John Hancock
INVESTMENTS

A message to shareholders

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Markets around the world experienced a meaningful rise in volatility in recent weeks. Stocks declined as investors reacted to higher bond yields and the prospect of rising inflation, even if that inflation was rising from historically low levels. Some areas held up better than others, driven largely by exposure to this year's strong-performing technology and financial companies. Fixed-income markets generally delivered negative results, with long-dated areas of the market—those most sensitive to interest-rate changes—seeing the largest losses.

Fundamentals remain supportive

It's important to recognize that much of the recent concern is a reaction to what would otherwise be considered positive economic news. The U.S. economy grew 2.9% in the final quarter of 2017, following two consecutive quarters of growth above 3.0%.[1] Corporate earnings are strong, thanks in part to newly lowered corporate tax rates, unemployment remains at historic lows, and consumer confidence is near 20-year highs. Outside of the United States, growth and earnings are also looking up, with the OECD citing robust economic growth, consumer confidence, investment, and trade.[2] Why is all this good news bad? Because investors understandably fear that rising wages and other inflationary pressures will eventually bring the historic bull market to an end, they just don't know when.

It's also important to recognize that market volatility is normal, and that stocks will often "climb a wall of worry." U.S. stocks have experienced intrayear drawdowns (peak-to-trough declines) of nearly 14% on average since 1990 but have gone on to positive territory in all but five of those years.[3] To be sure, there are headwinds working against the continued advance of asset prices. The U.S. Federal Reserve voted in March to once again raise short-term interest rates in the face of robust economic growth and tightening labor markets, and this steady return to more normalized monetary policy is also taking place overseas, although at a significantly slower pace. Endless political turmoil at home and threats of trade wars abroad only add to the concerns weighing on the minds of investors this year.

Portfolio positioning is key, as always

So while investors should indeed expect volatility to increase this year, it's important to understand that it's taking place against a background supportive of rising financial assets and rising yields. Your best resource in unpredictable markets is your financial advisor, who can help position your portfolio so that it's sufficiently diversified to meet your long-term objectives and to withstand the inevitable turbulence that accompanies investing in any market cycle.

On behalf of everyone at John Hancock Investments, I'd like to take this opportunity to welcome new shareholders and to thank existing shareholders for the continued trust you've placed in us.

Sincerely,

Andrew Arnott

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1 U.S. Federal Reserve Bank of St. Louis, March 2018.

2 "Interim Economic Outlook," Organization for Economic Cooperation and Development (OECD), March 2018.

3 John Hancock Investments, March 2018.

Past performance does not guarantee future results.

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