returns thereon both in

general or with reference to specific client's circumstances and needs. We are of necessity unable to take into account the particular investment objectives, financial situation and needs of our individual clients and we would recommend that you take financial and/or tax advice as to the implications (including tax) of investing in any of the products mentioned herein.
This material may not be reproduced or copies circulated without prior authority of UBS. Unless otherwise agreed in writing UBS expressly prohibits the distribution and transfer of this material to third parties for any reason. UBS accepts no liability whatsoever for any claims or lawsuits from any third parties arising from the use or distribution of this material. This report is for distribution only under such circumstances as may be permitted by applicable law. For information on the ways in which CIO manages conflicts and maintains independence of its investment views and publication offering, and research and rating methodologies, please visit www.ubs.com/research-methodology. Additional information on the relevant authors of this publication and other CIO publication(s) referenced in this report; and copies of any past reports on this topic; are available upon request from your client advisor.
Important Information About Sustainable Investing Strategies: Sustainable investing strategies aim to consider and incorporate environmental, social and governance (ESG) factors into investment process and portfolio construction. Strategies across geographies approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors or Sustainable Investing considerations may inhibit UBS's ability to participate in or to advise on certain investment opportunities that otherwise would be consistent with the Client's investment objectives. The returns on a portfolio incorporating ESG factors or Sustainable Investing considerations may be lower or higher than portfolios where ESG factors, exclusions, or other sustainability issues are not considered by UBS, and the investment opportunities available to such portfolios may differ.
External Asset Managers / External Financial Consultants: In case this research or publication is provided to an External Asset Manager or an External Financial Consultant, UBS expressly prohibits that it is redistributed by the External Asset Manager or the External Financial Consultant and is made available to their clients and/or third parties.
USA: Distributed to US persons only by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Europe SE, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS SuMi TRUST Wealth Management Co., Ltd., UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. **UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.**
For country information, please visit ubs.com/cio-country-disclaimer-gr or ask your client advisor for the full disclaimer.
Additional Disclaimer relevant to Credit Suisse Wealth Management
You receive this document in your capacity as a client of Credit Suisse Wealth Management. Your personal data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website . In order to provide you with marketing materials concerning our products and services, UBS Group AG and its subsidiaries may process your basic personal data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can optout from receiving these materials at any time by informing your Relationship Manager.
Except as otherwise specified herein and/or depending on the local Credit Suisse entity from which you are receiving this report, this report is distributed by UBS Switzerland AG, authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA).
Version A/2025. CIO82652744
© UBS 2025. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.