60 FIRST MANHATTAN
CELEBRATING 60 YEARS

WHY CASH MAY NO LONGER BE 'KING'

WITH THE POTENTIAL FOR THE U.S. FEDERAL RESERVE TO BEGIN CUTTING INTEREST RATES OVER THE NEXT 12 MONTHS, WE BELIEVE IT IS APPROPRIATE TO REALLOCATE CASH HOLDINGS INTO LONGER-TERM FIXED-INCOME SECURITIES.

In an attempt to protect portfolios from the sharp rise in interest rates that have driven yields higher over the past few years, many investors opted to invest in cash and cash-like vehicles, including a record $6tn+ that has flowed into money-market funds. This largely has been an effective investment strategy—short-term instruments typically outperform longer-dated bonds during periods of market volatility triggered by higher inflation, as they are less sensitive to interest rate changes.

However, with the Fed likely to reverse course and lower short-term interest rates before long, we believe that adding longer-dated bonds to portfolios to manage reinvestment risk, boost investment return potential, and provide diversification will be important over the long term. In this article, we outline the potential impact of each.

Reinvestment risk could impact investors who moved into short-term instruments over the past few years.

If the federal funds rate falls, investments in short-term instruments will need to be reinvested at a lower rate, which reduces future returns. In addition, the current yields on short-term instruments may not be as attractive in a lower interest rate environment, which could cause the return and income from those investments to evaporate.

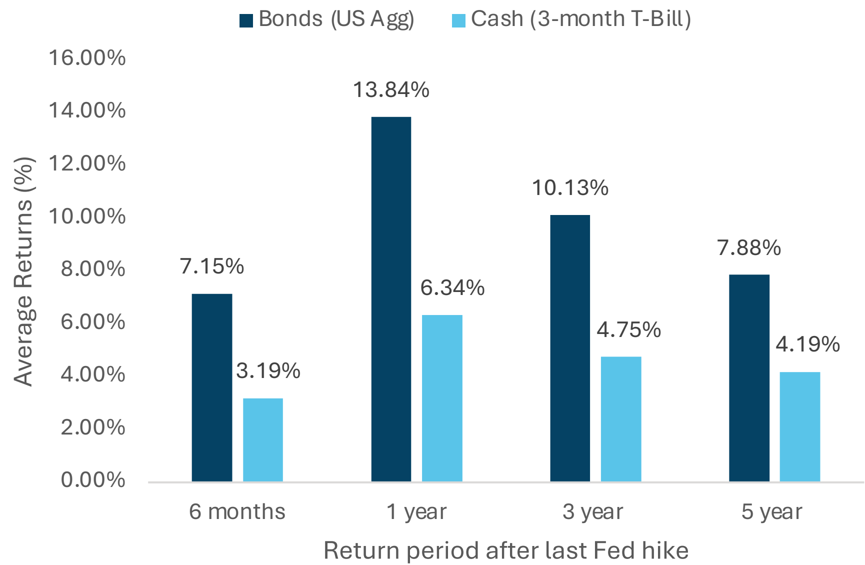
Bonds historically have been more effective than cash at helping investors grow their assets over the long term.

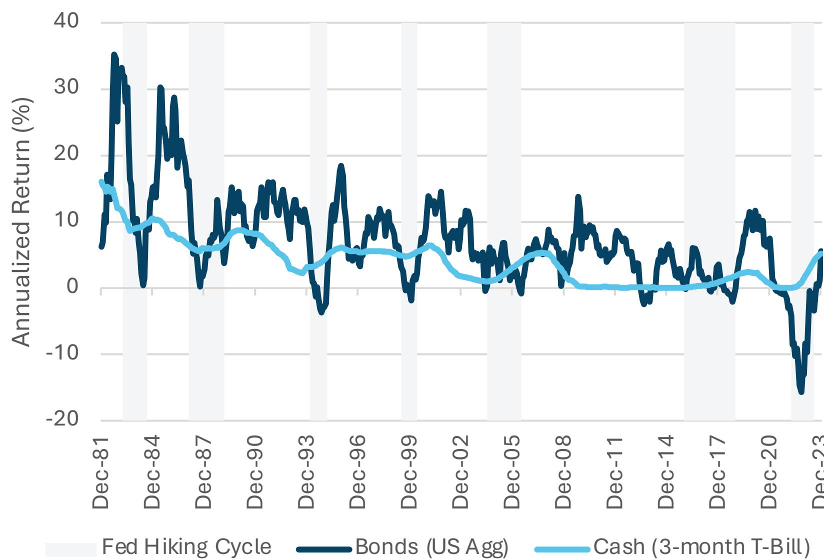
While many investors think they have time to wait for the Fed to lower interest rates before moving into longer-term instruments, historically, investors who waited did not fully realize their investment return

