

Short-Term Income Playbook: Liquidity, Income, and Flexibility

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IN A NUTSHELL

- **Short-term income is once again strategic:** Elevated front-end yields may allow investors to earn meaningful income while limiting interest rate risk in an uncertain market environment.
- **More than just cash:** Short-duration bonds may offer higher, more predictable income than bank cash—with daily liquidity and flexibility to reposition capital.¹
- **Balanced risk profile:** Investors may target income, capital preservation, and liquidity simultaneously, although trade-offs such as reinvestment risk remain.
- **A layered approach may work best:** Combining Treasuries, core short-duration bonds, and selective high yield may help optimize income across different risk levels.
- **DWS provides a full toolkit:** Through Xtrackers ETFs and DWS funds, investors can efficiently build and adjust short-term allocations across the entire risk spectrum.

Introduction

With a market environment defined by ballooning U.S. national debt, interest rate uncertainty, continuing market volatility, and an unattractive risk-return tradeoff across longer-duration assets, short-term income has reemerged as an important strategic allocation. No longer treated as a temporary cash placeholder, today's elevated front-end yields allow investors to seek meaningful income opportunities while taking on limited duration risk.

Investors seek liquidity, but they also want their liquidity to earn a consequential return. This has created an important portfolio opportunity: Building a short-term allocation that balances investors' requirements for flexibility, yield visibility, and capital preservation.

For investors seeking a comprehensive short-term income strategy, DWS and Xtrackers offer a range of approaches across the short-term risk spectrum.

The Short-Term Advantage

Today's higher interest rate environment has materially reset investment expectations at the short end of the yield curve. Market volatility, geopolitical unrest, and macroeconomic instability have become constant factors across all asset classes. Given this backdrop, it is no surprise that investors could be

1. Unlike bank deposits, short-duration bond investments are not guaranteed or insured by the FDIC.

somewhat hesitant to commit, especially given the volatility of yields on long-term bonds relative to the relatively consistent returns on shorter-term instruments. Today, short-term investing offers multiple advantages:

Lower interest-rate sensitivity: Short-term bonds may have lower interest rate sensitivity because most of their value comes from cash flows and principal that are paid back in the near term. Since there's less time for interest rates to change, shifts in yields have a smaller effect on their price. By contrast, longer-term bonds depend more on payments far into the future, making their prices more responsive to interest rate movements.

Superior returns to cash in the bank: Short-term bonds may offer higher, more stable income while still preserving capital and liquidity. Bank cash rates are set by the institution and can fall quickly, often lagging market interest rates. Short-term bonds, by contrast, lock in prevailing market yields for a defined period, providing more predictable returns with limited interest-rate risk.

Liquidity and transparency versus money market funds: Short-term bond ETFs and mutual funds trade daily (ETFs trade intraday), allowing investors to access their capital at market prices with same-day liquidity. With money market funds, there are potential withdrawal limits, tiered access rules, or notice periods, especially during periods of market stress. Conversely, liquidity in bond funds is supported by diversified holdings of highly liquid securities (Treasuries, agencies, high-quality corporates) and, for ETFs, an active secondary market that adds another layer of access beyond the fund itself.

Important tax advantages: Interest income from U.S. Treasury securities is generally exempt from state and local income taxes for U.S. taxpayers, although individual circumstances may vary; investors should consult their tax advisor.

Flexibility for future investments: A liquid short-term bond allocation can support timely capital redeployment as market opportunities arise, allowing investors to "get paid to wait."

Potential Disadvantages to Short-Term Investing

Lower income potential: Short-term Treasuries and bonds typically offer lower yields than longer-dated bonds or credit-oriented securities, especially when the yield curve is upward sloping. Over time, this can result in lower total returns.

Reinvestment risk: Because maturities are short, proceeds must be reinvested frequently. If interest rates fall, future reinvestments may occur at lower yields, reducing income.

Limited inflation protection: While price volatility is low, short-term investments can still deliver negative real returns if inflation is elevated relative to yields, eroding purchasing power.

Increased sensitivity to rate cuts: When the Fed cuts rates, shorter-term Treasury yields tend to fall quickly, compressing income faster than on longer-dated bonds locked in at higher yields.

Short-Term Investing Toolkit with DWS and Xtrackers

Xtrackers ETFs and DWS mutual funds are designed for precision at the front end of the yield curve, whether seeking core Treasury exposure, high corporate quality, or incremental yield opportunities.

