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U.S. Investors Happy to Stay Cash Flush Despite Rate Cuts

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U.S. investors are sitting on a pile of cash. Even with interest rates now coming down, many are in no rush to move it.

Assets in money-market funds reached a record \$7.7 trillion this month, with more than \$60 billion flowing into those funds during the first four days of September, according to Crane Data, an industry researcher. *Note*

The latest rush into money funds began in 2022, when the Federal Reserve started raising rates. The yields on these funds, which typically hold short-term government debt, also rose, giving investors higher returns on their cash than they have had in years. Many have kept a larger slice of their portfolios in these cashlike investments ever since—as the stock market raced to records.

That is unlikely to change soon, even with the Fed now cutting rates. Money funds are still yielding a lot more than what they had in the 2010s and early 2020s, when the financial crisis and then the Covid pandemic pushed rates to ultralow levels. With stocks by some measures now more expensive than ever, some in-

vestors are willing to wait *Note* for discounts. And it will take more than one (or two or three) rate cuts to change their minds.

“It is indeed a ‘wall of cash,’ because it ain’t going anywhere,” said Peter Crane, president of Crane Data.

Cash allocations among individual investors are still hovering above levels seen in the months leading up to rate increases in 2022, according to survey data from the American Association of Individual Investors.

Money-market funds offer a seven-day annualized net yield of 4.1% as of the end of August, according to Crane’s index of 100 such funds. The national average annual yield for a bank savings account is a paltry 0.6%, according to a survey by Bankrate. *→ 0.6*

“Rates going down *Note* is not going to chase me into stocks,” said Tom Ward, a 64--year-old executive recruiter in Michigan. “I really don’t have a problem sitting on the sidelines.”

Ward maintains about 40% of his portfolio in money-market funds. He is planning to keep much of it there, even if it means missing out on potentially higher returns.

Brian Jacobs, a portfolio manager at Aptus Capital Advisors, said that while investors might have rotated more dollars into money funds, the amount of cash they hold has remained relatively steady.

Indeed, data show that investors are keeping a growing swath of their nest eggs in equities, and the rip-roaring rise in share prices since 2023 has done little to dissuade them.

"Anytime you have a society with more wealth, you would expect them to hold more cash," Jacobs said. "People hold cash for the cushion, not because it's yielding higher than assets." -Note

That hasn't stopped some on Wall Street from telling investors they don't need quite so much of a cushion. A team of strategists at Société Générale, the French bank, recently sliced their recommended cash allocation to 5% from 10%, suggesting investors add to their positions in equities.

The cash stash in moneymarket funds is likely to keep growing through the end of the year, said Crane, who said he wouldn't be surprised to see total assets in the funds surpass \$8 trillion by 2026. November and December are usually strong months for money funds, he said. Companies and governments might also temporarily park cash in money-market funds, he said, since their yields don't adjust to Fed moves as quickly as Treasurys do.

Some investors are fine letting the dollars accumulate until stocks look a little cheaper.

Until they do, Matt Bonny said, he isn't sure trading cash for stocks is the right call.

After keeping nearly all of his nest egg in the stock market for many years, Bonny recently started funneling more into a money-market fund. He now keeps about a fifth of his retirement savings there.

"I think holding a good cash portion can be helpful if the market corrects to something more reasonable," said Bonny, a 32-year-old actuary who lives in Charlottesville, Va. "It's too soon to tell if deploying dollars at these prices will get me the return on investment that I desire."

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