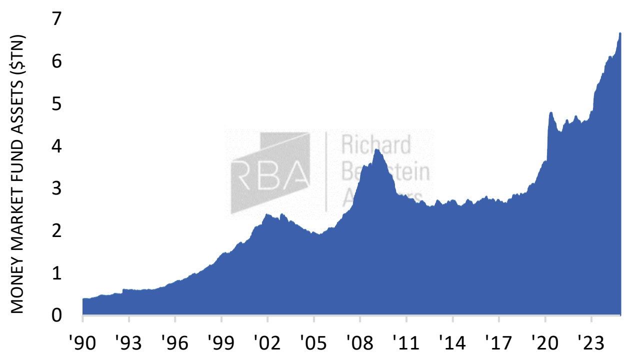
November 21st, 2024

How much cash is really on the sidelines?

The $7 trillion in money market assets is just the tip of the iceberg

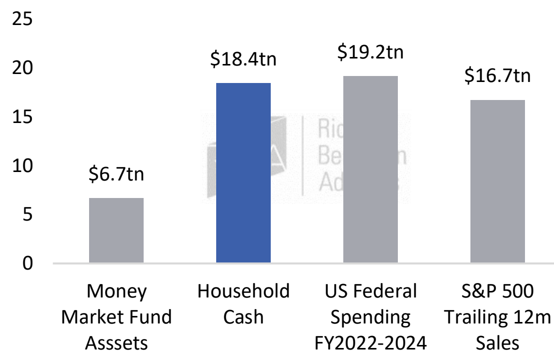
It is often said that the nearly $7tn in money market assets represents cash poised to "come off the sidelines" and send markets higher (Chart 1). We think this narrative warrants closer examination. To start, money market funds are just part of the story. Total household cash levels are nearly three times larger, at approximately $18.4tn. For perspective, this surpasses the annual revenues of the combined S&P 500® and nearly matches the federal government's spending over the past three years (Chart 2).

Chart 1: Total money market fund assets approaching $7tn



Source: Richard Bernstein Advisors LLC, Bloomberg, ICI

Chart 2: Putting household cash levels into perspective

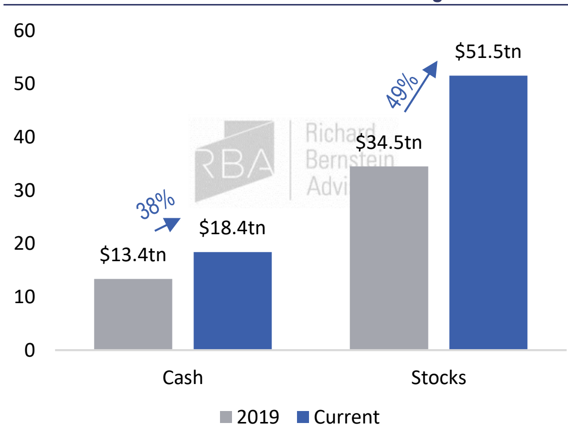


Source: Richard Bernstein Advisors LLC, ICI, Federal Reserve, US Treasury, S&P

But investors' cash allocations are actually quite low relative to history

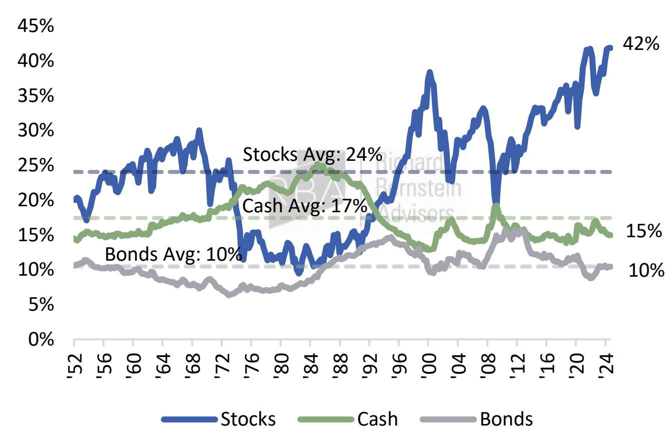
Since 2019, cash levels have risen by a notable 38%, but household stock holdings have surged by 50%, causing the share of cash in portfolios to decline slightly (Chart 3). This means that while cash has grown, households have shifted even more aggressively into equities, underscoring their appetite for risk. As a result, cash allocations are below long-term average levels while stock allocations are at all-time highs (Chart 4). This indicates that households are not, in fact, retreating into cash but are actively participating in equity markets with historically high exposures. And it's not just individual investors. According to Bank of America's global fund manager survey (Oct. 15, 2024), the cash levels of institutional money managers fell to such a low level (below 4%) that it triggered the firm's contrarian equity market "sell" signal as recently as October.

