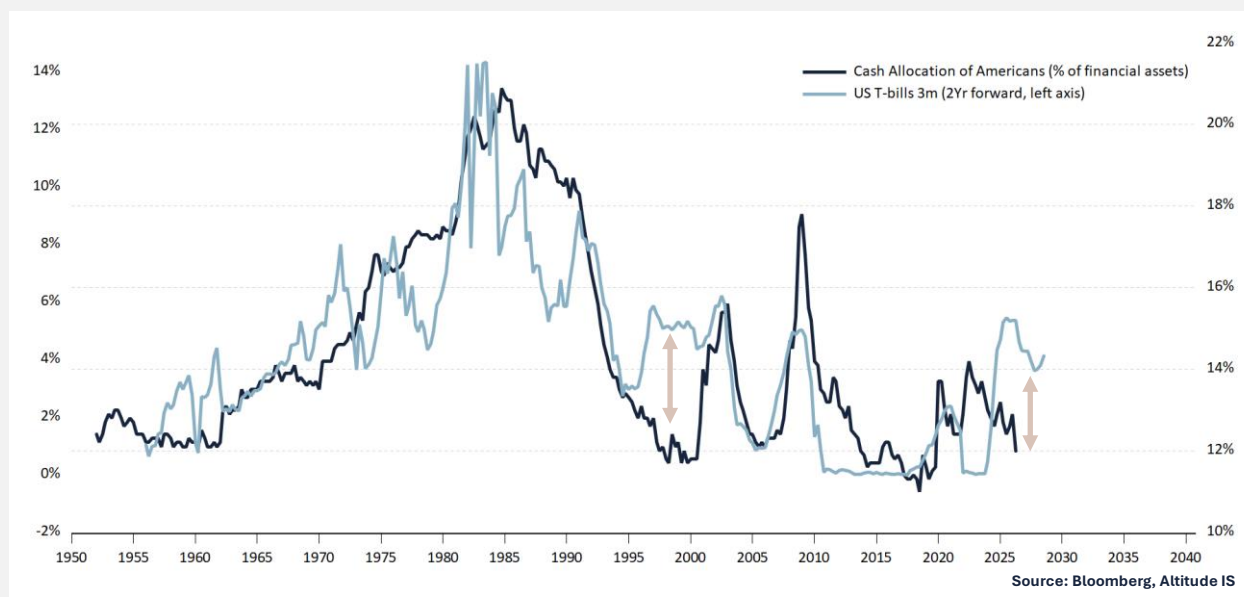


The flexiweekly that reaches new heights - published on 5 October 2026

"OUT OF INTEREST OR BOUND?"

- Interest rates are rising across the board and will have a significant impact on the economy
- Why are investors not hoarding cash and bonds?
- Yields are high, but they still seem unattractive to them
- Ironically, investors may have to wait for a bear market to find a use for them

CHART OF THE WEEK: "Interest rates have risen, but cash allocation has not kept pace"



BOND MARKET ANALYSIS

It would have been unrealistic to attempt to analyse any subject other than the one that is currently captivating the masses, thrilling enthusiasts of historical comparisons and causing anxiety amongst investors, namely the rise in interest rates. Regular readers will recall that we have frequently and thoroughly covered this topic. Our analysis can be summarised in a single sentence: **"In an environment where economic agents are over-indebted, rising interest rates are a mistake and will end badly, disrupting certain cogs in the economic machine and forcing governments and central banks to take urgent action in the form of financial repression and monetisation."** Until interest rates fall, excess supply and investor mistrust continue to drive them up.

