



## Interest Rates: Still Low but on the Rise *What does this mean for you?*



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It has been a difficult decade for savers and investors who look to interest rates to help their investment return. For 10 years they have suffered falling or ultra-low interest rates, leaving them with little to modest returns on their deposit accounts. One of the main arguments against the Federal Reserve's low interest-rate strategy in the wake of the Great Recession was the cost borne by savers. Even now as the central bank slowly reverses that policy — with two rate hikes already in 2017 — savers still aren't benefiting much.

A look at a variety of savings vehicles, from certificates of deposits to savings accounts, shows that these vehicles still offer returns that will not help many investors reach their desired goals.

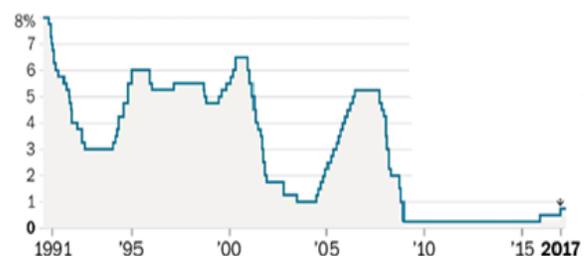
The Federal Reserve raised the federal funds rate range during their June meeting to 1% - 1.25%. Fed Reserve Chair Janet Yellen stated at a press conference, "It reflects the progress the economy has made."

*(www.money.cnn.com)*

Twice this year, the Fed has increased interest rates. According to data from RateWatch, the average interest rate paid on a 12-month CD is still extremely low. It's not much higher than what was paid out four years ago, when the Fed's primary interest rate was close to zero. Even after more banks start to offer higher savings rates, we are "light years" away from seeing the generous yields of 5, 6 or 7 percent on five-year CDs that were common during the 1980s and 1990s, says Greg McBride, chief Financial Analyst for Bankrate.com.

### The up-and-down history of Fed interest rates

The central bank's benchmark interest rate has hovered near zero since 2009.



Note: Dec. 2008, 2015 and 2016 hikes chart the top of the Fed's targeted range.

Source: Federal Reserve

THE WASHINGTON POST

Despite speculations that the Fed will not raise the range again this year, as long as the economy continues to grow, they are indicating there will be three quarter-point rate increases in both 2018 and 2019. If this occurs, the Fed's preferred level of 3% will be met by the third rate hike in 2019. A key factor the Fed is watching for is any inflationary effects if Trump's proposed tax cuts are passed through Congress and any changes in military and infrastructure spending policies.

*(Source: cnbc.com & Kiplinger.com)*

## How Rising Interest Rates Might Impact You

A rising interest rate is a sign that the Federal Reserve is confident in the health of the economy. U.S. unemployment has hit the lowest levels since 2001, the housing market is strong, and the Fed

announced in June they will begin reducing their \$4.5 trillion balance sheet that accrued during the financial crisis to boost the economy.

Rising interest rates will affect many Americans – from those who plan on purchasing a home, to those who own bonds.

Overall, some people may see a slight increase in their day-in-day-out bills. The Chief Economist with PNC Financial Services Group stated, “When the economy’s doing really well and the labor market is good and the unemployment rate is falling, that’s when you have concerns about employers hiring and bidding up wages and inflation rising.” ([www.bankrate.com](http://www.bankrate.com))

More specifically, here are some of the main areas where many Americans may feel the impact of rising interest rates.

### → [Mortgage Rates](#)

Planning on purchasing a home? You could face a possible condition that includes both higher interest rates and higher home prices. In May, the average interest rate on a 30-year mortgage was 4.18%. ([Source: bankrate.com](http://www.bankrate.com))

Matthew Pointon, a Property Economist for Capital Economics, predicts that by the end of 2018, mortgage rates may reach as high as 5.5%. Rising rates on mortgages, combined with the estimate of home prices expecting to rise 4.6% in 2017 (according to a Zillow survey of economists) could

push the pause button for those considering purchasing a home. ([Source: fortune.com](http://fortune.com))

### → [Savings Accounts](#)

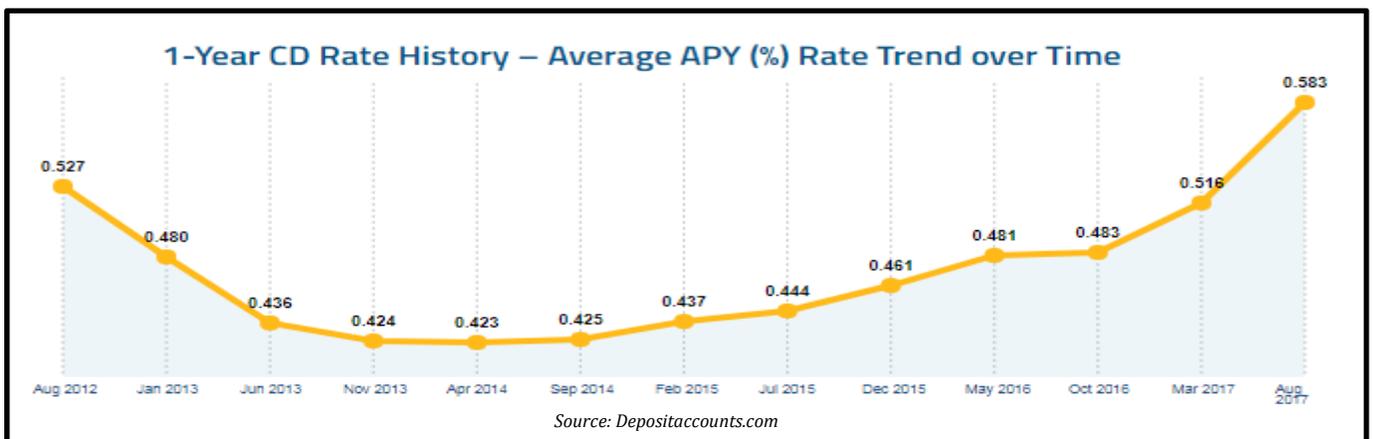
Savings rates remain lackluster. Banks have been resistant to raising savings rates. According to [bankrate.com](http://bankrate.com), the average rate on money market accounts the week of March 15 was exactly the same as that time last year, at 0.11%. The average rate of a 1-year CD in August of 2017 is only 0.583%, a rate that might not be very helpful for many investors. (See chart).

