

THE SHORT AND LONG

Weekly Bulletin

Rethinking Cash in Portfolios

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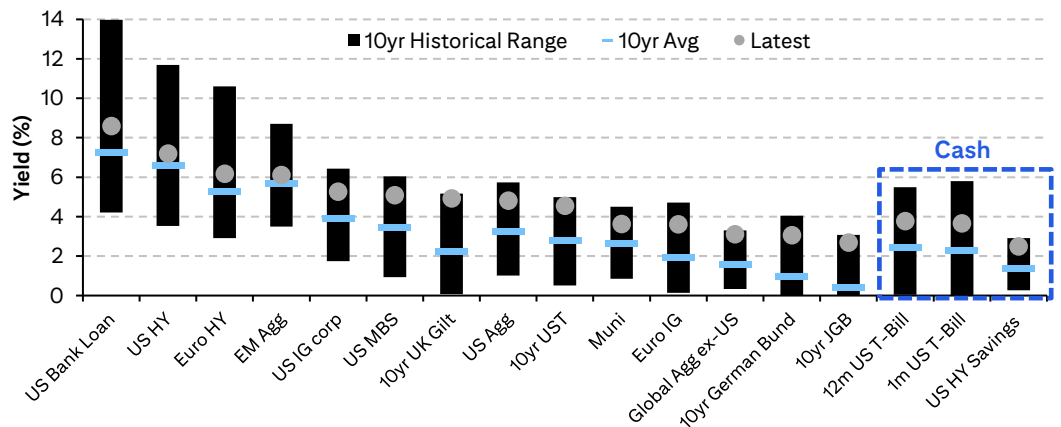
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TAKEAWAYS

- The Fed has maintained a 3.5% to 3.75% target rate this year, and markets now lean toward a rate hike before year-end. We still expect inflation to stay elevated, and Wednesday's Consumer Price Index (CPI) print could push yields higher if it runs hot.
- Many investors hold larger-than-normal cash balances, which were largely built after rates sat near zero and policy makers entered a hiking phase. That said, cash and some cash equivalents tend to underperform during inflationary periods, so cash may not be the safe haven it has historically been, given the current macro environment.
- We view cash as playing three roles in portfolios: a potential source of liquidity, stability, and optionality. For those not yet ready to take on higher market risk, we favor high-quality, short-duration fixed income, which has historically held up better than long duration when yields rise.

This week in charts

FIGURE 1: Nominal yields remain above their longer-term historical average



Source: Bloomberg as of June 8, 2026. Asset classes are using their respective Bloomberg indices as proxy. Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

Looking closer

From a historical context, nominal yields are high, but spreads across credit sectors remain at long-term lows. Therefore, we continue to focus on high-quality fixed income, such as U.S. government debt and investment grade bonds to potentially benefit from higher yields while minimizing credit and duration risk.

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Reframing cash in a higher-yield environment

Markets opened the week digesting renewed Middle East tensions, Friday's sharp Tech selloff, and a strong jobs report. We note the selloff was narrow. The largest Tech names fell more than 5% on average, while the other 493 names in the S&P 500 declined approximately 1%¹. Defensive sectors such as Healthcare and Consumer Staples were positive.

Against this backdrop, our focus this week is on portfolios with large cash positions. In many cases, cash balances were accumulated after policy rates skyrocketed from levels near or below zero. Policy rates peaked in 2024, and while inflation has fallen, it still runs above target in many regions, yet cash balances have not come down materially.

Our [view on inflation](#) continues to play out. We expect price pressures to remain elevated across many major economies, with higher energy costs adding to an environment where inflation is already running above target (Figure 2). This dynamic is likely to be reflected in rising yields, particularly at the long end of the curve (Figure 3).

In this environment, we think cash merits a closer look. While recent volatility has made cash feel like a safe harbor, history shows that cash tends to lag other asset classes during inflationary periods. The sense of safety that cash has provided in recent years may prove less durable when inflation remains elevated. Holding sizable cash balances can feel prudent, but it comes with a meaningful opportunity cost relative to assets that seek to generate income or keep pace with rising prices (Figure 1).