Chart 3: US household cash and stock holdings since 2019



Source: Richard Bernstein Advisors LLC, Bloomberg, Federal Reserve Board

Chart 4: US Household stock, bond & cash allocations

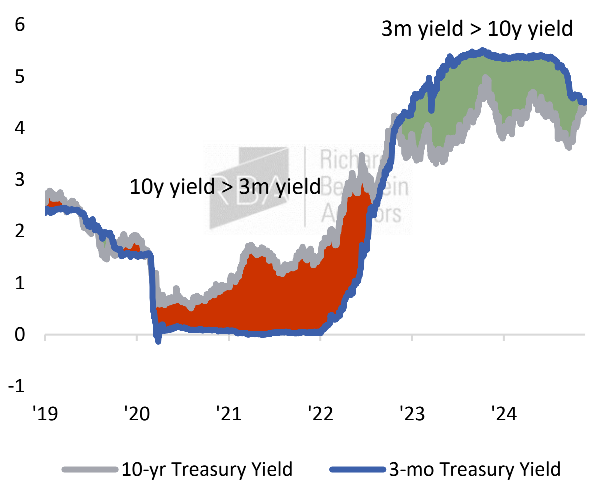


Source: Richard Bernstein Advisors LLC, Bloomberg US Financial Conditions Index
Note: Does not display Other Financial Assets (e.g. proprieter's equity, DB pension assets)

Cash has been replacing bonds, not stocks

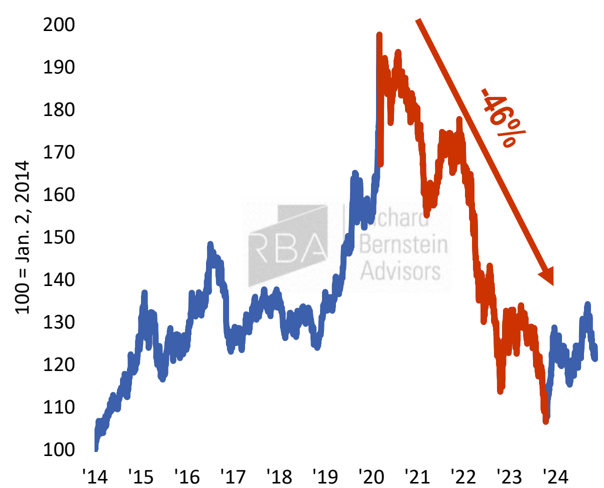
The cash-on-the-sidelines narrative also doesn't consider that, in recent years, cash has been an attractive alternative to bonds. For over two years, the inversion of the yield curve has meant that investors can earn more sitting in cash than they can going farther out on the curve in bonds (Chart 5). Meanwhile, after the 46% drawdown in long-term Treasuries that occurred between 2020-2023 (Chart 6), coupled with ongoing concerns regarding government deficits and inflation, investors may be content to hold more cash (and cash equivalents) than traditional bonds for some time.

Chart 5: Cash yields have competed with bonds in recent years



Source: Richard Bernstein Advisors LLC, Bloomberg

Chart 6: Long-term Treasuries saw their biggest decline on record



Source: Richard Bernstein Advisors LLC, Bloomberg ICE BofA Indices
Note: Based on ICE BofA 15+ year US Treasury total return index

Money market assets are not the market timing indicator you're looking for. Focus on corporate profits.

There are many things that could propel stock markets to new highs in this cycle, but cash "coming off the sidelines" is unlikely to be a key driver. Our constructive outlook on stocks is based on further improvement in corporate profit fundamentals, which continue to accelerate and broaden out. Given that investors appear far from underexposed to equities, we expect future market gains to depend more on earnings growth than reallocations from cash.

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