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Putting cash to work as summer ends...and rates fall

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As central banks cut rates, holding excess cash becomes riskier and less rewarding. Diversified portfolios of stocks and quality bonds offer better long-term growth and stability. Putting cash to work will be many investors' first post-summer priority to preserve and grow wealth.

Summer holidays are a time for easing. As they end, investors are turning their attention to what's next for the world economy and financial markets. September is shaping up to be a pivotal month. Another type of easing looms.

We expect the Federal Reserve to resume interest rate cuts. We believe the Fed will ease by 25 basis points next month, and a further 75bps thereafter by early 2026. Central banks in the Eurozone, UK, and Switzerland have already cut borrowing costs, reducing returns on cash. In Switzerland's case, interest rates are back to zero. Fed rate cuts may coincide with market volatility.

Falling interest rates reduce the interest paid on cash—and raise the risks of holding too much of it.

Historically, cash has underperformed other asset classes. For example, US stocks have beaten cash in 86% of all 10-year periods and 100% of all 20-year periods since 1926 based on our analysis.

The Chief Investment Office thinks investors' first task after summer could be to look again at cash.

Having planned for cash needs up to five years' ahead, we like putting excess cash to work.

Investors with long-term financial goals to fund can first consider putting surplus cash in diversified portfolios. This approach can help preserve and grow wealth over the long term, while reducing the risks of trying to time the

market. Phasing into balanced portfolios—combining stocks and bonds—can help investors benefit from market dips and rebounds, while avoiding emotional decision-making.

High-quality bonds may be especially interesting now. When rates fall, yields on bonds typically fall less quickly than interest on cash. And falling bond yields mean rising bond prices. So, bonds can steady swings in wealth and potentially deliver greater gains than cash in adverse scenarios where economic growth disappoints and central banks cut rates more deeply. CIO expects mid-single-digit returns for quality government and investment grade (corporate) bonds over the next year, especially those with a 5-7 year tenor.

For investors who hold fewer equities than their long-term goals, CIO sees market twists and turns as a potential reason to buy stocks on dips.

We expect global stocks to deliver gains over the next 6-12 months, with bumps along the way. Rather than trying to time the market, CIO suggests making a plan and adding exposure to stocks.

This disciplined approach can help investors capture long-term growth, especially as new technologies in artificial intelligence, electrification, and longevity drive earnings and innovation.

How does this fit in a portfolio? Our investments in equities and highly-rated government bonds seek to benefit from falling interest rates, to lock in elevated yields, and position for AI's structural innovations and strong earnings growth.

Falling rates look set to reduce the returns on cash today, erode inflation-adjusted returns for years to come, and diminish the sense of security some investors feel from holding large cash balances. We think putting cash to work should be the first "to-do" as investors return refreshed from summer.

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