(UBS)

Putting cash to work and seeking durable income should remain a strategic priority

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While macroeconomic and geopolitical uncertainty may boost investor demand for cash, the Chief Investment Office (CIO) believes investors should seek diverse and durable income sources to insulate portfolios. CIO believes high-quality bonds offer attractive risk-reward and diversification benefits. Investors should also consider phasing into global equities.

While cash may feel "safe" amid macro and geopolitical uncertainty, it has historically underperformed.

- Historically, stocks beat 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.
- 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.

Investors should optimize their cash holdings to diversify amid lower rates.

- CIO expects the Federal Reserve to resume rate cuts later this year amid signs of a cooling labor market.
- High-quality fixed income offers the opportunity to lock in rates higher than prevailing returns on cash, with the additional benefit of potential capital gains if the Fed needs to cut more aggressively.
- While volatility may pick up in the near term, CIO continues to expect the S&P 500 to move higher over the next 12 months, supported by solid earnings and secular growth drivers such as artificial intelligence.

CIO sees various ways to boost portfolio income while reducing portfolio swings.

- CIO believes high grade and investment grade bonds offer attractive risk-reward and can help hedge against downturns.
- CIO also see select credit opportunities in Asia and Europe.
- In addition, systematically phasing cash into global equities or diversified portfolios, including through building-block approaches, can help average costs, buy markets on dips, and build long-term positions.

Did you know?

- CIO believes investors should set aside funds in cash, bonds, and borrowing capacity to help them meet expenses over the next three to five years and to meet these expenses even in the event of bear markets.
- Bond ladders, by matching investment assets to future liabilities, can potentially help to manage interest rate and market risk, putting capital preservation ahead of return potential.
- CIO sees opportunities in Asia investment grade credit, underpinned by elevated yield levels of above 5% and tailwinds from a declining interest rate environment.

Investment view

Putting excess cash to work and seeking durable income should remain a strategic priority for investors, in CIO's view, as cash has historically underperformed. CIO believes government and investment grade bonds look appealing, and think that phasing into global equities can help manage near-term volatility while positioning portfolios for future gains.

Original report - **How should investors put cash to work?, 4 August 2025.**

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