The Xtrackers/DWS advantage:

- Short duration exposure to mitigate interest-rate sensitivity.
- Daily liquidity and ease of implementation.
- High credit quality or clearly defined credit risk exposure.
- Operational efficiency versus managing individual securities and reinvestment schedules.

Outlined below is a potentially comprehensive framework for generating income while minimizing long-duration risk, utilizing Xtrackers ETFs and DWS mutual funds.

Start with the foundation: Short-term Treasuries for liquidity and optionality

Short-term Treasuries may serve as the anchor of a liquidity sleeve because they are backed by the U.S. government and typically carry far less price volatility than longer-duration bonds. Importantly, they also provide optionality: when maturities are short, investors can reinvest at prevailing yields without locking capital away for years.

Strategy: [Xtrackers US 0-1 Year Treasury ETF \(TRSY\)](#)

Short-term Treasuries enable investors to stay liquid while earning income that is often more competitive than traditional bank cash. **The Xtrackers US 0–1 Year Treasury ETF (TRSY) delivers access to ultra-short U.S. Treasuries in a liquid ETF wrapper.** Through its low fee structure, TRSY is designed to streamline cash management, reduce unnecessary costs, and allow more yield to stay invested.

Why TRSY?

- **Efficient cash management:** TRSY utilizes a rules-based methodology to maintain U.S. T-bill exposure, eliminating the need to manage maturities and reinvestment decisions.
- **Pure Treasury Bill focus:** A simple, transparent option for clients seeking stability in uncertain markets.
- **Low-cost access:** With a 0.06% expense ratio, TRSY is priced competitively compared to many cash-management alternatives.
- **Tax advantage:** Interest income from TRSY is exempt from state and local income taxes.

Layer two: Diversified short-duration bonds for a “core” income step-up

Once the liquidity foundation is set, a diversified short-duration bond allocation could modestly increase income potential while keeping duration risk contained. This segment typically includes investment-grade credits, select securitized exposure, and other high-quality fixed income sectors—managed with a focus on preserving capital and reducing volatility relative to intermediate-term bond funds.

Strategy: [DWS Short Duration Fund \(PPILX, DBPIX\)](#)

DWS Short Duration Fund (available in multiple share classes) is an actively managed short-term bond fund designed to provide **current income with limited interest-rate risk—sitting between cash and core bonds on the risk spectrum**. The fund invests across sectors, including U.S. Treasuries, Agency and agency mortgage-backed securities (FNMA, GNMA), and high-quality corporate bonds.

Why a Short Duration Fund?

- **Core short-duration allocation:** With a target portfolio duration of three years or less, the DWS Short Duration Fund is designed for investors seeking smoother returns than those typically offered by longer-duration bond funds.
- **Step-up from Treasuries:** Enhanced income potential, but generally with lower credit risk than high yield.
- **Diversified exposure:** The Fund holds hundreds of holdings across sectors, helping to reduce issuer-specific risk.
- **Active management flexibility:** The Fund is actively managed, enabling management to adjust credit exposures and navigate changing interest rate environments.

Layer three: Short-duration high yield for selective income enhancement

For investors seeking enhanced income opportunities and can tolerate more risk, short-duration high yield may be a third layer. The goal here is to capture additional income from corporate credit while maintaining a shorter maturity profile that can reduce interest-rate sensitivity compared with broader high-yield allocations.

Strategy: [Xtrackers Short Duration High Yield Bond ETF \(SHYL\)](#)

SHYL is designed to track an index of USD-denominated high yield corporate bonds with 0–5 years to maturity. The key trade-off is straightforward: investors may receive higher income potential, but they must accept potential additional credit risk: credit spreads, defaults, and the health of the corporate sector will drive results—particularly in periods of market stress.

Why SHYL?

- **Attractive income potential:** SHYL invests in high-yield (below investment grade) corporate bonds, which typically offer higher coupons than investment-grade or government bonds.
- **Balanced risk/return profile:** The Fund aims to capture much of the yield of high yield bonds while mitigating some of the volatility typically associated with longer-duration credit.
- **Diversified credit exposure:** The portfolio holds hundreds of bonds across sectors, helping to spread issuer risk rather than relying on a few names.
- **Cost-efficient access:** SHYL maintains a competitive expense ratio of 0.20%.

Summary: Short-Term Income Strategies Now More Than Just Parking Cash

In today's environment of elevated interest rates, market volatility, and uncertainty around longer-duration assets, short-term income has evolved from a passive cash placeholder into a strategic portfolio allocation. Investors are increasingly looking for approaches that provide **liquidity, meaningful income, and capital stability**—not just safety.