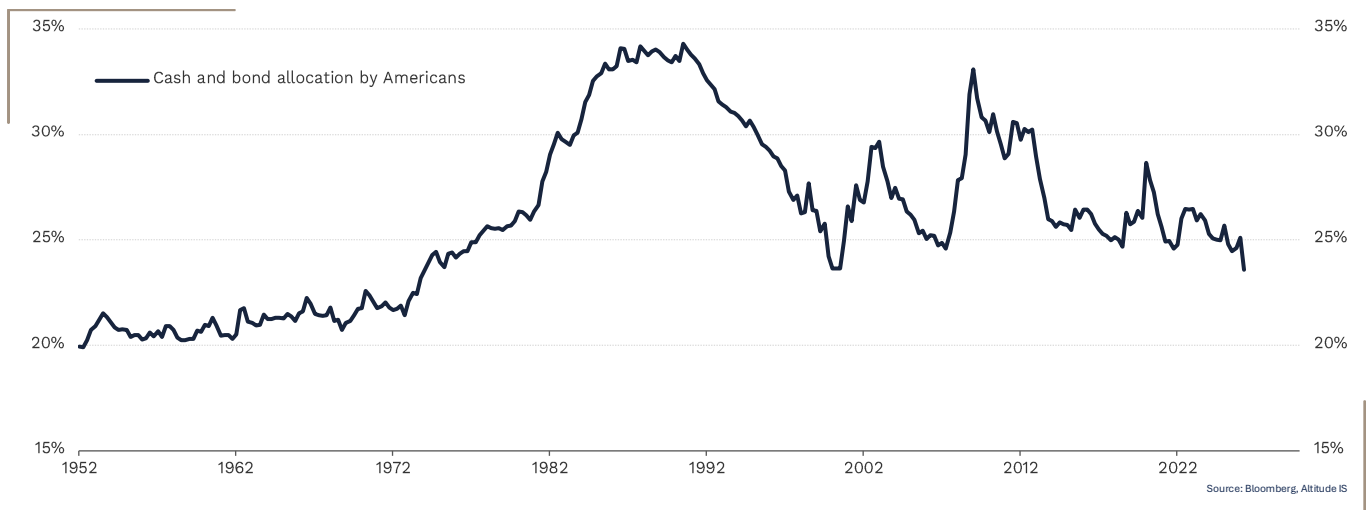


This is a widespread phenomenon. Rates are rising rapidly across the board:

- policy rates to combat persistent inflation,
- sovereign rates, to account for the spiralling public spending,
- corporate rates, as supply is inflated by the gargantuan needs of AI companies,
- mortgage rates, as banks pass on the rise in their funding costs,
- consumer credit rates, to offset the mounting defaults,
- rates demanded in the private debt market as defaults there multiply.

Rather than detailing all the reasons why rates are likely to rise further, or predicting how high they might go before falling sharply, **the aim here is to explain why investors are not adding more fixed-income assets to their portfolios.**

Fig. 2 – Allocation between cash and bonds in the United States



US households, asset managers, pension funds and life insurers have rarely held such a low proportion of cash and bonds relative to their financial assets (see Fig. 2). To put it somewhat simplistically, each group has its own reason, even though in reality these reasons are all intertwined:

- Households have come to believe that precautionary savings are an unnecessary luxury, as fifteen years of near-zero interest rates have rendered them a pointless investment.
- Fund managers have divested their cash holdings for fear of missing out on the rise in the equity markets. As every stock market correction was bought back within a few weeks, holding cash eroded returns without actually providing any protection.
- Pension funds, contractually obliged to deliver returns that bonds no longer provided, swapped them for private assets whose high level of risk enabled them to meet this requirement.
- Life insurers have retained their bonds, but more than a third of these are now over-the-counter debt instruments, which offer higher yields than listed securities and are sheltered from market volatility.

The cushion that used to absorb past shocks has therefore been removed, or at the very least thinned out, and nobody is concerned about it since nobody has needed it for the past fifteen years.



All these behavioural phenomena point to the same reality, namely that **the level of interest rates is a necessary, but not sufficient, condition for holding cash and bonds:**

1. **Investors are attracted by real yields, not nominal ones.** Adjusted for inflation, bond yields – whether 3-month or 30-year – have been unattractive for 15 years. The example is simple. A 5 per cent Treasury bill, against a 4 per cent inflation rate, appeals to no one. Conversely, the same bill at 3 per cent, against zero inflation, attracts everyone. Despite the sharp rise in real yields since 2023, investors have not regained their appetite for cash and bonds (see Fig. 3).
2. **Investors are attracted by the relative level of returns, not by their nominal level.** Compared with the performance of equities, that of fixed-income assets is not particularly attractive (see Fig. 4). Periods when the allocation to cash and bonds was high have mainly occurred during bear markets. This was the case in the 1970s, between 2000 and 2002, and in 2008, for example. However, over the last eight years, the US stock market has recorded a median annual return of 20 per cent. By comparison, the median return of 3 per cent from cash and bonds has rarely seemed so lacklustre.