Our goal is not to discourage holding any cash. Rather, it is to treat cash purposefully. We see three roles for cash. First, as a potential source of liquidity for capital calls and short-term obligations, which can help avoid forced sales of assets. Second, as a potential stabilizer, though we believe it rarely belongs in a portfolio as a material allocation. Third, for optionality, whether to fund a large purchase or buy a market dip. We note cash is highly sensitive to inflation and holding too much can erode a portfolio's purchasing power over time. Each role carries an opportunity cost, particularly when yields on short-date instruments look more attractive than they did 12 months ago.

FIGURE 2: Energy costs pressure inflation that is already above-target for five years

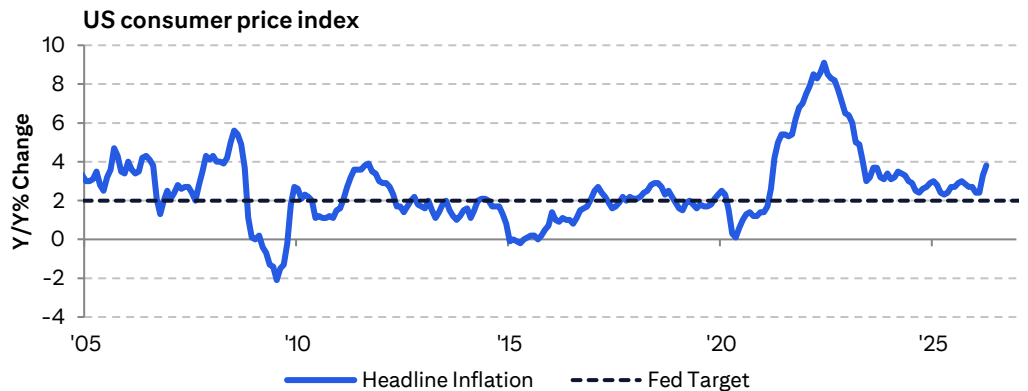
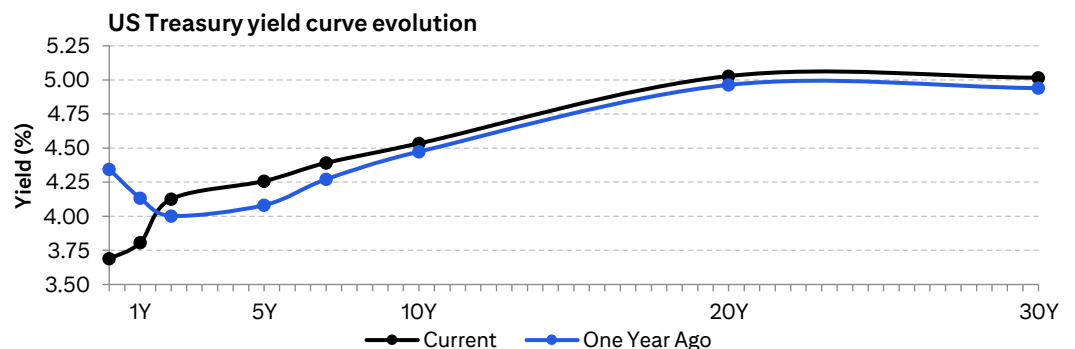


FIGURE 3: Inflation fears lifting long-end yields higher



Source (Figures 2 & 3): Bloomberg as of June 9, 2026. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance. Past performance is no guarantee of future results. Real results may vary.

¹ Bloomberg as of June 9, 2026.

For those not yet comfortable shifting into higher risk assets, we see fixed income as the natural next step, and we favor short duration over long. Short-dated bonds have historically held up better than long-dated bonds when yields rise. This is consistent with our tactical asset allocation view, where we prefer high-quality, short-term fixed income to capture attractive yields while managing duration risk.

How much cash makes sense? We anchor the answer in the investor's spending profile rather than a single number. We believe a 12-to-24-month view of spending and burn rate sets a sensible baseline, whether the investor draws an income from their portfolio, needs to fund a commitment, or plans a near-term purchase such as acquiring a business. Lines of credit can also stand ready, so investors are not forced to sell other holdings to meet a short-term obligation.

From there, we view cash, money market instruments, and short-dated fixed income as one broad group and seek to extend selectively along the duration and credit spectrum. We favor high-quality fixed income, including U.S. government debt and investment grade bonds, and we prefer short-term maturities of one-to-three years given the uncertain policy path. Nominal yields remain high in a historical context, but credit spreads sit near historical lows, which makes active management and security selection important.

