

Ditch the S&P 500? Consider T-Bills for Risk Management

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Explore the advantages of Treasury bills (T-bills) in today's uncertain economic climate.

By Glenn Frank

In today's environment of volatile markets, uncertain Federal Reserve policy, rising global tensions, political instability, tariff risks, recession risks... predicting investor behavior is challenging! With so many unpredictable factors, this may be a time to focus on risk management—and Treasury bills (T-bills) offer a particularly attractive solution. Now may be the time to pragmatically shift away from the S&P 500, heavily influenced by the Magnificent 7 stocks and move out of “core” intermediate term bond funds.

Why Consider T-Bills Now?

Three-month T-bills are currently yielding over 4% and offer several important advantages:

- State tax-free income
- Minimal duration (interest rate change) risk
- High liquidity
- Reduction of overall portfolio risk

Concerned about a U.S. default on T-bills? If that ever happened, we'd have far greater concerns than just our portfolios—a long walk into the woods might be in order!

That said, if you're uncomfortable having too many eggs in that one basket, check out my complimentary investments at the end of this article.

Additional considerations:

- Diversification 101: Single events should not sink the whole ship. In 2022, when
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interest rates rose unexpectedly, longer-term bonds dropped sharply, alongside equities—particularly high-growth stocks like the Magnificent 7. To be fair, rates were abnormally low in late 2021 so there was more room for rates to rise.

- T-bills offer a straightforward, powerful way to hedge against “black swan” events—rare, unpredictable shocks that can upend financial markets. The probability of such events may be higher today.
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- T-Bills, as opposed to longer term treasuries, should be far less impacted if foreign governments (Japan, China.... “tariff posturing”) actually reduce their holdings. This might drive down prices and create losses while increasing yields. If there were sales, they would likely be gradual to avoid self-harm by these countries. They may not want to drive down the value of their own assets. Again, the degree of impact should be a function of duration.

The Big Picture: Tailor Your Portfolio to Your Needs, Not to Benchmarks

As Groucho Marx once joked when asked about his investments: “All Treasury bills.” When told, “They don’t earn much,” Groucho replied, “They do if you have enough of them!”

In my earlier article on Retirement Daily, [“How to Build a Lifetime Portfolio – 5 Steps”](#), Step 1 is all about determining your personal asset need—the return required to meet your financial goals.

Key principle:

Design your portfolio based on your needs, not based on benchmarks like the daily reported S&P 500 or intermediate-term bond indices like AGG.

Today, it’s about FORO (Fear of Running Out), not FOMO (Fear of Missing Out).

Unless you are already wealthy like Groucho was, your biggest risk is not underperformance as compared to a benchmark—it’s outliving your money. Most investors need a balance between securing yield and carefully capturing growth opportunities over time.

Historically, T-bills have posed significant compounding risk because of their lower returns compared to stocks and bonds. No growth, no future. However, today on a relative basis—with 3-month T-bill yields slightly higher than intermediate-term bond yields and with muted U.S. equity return forecasts—is anything but typical.

On FOMO

Regarding the S&P – obviously there could always be a big rebound in the short-term despite near universally low long-term forecasts. Watch out though for AI capital expenditures flattening or, worse yet, dropping. We could hear an AI bubble pop! But who knows.

Regarding fixed income – rates may drop more than the markets have already priced in, potentially boosting intermediate and long-term bond prices. But if rates don't fall more than expected, or worse, rise, you'll wish you were in very short-term fixed income.

Even Federal Reserve Chair Jerome Powell appears uncertain about future rate paths. Moreover, the Fed only controls short-term rates. Longer-term rates are driven by supply, demand, inflation expectations and global capital flows.

Assuming that lower Fed Funds' rates will automatically pull longer-term rates lower is a hopeful bet by the markets. Today's fairly flat yield curve, up until 10-year terms, is abnormal. At some point, the term risk premium for intermediate bonds should return. This means that for the curve to normalize, either short rates must drop more than intermediate or intermediate must go up more than short. Bottom line: Why bet that intermediate and long-term rates will fall more than expected?

