



# Investing in an uncertain and potentially flat interest rate environment

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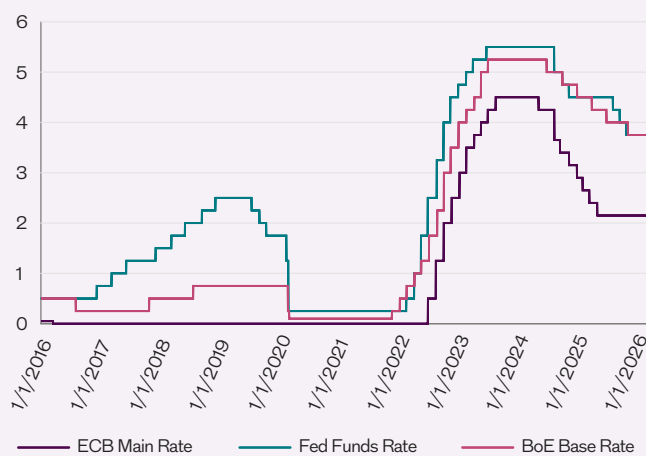
The current environment presents a number of challenges for investors. Geopolitical uncertainty has arguably not been this high for over two decades and while the global economy appears reasonable, inflation is still high despite coming down from the post-Covid highs, while the outlook for growth is patchy and appears heavily reliant on AI investment. Recent sharp moves in oil prices introduce renewed upside risks to inflation and interest rates, while softer economic data simultaneously point towards a potential slowdown in growth, creating an unusually wide range of plausible rate outcomes.

Looking at cash and liquidity funds, what is the best way to manage this uncertainty? For both treasury investors and those using cash / liquidity as a core element of a balanced portfolio, interest rate turning points are always times to reflect and adjust strategy. At present the outlook for policy rates is unusually volatile, and there are arguably credible arguments for higher, lower and flat rates. This makes a strong directional positioning very difficult to justify.

In this article, we look at what a flat rate environment means for cash investing, and potential routes to optimise liquidity, risk and yield.

## Is this a flat rate environment?

The current rate cycle peaked in 2023, after central banks had removed the looser conditions put in place for Covid and then looked to regain control of inflation following the shock to energy prices in the wake of the Russian invasion of Ukraine.



Source: Federal Reserve, ECB, Bank of England, as at 20th April 2026. For illustrative purposes only.

As can be seen, this process ended in the later months of 2023, with rates then unchanged until mid-2024, when rates started to fall once more. While growth was still somewhat anaemic, there was little expectation that rates would return to the near-zero levels seen in the pandemic and global financial crisis. Are we at the absolute end of the rate cycle? In our view, it is increasingly unclear, with plausible scenarios in which rates could move modestly higher, lower, or remain broadly unchanged from here – with both Federal Reserve (Fed) and Bank of England (BoE) certainly still seriously weighing up additional cuts. Market expectations fluctuated significantly in 2025 with this continuing into 2026, with US military operations in Iran causing uncertainty around a potentially drawn-out conflict that could escalate into other areas and materially lift energy prices, reinforcing inflationary pressures and raising the risk that rate cuts are delayed or even partially reversed.

## Focus on value discipline, not rate views?

In our view, while we are asked about rate direction, as interest rate expectations settle and markets increasingly price an uncertain outlook, investing in cash funds becomes less about predicting the next move in policy rates and more about disciplined portfolio construction. Recent experience has shown just how quickly expectations can shift, with markets switching between pricing rate cuts and hikes over very short periods. In this environment, taking strong directional views risks reacting to volatility rather than delivering consistent outcomes for investors.

For cash and liquidity strategies, we believe the focus is therefore not on forecasting rates, but on identifying value as it appears across the short end of the curve. This philosophy reflects a long standing approach: remaining flexible, avoiding over commitment to any single view, and building portfolios that can perform across a range of scenarios.

## Duration: Used selectively

For strategies with a very short-term objectives, the focus will always be on very short-dated paper – typically of three months or less. The opportunity for marked changes in rates to affect yield is therefore limited, unless we see more extreme moves such as a rate hike when markets have previously priced in rate cuts.

In a flat rate environment, extending duration simply because rate rises may or may not be priced into longer instruments rarely make sense. Longer-dated instruments may offer limited additional compensation, particularly when issuers are aware of strong demand for duration and price accordingly. Where that additional yield is not sufficient, we believe there is little reason to add interest rate risk.

Instead, duration is used selectively. When valuations improve and longer-dated paper offers genuine value relative to shorter alternatives, it can be reintroduced. At other times, remaining shorter or favouring instruments such as government bills may provide a more attractive balance of yield, liquidity and risk. The emphasis is always on what makes sense at the time, rather than what the market narrative suggests should be done.