Bottom line: We see a potential opportunity to put excess cash to work as yields stay attractive, and the policy path remains uncertain. Historically, cash underperforms during inflationary periods. We encourage investors to anchor cash holdings in their spending profile over a longer horizon, and treat cash, money market instruments, and short-dated fixed income as one group.

What happened

What's ahead

ECONOMIC DATA

U.S.

May employment rose 172K, nearly doubling estimates, while the unemployment rate remain unchanged. Previous months also revised higher.

May Institute for Supply Management (ISM) Manufacturing 54.0, beating estimates, its highest reading since May 2022, while Services at 54.5, driven by strong new orders and production.

Global

May Eurozone Consumer Price Index (CPI) headline 3.2%, up from 3% in April and 2.6% in March.

Asia Purchasing Managers' Indices (PMIs) stronger with most showing expansion.

U.S.

CPI and Producer Price Index (PPI) for May set to release.

Global

UK GDP for April set to release.

POLICY

U.S.

Warsh flagged potential changes to Fed governance, including dot plot and forward guidance at June meeting.

United States Trade Representative (USTR) proposed 10%-12.5% forced labor tariffs on goods from major trading partners.

Global

Israeli-Lebanese ceasefire announced, contingent on full Hezbollah cessation, Hezbollah rejected terms.

U.S.-China trade framework talks advancing at staff level, technology restrictions and rare earth access remain key points.

U.S.

Federal Open Market Committee (FOMC) enters blackout through June 17 meeting.

Treasury budget balance

Global

European Central Bank (ECB) rate decision

Organization of the Petroleum Exporting Countries (OPEC) 41st Ministerial Meeting on output policy amid Middle East risk.

Iran deal status and Middle East ceasefire developments.

Bank of Japan (BoJ) expected to hike this month.

MARKETS

U.S.

Broadcom AI chips revenue of \$10.8B, beat expectations of \$10.7B, but Q3 AI guidance of \$16B missed \$17B estimate.

Global

Asia markets sold off sharply on AI chips revenue fallout.

U.S.

Key Tech earnings set to report this week.

S&P will not change index requirements, delaying major recent IPO entry into S&P 500.

Cash flow of hyperscalers healthy enough to maintain capex spend, monitoring other sources of financing.

Global

Japan 30-year Japanese Government Bond (JGB) auction

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RELATED READING

[June 4, 2026: The Short and Long Podcast](#)

In the second episode, “A New Environment? Investing in an Age of Geopolitical & Macro Shock,” host and Chief Investment Officer of Citi Wealth Kate Moore speaks with Lazard’s Eric Van Nostrand in a conversation moderated by Citi Wealth’s Head of Economics Conrad DeQuadros on whether today’s market optimism is running ahead of reality and the forces shaping global markets. Watch on [YouTube](#), [Apple](#), or [Spotify](#), and subscribe for future episodes.

[June 2, 2026 | Inflation Pressures, Wider Profit Margins, and the Coming IPO Wave](#)

In last week's Bulletin, we looked at how current rising inflation lacks the breadth and momentum of past episodes of elevated inflation. We also looked at the coming wave of mega-IPOs, and where we see potential opportunities and risks.

[April 8, 2026 | The Short and Long: Q2 Macro Investment View](#)

Citi Wealth’s quarterly report is designed to offer global, data-driven guidance to help investors navigate increasingly complex markets with confidence and clarity. The latest report states global shocks to markets are driving higher volatility and rapid risk repricing, while the U.S. economy remains relatively resilient.

[April 2, 2026 | Global Investment Council](#)

The Citi Wealth Global Investment Council met April 2, 2026, and reallocated equity exposure from Europe to the U.S. The move maintains equity allocation while shifting risk toward more resilient markets. European fundamentals were already weakening prior to the Middle East conflict, and the U.S. offers more durable earnings with less geopolitical vulnerability.

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High quality (very strong)	Aa	AA	AA
Upper medium grade (Strong)	A	A	A
Medium grade	Baa	BBB	BBB
Not Investment Grade			
Lower medium grade (somewhat speculative)	Ba	BB	BB
Low grade (speculative)	B	B	B
Poor quality (may default)	Caa	CCC	CCC
Most speculative	Ca	CC	CC
No interest being paid or bankruptcy petition filed	C	D	C
In default	C	D	D

¹ The ratings from Aa to Ca by Moody's may be modified by the addition of a 1, 2, or 3, to show relative standing within the category.

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