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Laddered Muni Portfolios: A Potential Way to Hedge Interest Rate Risk.

The current rising interest rate environment, where the Federal Reserve has hinted toward multiple rate hikes per year in upcoming years, has fostered an environment of inflation growth. With an expected decline in purchasing power, fixed income investors are increasingly concerned about the negative impacts of rising rates on their existing, especially long-term, fixed income holdings.

Generally, investors are familiar with the inverse correlation between interest rates and bond values; however, investors with longer maturities are more vulnerable to the current interest rate environment and the forecast of steeper hikes in 2019 and 2020. The rate hikes and rise in inflation are indicative of growth and strengthening of the U.S. economy. Along the same lines, data from the U.S. Commerce Department indicate that the U.S. international trade gap has widened to $57.6 billion in February 2018, the largest since 2008, meaning that U.S. exports are growing, but imports are growing even more.

In this article, we will take a closer look at the current interest rate situation and how a laddered municipal debt portfolio can alleviate or help combat the risk of rate hikes on the values of your fixed income instruments.

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