Systematically phasing cash into equities or balanced portfolios can be an effective way to manage near-term volatility. (UBS)

Putting excess cash to work should remain a strategic priority

5 June 2025, 14:47 UTC, written by UBS Editorial Team US Editorial Team

Lower rates highlight the need for investors to put excess cash to work, in our view. While cash may feel "safe" amid economic uncertainty, we expect cash returns to decline further and underperform on a longer-term basis like it has historically over longer-term horizons.

Cash rates could fall quickly if central banks were to ease more aggressively to support economic growth. We expect the ECB to cut rates one more time in July following today's quarter-point reduction. However, an escalation of the trade conflict could prompt the ECB to implement further cuts potentially taking rates under 1%. While EU trade commissioner Maros Sefcovic said the EU and the US are headed in the "right direction" in trade talks after his meeting with US trade representative Jamieson Greer this week, uncertainty remains elevated after Trump threatened a 50% tariff on European goods last month. In the US, we think a full-blown recession this year can be avoided, but we expect Fed rates to be 100 basis points lower than their current level over the next 12 months.

Equity markets have rebounded strongly despite ongoing tariff uncertainty. While tariffs will remain a strategic focus of the Trump administration, investors appear to be confident that the government is sensitive to short-term market risks and that the US remains incentivized to make deals with its trading partners. Global equities hit a new record high this week, with the MSCI All Country World index rising nearly 20% from its early-April low. With a supportive corporate earnings backdrop and secular trends intact, we continue to expect stocks to move higher over the next 12 months. Historically, 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.

Cash's long-term underperformance is a structural phenomenon. Bonds also tend to outperform cash, and the probability rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively. One way investors can strengthen their portfolios amid macro uncertainty is through durable income from quality bonds, in our view. We believe medium-duration quality bonds offer attractive risk-reward and diversification benefits at current yield levels, and see value in a diversified income approach that incorporates exposure to senior loans and private credit.

So, putting excess cash to work should remain a strategic priority for investors. Systematically phasing cash into equities or balanced portfolios can be an effective way to manage near-term volatility. Structured strategies can also be utilized to generate yield during market uncertainty.

Original report - **Put cash to work amid lower returns, 5 June 2025.**