



Sitting in Cash? The Clock Is Ticking.

We argue that cash is merely a 1-day fixed income instrument. Money market funds just hit \$7.7 trillion. The trade that made sense for two years is quietly becoming the expensive one.

There are \$7.7 trillion reasons to pay close attention right now.

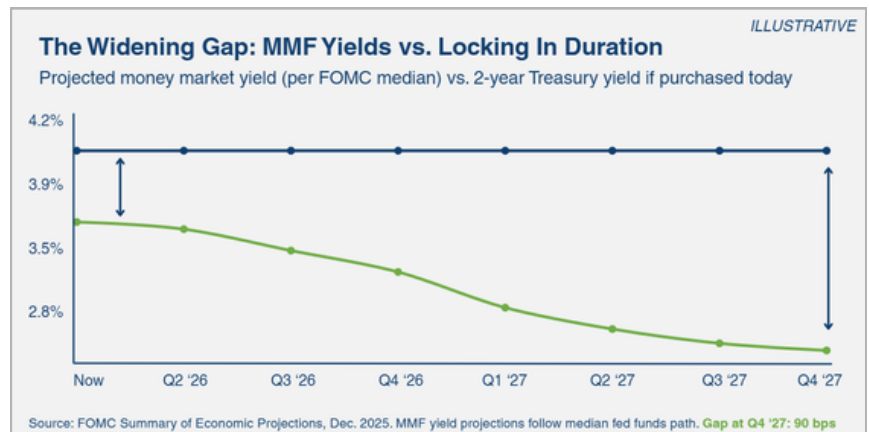
That figure represents the total currently held in money market funds, briefly touching \$8.1 trillion in early January before a modest pullback. For the better part of two years, capital allocation to money market vehicles was well-positioned. Yields were compelling, credit and equity volatility were elevated, and a government money market fund offered an unencumbered return profile: no duration risk, no meaningful credit exposure, and a yield that moved in direct correspondence with the federal funds rate.

That allocation served investors well. The conditions underpinning it, however, are now in transition, and every quarter spent on the sidelines carries an incremental cost.

Federal Reserve continues its rate-cutting cycle

The Federal Reserve continues to have a high bar to raise rates and is more likely to continue easing monetary policy.

The median projection for year-end 2026 stands at 3.4%, implying one additional 25-basis-point reduction from the current 3.50%–3.75% target range. The 2027 median moves to 3.1%. The longer-run neutral rate, the level at which the FOMC views policy as neither accommodative nor restrictive, is projected at 3.0%.



The 3.0% figure originates from the Federal Reserve itself — it is the longer-run neutral rate, embedded in the dot plot for several consecutive quarters. Market consensus, as reflected in federal funds futures, anticipates overnight rates reaching the 3.0%–3.25% range over the next twelve months.

Not all market participants share that view. Some economists project a terminal rate closer to 3.5%, citing fiscal stimulus and labor market resilience as factors likely to keep inflation above the Fed's own assumptions. That is a defensible position. Nevertheless, even under that more conservative scenario, money market yields would still decline 50 to 75 basis points from current levels. On a \$7.7 trillion pool of capital, that is not a rounding error.

How Fed Rate Cuts Impact Money Market Yields: Historical Precedent and the Repricing Mechanism

Limited duration can act as an insurance policy for investors. Money market funds reprice continuously as the federal funds rate moves. The structural design of these vehicles, holding instruments with maturities measured in days rather than months, provides no buffer. When the Fed reduces its target rate, money market yields adjust accordingly, typically within a week.

The two most recent easing cycles offer instructive context. During 2007–2008, as the Fed reduced rates from 5.25% toward zero, money market yields declined from approximately 5.0% to below 1.0% over eighteen months. The 2019–2020 cycle was more compressed: yields fell from 2.4% to near zero within weeks once emergency reductions began. Neither episode constitutes a direct parallel — the current easing cycle is not trending toward zero, and the pace remains gradual. The underlying mechanism, however, is identical. Each 25-basis-point reduction by the Federal Reserve translates directly and immediately into a corresponding decline in money market fund yields.