Fig. 3 – Cash & bonds allocation vs real rates

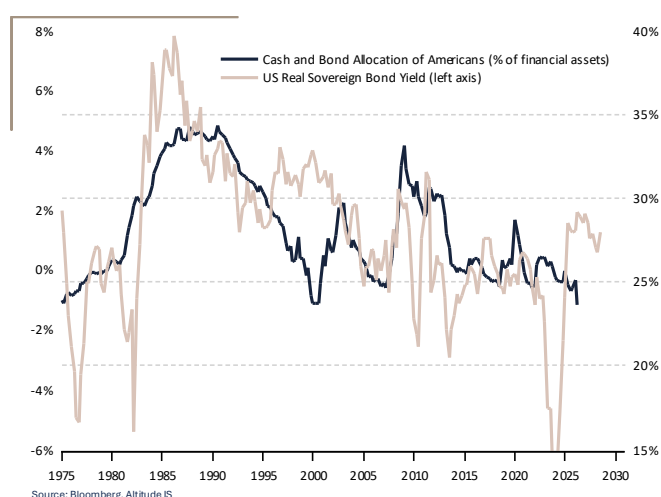
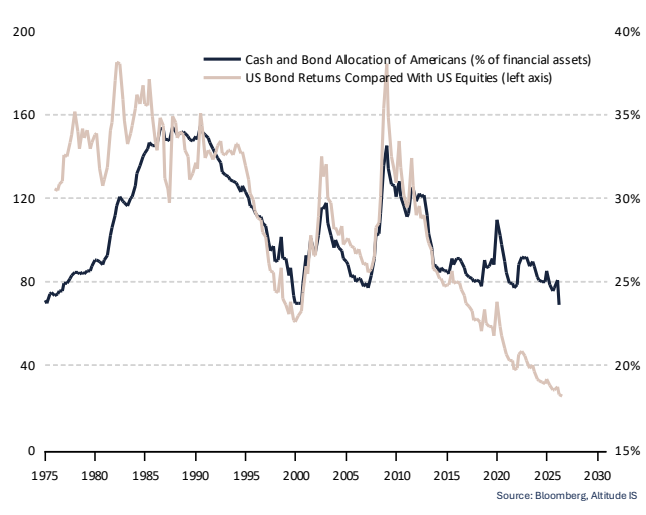


Fig. 4 – Allocation vs. relative perf. of bonds



Within fixed-income assets, it is easy to understand investors' loss of interest in long-dated bonds, particularly given every investor's preference for the present, the very narrow yield spread between long- and short-dated bonds (see Fig. 5) and the sharply negative performance of bond funds in recent years. Admittedly, given the asymmetry now inherent in these bonds (see Fig. 6), this line of reasoning is no longer rational, but it was so in recent years. **By contrast, investors' lack of interest in cash and T-bills is far less intuitive.**

Americans' cash allocation has fallen to 12 per cent, an extremely low level by historical standards, even though 3-month Treasury bills yielded over 5 per cent in 2023 and 2024 and still yield nearly 4 per cent today (see Chart of the Week). **This divergence is surprising given that, over the past 70 years, cash allocation has often tracked short-term interest rates, with a two-year lag.** This was the case when rates rose in the 1970s, or fell in the 1990s. Since 2022, much as happened during the dot-com bubble in the late 1990s, this relationship has broken down. Despite yields not seen for 15 years, cash has failed to attract US households, asset managers, pension funds or life insurers.



