Will interest rate increases continue?

Central banks in Canada and around the world increased rates during 2022 to combat the effects of rapid inflation. At the most recent Bank of Canada meeting, the current rate of 4.5% was held. Current forecasts from the Bank predict inflation reducing to 3% by the middle of this year and 2% next year.

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. Inflation is coming down, but as noted, it will take some time before it returns to normal levels.

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.

The rapid increase in rates in 2022 led to negative returns for most fixed income funds. In Canada the benchmark for fixed income is the FTSE Canada Universe Bond Index. For 2022, this index was down 11.7%. For 2023, the increases in rates have now stopped and the return for this same index for the first three months of 2023 is 3.2%.

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.

485 Pinebush Rd, Unit 201, Cambridge Ontario N1T 0A6
TF 1.800.666.0142 - F 1.888.634.0591
retire@reuterbenefits.com - www.reuterbenefits.com