COPYRIGHT © 2024 BY FMC GROUP HOLDINGS LP. ALL RIGHTS RESERVED.

potential. As the chart below illustrates, bonds have nearly doubled the annual return of cash over the past 42 years, with a 7.13% annual return on average vs. 4.02% for cash. In addition, from January 1981 to December 2023, the 12-month return of bonds outperformed cash 71% of the time.

AVERAGE RETURNS FOLLOWING THE FINAL HIKE OF THE LAST SEVEN FED TIGHTENING CYCLES





ANNUALIZED RETURNS OF DECEMBER 31, 1981, TO DECEMBER 31, 2023

Bonds outperformed cash 71% of the time during a rolling 12-month period.

Source: Bloomberg, Federal Reserve

Past performance is no guarantee of future results. No graph, chart, formula, or indicator can guarantee profit of any nature in the stock market and should not be relied upon solely in making investment decisions. Investing in securities always carries risk.

COPYRIGHT © 2024 BY FMC GROUP HOLDINGS LP. ALL RIGHTS RESERVED.

Bonds can help to prepare portfolios for possible market turbulence.

Many investors seek fixed-income investments to help hedge against volatility in the stock market, as bond prices are generally less volatile than stocks. During periods of higher equity volatility, the "flight-to-quality" effect often leads to a surge in the price of long-term fixed-income securities. That being the case, short-term instruments divest a portfolio of the equity protection that longer-dated bonds have traditionally offered.

We recommend active management.

In our view, an actively managed, total return approach is an effective way for investors to gain exposure to longer-dated bonds and diversified exposure across a range of sectors and instruments, including high-quality municipal bonds and investment-grade corporate credit. The potential for bonds to provide stability and capital preservation make them important portfolio diversifiers, especially as the markets shift from a rising interest rate environment to one defined by stable or falling interest rates.

First Manhattan – Stay in the Know

Reach out to your First Manhattan team if you have any questions.

Opinions expressed here are statements of judgement on this date and are subject to change without notice. The information provided is intended for informational purposes only and is not a solicitation to purchase or sell any security. This information has been compiled from sources we believe to be reliable; however, there is no guarantee of its accuracy or completeness. Securities discussed in this letter may not be suitable for all investors due to a variety of factors, including financial objectives, needs, and resources.

There are risks associated with fixed-income investments, including credit risk, interest rate risk, default risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities. The municipal market can be affected by adverse tax, legislative or political changes, and the financial condition of the issuers of municipal securities.

Founded in 1964, First Manhattan is a $31B+ AUM investment advisory firm that seeks to deliver strong financial returns through an investment approach aligned with clients' goals and driven by in-house, proprietary research; customized wealth planning advice; and personalized client service. For more than six decades, the Firm has been a trusted partner to individuals, families, and fiduciaries, as well as partnerships and charitable trusts and foundations. For more information, please visit firstmanhattan.com.

Through various operating subsidiaries, FMC Group Holdings LP ("First Manhattan") provides a range of brokerage and investment advisory services. First Manhattan Securities LLC (Member SIPC, FINRA, NYSE, and MSRB), a wholly owned subsidiary of First Manhattan, is a registered broker-dealer. First Manhattan Co. LLC, a wholly owned subsidiary of First Manhattan, is an investment adviser registered with the SEC. None of First Manhattan, its affiliates, and its or their personnel provide banking services or legal, tax, or accounting advice.

COPYRIGHT © 2024 BY FMC GROUP HOLDINGS LP. ALL RIGHTS RESERVED.