Get Ready for Rising Interest Rates

In March of 2022, it has almost become a distant memory when we could turn off the news and choose to not let the headlines have much of an effect on our daily lives. But over the last two years, and even more over the last two months, that has changed.

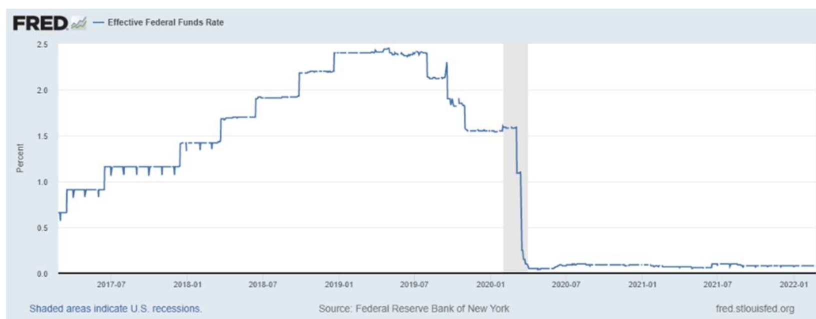
Just as the news of the COVID-19 pandemic had a significant impact on all of us, so too will the recent headlines regarding interest rates.

A Brief Overview Of The Federal Funds Rate

Interest rates have been at historic lows over the last two years. In a nutshell, The Federal Reserve sets interest rates to control the money supply. When cash is low, stocks are sold more than bought, people aren't buying homes, and general spending is down.

In that kind of environment, we would typically see the Fed lower interest rates in an effort to get more loans out to the public (via member banks) to motivate more spending. This is what we saw in 2020, and interest rates hit rock bottom.

Many have been saying for some time now that interest rates cannot remain so low for so long, and a rebound in rates is inevitable. It seems like that day is now upon us.



Fed Increases Rates – First of Several Planned Rate Hikes

Last week, the Federal Reserve made a huge move and increased the Federal Funds Rate by 0.25%, as well as stated that it intends to raise interest rates by 0.25% at each of its meetings until at least March of 2023. The Fed meets eight times per year. That means we will see the federal funds target rate go from **0.25%-0.50%** to as high as **2.25-2.50%** in just 12 months! This is nothing to scoff at, and it will affect us all in a lot of ways, including when it comes to our retirement accounts.

A few things to keep in mind as we go into a rising interest rate environment:

- As new bond rates increase, investors move from stocks to bonds. This has negative effects on stock indexes as well as diminishing yields on existing bond portfolios.
- Mortgage rates increase, reducing home purchases/refinances, and slowing an over-heated housing market.
- Yields on interest-based accounts like annuities and bank CD's increase. Insurance companies and banks set their rates in response to changes in the Fed rate.

With these basics in mind, it would behoove us all to keep a careful eye on our retirement portfolios this year. All the historical signs show us that the landscape is changing, and it is imperative in times such as these to make sure we are positioned appropriately to weather the coming waves.

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