HALLIBURTON | Let's Talk ... About Your Financial Future

Let's Talk About...

How High Interest Rates Can Impact You

In July, the Federal Reserve opted to keep interest rates the same rather than lowering them. This means the target range for the federal funds rate remains at 5.25% to 5.50% — which hasn't changed since last summer. If the Federal Reserve chooses to cut rates later this year, it will be the first rate cut since March 2020, when rates were reduced in an effort to spur spending after the pandemic caused an economic slowdown.

Note: This article contains the most up-to-date information at the time of publishing.

With interest rates remaining high, how does this affect you and your finances?

Borrowing Money

First and foremost, high interest rates mean it is more expensive to borrow money — such as through credit cards or home loans.

Credit Card Rates

High federal interest rates also lead to higher rates on credit cards. According to LendingTree, the average interest rate on a new credit card as of July 5, 2024, was 24.8% — the highest since LendingTree began tracking rates monthly in 2019. If you have any credit card debt, now would be a good time to come up with a plan for how to pay it off in order to avoid paying high interest on any outstanding debt.

Home Loans

If you're in the market for a new home, the interest rate on your mortgage affects not only your monthly payment but also the total cost over the life of your loan. According to Experian, if you have a $300,000 mortgage loan with a 3.5% fixed interest rate, your monthly payment will be $1,655.47, excluding taxes and insurance. Also, you'll ultimately pay $484,968.26 in principal and interest over the lifetime of your loan. However, if the interest rate increases roughly 2 percentage points to 5.51%, your payment increases to $2,013.58 ($358 more a month), and your total cost over the lifetime of the loan increases to $613,889.90 (an increase of nearly $129,000).

If you already own your home, rising interest rates will affect you differently depending on your type of mortgage.

- If you have a **fixed-rate mortgage**, your interest rate and monthly payment will not change.
- If you have an **adjustable-rate mortgage** (also sometimes called a variable-rate mortgage), your interest rate could increase during the next adjustment period (i.e. the period between rate changes).

If you're looking to sell your home, high mortgage rates combined with high inflation may make it harder to do so, as this environment can result in lower demand in the housing market. However, when interest rates fall, housing prices tend to rise — so, if you're looking to sell in order to buy a new house, waiting might not necessarily save you money. For more on this topic, see "Is it a good time to buy a house?".

Your Budget

Higher costs to borrow money typically means you have less to spend on other things, like food, entertainment, and travel, as well as impulse purchases. This, combined with high inflation, may mean you're feeling the effects at the grocery store and with other everyday purchases.

There is good news, however. U.S. inflation slowed a bit in April, according to the latest Consumer Price Index report by the Bureau of Labor Statistics, after remaining high for the first three months of the year. The report also showed a drop in grocery prices for the first time in a year, which is positive news for your wallet. The Federal Reserve has been waiting for inflation to slow before dropping interest rates, but it remains to be seen whether rates will change later in 2024.

Investing Strategy

Given the Federal Reserve's decision to keep interest rates higher for longer, consider what that means for your investments. Interest rates typically have an inverse relationship with the stock market — meaning higher interest rates result in lower share prices. There are several reasons why this happens. One reason is that, just as it's more expensive for individuals to borrow money, it's also more expensive for companies to borrow money. This means companies have less to reinvest in growing their company, which can put pressure on share prices. However, there are some exceptions — financial companies (including banks, mortgage companies, and insurance companies) tend to perform well in times of high interest rates.

Bonds also have an inverse relationship with interest rates, meaning when interest rates go up, bond prices go down. Because of this, newly offered government securities — such as Treasury bills and bonds — are typically seen as safe investments when interest rates rise.

High interest rates can affect your finances in different ways. While it might make sense to tweak your budget or investing strategy to accommodate high interest rates, remember that interest rates can always change. Consider many factors as you develop your investment strategy.

Just remember, saving for retirement is a long-term effort that requires a long-term investing approach. Your personal strategy may differ depending on the length of time until you plan to retire. The further you are from retiring, the more time you have for corrections in the market. On the other hand, if you are already close to retirement and interest rates are high, you may want to prioritize preserving your capital rather than taking on excessive risk, since you have less time for the market to recover.

If you want to talk through impacts to your personal investing strategy, schedule a complimentary one-on-one retirement planning session with a Fidelity Workplace Planning Consultant. Call (800) 603-4015 to get started or make an appointment here.

Sources:

Fidelity: “6 takeaways from the Fed meeting”

CBS News: “The Federal Reserve holds interest rates steady. Here's the impact on your money”

Investopedia: “The Impact of Interest Rate Changes by the Federal Reserve”

LendingTree: “Average Credit Card Interest Rate in America Today”

CNN: “S&P 500, Nasdaq and Dow all hit record highs after encouraging inflation data”

Investopedia: “How Do Interest Rates Affect the Stock Market?”

Experian: “How Rising Interest Rates Increase Mortgage Costs”

Investopedia: “How Higher Interest Rates Impact Your 401(k)”

Last updated date: 8/9/2024