Fig. 5 – US yield curve

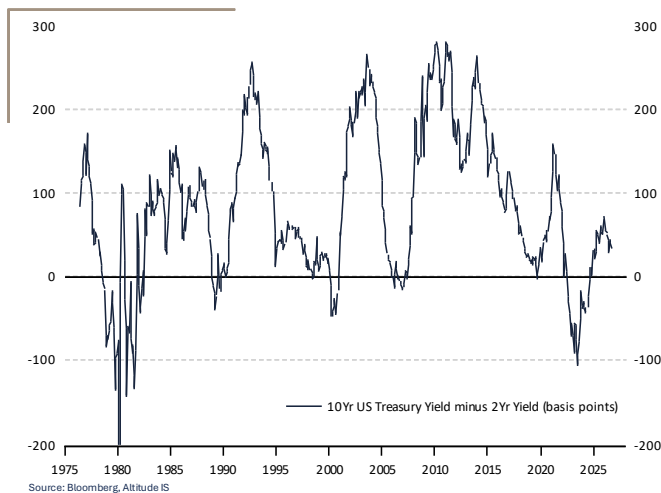


Fig. 6 – Matrix of expected returns

Bond	Yield move								
	+200bps	+150bps	+100bps	+50bps	0bps	-50bps	-100bps	-150bps	-200bps
3m US Treasury	+5.7%	+5.3%	+4.9%	+4.5%	+4.1%	+3.7%	+3.4%	+3.0%	+2.6%
1yr US Treasury	+4.4%	+4.4%	+4.4%	+4.4%	+4.4%	+4.4%	+4.4%	+4.4%	+4.4%
2yr US Treasury	+3.3%	+3.7%	+4.2%	+4.7%	+5.2%	+5.7%	+6.1%	+6.6%	+7.1%
3yr US Treasury	+1.5%	+2.4%	+3.3%	+4.2%	+5.1%	+6.1%	+7.1%	+8.0%	+9.0%
5yr US Treasury	-1.7%	-0.0%	+1.7%	+3.4%	+5.2%	+7.0%	+8.9%	+10.8%	+12.7%
7yr US Treasury	-4.2%	-1.9%	+0.4%	+2.9%	+5.4%	+8.0%	+10.7%	+13.5%	+16.3%
10yr US Treasury	-7.6%	-4.5%	-1.3%	+2.0%	+5.5%	+9.2%	+13.0%	+16.9%	+21.1%
20yr US Treasury	-13.9%	-9.4%	-4.6%	+0.5%	+6.1%	+12.2%	+18.7%	+25.8%	+33.5%
30yr US Treasury	-17.7%	-12.7%	-7.2%	-1.2%	+5.6%	+13.1%	+21.4%	+30.8%	+41.3%

Source: Bloomberg, Altitude IS

The following points are counter-intuitive, but perfectly understandable:

3. **The denominator is just as important as the numerator.** The cash allocation is measured as a percentage of total financial assets. In terms of volume, Americans have never held so much cash. Money market fund assets are approaching 8 trillion dollars, an all-time high. However, growth in the property and stock markets has been far greater than that of cash holdings. The cash ratio has therefore inevitably contracted. **The low level of cash allocation does not, therefore, reflect a lack of interest on the part of investors, but rather an inflation in property and stock market valuations.**
4. The rise in interest rates did, however, make cash allocations more attractive, but this took place behind the scenes and was therefore, once again, invisible. In recent years, as Americans have sought to optimise the return on their cash holdings, they have shifted their assets from bank deposits – which offer little or no interest – to money market funds, which offered better prospects. As both segments belong to the same asset class, **the rise in short-term interest rates has therefore influenced the composition of the cash allocation, but not its weighting within the portfolio.**

The historical lag between interest rate movements and cash allocation (see Chart of the Week) serves as a reminder that it usually takes two years before changes become apparent. This delay may, moreover, be driven by an indirect process. Rising interest rates increase the cost of capital, squeeze valuations, slow economic growth and cause stock prices to fall. The proportion of cash in portfolios then rises automatically. **Consequently, the convergence between interest rate levels and cash allocation sometimes occurs not so much because of the attractiveness of cash as due to the onset of a bear market.**

