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Cash management: looking beyond the day-to-day

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CIO explains why a robust framework that goes beyond day-to-day needs (and the right tools) can support effective cash management.

Amid uncertainty and unanticipated shifts in today's economic, trade, and geopolitical conditions, the allure of rolling over short-term fixed-term deposits (FTDs) and focusing solely on everyday cash management may seem irresistible for some investors.

But such a strategy risks exposing portfolios to rising reinvestment risk and the real prospect of negative after-inflation returns—especially as central banks in the US, Eurozone, and Switzerland cut rates.

By concentrating only on immediate liquidity, investors risk missing out on higher-yielding opportunities and may fail to build the cash buffer needed to stay invested in growth-sensitive assets during market downturns. Without this so-called safety net, liquidity-light investors may feel compelled to sell stocks at a short-term trough, ultimately undermining long-term wealth preservation and growth.

There is another way, in CIO's view.

Build a bond ladder

A robust cash management framework goes beyond day-to-day needs, segmenting liquidity into everyday cash, core liquidity, and investment cash. Core liquidity—covering known expenses or emergencies over a 1-3 year horizon—should balance flexibility and yield. One of the most effective tools for this segment is the bond ladder.

A bond ladder involves purchasing a series of bonds with staggered maturities, so that a portion of the portfolio matures at regular intervals (e.g., every six months or annually). This approach provides predictable cash flows, reduces reinvestment risk, and allows investors to capture higher yields available on longer-dated bonds while maintaining access to liquidity as bonds mature.
Investors can efficiently construct bond ladders using dedicated investment tools designed to mature in specific years, with a cash flow profile of individual bonds that matches the investor's needs but a portfolio construction that may have better diversification and liquidity than if a single investor buys their own selection of bonds.

Seek satellite investments for longer-term liquidity needs

To further enhance core liquidity, investors can complement bond ladders with exposure to short-duration bond vehicles. Some focus on global short-term corporate bonds, attempting to capture a yield premium over cash with limited interest rate risk. Others seek a specific focus on credit in certain currencies: one example would be tools that provide exposure to high-quality Swiss franc-denominated credits (including some judicious exposure to senior unsecured bonds, covered bonds, and subordinated debt). This approach balances yield and capital preservation for Swiss-based investors in a period where Swiss government and investment grade bond yields are generally very low.

By combining bond ladders with complementary funds, investors can potentially achieve a diversified, flexible, and yield-enhanced core liquidity allocation. This approach not only helps protect against the risk of negative real returns. It also aims to provide liquid funds when needs arise, potentially supporting both short-term obligations and long-term financial goals.

Seek durable income in diversified fixed income for far-off liquidity

Investment cash is the segment of liquidity earmarked for needs up to five years out, where the focus shifts from immediate access to maximizing returns while accepting some price fluctuation and lower liquidity. This allocation is best built using medium-term government or investment grade bonds, as well as diversified multi-sector bond investment approaches, in our view.

Potential examples include vehicles that invest beyond investment grade debt, with risk-controlled exposure to bond segments like high yield debt and emerging market bonds. Investors with regional focuses, for example on the Eurozone, can also consider tools that put money to work in government, corporate, and covered bonds across the single currency bloc. It is important to seek philosophies with the flexibility to tweak interest rate (duration) and credit exposure in response to market conditions, in our view. Some approaches also look to invest across multiple investment managers to boost diversification, help smooth returns, and potentially reduce risk.

Effective cash management means looking beyond the very near term. We believe in building a layered liquidity strategy that balances immediate needs with long-term growth. By moving excess cash into bond ladders and diversified fixed income options for longer-term liquidity, we suggest investors can protect against reinvestment risk, capture higher yields, and maintain sufficient flexibility to raise the money they need, when they need it, amid uncertain markets.

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