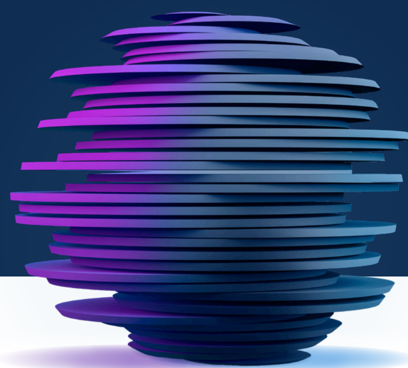
Building better balance



Why not just stay in cash?

It makes no sense to have an overweight position in cash when the U.S. Federal Reserve (Fed) has begun cutting interest rates, said Matt Orton, CFA, Chief Market Strategist at Raymond James Investment Management.

Going back to 1989, cash has unambiguously underperformed the Bloomberg Aggregate Bond Index and the Bloomberg Intermediate Government/Credit Index over the 1-, 3- and 5-year periods following the end of a Fed rate-hiking cycle.

"It's incredibly expensive to miss out on a bull market," Orton said. "There are opportunities to look for value in pockets of the market, and I believe it's vital to stay invested when the economy is strong and when the market is doing well. That is how you build wealth over the long term.

"And unfortunately, right now, there's still a good amount of cash that is sitting on the sidelines with investors who are unwilling to participate despite already having sat out of the rally to date."

"Hating on the market just because it's narrow or because we're at or near all-time highs ignores so much more that's going right," he said. "Those who have sat on the sidelines for the past 12-plus months have missed out on a very important bull market and long-term wealth creation opportunity.

"Investors need to remember the age-old adage that 'time in the markets' beats 'timing the markets,'" Orton said. "Peers and pundits focus on negative scenarios that may or may not materialize, but there's plenty of reasons to be optimistic about the markets, and even more reasons not to sit out."

Cash is not king when rates start to fall

Annualized returns following pauses in Fed rate-hiking cycles

	1-year return			3-year return			5-year return		
Federal funds rate hike cycle ended	S&P U.S. Treasury Bill 0–3 Month Index	Bloomberg Intermediate Government/ Credit Index	Bloomberg U.S. Aggregate Bond Index	S&P U.S. Treasury Bill 0–3 Month Index	Bloomberg Intermediate Government/ Credit Index	Bloomberg U.S. Aggregate Bond Index	S&P U.S. Treasury Bill 0–3 Month Index	Bloomberg Intermediate Government/ Credit Index	Bloomberg U.S. Aggregate Bond Index
2/24/1989	n/a	11.7%*	12.7%*	n/a	11.7%*	12.6%*	n/a	10.2%*	11.0%*
2/1/1995	5.6%	14.6%	17.1%	5.3%	8.9%	10.2%	5.2%	6.7%	7.3%
5/6/2000	6.0%	12.9%	13.7%	3.4%	10.7%	11.1%	2.6%	7.2%	7.8%
6/29/2006	5.1%	6.0%	6.5%	3.0%	6.2%	6.6%	1.8%	6.2%	6.6%
12/19/2018	2.2%	7.0%	8.8%	1.0%	4.0%	4.9%	1.9%	2.3%	1.0%
Average	**4.7%**	**10.3%**	**11.8%**	**3.2%**	**8.3%**	**9.1%**	**2.9%**	**6.1%**	**6.7%**

Source: Bloomberg, as of 12/19/23.
*Based on monthly returns rounded to the nearest month-end.

Risk Information:

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

Disclosures:

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Definitions

Overweight describes a portfolio position in an industry sector or some other category that is greater than the corresponding weight level in a benchmark portfolio.

Indices

The Bloomberg U.S. Aggregate Bond Index is composed of the total U.S. investment-grade bond market. The market-weighted index includes Treasuries, agencies, commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and investment-grade corporates.

The Bloomberg Intermediate U.S. Government/Credit Index measures the performance of the non-securitized component of the U.S. Aggregate Index with maturities of 1-10 years, including Treasuries, government-related issues, and corporates. It is a subset of the U.S. Aggregate Index.

The S&P U.S. Treasury Bill 0-3 Month Index is designed to measure the performance of U.S. Treasury bills maturing in 0 to 3 months.

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