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Welcome. My name is Andrew Baron, and this is Well… It Depends!

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The podcast where I address financial decisions that can't be answered with a simple yes or no.

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In this episode I asked a question; What do higher interest rates mean for me?

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But before we begin, a short disclaimer. This is being recorded on August 1st, 2023. The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax or legal advice.

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Is important to consult with the professional before making any financial decisions, as the strategies discussed may not be suitable for you specifically.

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Getting into it. Would do higher interest rates mean to me? Well… It Depends!

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This topic is especially relevant given the Federal Reserve's recent decision to hike rates. As of today, the federal funds rate is between 5.25% and 5.5%.

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This is a drastic change from a little over a year ago, where the funds rate was between a quarter and half a percentage point.

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For those of you wondering why this is important, the federal funds rate affects the overall economy. Everything from the prices you pay for goods and services, to the interest rates on mortgages, credit cards, and even student loan debt.

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First, let's discuss the impact this has on savers and investors. Higher rates can be good news for savers because it means you'll receive more interest on your money in the bank.

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However, it isn't so straightforward for investors. Higher interest rates mean bonds become more appealing than stocks, because if you can guarantee yourself a certain rate of return, it makes less sense to try and outperform this with the added risk of stocks.

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On the other hand, if you're borrowing higher interest rates can spell out higher costs. If you're looking to buy a home or a car, borrowing becomes more expensive as interest rates rise.

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And now for the effects on the broader economy. While the Federal Reserve has aggressively been increasing interest rates, they have been careful not to stall economic growth.

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In fact, Chairman Powell has hinted at pausing future interest rate hikes to see how the economy processes it. While it may seem scary that the federal funds rate is the highest it's been since 2001, there are a number of bright spots.

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Unemployment is approaching historically low levels, economic growth has held steady and the consumer price inflation index has moderated to 3% from over 9% last year.

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To recap. The federal funds rate of 5.25% to 5.5% is a dramatic increase compared to a year ago.

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Savers and investors stand to benefit from higher increased rates, due to getting more money on their bank deposits and bonds. Conversely, borrowers will pay more money to borrow money, affecting everything from mortgages to credit cards to student loans.

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While the Federal Reserve has aggressively hiked rates in the past, they have hinted that they will pause to see how the economy responds.

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And the current economic situation has a number of Silver Linings, including low unemployment, steady economic growth and moderating inflation.

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So to answer the question, what do higher interest rates mean to me? Well… It Depends!