### → [Bond Holdings](#)

Bonds can still be an essential part of a conservative portfolio. They provide income, although typically more modest returns, and high grade bonds are usually considered more stable than stocks.

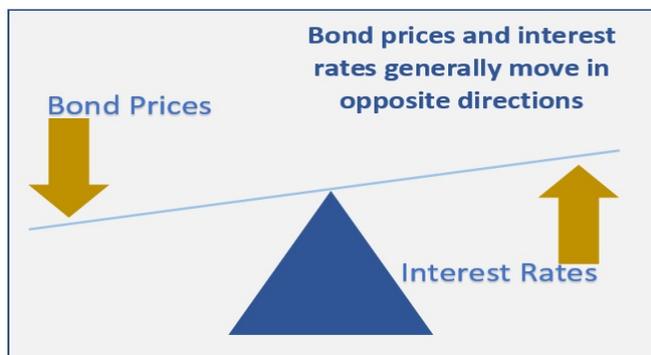
If you are retired and relying on investment income to pay the bills, in most cases, it might not be appropriate to invest only in equities. Unfortunately, with current short-term rates still low, it has become difficult to earn very much on your fixed income investments and cash.

Traditionally, an investment in bonds was for yield income. In today’s low interest rate environment, the purpose of purchasing bonds has changed. Now, many invest in bonds for capital preservation, to stabilize a portion of their portfolio. No matter what your method or approach is, all investors need to



reconsider interest rate risk, issuer credit risk and purchasing power risk.

Remember, bonds and yields typically move in the opposite direction of each other. When interest rates rise, the prices of existing bonds go down.



### → *Investment Portfolio Monitoring*

Although interest rates are still low, with interest rates on the rise, it is prudent for investors to review their interest rate-sensitive investments. This includes:

- 1. Making sure you are comfortable with your time horizons.**
- 2. Assessing your risk tolerance.**
- 3. Confirming your investments are compatible with both your time horizon and risk tolerance.** As advisors, we help our clients review the income producing investments they own. Our primary goal is to match your portfolio to your timelines and personal financial situation.
- 4. Maintaining liquidity for all short-term and near-term needs.** Liquid accounts in today's interest rate environment will probably not keep pace with inflation. Although it is always important to maintain a liquid component in your portfolio, you should think about what major expenses you will incur in the next two years and consider keeping a larger than typical liquid pool of assets.

**5. Reviewing your bond holdings duration.** In bond investing, we talk about "duration" as a measure of a bond's sensitivity to interest-rate changes. The longer the duration, the more a bond's price is impacted by interest-rate changes. Typically, bonds with longer maturities have longer durations and vice versa. So investing in bonds with lower duration or shorter maturities can help to reduce your exposure to rising interest rates.

**6. Considering credit quality versus high yields.** Although lower credit quality bonds generally have higher yield, they typically are more sensitive to changes in the economic outlook. With many investors recently anticipating strengthening economy the excess yield on lower quality bonds has declined significantly over the past year.

**7. Diversification** can potentially limit your risk and can help provide your portfolio stability during fluctuating markets that can bring variability into your investment returns.

It is always wise to monitor your portfolio regularly. With interest rates expected to rise on a regular schedule in the next few years, it is even more prudent to keep a close eye and make any adjustments as necessary.

We are available to discuss these strategies with you. Before taking action on any strategies, it can be best to discuss your options with a professional financial advisor.

### Discuss any concerns with us.

If you have any questions, please do not hesitate to ask them. We are always available to review your investment portfolio with you. We will always consider your feelings about risk and the markets and review your unique financial situation when providing any recommendations.

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

**A good financial advisor can help make your journey easier. Our goal is to understand our**

**clients' needs and then try to create a plan to address those needs. While we cannot control financial markets or interest rates, we keep a watchful eye on them. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment. As always, we appreciate the opportunity to assist you in addressing your financial matters.**

### ***Fun Facts: Interest Rates throughout History***

- Mesopotamia, c. 3000 BC: **20%**
- Persian conquest (King Cyrus takes Babylon), 539 BC: rates of **40+%**
- Greece, Temple at Delos, c. 500 BC: **10%**
- Rome: 1 AD: **4%**
- Rome, under Diocletian, 300 AD: **@ 15%**
- Italian cities, c. 1150: **20%**
- Venice, 1430s: **20%**
- Venice, (Leonardo da Vinci paints "The Last Supper in Milan"), 1490s: **6.25%**
- England, 1700s: **9.92%**
- US, circa World War II, 1940s: **1.85%**
- US, Reagan administration, 1980s: **15.84%**



*Source: Chief Economist Andy Haldane.*

*Data from "The Trader and His Shadow" businessinsider.com*

## **HELP US GROW!**

This year, one of our goals is to offer our services to several other people just like you! Many of our best relationships have come from introductions from our clients. Do you know someone who could benefit from our services? We would be honored if you would:

- ✓ Add a name to our mailing list,
- ✓ Bring a guest to a workshop,
- ✓ Have someone come in for a complimentary financial checkup.



**Please call Jason McGlone at (920) 733-3872 and we'd be happy to assist you!**

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