

# How rising interest rates affect investors

We regularly discuss anticipated changes in financial markets and their potential impact on investors. One aspect of economic markets that we continually monitor is interest rates. The Bank of Canada has raised the overnight lending rate three times in 2018, and there is uncertainty regarding future potential interest rate increases.

While new deposits to a guaranteed interest investment would earn a higher rate of interest during periods of rising rates, many of the impacts of rising rates are negative for investors, including increased borrowing costs and lower or negative returns on bond/fixed income funds.

## Some impacts of rising interest rates

- **Increased borrowing costs**

When interest rates rise, investors can face higher costs to renew their mortgage or purchase a home. Stricter regulations for new home buyers, combined with higher borrowing costs contributed to fewer new homes being built last month. Continued lower home starts could lead to a decline in overall household spending and economic output.

- **Lower or negative returns in bond/fixed income funds**

Conservative investors who hold a low-risk market-based fund – for example, a Conservative or Moderate Asset Allocation Fund or Bond/Fixed Income Fund – need to remember that during periods of rising interest rates, the value of currently-held bonds declines, resulting in a lower or negative rate of return on these types of funds.



## The challenge for retiring members

As always, we suggest that members review their portfolio on a periodic basis to ensure it is well positioned to withstand potential changes in interest rates, market conditions and volatility. However, members who are soon to retire and start receiving retirement income from their retirement savings should review their portfolio on a more frequent basis.

To discuss your retirement portfolio and investments, you may contact Reuter Benefits by phone at 1-800-666-0142 or by email at [retire@reuterbenefits.com](mailto:retire@reuterbenefits.com).