ACADEMY ASSET MANAGEMENT

Cash Won't Always Be King

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Sitting in cash was an effective strategy over the past few years, but Academy now advocates moving cash out the curve and extending duration, given the strategic advantages in the current economic environment. Holding a high cash allocation when rates fall can lead to missed opportunities for yield and capital appreciation. Academy's recommendation is rooted in market anticipation and historical trends, indicating the potential benefits of extending duration before the Federal Open Market Committee (FOMC) begins easing monetary policy.

While we believe Fed rate cuts are still months away, we are likely near the peak in interest rates. Currently, cash yields are 25-50 basis points higher than term rates due to market expectations of the FOMC easing within the next 6-9 months. Given the inverted yield curve, investors must decide whether to forgo higher income today to lock in rates for the long term.

Ultra-short and short-duration portfolios are poised for capital appreciation during easing cycles. Historically, once the FOMC starts easing, rate cuts are often aggressive, with short-term interest rates falling swiftly in anticipation of further reductions. As the table below reflects, the 2-year Treasury typically falls significantly more than the initial rate cut once the FOMC begins easing. This contrasts with money market rates, which tend to only price in the immediate rate cut. Investors waiting until the Fed begins an easing cycle will likely be disappointed. Therefore, by extending duration now, investors can benefit from the higher yields that will unlikely be available once the Fed commences rate cuts.

Extending duration can serve as a hedge against future market volatility, especially if your business is exposed to economic downturns. Easing monetary policy often accompanies recessions and periods of lower corporate revenues, making a strategy of locking in yields advantageous for earnings risk mitigation.

We anticipate higher volatility in the coming months due to market and geopolitical uncertainties, plus summer months of light trading desk staffing, leading to attractive entry points. Therefore, this strategy can be layered in opportunistically over the next couple of months, while maintaining a high-quality and liquidity bias.

Academy's recommendation to extend duration is a strategic move designed to capitalize on current yield opportunities and mitigate risks associated with future rate cuts and economic downturns. By acting now, investors can position their portfolios advantageously, securing higher yields and preparing for the anticipated easing by the FOMC.

			Change in Yields (6 mos Prior to Ease)		Portfolio Performance (6 mos Prior to Ease)	
Date	Initial Cut	Total Cycle Cuts	MM Fund	2Y Treasury	Ultra Short	Short Duration
Jul-90	-0.25%	-5.00%	-0.24%	0.18%	4.14%	N/A
Jul-95	-0.25%	-0.75%	0.15%	-2.09%	3.49%	6.70%
Sep-98	-0.25%	-0.75%	-0.08%	-1.18%	3.09%	4.47%
Jan-00	-0.50%	-4.75%	0.01%	-1.33%	3.07%	5.05%
Nov-02	-0.50%	-0.75%	-0.21%	-1.31%	1.10%	3.89%
Sep-07	-0.50%	-4.75%	-0.09%	-0.65%	2.76%	2.95%
Aug-19	-0.25%	-0.75%	-0.10%	-0.77%	1.32%	2.68%
Mar-20	-0.50%	-1.50%	-0.59%	-0.75%	1.16%	2.07%

Notes:

Change in Money Market Fund yield proxied using Vanguard Federal Money Market (VMFXX)

Ultra-Short portfolio returns represented using Bloomberg US Short Treasury Index

Short Duration portfolio returns represented using Bloomberg U.S. Aggregate 1-3 Years Index

The following risks could cause the Strategy's portfolio to lose money or perform more poorly than other investments.

Investments in bonds and other debt securities will change in value based on changes in interest rates. If rates rise, the value of these investments generally drops. Some investors may be subject to the Federal Alternative Minimum Tax and to certain state and local taxes.

Investing in fixed income products is subject to certain risks, including interest rate, credit, inflation, call, prepayment, and reinvestment risk. Any fixed-income security sold or redeemed prior to maturity may be subject to substantial gain or loss.

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