To illustrate the practical differential: a 2-year Treasury note purchased today yields approximately 4.0%, and that rate is fixed for the full holding period — no repricing, no reinvestment uncertainty. A money market fund yielding 3.6% today is projected to yield closer to 3.1% by late 2026, should the Fed adhere to its own median path. Over a 24-month horizon, the cumulative income differential between these two positions on a \$10 million allocation exceeds \$100,000. That is real capital being left on the table, quarter by quarter, in the name of liquidity.

Fixed Income Portfolio Reallocation Strategy: A Measured Framework for Moving from Cash to Bonds

The case presented here is not one of wholesale reallocation. For the segment of a fixed income portfolio with no near-term liquidity requirement and no binding spending constraint, however, the calculus has shifted meaningfully over the past six months. Extending duration into short-term and intermediate-term Treasury bonds, into the one- to five-year segment of the curve, presents a well-supported yield pickup against a rate path that has been clearly signaled by the Federal Reserve. The reinvestment risk of maintaining full allocation to money markets compounds with each passing quarter. Notably, the risk profile is asymmetric: the cost of extending duration modestly ahead of schedule is limited, while the cost of remaining fully in cash through a sustained easing cycle is not.

A phased reallocation approach mitigates the timing challenge inherent in any rate-path decision. Moving a measured portion of the portfolio into short-to-intermediate duration now and expanding that allocation as the Fed delivers additional reductions or the curve steepens preserves flexibility while capturing the available yield differential. A liquidity reserve should remain in money markets to meet your cash management needs. The objective is not to call the bottom on rates. It is to begin capturing the available yield differential before the cost of inaction compounds further.

The cash trade was the right trade through 2024, but fixed income portfolios outperformed in 2025. In 2026, cash may continue to be an expensive hold.



Brian Lockwood is the Chief Investment Officer of Piton with over 20 years of fixed income portfolio management experience. He has managed fixed income strategies for HSBC, Ramius Capital Group, and DLJ/Credit Suisse Asset Management. He holds the Chartered Financial Analyst® designation.



Kris Konrad is a founding partner of Piton with over 20 years of fixed income experience specializing in Agency Mortgage-Backed Securities. He has managed one of the largest levered Agency MBS portfolios, with over \$140 billion in assets at its peak. He previously served as Co-Chief Investment Officer at Annaly.

About Piton Investment Management

Founded in 2015, Piton Investment Management provides highly customized fixed income portfolio solutions to RIAs, institutions, and direct clients. Piton leverages its extensive market experience and access to create and manage fixed income and structured product portfolios across an array of custodial managers and turnkey asset management programs. Piton's product suite ranges from highly liquid "cash management" portfolios to longer duration strategies as well as highly nuanced structured product portfolios.

This analysis is provided for educational purposes and does not constitute investment advice. Past performance does not guarantee future results. Consider your individual circumstances and consult with qualified professionals before making investment decisions.

Source: Bloomberg Index Services Limited. BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). Bloomberg or Bloomberg's licensors own all proprietary rights in the Bloomberg Indices. Neither Bloomberg nor Bloomberg's licensors approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom and, to the maximum extent allowed by law, neither shall have any liability or responsibility for injury or damages arising in connection therewith.

\$7.7 trillion in money market funds: Investment Company Institute (ICI)

\$8.1 trillion: Crane Data, Money Fund Intelligence Daily, December 29, 2025

The median projection for the federal funds rate at year-end 2026 was 3.4%: Federal Reserve Board, Summary of Economic Projections, December 10, 2025 FOMC Meeting

Federal Reserve Board, FOMC Statement, December 10, 2025. The FOMC reduced the federal funds rate to a target range of 3.50%–3.75%. The December 2025 dot plot median implies one additional 25 bps cut in 2026 (to 3.25%–3.50%, midpoint 3.375%, rounded to median of 3.4%). Confirmed by CNBC, "Fed still forecasts just one rate cut for next year," December 10, 2025.

2027 median of 3.1%: Federal Reserve Board, Summary of Economic Projections, December 10, 2025 FOMC Meeting. The median projection for the federal funds rate at year-end 2027 was 3.1% (midpoint 3.125%).

Federal Reserve Board, Summary of Economic Projections, December 10, 2025 FOMC Meeting. The longer-run median projection for the federal funds rate was 3.0%. This figure has been embedded in the dot plot for several consecutive quarters. Confirmed by J.P. Morgan Asset Management, "FOMC Statement: December 2025."

