The Globe and Mail – December 13, 2024

As the Bank of Canada cuts rates further, the case for cash in your investing account unravels

ROB CARRICK || DECEMBER 13, 2024

Even when the stock market's flying, there's a lot to be said for earning 4 to 5 per cent on virtually risk-free cash.

But with returns coming down to the 3-per-cent zone or even less in 2024, cash is fast losing its attractiveness. The Bank of Canada's drive to cut rates in the second half of this year has been helpful for borrowers but hard on savers and investors who want to earn a decent return on their money without the drama of stocks and also bonds.

This week's 0.5 of a percentage-point drop in the Bank of Canada's overnight rate has been especially tough. Rates on investment savings accounts, which are savings accounts packaged in a mutual fund format for investors, are falling to the high 2-per-cent range. Example: The rate on the RBC Investment Savings Account has dropped to 2.8 per cent from 3.3 per cent. With the inflation rate at 2 per cent, you're earning a very meh real rate of return of 0.8 per cent here.

Exchange-traded funds holding savings account deposits, T-bills and money market securities should still be able to deliver a yield of around 3 per cent after the latest Bank of Canada rate cut. But investors have already started to lose interest, both figuratively and literally. Three high-interest savings ETFs are on the list of funds with the biggest outflows of money for the year to Nov. 30 – the **CI High Interest Savings ETF** (CSAV-T **+0.04%**), the **Purpose High Interest Savings Fund** (PSA-T +**0.02%**) and the **Global X Cash Maximizer** (HSAV-T **+0.23%**).

The problem with draining money out of savings products is where to put it. Stocks have had back-to-back great years, which raises questions about whether a pullback is possible. Bonds have done well in the past 12 months, but there's some concern about whether incoming U.S. president Donald Trump's economic policies will stoke inflation. If that happens, bonds would suffer.

With this outlook, you can easily talk yourself into staying the course with your cash holdings. But the future is similarly questionable for cash. Further rate cuts from the Bank of Canada are expected next year, and each will lower cash returns further.

A project for your downtime during the holiday season: Make a plan to get at least some of your cash into more productive assets, possibly through multiple transactions made on a monthly or quarterly basis.

One more thought is to push off a move into riskier assets for a year. Alternative banks are still offering one-year rates of 4 per cent or a bit more on one-year guaranteed investment certificates. For some investors, that will be enough to keep them from trying riskier alternatives.