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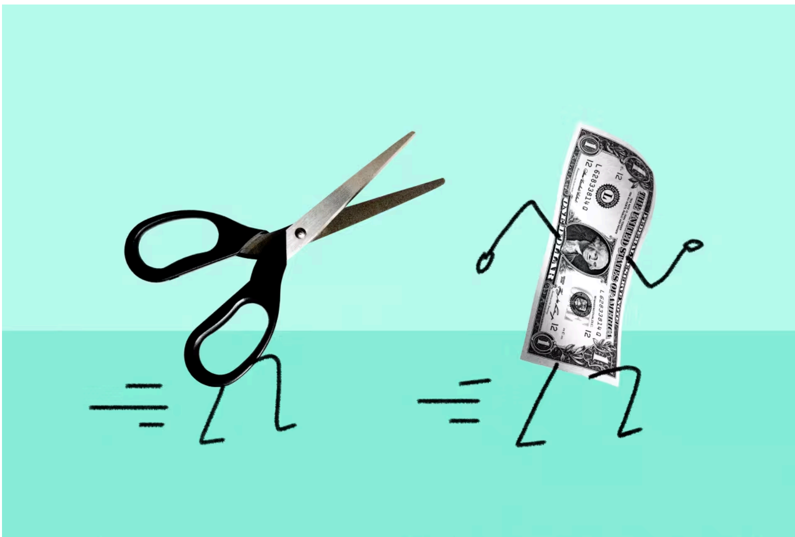
Where to Put Your Money After the Fed Rate Cut

What lower rates mean for the trillions of dollars in CDs and high-yield savings accounts



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By Joe Pinsker Follow *and Elizaveta Galkina* Follow

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The era of earning easy 5% returns on your cash is ending—slowly.

The Federal Reserve cut rates half a percentage point Wednesday. Lower interest rates on high-yield savings accounts and money-market funds will follow, likely within days or weeks. Yields on certificates of deposit have already started dropping.

Americans piled trillions of dollars into savings accounts and money-market funds the past two years when rising interest rates made cash more appealing. Retail assets in money-market funds totaled nearly $2.6 trillion last week, up from about $1.5 trillion in September 2022, according to the Investment Company Institute.

Now, financial advisers say it is time to recalibrate that cash hoard.

For the cash you decide to keep, you should shop around for the best place to store it. If you're looking to lock in some of today's yields by buying CDs or Treasury bonds, act sooner rather than later.

"You'll see banks pull back on their CD offerings pretty fast," said Ben Smith, a financial planner in Milwaukee.

The price of procrastination shouldn't be too severe, though. This Fed rate cut's immediate impact won't be as dramatic as just before rates on I bonds adjusted from 9.62% to under 7% in 2022, which sent overwhelming demand to the Treasury website selling them.

Munro Richardson bought 4-week T-bills last week in what he said felt like a last hurrah before the Fed cuts. PHOTO: WILL CROOKS FOR WSJ

Munro Richardson, a 52-year-old who runs an education nonprofit in Charlotte, N.C., said the 4-week T-bills he bought last week felt like a last hurrah before the Fed cuts. "It's been a great time to be a saver," he said. "I was finally getting rewarded for doing the responsible thing as opposed to speculating on the hottest stock or cryptocurrency."

As rates fall, some banks will have better deals than others. For instance, when the Fed lowered rates in March 2020, the average yield on 1-year CDs fell within weeks. The rates on the highest-yielding 1-year CDs, however, remained at least 1 percentage point higher than the average for about two months, according to data from the financial website Bankrate.

Earlier this month, the top 1-year CD in Bankrate's database paid 5.1%, or $255 in annual interest on a principal of $5,000. If the rate dropped by half a percentage point, to 4.6%, that would knock $25 off the annual interest.

Where to move your money

High-yield savings accounts have seemed like a sweet deal in recent years, but interest on cash isn't going to make you rich. It merely helps protect from inflation the money that you need to have available soon. Holding too much cash means missing out on long-term returns.

"There is this feeling that cash does not carry risk, and that's just wrong," said Valerie Rivera, a financial planner in Chicago.

To pare back, determine how much money you need for emergencies and in the next two years. Keep that in a high-yield account, or if you have a specific expense like a down payment, buy a CD or bond that matures when you need the money. Funds you don't need for at least a decade go into longer-term investments like stocks.

Then there is the money you have in mind for the medium term, a time horizon that often gets overlooked, said Smith, the Milwaukee financial planner. He recommends bond or CD ladders, which have a range of maturities, helping mitigate interest-rate risk.

Smith warns against two opposing impulses when revisiting cash holdings.

The first is chasing higher returns by buying stocks. Using stocks in pursuit of short-term gains is risky, he said. You should buy equities only if you plan to hold them. The second is that people have gotten so accustomed to high returns on cash that they might hang on even as rates fall.

"They've been trained to view this high-interest, low-risk option as an immovable force," Smith said. "It's kind of hard to retrain that."

Matt de Silva, who started investing in fixed-income a few years ago, said he's holding roughly $50,000 in cash—about $30,000 more than he figures he needs.

The 30-year-old in New York City said he is OK with that, partially because he is thinking of buying a condo. He has also decided he doesn't want to put too much effort into maximizing what he earns on his cash.

"I've increasingly accepted that it's OK to not squeeze every dime out of my investments," said de Silva, who works at a healthcare software company. "As long as I do the big things right, I'll probably do well enough."

Rate-cut reality

When the Fed raises or lowers rates, an average of 30% to 40% of the change eventually gets reflected in yields on checking and savings accounts, according to a 2021 paper in the Journal of Finance that analyzed data from 8,000 banks since 1984.

Matt de Silva is holding more in cash than he figures he needs. He's OK with that. PHOTO: JOHN CUNHA

Banks tend to change CD yields more quickly when rates are falling than when rates are rising, research has found. In periods when rates were decreasing between 1997 and 2011, banks left yields unchanged on 3-month CDs for a median of three weeks. When rates were increasing, they left yields unchanged for a median of six weeks, according to a 2022 paper published by the Fed.

According to Philipp Schnabl, a finance professor at New York University, one explanation that has been suggested is simply that Fed rate increases are historically more gradual than rate cuts. Another is that banks are slower to act because it benefits them to delay paying higher interest to customers.

As rates rose in 2022 and 2023, many savers received a stream of celebratory emails from their banks letting them know that the yields on their savings accounts had increased.

Banks aren't legally required to notify you when the interest rate is about to change on your account, so don't expect the same level of communication if they lower interest rates, say financial advisers.

"When your 5% high-yield savings account goes down to 4.5%, we're not getting that email blast," said Smith, the Milwaukee financial planner.

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