SINGER
WEALTH

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Rising interest rates

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With inflation running rampant, the Federal Reserve has been raising interest rates and is expected to continue to do so to cool the economy and bring down inflation. Although the Fed is relatively early in the process of rate hikes, interest rates typically move in advance of expected Fed action.

This past week the two-year U.S. Treasury was yielding more than 3% up from .76% at the beginning of the year. Meanwhile the 10-year U.S. Treasury was yielding only 2.77%. This is known as an inverted-yield curve, where shorter bonds pay more interest than longer bonds. Inverted-yield curves are not that common and are the most well-known recession predictors, as they have occurred before every recession over the last 50 years; stocks may not be out of the woods yet.

For those who owned bonds this year, rising interest rates caused those existing bonds to lose value. The longer maturity fixed income securities got hit the hardest. For those who are shopping for a mortgage they will be disappointed to learn that rates have risen on 30-year fixed loans from 2.78% a year ago to about 5.54% today.

On the bright side there are now some attractive places to get interest, compared to income opportunities of the last few years. We recently purchased some one-year U.S. Treasuries at a discount that yield more than 3% at maturity as a long-term capital gain. You can also purchase a one-year CD for 2.3% and a three-year fixed annuity that pays 4% per year. High-yield bonds and private credit funds are both yielding about 8%.

However, the excitement about making 3% for one year is dampened by the fact that inflation has been running at more than 9%. How high will rates go? That is the unknown question. If inflation rates start to improve, that would be encouraging but they have a long way to go to reach the Fed's target rate of 2% inflation.

Sources: Freddie Mac, Yahoo Finance