Conclusion:

Having been severely shaken in recent years, cash and bonds appear to have lost their place in portfolios, and with them the cushion that once served to absorb shocks. Investors will seek to replenish this cushion, either out of interest when real yields become attractive again, or because they are bound to when a bear market reminds them of what it was for.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 139.9	48.85	-0.7%	-0.1%	13.9%	22.9%	18.0%
USA (S&P 500)	7 723	54.83	-0.2%	0.8%	13.8%	17.9%	25.0%
USA (Dow Jones)	51 177	39.37	-1.3%	-3.5%	7.8%	14.9%	15.0%
USA (Nasdaq)	27 191	62.14	0.5%	3.8%	17.5%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	656.7	42.00	-1.2%	-1.7%	10.2%	21.2%	10.2%
UK (FTSE 100)	10 462	34.11	-2.1%	-2.6%	8.1%	25.7%	9.6%
Switzerland (SMI)	13 661	33.75	-2.0%	-4.8%	6.1%	18.0%	7.5%
Japan (Nikkei)	69 929	62.01	3.5%	6.8%	37.7%	28.7%	21.3%
Emerging (MSCI)	1 709	48.61	-1.3%	0.7%	23.8%	34.3%	8.0%
Brazil (IBOVESPA)	192 115	71.34	4.7%	3.7%	19.2%	34.0%	-10.4%
Mexico (IPC)	64 532	49.10	-0.7%	-0.4%	2.3%	35.1%	-11.0%
India (SENSEX)	72 537	24.39	-2.3%	-6.5%	-14.5%	10.5%	9.6%
China (CSI)	4 358	32.89	-3.5%	-5.6%	-4.1%	21.0%	18.2%
Com. Services (MSCI World)	163.6	49.23	-1.7%	2.2%	0.5%	33.0%	31.9%
Cons. Discretionary (MSCI World)	416.9	38.07	-0.8%	-4.2%	-8.0%	9.8%	20.7%
Cons. Staples (MSCI World)	289.6	30.10	-2.1%	-4.5%	2.1%	9.3%	4.7%
Energy (MSCI World)	349.8	47.75	0.3%	-2.8%	35.7%	14.8%	2.9%
Financials (MSCI World)	233.7	27.84	-2.9%	-6.0%	5.7%	29.5%	25.1%
Health Care (MSCI World)	404.9	37.26	-2.8%	-4.5%	4.1%	15.3%	1.5%
Industrials (MSCI World)	508.1	42.74	-0.6%	-1.1%	10.2%	26.2%	12.8%
Info. Tech. (MSCI World)	1 329.1	68.25	1.4%	7.5%	38.2%	26.6%	31.9%
Materials (MSCI World)	424.2	36.70	-1.6%	-6.5%	9.6%	32.5%	-7.6%
Real Estate (MSCI World)	963	20.55	-2.1%	-5.9%	-2.3%	3.6%	-0.4%
Utilities (MSCI World)	188.8	32.06	0.1%	-4.2%	0.0%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	4.43%	28.88	-0.5%	-2.2%	-2.8%	8.2%	-1.7%
USA (Sovereign)	5.12%	30.63	-0.5%	-2.1%	-2.7%	6.3%	0.6%
Euro Area (Sovereign)	3.93%	38.75	0.1%	-1.5%	-3.0%	0.6%	1.9%
Germany (Sovereign)	3.32%	54.57	1.1%	-0.1%	-1.5%	-1.6%	0.6%
UK (Sovereign)	5.31%	46.89	0.3%	-0.5%	-1.9%	6.1%	-3.0%
Switzerland (Sovereign)	0.77%	50.04	1.0%	-0.8%	-1.2%	0.3%	5.4%
Japan (Sovereign)	2.75%	36.34	0.0%	-0.2%	-4.1%	-4.6%	-2.1%
