Interest Rates Rise

Posted on: August 7, 2017

By now, I'm sure almost everyone has heard the news that the Bank of Canada has finally raised Interest Rates. We've talked about higher rates for years and with Canada's economy in relatively good shape, the BOC decided to raise rates by 0.25%. While this doesn't sound like a lot, it is likely the first of a number of increases to take place over the next couple of years. Many of us in resource based economies like Alberta and Saskatchewan may not be feeling like there's a lot of improvement to justify this increase. On the other side of the country though, Ontario (which makes up almost 40% of Canada's population) is at their lowest unemployment rate in 16 years. Their economy is growing and of course, Real Estate prices in cities like Toronto and Vancouver have up until recently been going higher at a tremendous clip. This rate increase (and any subsequent increases) could very well help to cool those markets.

What does this mean for you? Well, that depends. If you're debt free, a higher interest rate could mean a little more interest on your Savings Accounts. If you've got a Floating Rate Mortgage or Variable Rate Lines of Credit, you'll see a moderate increase on your monthly payments. For those of you with Investment Loans, you'll also be affected. While some lending institutions automatically change with the BOC rates, B2B Bank (one of the very biggest providers of Inv. Loans) will only change your payments at the beginning of next year. The Interest Rate will still go up under this mechanism but your payment won't actually adjust until the New Year. Please let me know if you'd like a detailed explanation of how this works.

Lastly, and quite importantly, an increase in Interest Rates can affect Bonds. When rates go up, we see downward pressure on the value of Bonds. Short Term Bonds are less sensitive to this and so are Bonds with High Yields. Long Term Bonds with Low Yields are impacted the most. Shortening your duration by moving into Short Term Bond Funds is a good way to protect against this as is using some type of Floating Rate Loan Fund. Floating Rate Loans can actually pay higher interest when rates go up. Funds can either invest directly in Floating Rate Loans or use Derivative Strategies to convert fixed income into floating income. Long Term Bond Funds may not perform well if rates do continue to rise so it may be a good idea to look at options for your portfolio.

Obviously, there is a lot to talk about right now! On top of what we are seeing with rates, new security measures are also being implemented. Many of you have already noticed that we are putting passwords on any sensitive information or copies that we send out to you. We're happy to go over this with you in more detail if you'd like so please let me know if you have any questions.

One last thing that I should mention is the awful fires that have hit BC this summer. Our family had a spectacular trip out to Kitimat, BC at the beginning of July. We got to see some incredible scenery and so much wildlife along the way. We spent time around the coast and spent time in Smithers, Prince George and Kamloops. We witnessed first-hand the fire outside of 100 Mile House. Once we returned to Calgary, we were horrified to see how large the fires had got. Our hearts go out to anyone who has been impacted by these fires.

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