

Are We in a Declining Rate Environment?



Where have rates been, and where are they headed?

Since the COVID-19 pandemic, the Federal Reserve has been a big topic in the news, especially with all the rate changes. After raising interest rates multiple times to fight inflation, they lowered rates three times in 2024. Right now, the Fed expects to gradually reduce rates each year, aiming for a target of 3.00% by 2028.¹

Will changes in rates impact me?

The Federal Open Market Committee (FOMC) expects short-term interest rates to go down a bit each year. This is important for savers since banks and credit unions usually adjust their rates to match the Fed's moves. As rates drop, you may see lower yields if you are considering or already have some of these more conservative types of accounts:

- **CDs (Certificate of Deposit):**

A recent article from NerdWallet showed that between September 2024 and January 2025, the average rate on both national and high-yield CDs dropped from 4.60% to 4.00%.²

- **High-Yield Savings Accounts:**

As of March 11, 2025, Yahoo Finance reported many high-yield savings accounts are still offering over 4% annual percentage yield (APY), but the rates have been falling since late 2024.³

- **Money Market Accounts:**

Money market accounts, like high-yield savings, can still offer around a 4% APY. However, their rates also started to decline in late 2024.⁴

Is now the time to lock in higher rates?

As of March 2025, interest rates on CDs, high-yield savings, and money market accounts are still relatively high, but many experts believe they could be headed down.^{2,3,4} With rates dropping and potential market uncertainty ahead, it might be a good time to think about other options, like annuities.

Annuities are a type of fixed-income product that could be a smart alternative to bonds or bond funds in your portfolio. There are two main types of annuities to consider:

- **MYGA (Multi-Year Guarantee Fixed Annuity)**

With a MYGA, you lock in a guaranteed interest rate for a set period. Since annuities are meant to be long-term investments, they often offer higher interest rates than other products. Plus, MYGAs are less affected by market ups and downs, making them a stable choice.

- **FIA (Fixed Indexed Annuity)**

FIAs give you the potential for interest credits based on part of the positive performance of various financial indexes, without investing in the market. This means you can benefit from some of the positive movement of those indexes but don't risk losing money if the market drops. Many FIAs also offer a fixed-rate option, so you can have both index-linked interest potential on part of your contract's value and a guaranteed interest rate on the other part. FIAs can help reduce risks in your portfolio, such as interest rate risk, bond risk, and sequence-of-returns risk.

What can you do during market uncertainty?

Market volatility is simply a part of the retirement saving, and while it can feel unsettling at times, it's important to remember that fluctuations are a natural part of the economic landscape. As interest rates shift, it's vital to stay informed and consider how these changes might affect your financial goals. Whether rates are rising or falling, being proactive and working with a financial professional can help provide some peace of mind and a clear path forward. By diversifying your portfolio and exploring options like annuities, you may be able to manage risk and explore solutions that provide stability outside the market. With the right guidance, you can navigate these uncertainties and make decisions that align with your financial needs and aspirations.

- ¹ FederalReserve.gov (Summary of Economic Projections)
- ² CD Rate Forecast: Are CD Rates Going Up in 2025? – nerdwallet.com (January 2025)
- ³ Best Savings Interest Rate Today – Yahoo Finance (March 2025)
- ⁴ Best Money Market Account Rates Today – Yahoo Finance (March 2025)

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SB-10064-64 | 2025-03-28