Understanding the Historical Context

- Historically, T-bills have delivered inflation-matching returns, bonds a few percentage points more and equities several percentage points beyond bonds.
- Today, short-term yields are equal to or higher than intermediate-term bond yields—meaning no term premium for taking extra risk.
- According to Vanguard, Research Affiliates and others, the 10-year forecast for U.S. large-cap equity returns, especially those driven by the Magnificent 7, is at historical lows. The equity risk premium is essentially nonexistent for the S&P 500.

I outlined these concerns in my [Fall 2024 article on Retirement Daily](#).

Bottom line: As discussed in Step 2, Asset Allocation, why take asset class risks when there's no corresponding expected reward?

How to Capture This Opportunity Wisely

Einstein once said, "Everything should be made as simple as possible, but no simpler." Here's the simple and effective Step 3 (Asset Capture) approach:

Main Street Solution:

- Treasury money markets or buy a T-bill ETF with an expense ratio under 0.10%. Transparent, liquid and easy.

Wall Street's Solution:

- Actively managed mutual funds with their wealth eroded by higher expense ratios and taxable capital gain distributions (which ETFs tend to escape).
- Complex, illiquid and expensive options like private equity, structured notes, hedge funds and other alternatives.

As Warren Buffett said, “What’s a hedge fund? It’s not an asset class; it’s a compensation scheme.”

“When the tide goes out, you find out who’s been swimming naked.” (post 2008 crisis)

Some advisers may hesitate to recommend simple strategies. After all, it’s hard to justify advisory fees for something clients can do themselves. But simplicity often wins when managing risk and protecting capital.

Also remember: “Never forget the six-foot-tall man who drowned crossing a stream that was five feet deep on average.” —Howard Marks. Surviving the deep end of the markets is what truly matters. Losses severely damage long-term compounding.

Tune Out the Noise—Tune Into the New Reality

Normally, a change in U.S. administration is background noise, especially if Congress is divided. But today, we face what The Economist describes as “Radical Uncertainty.”

Regardless of your political leanings, anchoring part of your portfolio in the near-certainty of T-bills is a prudent strategy.

Even Warren Buffett’s Berkshire Hathaway now owns about 5% of all outstanding T-bills and JPMorgan’s Strategic Income Opportunities Fund, managed by highly regarded Bill Eigen, maintains a cash oriented “T-bill-like” duration despite having the flexibility to invest across the fixed-income landscape. Intermediate core bond managers may not have this flexibility.

Final Thoughts

Now is the time to reconsider your portfolio—adjusting your fixed income allocation and more importantly by reallocating a portion of your S&P 500/Magnificent 7 exposure into T-bills.

You may trigger some taxable gains, but that may be a worthwhile price to pay for significantly improving your risk posture in an unpredictable environment.

You could complement T-bills with:

- Shorter-term municipal ETFs
- Shorter-term quality corporate bond ETFs
- Floating-rate bank loan funds/ETFs
- Emerging Market Debt ETFs
- CDs
- (Best of all) Paying off high-interest debt

Keep it simple:

T-bills offer a robust defense against today's radical uncertainty. When conditions normalize—when term premiums return and the S&P equity risk premium becomes attractive again—you can extend duration and reenter equities more heavily. You know, buy low, sell high!

Take risks when you're being paid to do so.

Maybe the traditional 60/40 portfolio (60% stocks, 40% bonds/fixed income) should temporarily become an unconventional "40/60": 40% broadly diversified equities (U.S. value, U.S. small-cap and, given higher forecasts, international and emerging markets) and 60% in fixed-income vehicles like T-bills.

Buffett ignores benchmarks—so should you!

Final Warning: Following this strategy means your portfolio will almost certainly look different from that of your friends and family. Be comfortable standing apart.

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Professor Glenn Frank was the founding director of Bentley University's Master's in Financial Planning program, where he taught capstone portfolio construction courses for 20 years. He has decades of investment committee experience and continues to teach advanced investment courses. Glenn was named Planner of the Year by the Massachusetts FPA in 2019.

He is the founder of Frank Advising LLC, offering both full-service wealth management and educational workshops. Glenn is known for his "Thinking Outside the Box" approach". His book, "Your Encore," is available on Amazon. [FrankAdvising.com](https://frankadvising.com).
