00:00:10:12 - 00:00:34:16

Speaker 1

Welcome, my name is Andrew Baron and this is Well… It Depends! The podcast where I address financial decisions that can't be answered by a simple yes or no. In this episode I ask the question Are lower interest rates good or bad? But before we get into it, a short disclaimer.

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Speaker 1

This is being recorded on August 6th, 2024. 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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Speaker 1

It's important to consult with a professional before making any financial decisions as the strategies discussed may not be suitable for you specifically.

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Speaker 1

Getting into it. Are lower interest rates good or bad? Well… It Depends! With the Federal Reserve keeping rates unchanged at last July's meeting, many are wondering what to do if rates start to drop, especially given the global uncertainty. As always, the answer isn't straight forward and it depends on your unique financial situation.

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Speaker 1

So, let's break down the potential tradeoffs.

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Speaker 1

First, let's set the stage. Interest rates influence everything from mortgages to savings accounts, and they are a tool for the Federal Reserve to manage the economy. Currently, rates are high, which can cool down inflation, but also make borrowing more expensive. What happens if rates start to decline? For many, lower interest rates can be a boon.

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Speaker 1

If you're looking to buy a home or refinance an existing mortgage. Lower rates can help reduce your monthly payments, making homeownership more affordable. It also makes it cheaper for businesses to borrow and invest, potentially boosting economic growth as well as job creation. Additionally, lower rates can be a relief to those with variable rate debt, like credit card debts or some home equity lines.

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Speaker 1

As rates drop, so does the interest you owe, which can free up cashflow for other financial goals. But as with anything, there are downsides. For savers, lower interest rates mean lower returns on savings accounts, CDs and other fixed income products. This can be a challenge, especially if you're a retiree who is relying on these earnings. Another concern is that lower rates can inflate asset prices like stocks and real estate, as people search for higher returns.

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Speaker 1

This can lead to bubbles which make the market volatile and might not be a deal if you are risk averse. So how should you prepare for potentially lower rates?

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Speaker 1

Well, it depends on your financial situation. Here are a few things to consider. Review your debt. If you have high interest debt, consider paying it down now or refinancing to lock in a lower rate.

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Speaker 1

This can save you money in the long term. Assess your investments. With potentially lower returns on safe investments, you might need to revisit your portfolio. Diversifying into other assets like stocks or real estate could offer better returns but remember, they come with higher risk. Emergency Fund. Make sure that your emergency fund is robust. In uncertain times, having cash on hand can provide peace of mind as well as financial flexibility. Saving strategy.

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Speaker 1

If you rely on interest income, you might consider locking in rates now from CDs or other fixed income products before rates do go lower. Long term goals. Keep your long term financial goals in mind. Whether it's saving for retirement, buying a home or funding education, your strategy might need to adapt to the changing interest rate environment.

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Speaker 1

To recap in this episode of Well… It Depends!, we discussed the potential impacts of lower interest rates given the current high rates set by the Federal Reserve. This episode explores how falling rates can benefit borrowers by reducing loan costs and monthly payments, but may disadvantage savers by lower returns on savings account and fixed income investments. Ultimately, we emphasize that the impact of lower rates varies depending on the individual's financial situation and goals. So to answer the question, are lower interest rates good or bad?

00:05:01:17 - 00:05:04:06

Speaker 1

Well… It Depends!

Speaker 1: Andrew Baron, CFP®, EA