Emerging (Sovereign)	7.15%	19.67	-0.7%	-3.8%	-2.5%	13.1%	7.0%
USA (IG Corp.)	6.05%	27.09	-0.2%	-2.5%	-3.1%	7.8%	2.1%
Euro Area (IG Corp.)	4.27%	41.82	0.5%	-1.1%	-1.1%	3.0%	4.7%
Emerging (IG Corp.)	7.12%	15.36	-0.5%	-2.4%	-0.7%	8.1%	7.0%
USA (HY Corp.)	8.29%	24.12	-0.2%	-2.4%	0.1%	8.6%	8.2%
Euro Area (HY Corp.)	6.93%	14.49	-0.5%	-2.0%	-0.3%	5.2%	8.2%
Emerging (HY Corp.)	8.48%	15.36	-0.9%	-3.7%	0.5%	13.9%	14.9%
World (Convertibles)	612.5	46.77	-0.3%	-0.2%	13.7%	22.4%	9.4%
USA (Convertibles)	812.0	49.06	0.7%	0.7%	16.0%	16.9%	10.1%
Euro Area (Convertibles)	303.8	47.89	0.1%	-0.4%	4.5%	24.8%	14.7%
Switzerland (Convertibles)	290.0	46.50	0.1%	-0.7%	2.5%	17.5%	-10.5%
Japan (Convertibles)	324.5	59.03	1.0%	1.7%	25.8%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 928	78.64	n.a.	2.3%	11.5%	6.6%	11.1%
Macro	1 568	74.24	n.a.	2.7%	13.8%	6.8%	7.4%
Equity Long Only	2 638	70.47	n.a.	3.2%	10.2%	6.7%	12.0%
Equity Long/Short	2 126	75.73	n.a.	2.5%	14.4%	7.9%	14.0%
Event Driven	2 106	85.71	n.a.	2.1%	14.8%	9.7%	8.7%
Fundamental Equity Mkt Neutral	2 008	86.49	n.a.	0.6%	12.5%	7.2%	12.4%
Quantitative Equity Mkt Neutral	1 938	85.22	n.a.	1.9%	10.5%	7.1%	9.8%
Credit	1 786	92.51	n.a.	0.7%	6.4%	3.9%	8.5%
Credit Long/Short	1 819	94.81	n.a.	0.6%	7.0%	4.9%	10.0%
Commodity	2 200	82.16	n.a.	4.6%	14.5%	9.9%	14.7%
Commodity Trading Advisors	1 556	68.90	n.a.	3.6%	19.0%	9.5%	7.9%
Volatility							
VIX	15.31	47.64	3.0%	0.7%	2.4%	-13.8%	39.4%
VSTOXX	19.30	55.60	11.9%	10.2%	31.2%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 126	n.a.	0.3%	-6.3%	-4.5%	64.6%	27.2%
Silver (Troy Ounce)	60.87	n.a.	0.4%	-8.0%	-15.1%	148.0%	21.5%
Oil (WTI, Barrel)	91.11	n.a.	-8.1%	0.1%	58.7%	-19.9%	0.1%
Oil (Brent, Barrel)	126.63	n.a.	2.9%	28.7%	102.8%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	102.51	76.73	1.3%	3.4%	4.3%	-9.4%	7.1%
EUR	1.1167	16.29	-1.8%	-3.9%	-4.9%	13.4%	-6.2%
JPY	158.11	45.26	-0.5%	-2.4%	-0.9%	0.3%	-10.3%
GBP	1.3197	32.50	-0.4%	-2.5%	-2.1%	7.7%	-1.7%
AUD	0.6937	29.29	-1.2%	-3.9%	4.0%	7.8%	-9.2%
CAD	1.4291	20.65	-0.8%	-3.3%	-4.0%	4.8%	-7.9%
CHF	0.8308	36.58	0.2%	-2.6%	-4.6%	14.5%	-7.3%
CNY	6.7060	58.08	0.1%	0.2%	4.2%	4.5%	-2.7%
MXN	18.236	21.51	-1.3%	-7.2%	-1.3%	15.7%	-18.5%
EM (Emerging Index)	1 924.1	51.28	0.0%	-0.1%	3.9%	7.2%	-0.7%
XBT	85 751	n.a.	2.5%	7.5%	-2.2%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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