8 Winners and Losers in a Rising Interest Rate Environment

Timing a Fed rate hike is tricky, but forecasting the fate of various investments is another story.

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By Lou Carlozo

If the shocking defeat of Obamacare repeal and reform proved anything, it's this: Sometimes, a Magic 8-Ball works better at predicting major outcomes in the nation's capital than, say, a pragmatic pundit. And so it goes with interest rate hikes and the Federal Reserve: Will they? Won't they?

Is Fed chair Janet Yellen making the call with a Magic 8-Ball?

No matter the chances of correctly calling an interest rate increase – and an overwhelming number of observers see more of those coming in 2017 – certain industries and sectors stand to benefit, while others will suffer. Here is a look at eight sectors and investments that could win or lose as rates rise.

Winner: Domestic Banks

Higher interest rates mean more money made on loans and credit cards, but there are other reasons banks should do well no matter what the Fed does.

[See: The Best Energy Stocks to Buy for 2017.]

"Unlike most of the other companies in the S&P 500, they have little or no revenue from outside the U.S.," says Ellen Hazen, senior vice president and portfolio manager at F.L.Putnam Investment Management Co. in Wellesley, Massachusetts. "They benefit from the higher interest rates that are ultimately driving the stronger U.S. dollar without suffering from lower income."

Loser: Debt-Intensive Industries

This rule of thumb applies as rates creep up: "Lenders and savers are winners and borrowers are losers in the broadest sense," says Will Kenton, senior news and markets editor at Investopedia.

One investment tactic is to look at the companies that take on a lot of debt to finance their growing and operations.

Says Kenton: "Capital and debt-intensive industries such as telecoms, manufacturing, shipping and construction will suffer."

Winner: Energy

As co-author of "The Association Between Federal Reserve Policy and Sector Returns," Bob Johnson notes that energy is among the best performers when interest rates move up – finishing ahead of other winners such as consumer goods, utilities and food.

They all have this in common, though.

"People need to eat, brush their teeth and heat their homes whether the economy is strong or weak," says Johnson, president and CEO of the American College of Financial Services in Bryn Mawr, Pennsylvania.

Loser: Home Construction

The higher mortgage rates that follow the Fed's actions put a damper on real estate activity, says James Cassel, chairman and co-founder of the investment banking firm Cassel Salpeter in Miami.

If that happens, losers might include "construction-related businesses, like homebuilders," he says.

But with mortgage rates still at historic lows, "I do believe there's still some ways to go with additional rate increases before we see a material effect," Cassel adds.

Winner: Home Improvement

When interest hikes compel would-be homebuyers to hunker down, they take on home improvement as a consolation prize – a good thing for Lowe's Cos. (ticker: L) and Home Depot (HD).

"Remodelers and home-improvement suppliers benefit from a rising-rate scenario," says Sesha Dhanyamraju, CEO of Digital Risk, a provider of outsourced mortgage processing services.

[See: 7 of the Worst Product Flops Ever, Besides the Samsung Galaxy Note 7**.]**

"Homeowners with a low mortgage rate are far more likely to stay in their homes and spend to improve them than pursue a new house ... with a higher mortgage rate" Dhanyamraju says.

Winner: Technology

No matter how much some consumers may grumble, rising interest rates mean good news on at least one front.

"The technology sector should benefit as rising interest rates usually correlates with an economy that is getting stronger and is expected to grow at a faster pace," says Ronen Schwartzman, founder and chief investment officer of Ten Capital Advisors in New York City.

And a strong economy could bolster the bottom lines of smartphone manufacturers such as Apple (AAPL) and Samsung.

Loser: Government Bonds

If rates rise again soon, there could be some vulnerability for investors overexposed to certain types of bonds.

"A slight increase in rates would erase the coupon return for intermediate and long-term government bonds," says Daniel Kern, chief investment officer of TFC Financial Management in Boston. "Investors concerned about potential rate hikes may want to emphasize shorter-term government bonds until rates stabilize."

Meanwhile, "Dividend-paying stocks offer the appeal of income and growth," Kern says.

Tie: Telecoms

Eric Ervin, CEO of Reality Shares, a research firm and exchange-traded-fund provider focused on dividend-growth investing, believes that telecoms, because of their high yields, "will most likely suffer the most when with rising rates."

Yet while this sector is sensitive to interest rate hikes, it isn't necessarily vulnerable. In large part, any potential hurt depends on how much rates rise.

[See: 7 of the Best ETFs to Own in 2017**.]**

So far, so good: Over the last year, AT&T (T) is up nearly 7 percent – and 13 percent since Election Day, trading at about $24 per share.