Here are 10 reasons why we think investors should look beyond the risk of short-term market disruptions. (UBS)

10 reasons to put cash to work

06 February 2024, 4:40 pm CET, written by UBS Editorial Team

There is no shortage of uncertainty, from politics and geopolitics to concerns about the business cycle. However, markets tend to climb the "wall of worry", and cash has never been the best long-term investment.

Here are 10 reasons why we think investors should look beyond the risk of short-term market disruptions, find more effective strategies for protecting themselves, and put excess cash to work.

1. With yields expected to decline, bonds look more attractive than cash

Cash continues to provide a higher yield than bonds, due to an inverted yield curve, and cash has provided attractive returns over the past two years. But this won't last. As cash and bond yields fall—even if bond yields fall less quickly—we expect cash to underperform bonds in the coming years. Falling yields could provide a tailwind for bonds that allows them to outperform their starting yield. By contrast, falling cash yields may cause them to deliver a total return that's lower than their starting yield.

2. It is time to shift from cash to bonds

With inflation falling and interest rate cuts on the agenda, we think now is the time for investors to review cash-heavy portfolios. Historically cash has only outperformed early in the hiking cycle, with global bonds starting to outperform before rates peaked.

3. Cash is expected to underperform in 2024

For 2024, we expect good returns across asset classes, and cash is expected to underperform.

4. Cash loses purchasing power over time

Cash also brings an important disadvantage. Over the long term, cash loses purchasing power as returns are eroded by inflation. In recent years, the rise in inflation has meant a significant loss in real terms.

5. Bonds have been more effective than cash at reducing portfolio stress

Bonds have historically been more effective than cash in protecting portfolios.

6. Over the long term, equities offer better returns

Equities have an important role to play in a portfolio. 100 USD invested in equities has enjoyed greater growth compared to other asset classes. Compared to cash, equities' return have also been stronger over different holding periods.

7. A balanced portfolio reduces risk during market downturns

A balanced portfolio helps navigate changing conditions and achieve better risk-adjusted returns. During market downturns, losses have been lower. In our view, a balanced portfolio is an effective way to navigate tougher market conditions.

8. Stocks and bonds falling together is a rare event

Investors have questioned the power of equity-bond diversification, with both asset classes falling simultaneously in 2022. But historically, it's very rare for stocks and bonds to both decline at the same time. In fact, 2022 is only the third calendar year where this has ever happened (1931 and 1969 were the other two years). Only 2% of the time have stocks and bonds both fallen over a 12-month period—the scenario in which we find ourselves now.

9. Bad years for balanced portfolios have often been followed by good years

There have been years when investors have raised doubts about the benefit of a balanced portfolio. But historically, after a yearly loss, the following year's returns have been positive in ~80% of the cases, with a median return of 13%. For example, 2023 was a positive year after a loss in 2022.

10. The true risk is failing to meet your goals. Cash can be a useful asset for spending needs in the next 3-5 years, but you should invest the rest of your cash in assets that will help you to grow your purchasing power over the long term.

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- Explore the **Savings Waterfall worksheet**