Global Matters Weekly

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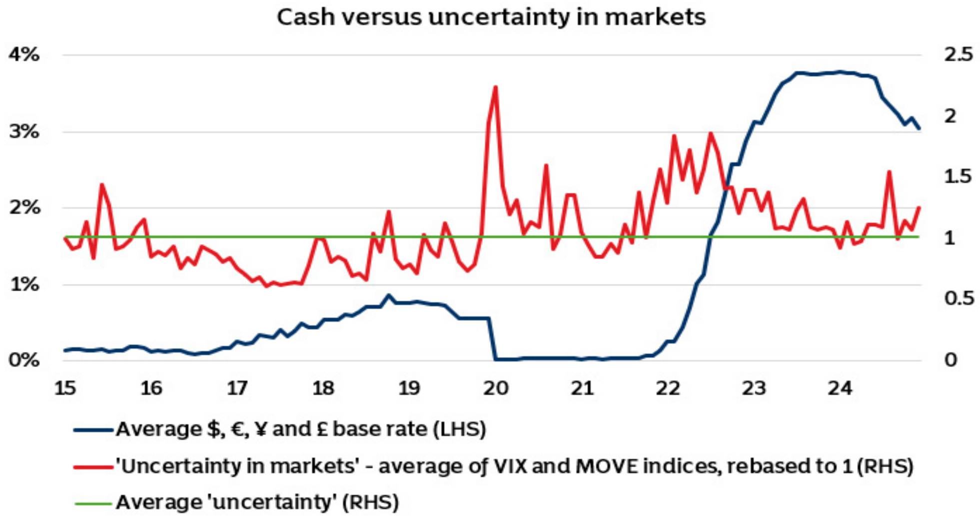
Don't forget cash

By Richard Stutley, CFA

Chart of the Week



Source: Bloomberg Finance L.P., as at 28 February 2025.

What this chart shows

In blue is the average of base rates across the world's major currencies: the dollar, euro, yen and sterling. This is what investors can earn, per annum, by leaving their money in cash. The red line is a proxy for 'uncertainty in markets', derived from the VIX index and the MOVE index, which measure volatility in equity and bond markets respectively. When volatility is high, it means investors are uncertain about the future direction of markets.

Today, uncertainty is high (above its 10-year average, shown by the green line) and for good reason – wars; tariffs; inflation; mass layoffs of government workers in the US; the ripping up of the status quo; the implications of AI...and so on. Meanwhile average cash rates at 3% have moved up significantly compared to the era post the Great Financial Crisis.

Why this is important

Imagine I offered you an investment that had zero correlation to other asset classes (remember, correlations are the key to building better portfolios); and that was guaranteed to be flat when the equity market was down – not flat on average; or seven out of ten times similar to other investments which purport to protect capital. Every time! What does this investment cost today, you ask? It pays you nearly 3%. Remarkable.

Being tactical with cash – i.e. knowing when to raise it and when to deploy it – is part of our toolkit. Cash will never be the highest returning investment, but earning an average rate of 3% over 12 months is not bad by historical standards and very attractive in the context of the last decade. In turn, this sets a high hurdle for other defensive asset classes, including gold and hedge funds. With intense uncertainty over the economic outlook, it is pleasing as asset allocators to find that we can earn a reasonable return on cash and cash equivalents, which is why we hold some in portfolios.

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Important notes