Quality bond ladders and structured investment strategies can help investors manage their liquidity needs over the next five years. (UBS)

How should I position for lower interest rates?

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With more rate cuts ahead, we think investors should consider assets that can offer more durable income than cash.

Investors should invest excess cash, money-market holdings, and expiring fixed-term deposits into assets that can offer more durable income. We believe bond ladders, medium-duration investment grade bonds, diversified fixed income strategies, and equity income strategies can all play a role in sustaining portfolio income as interest rates are cut.

The global rate-cutting cycle is well underway.

- The Fed began its easing cycle with a 50-basis-point reduction in the fed funds rate.
- The European Central Bank recently made its second rate cut of the year.
- We expect further rate cuts soon from the Swiss National Bank and the Bank of England.

Rate cuts ahead signal a clear end to the period of easy income on cash.

- In the US, our base case is for rates to be lowered by another 50 basis points in the fourth quarter of 2024, followed by another 100bps next year.
- In Europe, we expect one rate cut from the ECB in December and 100bps of cuts in 2025. Similarly, we also expect one rate cut in the fourth quarter by the BoE, followed by a further 100bps next year.
- Historically, cash has only outperformed bonds early in the hiking cycle, with global bonds starting to outperform even before rates peaked.

This makes a case for redeploying excess cash.

- We believe investors should invest excess cash, money-market holdings, and expiring fixed-term deposits into assets that can offer more durable income.
- Quality bond ladders and structured investment strategies can help investors manage their liquidity needs over the next five years.
- We also like investment grade bonds, diversified fixed income exposure, and equity income strategies.

Did you know?

- A bond ladder is a portfolio strategy involving the purchase of bonds with staggered maturities, allowing investors to receive a steady stream of income as bonds mature at different intervals. This approach allows investors to lock in current yields ahead of further rate cuts and offers both predictability and flexibility.
- Within fixed income, our preference is for quality bonds—particularly investment grade debt with durations between one and 10 years (targeting an average duration of around five years).
- Equity income strategies include dividend, covered call, and structured investment strategies. Such strategies may be particularly appealing in a falling-rate environment, as they can provide a steady income stream while potentially enhancing returns.

Investment view

The overall direction of travel on interest rates is clear, with rate cuts ahead signaling a clear end to the period of easy income on cash. For investors, we believe this makes a case for redeploying cash, money-market holdings, and fixed-term deposits into other assets that can provide more durable income as cash rates fall.

See the original report **UBS House Briefcase: How should I position for lower interest rates?** 20 September 2024.