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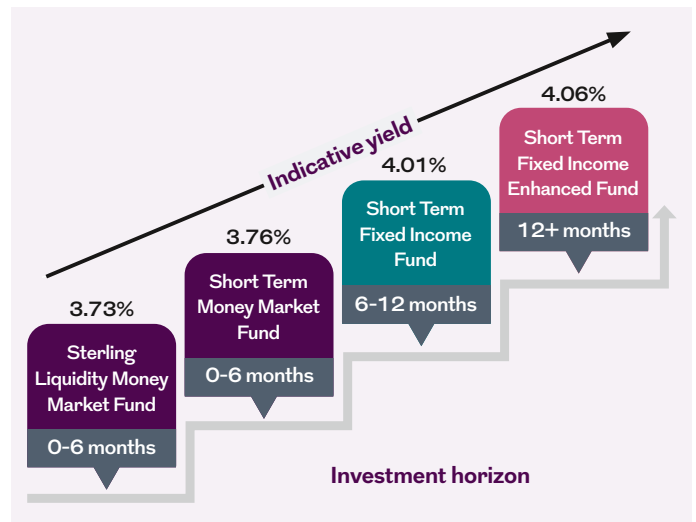
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## Floating Rates and Portfolio Balance

We believe that floating rate instruments play an important role in maintaining resilience. By combining fixed and floating exposure, cash portfolios can reduce sensitivity to sudden changes in rate expectations while still accessing credit spread. This balance helps smooth outcomes when markets move sharply, as they often do, without compromising the core objectives of capital consistency and liquidity. The use of floating rate instruments can help reduce the impact of mark-to-market price moves, particularly for funds with longer time horizons.

Crucially, this is not about eliminating risk entirely. Rather, it is about ensuring that any risk taken is intentional, diversified and has the potential to be appropriately rewarded and consistent with the expectations investors have of cash and short-term strategies. This is why we aim to provide a mix of funds with differing risk profiles so that investors can create the risk /return profile that best meets their needs and fits with their investment horizon.



Past performance is not a guarantee or reliable indicator of future returns. For illustrative purposes only. This is not an investment recommendation. Yield shown is yield to maturity. This is the expected income on a bond if kept until maturity.

Source: RLAM as at 28 February 2026.

## Yield Is Only One Part of the Equation

In competitive markets, it can be tempting to focus on marginal yield differences. However, yield is never assessed in isolation. Credit quality, transparency and liquidity are fundamental considerations. Instruments that appear attractive on headline yield but rely on complex or opaque structures can undermine the purpose of a cash fund, particularly during periods of market stress. For example, asset backed commercial paper can offer attractive headline yields, but we are cautious about investing where the underlying assets are opaque. Conversely, we favour assets such as covered bonds with higher transparency and dual recourse structures.

A disciplined approach prioritises clarity and robustness over incremental return. Liquidity must be reliable, and underlying exposures well understood. Chasing a small pick-up in yield is rarely worthwhile if it introduces uncertainty or restricts flexibility when conditions deteriorate. An example in our strategies has been the addition of paper from non-UK institutions that are not subject to bail-in: while the risk of collapse may be very low, it is not zero – meaning it is a simple choice if we see similar yields from similar quality institutions but only one is liable to bail-in.

## A Fully Integrated View of Risk

Risk assessment goes beyond traditional credit metrics. When looking at banks, areas such as balance sheet strength are no longer dominate our assessment to the extent seen in the 1990s. Governance and ESG considerations are embedded within the investment process, contributing to a more complete view of issuer quality. In our view, this is just as important a factor as looking at traditional measures of issuer financial resilience: problems around ESG – and governance in particular – can impact an issuers ability to transact in the market. It is not a ‘nice to have’ aspect of risk assessment.

This integrated framework supports consistent decision making and aims to help build portfolios to withstand both market volatility and issuer specific risks – not targeting a single outcome, but for resilience across environments.

## Consistency in a Flat World

Ultimately, investing for cash funds in a flat rate environment is about discipline rather than prediction. By focusing on value, maintaining diversification, and applying a consistent, risk aware process, cash strategies can continue to deliver their intended role within client portfolios. Even when rates appear to be going nowhere, a robust approach can still make a meaningful difference over time. In an environment where rates could plausibly be flat, higher, or lower, we believe cash remains the most effective place to invest while uncertainty is elevated, offering resilience, flexibility and capital stability as the outlook evolves.

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## Investment risks

**Investment risk:** The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

**Credit Risk:** Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

**Interest Rate Risk:** Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

**Stable Net Asset Value Risk:** The fund is not the same as a bank deposit account. It is designed such that it will seek, for the Distribution Classes, to maintain the Net Asset Value per share at a fixed value by distributing income from the fund as it arises. However, whilst the fund’s investments are reasonably believed by the Investment Manager to be of high quality, there is always a risk that an underlying issuer could default or otherwise fall in value, resulting in the fund being unable to maintain the Net Asset Value per share at a fixed value and therefore a loss of capital will occur. The risk of loss is to be borne by the investor. There is no representation or warranty that the fund will be able to maintain a stable Net Asset Value per share.

**Inflation risk:** Where the income yield is lower than the rate of inflation, the real value of your investment will reduce over time.

**Money Market Fund Risks:** A Money Market Fund is not a guaranteed investment, and is different from an investment in deposits. The principal invested in the fund is capable of fluctuation and the risk of loss of the principal is to be borne by the investor. The fund does not rely on external support for guaranteeing the liquidity of the fund or stabilising the Net Asset Value per share.

**No guarantee:** The funds are not a guaranteed investment.

**Principal fluctuation:** An investment in the funds are different from an investment in deposits. The principal invested in the fund is capable of fluctuation in value.

**No external support:** The funds do not rely on external support for guaranteeing the liquidity of the fund or stabilising the Net Asset Value per unit or share.

**Risk of loss:** Any risk of loss of the principal is to be borne by the investor.



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