

The \$7 trillion question – when will cash come off the sidelines?



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“As interest rates started to normalise through 2022-23, investors poured vast sums into money market funds, attracted by yields of 5% or more on short-dated government paper and cash equivalents.”

Marc Stacey, Senior Portfolio Manager for Investment Grade Credit, explains why the case for sitting in cash is weakening – and why even modest reinvestment flows back into credit markets could have a significant impact on performance.

Key takeaways

- Cash is losing its shine as the investment grade yield pick-up re-emerges.
- Even small shifts in asset allocation away from cash could have a big impact on spreads and returns.
- Fundamentals look positive for the investment grade asset class, but selectivity remains key.

After a period of popularity, cash may be losing its shine. As interest rates started to normalise through 2022-23, investors poured vast sums into money market funds, attracted by yields of 5% or more on short-dated government paper and cash equivalents. According to data from the Federal Reserve Bank of St Louis, the total amount of cash parked in money market funds exceeded USD7 trillion in Q4 2024¹. In a world of rising rates, the shift to cash perhaps made sense – but the landscape has since changed. The chart below captures the nub of the issue. It shows how, as inflation emerged in 2022 and central banks responded in 2023, the extra yield on investment grade credit became compressed. To the extent that, from mid-2023 to late-2024, investors were effectively being paid the same to hold cash as they were for taking credit or duration risk. Inevitably, cash looked like a comfortable place to be during this time.

Chart 1: Out of money markets, into bonds? A \$7 trillion question to consider... Sitting in cash is no longer the more attractive option if rates are cut



Source: Bloomberg, as at April 2025

¹ Federal Reserve Economic Data as at 31 December 2025.

More recently, however, that has started to change. With official interest rates now beyond their peak, the argument for sitting tight in cash is weakening. Investment grade credit is once again offering a meaningful pick-up over cash – and investors are starting to take notice. Reinvesting that cash now looks increasingly compelling. For investors with longer-term horizons, the opportunity cost of sitting in cash is becoming harder to justify.

Small shifts, big consequences

Of course, the USD7 trillion currently sitting in money market funds is unlikely to be redeployed overnight. Many investors continue to value liquidity, and with policy rates still elevated and more uncertainty about their future path, cash can still play a useful role in portfolios. At the same time, other asset classes are competing for a share of this capital – some with compelling investment cases of their own.

“Even modest reallocations from cash could prove influential – both for market dynamics and long-term portfolio outcomes.”

Nevertheless, even a modest reallocation back into investment grade credit could have a meaningful impact. In parts of the market where issuance is limited and demand is strong, incremental inflows can move spreads quickly. Reinvestment doesn't need to be a stampede – it just needs to begin. And there are early signs that it already has.

A supportive backdrop for investment grade credit

Even in today's unsettled environment, the case for investment grade credit remains compelling. That's partly because the quality of credit on offer is generally strong – supported by healthy balance sheets, robust earnings and relatively low default expectations.

While policy uncertainty, including renewed trade tensions and a noisy political backdrop in the U.S., may cloud the macroeconomic outlook, our base case remains one of slowing – rather than collapsing – global growth. In that context, credit spreads continue to offer an appealing risk-reward trade-off for long-term investors, particularly in Europe. That provides a reassuring foundation for investors seeking stable income in an unpredictable environment.

Selectivity remains key

Against this backdrop, strategies with a proven ability to deliver strong risk-adjusted returns through the cycle may be particularly well placed to benefit. Not all credit is created equal, so selectivity remains key.

To conclude, with yields on cash declining and the opportunity set in investment grade credit looking more attractive, investors can find several compelling reasons to re-engage with the asset class. Even modest reallocations from cash could prove influential – both for market dynamics and long-term portfolio outcomes.



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