Craig Sullivan, CFA, CAIA®
Tia Simser
Chris Eckert

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Move Out and Lock In

	Following 12-Month Returns (%)		
Date of First Rate Cut	3-Month Treasury Bills	1-3 Year Bonds	1-5 Year Bonds
July 6, 1995	5.5%	5.5%	5.3%
January 3, 2001	4.3%	8.2%	8.5%
September 18, 2007	3.2%	5.7%	5.8%
July 31, 2019	1.5%	4.5%	5.9%
Average	3.6%	6.0%	6.4%

Source: Bloomberg Finance L.P. 03/18/24

- The table above compares the returns of cash (using a 3-month Treasury bill as a proxy), 1-3 year bonds, and 1-5 year bonds following the first rate cut.
- On average, moving out slightly in maturity profile has benefited investors when Federal Reserve begins to cut interest rates.
- 1995 is the exception when investor returns in 'cash' and short-duration bonds were essentially the same.
- Rolling out to 1-3y bonds has historically had an asymmetric payoff – with a relative return that matches 3-month Treasury bills in the 'worst case' (+5.5% absolute), and offering significantly relative returns on average.
- Looking beyond just the 12 months following the first rate cut, short-duration bonds have outperformed 3-month T-bills in 95% of rolling five-year periods over the past 20 years (through January 2024).
- For investors with the ability to do so, the risk-adjusted return of modestly extending the maturity of short-maturity cash-like instruments (money markets, savings accounts, CDs) into short-maturity bonds looks attractive.

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