When Cash Is No Longer King, Consider Short Duration Bond Funds

Weitz | INVESTMENT MANAGEMENT

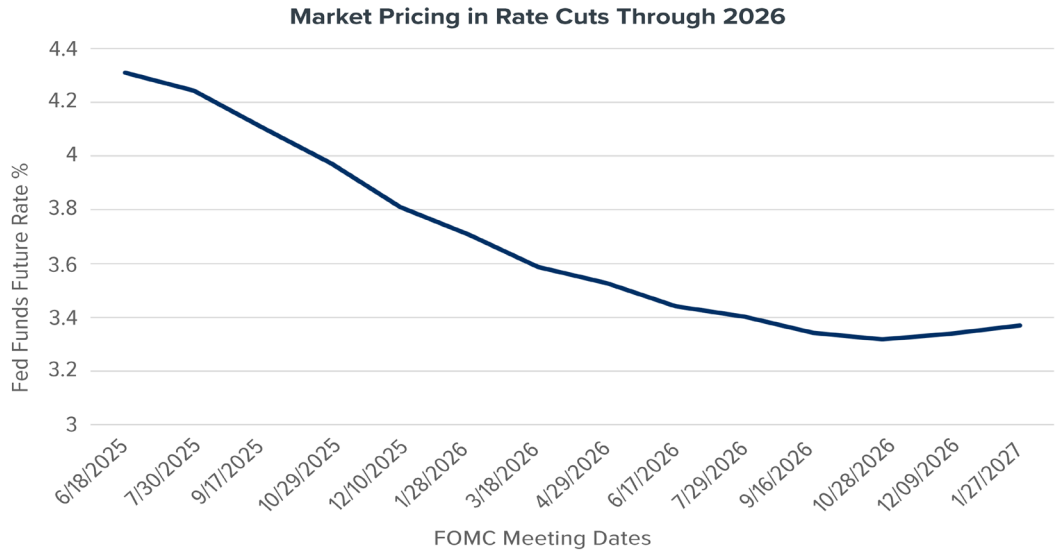
May 20, 2025

KEY POINTS:

- Inflation and potential rate cuts may erode the real value of cash over time.
- Short duration bond funds may benefit from today's widening yield-to-worst (YTW) gap versus cash alternatives.
- Staying flexible and focusing on real versus nominal yield can be essential in an uncertain environment.

CASH ON THE SIDELINES: A GROWING RISK

Although the Federal Reserve held the federal funds target rate steady in May, markets are pricing in longer-term rate cuts through 2026. April's year-over-year Core CPI reading of 2.8% shows some cooling, but uncertainty continues to dominate the narrative.



Source: Bloomberg as of 5/14/2025

In this environment, stepping out of cash and into short-duration fixed income may offer superior risk-adjusted return opportunities, while helping avoid the potential drawbacks of holding cash in certain scenarios.

Holding too much cash could expose investors to:

- **Real yield erosion:** Even if nominal yields stay positive, inflation can diminish purchasing power.
- **Missed opportunities:** As the YTW gap between cash vehicles and short-duration strategies widens, investors may leave yield on the table.

REAL YIELD VS. NOMINAL YIELD: WHAT'S THE RISK?

The high cash yields that accompanied the aggressive rate-hiking cycle of the past few years may feel reassuring, but inflation-adjusted (real) yields tell a different story. Even modest inflation eats into cash returns, meaning **the true earning power of cash could decline over time.**

WHEN CASH IS NO LONGER KING, CONSIDER SHORT DURATION BOND FUNDS

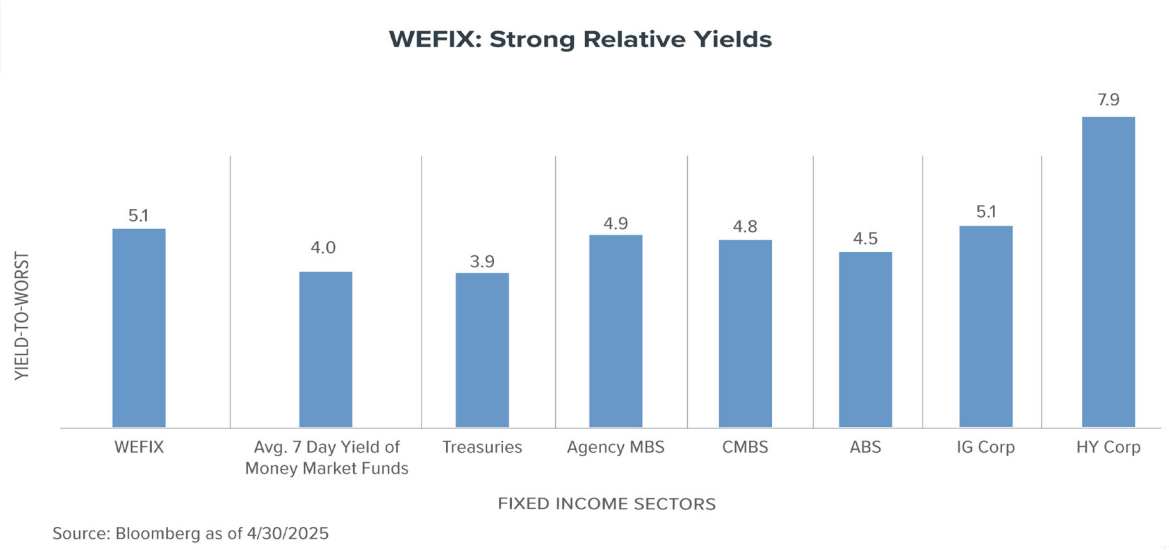
Meanwhile, we believe that short duration bond funds, which often feature higher yields and greater diversification, offer the potential to:

- Generate more attractive real yields relative to cash
- Preserve capital in a low-duration structure
- Stay agile as markets shift

Recent movements at the front end of the curve have widened the yield gap between cash and short-duration bonds, presenting a timely opportunity for investors seeking greater income.

