

## Northern Trust | Cash is Back

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Over the last 10 years, investors have become conditioned to believe cash investments, such as money market funds, were simply a return of principle, rather than a return on principle. Quite simply, they viewed cash as a very expensive insurance policy for principal safety and daily liquidity. But times are changing. Let's take a look.

In the last 2.5 years, the Federal Reserve has slowly increased short term interest rates seven times, bringing the federal funds target range between 1.75% and 2%. As we move further away from an extraordinary monetary policy era defined by near 0% short term interest rates, new considerations are emerging as yields on money market instruments increase.

Interestingly, the yield on three month treasury bills are now greater than our forecast for a 2% dividend yield for the S&P 500. With the US government expected to maintain an elevated supply of treasury bill issuance, money market rates are well supported at these higher rates.

And with inflation continuing at only a modest pace, returns on money market funds are now better positioned to preserve purchasing power in a more meaningful way. In fact, the \$2.9 trillion money market industry increased assets in 2018 to a level not seen in 7 years.

We think risk assets will continue to perform well in the near term, which makes the trade off for higher cash allocations less favorable. However, cash investments, such as money market funds, play a critical role in an overall asset allocation, and now provide a much higher level of income potential.

Cash allocations can vary from investor to investor, depending on factors such as risk profile. But having some level of cash can allow investors to be opportunistic in the marketplace. Not only are liquidity benefits of money market funds valued in every market cycle, but it also adds stability during periods of market volatility. So after years of earning near 0% yields on cash allocations, investors are once again starting to view cash as a real income producing asset class.

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