The past several weeks has offered a good example of the effect that Federal Reserve decisions can have on the markets. With the central bank beginning to slow down the bond-buying that has helped support stocks during the pandemic, and signaling that it will soon begin raising interest rates as well, investors have begun to rotate away from speculative stocks and toward quality names.

The stay-at-home stocks that have boomed despite having lots of debt and little earnings are falling out of favor. Such stocks rely to a greater degree on borrowing, and are sensitive to interest-rate hikes, which increase the cost of borrowing. Thus, the long-term earnings potential of companies like Tesla or Peloton become less appealing when interest rates climb.

The tech-heavy NASDAQ index is down 7% since early November, and the poster child for expensive, shooting-star tech companies, the ARK Innovation ETF, is down nearly 40% since November 1. Meanwhile, the Vanguard S&P 500 Value Index Fund, chock-full of high-quality value stocks, is up 2%. Many of those companies were laggards as the hot tech stocks had their run, but the tables may now be turning.

In reaching for value stocks, investors are looking for companies with strong, reliable profits, low debt, and other measures of financial strength that allow them to do well in rising-rate environments. These kinds of businesses provide near-term cash flows, as opposed to the sometime-in-the-future cash flows of the highflying tech names. The stocks poised to benefit from the rotation are less sexy for sure—think banks and insurance companies instead of electric cars.

The anticipated higher rates, of course, are the result of persistently high inflation: The Consumer Price Index jumped 7% last year, its highest rate since 1982. The market is betting that the Fed will raise rates three times this year, and the degree of market volatility will depend in part on whether the Fed does more or less than that number.

But investors should think long-term. Rotations like the one we're seeing can last six or 12 months, so there's plenty of time to update your portfolio mix. An experienced investment advisor can help you to identify the best-positioned stocks going forward. If you'd like to make sure your investment mix is putting you in a position to succeed, don't hesitate to get in touch.