Short-duration bonds offer several key advantages:

- **Lower interest-rate sensitivity**, helping reduce volatility.
- **Higher and more predictable income than cash**, as yields are locked in for a defined period.
- **Daily liquidity and transparency**, especially through ETFs.
- **Flexibility to redeploy capital**, allowing investors to “get paid to wait.”
- **Potential tax advantages**, as U.S. Treasury securities are generally exempt from state and local taxation.

However, trade-offs remain, including **lower return potential vs. longer-duration assets, reinvestment risk, and limited inflation protection.**

To address these competing objectives, DWS suggests a **tiered approach to short-term income investing**:

1. **Foundation – Treasuries (TRSY):**
Ultra-short U.S. Treasuries provide liquidity, stability, and tax advantages, forming a low-risk allocation.
2. **Core – Short-Duration Bonds:**
A diversified, actively managed approach that seeks to enhance income while maintaining relatively low volatility and high credit quality.
3. **Income Enhancement – Short-Duration High Yield (SHYL):**
Adds incremental yield potential through corporate credit exposure, with higher risk but still limited duration.

DWS offers a comprehensive short-term toolkit across the risk spectrum, combining Xtrackers ETFs and actively managed DWS mutual funds to deliver **Treasury liquidity, core short-duration income, and targeted yield enhancement**. This integrated platform enables investors to efficiently build and adjust allocations with **precision, daily liquidity, and institutional-quality portfolio construction**.

Glossary

Capital preservation: An investment goal focused on protecting the original amount invested from large losses.

Credit risk: The risk that a bond issuer may fail to make interest payments or repay principal on time.

Diversification: The dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns

DWS Short Duration Funds: Actively managed mutual funds that invest primarily in short-term, high-quality bonds, seeking to generate income while maintaining relatively low volatility.

ETF (Exchange-Traded Fund): A security that tracks an index or asset like an index fund, but trades like a stock on an exchange.

Expense ratio: The annual fee a fund charges investors, shown as a percentage of assets.

Front-end yields: The yields available on bonds with very short maturities, usually at the short end of the yield curve.

High-yield bonds: Bonds issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Interest-rate sensitivity: How much the price of a bond or bond fund is likely to rise or fall when interest rates change.

Investment-grade bonds: A credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

Maturity: The final payment date of a financial instrument.

Mutual fund: Combines funds from many investors with the intention of purchasing securities

Real return: An investment's return adjusted for inflation.

Reinvestment risk: The risk that money from maturing bonds or interest payments will have to be reinvested at lower interest rates.

Short-duration bonds: Bonds or bond funds that mature relatively soon and usually react less to interest-rate changes than longer-term bonds.

Transparency: The degree to which clear, timely, and accessible information about an investment—such as its holdings, costs, risks, and performance—is made available to investors.

Treasury bills (T-bills): Short-term debt securities issued by the U.S. government, typically considered among the lowest-risk investments.

Volatility: The degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk

Xtrackers Short Duration High Yield Bond ETF (SHYL): A passively managed ETF that invests in short-term, below-investment-grade U.S. corporate bonds (0–5 years), aiming to provide higher income with relatively lower interest rate sensitivity.

Xtrackers US 0-1 Year Treasury ETF (TRSY): A passively managed ETF that invests in very short-term U.S. Treasury securities (typically 1–12 months), seeking to provide stability and income with minimal interest rate risk.

Yield curve: Shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.



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SHYL: Investing involves risk, including the possible loss of principal. Bond investments are subject to interest rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Foreign investing involves greater and different risks than investing in U.S. companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry (or group of industries), country or in a limited geographic region generally are more volatile than more diversified funds. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Performance of the Fund may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, use of sampling strategies or operational inefficiencies. An investment in this fund should be considered only as a supplement to a complete investment program for those investors willing to accept the risks associated with that fund. Please read the prospectus for more information.

DWS Short Duration Fund: Bond investments are subject to interest-rate, credit, liquidity and market risks to varying degrees. When interest rates rise, bond prices generally fall. Credit risk refers to the ability of an issuer to make timely payments of principal and interest. Investments in lower-quality ("junk bonds") and non-rated securities present greater risk of loss than investments in higher-quality securities. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. The fund may lend securities to approved institutions. See the prospectus for details.

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