Will Higher Interest Rates Hurt Stocks?

Odds are that the US Federal Reserve will raise interest rates in 2015. Will higher interest rates hurt stocks? In the wake of the market crash of 2008 and the worst recession in three quarters of a century the actions of the Fed are widely credited with saving the United States from another Great Depression. Part of the treatment administered by the Fed was the quantitative easing program of $85 billion a month in bond purchases which drove interest rates down and the other was the Fed's action to cut interbank short term loan rates to nearly zero. The treatment administered by the Fed under its previous leader, Ben Bernanke was successful. The USA saw 5% growth last year while Japan is in a recession, Europe threatens to go into recession and China is coping with the collapse of a real estate bubble and drastically reduced economic growth. In order to contain inflation the Fed will likely raise interest rates.

Good News or Bad News

Usually higher interest rates have a negative effect on stocks. However, The Wall Street Journal thinks that **stocks can do well** despite higher rates this year.

Investors are right to be concerned, but they shouldn't panic. The market has had a long time to get ready for a rate increase. And history shows that stocks can rise considerably during periods when the Fed is tightening credit.

The article notes that for 14 periods when the Fed raised rates (going back to 1958) the market only suffered two times and rallied a dozen times. Specifically in 2003 to 2007, 1986 to 1987 and 1961 to 1966 the market rallied more than forty percent despite higher rates. It would appear that the common wisdom about higher rates hurting stocks in not necessarily true.

Picking Stocks

The reason we expect stocks to suffer when interest rates go up is because borrowing money becomes more expensive. USA looks at **stocks in 2015**. There are more factors that determine stocks prices besides interest rates. For example, energy stocks have taken a big hit with the fall in oil prices and will likely make a comeback as oil prices recover.

Here's where. There are nine stocks in the Standard & Poor's 500, including miner Freeport-McMoRan (FCX), energy project construction company Quanta Services (PWR) and biotech darling Gilead Sciences (GILD) that are definitely worth a look.

To make this highly selective list of stocks, they need to meet a number of stringent criteria. They must get a perfect “5” STARS stock rating from S&P Capital IQ. They must also be rated “buy” or “outperform” on average by the analysts that rate the stock and have at least 20% or more upside before hitting the 18-month price target. Lately, the stock must be rated “neutral” or better by stock rating service New Constructs. New Constructs compares the value of stocks with the expected future cash flows.

The point of this being that there are always stocks the will profit in any market. It simply requires sound **fundamental analysis** to find them.

Debt or No Debt

Companies with a lot of debt are more likely to be hurt by higher interest rates. But, will higher interest rates hurt stocks of companies with large cash reserves? These companies do not need to borrow money and will only be hurt to the extent that higher interest rates lead to fewer purchases of their products. USA Today lists twenty six **companies with no long term debt**.

Consumers know how hard it is to resist borrowing money. Companies face the same temptation, if not more so, especially with rivals leveraging up and taking advantage of low-interest rate loans.

Yet, there are still 26 non-financial companies in the Standard & Poor’s 500 index, including social media company Facebook, payments processor Visa and accessory seller Michael Kors that ended the first calendar quarters reporting no long-term debt.

Ranked by market value the list starts with Facebook, Qualcomm, Visa, Cognizant Tech, PICCAR and Michael Kors. It ends with F5 Networks, Petsmart, Urban Outfitters and GameStop. Read the article for more info. The point is that not all stocks will be hurt by higher interest rates.

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