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Speaker 1

Welcome. My name is Andrew Baron, and this is Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, what do rising interest rates mean for me?

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Well... It Depends is sponsored by my firm, John G. Ullman and Associates. We are a team of financial planners, research analysts, tax specialists and support staff, all working together to give our clients a comprehensive experience. If, after listening, you'd like to discuss your situation with one of our financial planners, including me, please email info@jgua.com.

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Before we begin a short disclaimer. This is being recorded on August 31st, 2022. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for listeners specifically, and so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives. Getting into it, what do rising interest rates mean for me?

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Speaker 1

Inflation has shown to be higher and more persistent than the Federal Reserve originally anticipated. Now there's building pressure for the Federal Reserve to act. They must balance between tamping down high inflation without causing a painful recession. Or said another way, the Federal Reserve is aiming for a soft landing. So how likely is this? If we let history be our guide, we can see from the 1970s, when inflation started heating up, the Federal Reserve stepped in to raise rates.

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Speaker 1

But when they saw some relief, they reversed course. Inflation wasn't fully under control and continued to cause problems through the decade. Then famously, when Paul Volcker took charge of the Fed in

1979, he took a different approach and drastically raised rates approaching 20% by 1981. This ultimately caused a recession, but the strategy did pay off in the sense that it worked to get a grip on inflation.

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Speaker 1

What we learn from this time period is that it is more painful to address inflation the longer we wait to address it. We can contrast this with the 1990s, where rates began at about 6.75% in 1991, came down to 3% and then back up to 6.5% by the year 2000. The nineties were a relatively prosperous time and we didn't see any large layoffs during the period of rising rates like in the past.

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Speaker 1

Moving back to the present, coming out of Jackson Hole last week, Powell had a strong message to address inflation. He made it clear that he was willing to sacrifice recent gains in the economy and signaled lower future growth and a weaker labor market. It's important that he is able to persuade investors that the Fed has inflation under control to avoid repeating what happened in the 1970s.

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Speaker 1

In the short term, savers will likely benefit. They will see their savings account rates bump up as rates are raised. New issue bonds will likewise pay higher coupon rates. This will attract some investors as they shift into these safer assets, moving them from a vault stock market with rumors of recession picking up. Borrowers will conversely pay these higher rates as the cost to borrow money increases demand decreases.

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Speaker 1

We are already seeing signs of this in the housing market. The recent slowdown is caused by mortgage rates. Picking up and pushing would be buyers out of the market. So to answer the question what do rising interest rates mean for me? Well... It Depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor