

Put cash to work

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- **Why?** (1) Cash's long-term underperformance compared to other asset classes is a structural phenomenon. (2) We expect medium-duration government and investment grade debt to deliver mid-single-digit returns over the next 12 months and more in an economic downturn. (3) We also see value in select credit opportunities in APAC and Europe and in carry strategies with select emerging market currencies.
- **Why now?** (1) The rate-cutting cycle has not yet run its course, in our view, with the Fed likely to ease by 100 basis points in the months to come. (2) Against this backdrop, we believe current yield levels offer an opportunity to lock in durable portfolio income. (3) By diversifying portfolios with select medium-tenor quality corporate bonds, investors can lessen the impact of potential market swings in riskier assets on overall performance.



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With the Fed set to cut interest rates, investors should consider alternative ways to earn portfolio income.

Fixed income

Quality bonds

Given cash's long-term underperformance versus other asset classes, we see quality bonds as a credible alternative for investors seeking durable portfolio income. Historically, the probability of bonds outperforming cash rises with longer holding periods—from 65% over 12 months to 82%, 85%, and 90% over five, 10, and 20 years, respectively. We expect mid-single-digit returns for medium-duration quality bonds in US dollar terms over the next 12 months. Quality bonds also look appealing in a downside scenario. If US economic growth disappoints and data weakens, we would expect quality bonds to rally, potentially delivering significant capital gains. We see an attractive opportunity to lock in yields from investment grade (IG) corporate bonds with medium tenors.

Select credit opportunities in APAC and Europe

In Europe, we recommend a selective approach, focusing first on building a "core" allocation to more defensive

and domestically oriented issuers with an average duration of around 3-7 years. We think any spread widening could be offset by carry and falling government bond yields in this segment. On sectors, we favor banks, consumer staples, defense, energy, health care, insurance, telecommunications, and utilities.

For satellites to complement a portfolio of quality names, we recommend focusing on select subordinated instruments from solid investment grade issuers, as well as bonds from rising-star candidates. Volatility in the coming months might provide good entry points.

Separately, we also see opportunities related to the reconstruction of Ukraine—which the World Bank estimates will cost USD 524bn over the next 10 years. In our view, multilateral development banks (MDBs) are likely to play a key role in funding any reconstruction of Ukraine.

In Asia Pacific, investment grade credit stands out, supported by yields close to 5% and tailwinds from declining

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interest rates. Modest Asia high yield exposure can also be considered as part of a diversified portfolio, given sound fundamentals and limited risk of a broad-based default cycle.

Sector-wise, Asian bank credit continues to offer good value due to solid capitalization profiles and benign asset quality. We are generally comfortable taking on more subordination risk for yield pickup, except for Hong Kong banks. Within Asia IG, bonds from Korean and select Indonesian issuers are attractive for stable carry, while we like the Macau gaming sector and improving commodity credits in Asia HY. Issuance in other currencies, such as SGD and AUD, has picked up recently, where we see several bottom-up opportunities.

Equity income strategies

Swiss high-quality dividends and income strategies

We think Swiss dividend-paying equities are attractive, as the average dividend yield, at around 3%, is higher than that of Swiss franc bond yields. With robust balance sheets and profitability, we think this suggests that market-wide distributions are sustainable.

Dividend harvesting in ASEAN

Southeast Asian (ASEAN) markets may not match the high growth opportunities available in global equity markets, but their attractive yields stand out for investors focused on income for portfolio resilience. With Asian central banks continuing monetary easing, we believe high-quality dividend stocks with strong free cash flows are well positioned. We estimate the ASEAN markets to offer an average dividend yield of 4.6% this year and believe these names could enhance investors' total returns over the long term, presenting a defensive strategy for investing in the region.

Diversified portfolios

We 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 financial plan, investors can position portfolios for long-term growth.

Annuities

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.

Appendix

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