STEPPING OUT OF CASH INTO SHORT DURATION OPPORTUNITIES

If you're not ready to step fully into intermediate duration bonds, short duration strategies offer a way to enhance yield potential while maintaining less interest rate sensitivity. The Weitz Short Duration Income Fund (WEFIX) offers higher yield potential compared to traditional fixed income sectors, without the elevated credit risks associated with lower-quality bonds.



Source: Bloomberg as of 4/30/2025

LOOKING AHEAD

Cash had its moment, but if the Fed pivots toward a more accommodative stance, it may be time to ask if cash is still king, or if it's time to look toward short duration strategies that balance safety, income and adaptability in a changing rate environment.

LEARN MORE ABOUT WEFIX

RETURNS (%)

	AVERAGE ANNUAL TOTAL RETURNS									
	1 YR	3 YR	5 YR	10 YR	20 YR	30 YR	35 YR	Since Inception (12/23/1988)	Net Expense	Gross Expense
WEFIX Institutional Class	6.90	4.61	3.28	2.52	3.19	4.15	4.58	4.70	0.45	0.53
WSHNX Investor Class	6.72	4.49	3.18	2.37	3.07	4.07	4.51	4.63	0.65	0.95
Bloomberg U.S. Agg 1-3 YR Index	6.76	3.56	1.53	1.78	2.38	3.43	N/A	N/A	-	-
Bloomberg U.S. Agg Bond Index	8.02	1.95	-0.67	1.54	3.13	4.45	N/A	N/A	-	-

Data as of 4/30/2025

YIELDS (%)

	30-DAY SEC YIELD		
	Subsidized	Unsubsidized	Distribution Yield
WEFIX	4.66	4.60	4.64
WSHNX	4.46	4.19	4.47

IMPORTANT DISCLOSURES

Data is quoted as of 4/30/2025 unless otherwise indicated. Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit weitzinvestments.com for the most recent month-end performance.

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 5/16/2025, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

This material must be preceded or accompanied by a prospectus or summary prospectus.

Effective 12/16/2016, the Short Duration Income Fund revised its principal investment strategies. Since that time the Fund has generally maintained an average effective duration between one to three and a half years. Prior to that date, the Fund maintained a dollar-weighted average maturity of between two to five years. Performance prior to 12/16/2016 reflects the Fund's prior principal investment strategies and may not be indicative of future performance results.

The Short Duration Income Fund has entered into a fee waiver and/or expense reimbursement arrangement with the Investment Advisor by which the Advisor has contractually agreed to waive a portion of the Advisor's fee and reimburse certain expenses (excluding taxes, interest, brokerage costs, acquired fund fees and expenses and extraordinary expenses) to limit the total annual fund operating expenses of the Fund's average daily net assets through 7/31/2025. The **gross expense ratio** reflects the total annual operating expenses of the fund, before any fee waivers or reimbursements. The **net expense ratio** reflects the total annual operating expenses of the fund after taking into account any fee waiver and/or expense reimbursement. The net expense ratio represents what investors are ultimately charged to be invested in a mutual fund.

Index performance is hypothetical and is shown for illustrative purposes only. You cannot invest directly in an index. The Short Duration Income Fund has compared its performance to the **Bloomberg 1-3 Year U.S. Aggregate Index**, which is generally representative of the market for investment grade, U.S. dollar denominated, fixed-rate taxable bonds with maturities from one to three years. The Short Duration Income Fund has also selected the **Bloomberg U.S. Aggregate Bond Index** as its broad-based index for regulatory requirements.

Holdings are subject to change and may not be representative of the Fund's current or future investments.

Definitions: **Yield to Worst (YTW)** is the lowest potential yield that can be received on a bond portfolio without the issuers actually defaulting. Average Coupon is the weighted average coupon rate of each bond in the portfolio. **The Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by consumers for a representative basket of consumer goods and services. The CPI measures inflation as experienced by consumers in their day-to-day living expenses.

Consider these risks before investing: All investments involve risks, including possible loss of principal. Market risk includes political, regulatory, economic, social and health risks (including the risks presented by the spread of infectious diseases). Changing interest rates may have sudden and unpredictable effects in the markets and on the Fund's investments. The Fund may purchase lower-rated and unrated fixed-income securities, which involve an increased possibility that the issuers of these may not be able to make payments of interest and principal. See the Fund's prospectus for a further discussion of risks.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com.

Weitz Securities, Inc. is the distributor of the Weitz Funds.