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Interest rate increases and your investments

With the rate of inflation running very high, the Bank of Canada (and The Fed in the U.S.) had back in January planned on a number of interest rate hikes. They have followed through on that plan and will continue to do so until the rate of inflation reduces.

Higher interest rates cause mortgage and borrowing costs to increase. This generally leads to a decline in new home builds and a decline in overall household spending, which in turn is expected to slow inflation.

Rising interest rates negatively affect Bond funds and more conservative asset allocation funds. When interest rates increase, the value of currently held bonds declines and results in a lower or negative rate of return.

It should be noted though, that by the time interest rates are increased the markets have already factored in that increase. Despite the most significant increase in interest rates having been made in April, the markets had already reacted in the first three months. The Bond funds were down an average 7.0% in the first quarter and stock returns were somewhat muted (especially interest-sensitive high-tech stocks) — all in anticipation of the expected increase in interest rates.

Reacting to market changes after the fact is not a positive investment strategy. We recommend ensuring that you are invested according to your personal risk profile. Maintaining investments within your comfort with risk will assist you in coping with the volatility in the markets. We can assist you in determining an investment mix tailored to you.

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.

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