

Are You Waiting Until the Fed Cuts Rates to Move from Cash?



In the ever-evolving landscape of financial markets, the decision to transition from cash to fixed income is a strategic move that demands careful consideration. As we explore the historical data presented, a compelling narrative emerges, challenging the notion of waiting for more clarity from the Federal Reserve before delving into fixed income investments.

The comparison between investing at the end of a hiking cycle and at the beginning of rate cuts offers valuable insights. While the charts below showcase generally better returns in fixed income than in cash, a crucial revelation surfaces—those who initiate fixed income investments at the end of the hiking cycle often outperform those who wait for the first cut.

Investors that waited until the Fed cut rates in the past historically did reasonably well, but still generally underperformed versus if they had invested when the Fed stopped hiking.

If Invested Starting at the End of the Rate Hiking Cycle

YEAR	FED HIKING CYCLE	END OF CYCLE	FIRST CUT	GO FORWARD 12-MONTH RETURN				GO FORWARD 2-YEAR RETURN			
				US TREASURY BILL INDEX	US IG CORPO-RATES	US MBS INDEX	US HY CORPO-RATES	US TREASURY BILL INDEX	US IG CORPO-RATES	US MBS INDEX	US HY CORPO-RATES
1994–1995	3.00%–6.00%	1 Feb 1995	6 Jul 1995*	6.16%	20.48%	15.22%	19.65%	5.75%	11.25%	10.15%	14.96%
1999–2000	5.00%–6.50%	16 May 2000	3 Jan 2001	6.30%	14.55%	14.37%	1.79%	4.56%	10.54%	11.20%	1.82%
2004–2006	1.00%–5.25%	29 Jun 2006	18 Sep 2007	5.20%	7.21%	6.69%	12.08%	4.44%	5.06%	7.24%	4.67%
2015–2018	0.25%–2.50%	20 Dec 2018	31 Jul 2019	2.39%	14.43%	6.70%	14.19%	1.58%	11.85%	5.36%	10.40%

If Invested Starting at the Beginning of Rate Cuts

YEAR	FED HIKING CYCLE	END OF CYCLE	FIRST CUT	GO FORWARD 12-MONTH RETURN				GO FORWARD 2-YEAR RETURN			
				US TREASURY BILL INDEX	US IG CORPO-RATES	US MBS INDEX	US HY CORPO-RATES	US TREASURY BILL INDEX	US IG CORPO-RATES	US MBS INDEX	US HY CORPO-RATES
1994–1995	3.00%–6.00%	1 Feb 1995	6 Jul 1995*	5.58%	5.13%	5.87%	9.71%	5.57%	6.93%	7.45%	11.75%
1999–2000	5.00%–6.50%	16 May 2000	3 Jan 2001	4.34%	9.79%	7.67%	5.18%	3.06%	9.47%	8.18%	1.88%
2004–2006	1.00%–5.25%	29 Jun 2006	18 Sep 2007	3.29%	-3.04%	7.59%	-5.62%	1.94%	6.34%	7.95%	4.33%
2015–2018	0.25%–2.50%	20 Dec 2018	31 Jul 2019	1.53%	12.44%	5.43%	4.14%	0.80%	6.79%	2.69%	7.33%

Source: Bloomberg as of 30 November 2023.

*Index returns only monthly; period starts at 30 Jun 1995

Past performance does not guarantee future results.

As you can see in this dynamic dance between cash and fixed income, history suggests that being ahead of the curve can be a rewarding choice. It's not just about returns; it's about navigating economic cycles with informed decisions and strategic positioning for the benefit of investors' long-term financial goals.

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