Federal funds futures anticipate overnight rates reaching 3.0%–3.25% over the next twelve months: CME Group FedWatch Tool, based on 30-Day Fed Fund futures prices. As of early February 2026, futures markets priced approximately 50 bps of additional easing in 2026, consistent with a terminal range of 3.0%–3.25%. Confirmed by Morningstar, "What's Next for the Fed in 2026?," January 6, 2026; Goldman Sachs Research, "The Outlook for Fed Rate Cuts in 2026," December 3, 2025.

RSM US LLP, "The outlook for another Fed rate cut in January," December 2025. RSM estimates the terminal rate at 3.5%, citing expansionary fiscal policy and labor market resilience.

Money market yields would still decline 50 to 75 basis points (under conservative scenario) — Piton Investment Management estimate. If the terminal rate is 3.5% (per RSM) vs. the current effective fed funds rate of approximately 3.6%, the decline would be approximately 10–25 bps. However, under the FOMC median path to 3.0%, the decline from current MMF yields of approximately 3.6% would be approximately 60 bps. The 50–75 bps range reflects the span between the conservative (3.5% terminal) and consensus (3.0%–3.25% terminal) scenarios applied to current MMF yields.

Federal Reserve Board, Historical Federal Funds Rate Data (FRED series FEDFUNDS). The FOMC began cutting the federal funds rate from 5.25% in September 2007, reaching 0%–0.25% by December 2008. Money market fund yields tracked correspondingly. Federal Reserve Bank of St. Louis, FRED.

Federal Reserve Board, Historical Federal Funds Rate Data (FRED series FEDFUNDS). The FOMC cut rates from 2.25%–2.50% beginning in July 2019. Emergency cuts in March 2020 brought the rate to 0%–0.25%. MMF yields declined from approximately 2.4% to near zero within weeks of the emergency reductions. Federal Reserve Bank of St. Louis, FRED.

U.S. Department of the Treasury, Daily Treasury Par Yield Curve Rates; Federal Reserve Board, H.15 Selected Interest Rates. The 2-year Treasury constant maturity yield was approximately 3.47%–3.52% as of February 10–11, 2026. Note: The blog's reference to "approximately 4.0%" may reflect the yield at the time of initial drafting or a rounded illustrative figure; the actual yield fluctuates daily.

Crane 100 seven-day yield was approximately 3.80%. Goldman Sachs Financial Square Government Fund (Institutional Shares, FGTX) reported a 7-day effective yield of 3.60% as of February 10, 2026. Yields vary by fund; 3.6% represents a reasonable approximation for government MMFs net of fees.

Projected to yield closer to 3.1% by late 2026 — Piton Investment Management projection based on the FOMC December 2025 Summary of Economic Projections median federal funds rate path. With a year-end 2026 median rate of 3.4% (implying one 25 bps cut), and further easing projected into 2027 (median 3.1%), a government MMF yield of approximately 3.1% by late 2026/early 2027 follows the FOMC median path less typical fund expenses.

Cumulative income differential exceeds \$100,000 on a \$10 million allocation over 24 months — Piton Investment Management calculation. Illustrative example: \$10M in a 2-year Treasury at 4.0% fixed = \$800,000 total income over 24 months. \$10M in a money market fund declining from 3.6% to approximately 3.1% per the FOMC median path (averaging approximately 3.35% over 24 months) = approximately \$670,000. Differential: approximately \$130,000. The exact figure depends on the rate path and timing of cuts, but exceeds \$100,000 under most reasonable assumptions.

Gap at Q4 '27: 90 bps — Piton Investment Management calculation. A 2-year Treasury purchased today at approximately 4.0% (fixed) versus a projected MMF yield of approximately 3.1% by Q4 2027 (per the FOMC median path to 3.1% by year-end 2027) produces a gap of approximately 90 basis points at that point in time.

Federal Reserve Board, FOMC Statements. Since September 2024, the Fed has announced six 25 bps reductions to its federal funds rate upper bound, lowering it from 5.50% to 3.75%. The January 2026 FOMC meeting held rates steady at 3.50%–3.75%.