Preparing For High Interest Rates

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When low-interest rates in our economic markets extend for a considerably longer period, it becomes easy for investors and borrowers to assume or hope that the status quo will hold for even longer. The low interests over the past few years are attributed to the Great Recession that led to a general economic deterioration in most world markets. With reduced interest rates in the market, borrowers have enjoyed loans including mortgages at relatively low rates while investors have continued to receive low returns on their investments. However, with the current and projected economic rebound, the interest rates are anticipated to rise and thus the cost of borrowing will significantly go high (Palmer, 2013).

With some markets around the world starting to experience the effect, the major concern is how to position oneself against or in favor of the rising interest rates. While the anticipated rise in interest rates could work against borrowers owing to the increased cost of borrowing, the lenders, on the other hand, stand to benefit from this economic revolution as their investments will result in higher returns. With this in mind, the gainers and losers from expected change will be contingent on the preparations made by the borrowers, the lenders and the investors.

The borrowers can position themselves in a way that will hedge them from the increasing interest rates. One of this ways will be to borrow while the interest rates are still low under contracts that lock in current rates as such arrangements will protect them from future increasing rates. Additionally, borrowers should ensure that they pay off outstanding amounts and accumulated interest rates to avoid paying higher interests rates on these amounts. It will also be beneficial for borrowers to consider the effect the high-interest rates will have on their disposable income. For example, paying more interest on a mortgage loan will reduce an individual's

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disposable income and more so affect their savings. A clearly established plan on managing one's cash flows will be indispensable in the wake of the high-interest rates.

For savers and investors, increasing interest rates implies a higher return on their investments. However, despite the fact that higher returns are realized with higher interest rates in the market, the benefits may not be automatically grasped. This therefore calls for creation and adoption of strategies that will increase the investor's return. In addition to increasing savings in order to make high-value investments, it will be important to identify investments with high yields and those that are negatively affected by a change in the level of interest rates. A good example is a long-term bond whose price goes down when the interest rates go up. This results from the fact that the bonds had been issued at low-interest rates and thus lose their attractiveness to investors when new bonds offering higher rates are issued (Wright, 2012).

In conclusion, it is certain that interest rates will eventually increase with the economic recovery from the Great Recession. To gain from this increase and to avoid being on the losing end, investors and borrowers need to reposition themselves and take advantage of the future economic projections.

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References

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