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# Floating-Rate Options When Interest Rates Rise

- Given COMPASS' expectation for higher interest rates, our clients often have exposure to floating-rate and bank loan securities to help diversify their bond exposure.
- We typically combine these securities with a high quality, short-term bond fund so that the overall credit quality of their short-term bond holdings remain investment grade.

Given the expectations that interest rates will rise in the not-too-distant future, it's no wonder that many fixed-income investors are considering floating-rate securities for their portfolios. The key distinction between floating-rate and fixed-rate securities involves how each investment type reacts to movements in market rates. A floating-rate bond tends to keep its value if rates rise, whereas a fixed-rate bond will lose value. That's because an existing bond with a fixed rate is worth less if investors can buy new bonds at higher rates. If rates drop, the opposite occurs: The existing fixed-rate bond will increase in value.

Because of the protection that floating-rate bonds may offer against rising interest rates, some investors may use them to reduce the rate sensitivity of their portfolios. One commonly used type is known as a bank loan. Corporations needing to borrow money may do so with help from one or several commercial or investment banks, which syndicate the loans and help sell them to investors. These loans typically receive below-investment-grade ratings, reflecting a relatively high risk of default. As is the case with other bond types, investment-grade floating-rate securities tend to pay lower interest rates than fixed-rate bonds do, while non-investment-grade floating-rate securities offer higher rates but also carry more credit risk.

For fixed-income investors concerned about a rise in interest rates, floating-rate securities may be a viable option. But investors may have to either settle for reduced yields (in the case of investment-grade floating bonds) or added credit risk and volatility (as in the case of bank loans). With corporate bonds, an investor is a creditor of the corporation and the bond is subject to default risk. High-yield corporate bonds exhibit significantly more risk of default than investment grade corporate bonds.


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More about COMPASS Wealth Management, LLC

COMPASS Wealth Management, LLC is a client-focused wealth management firm dedicated to providing superior advice to individuals, families, and corporate retirement plans.

Our wealth management services include investment management, retirement and gift planning, education funding, and other advisory services.

We take pride in offering you expert financial advice along with personalized service. Assisting you in reaching your financial goals is our business and we take that responsibility very seriously.

For details on the selection criteria used to determine the recipients of the FIVE STAR Wealth Manager award, please visit our web site.

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