John Hancock Investment Management

Where might interest rates go from here?

While attempting to pinpoint the peaks and valleys in interest-rate cycles is notoriously difficult, history does offer some clues. First, the federal funds rate has often peaked at around what 10-year U.S. Treasuries had been yielding at the beginning of the tightening cycle. Second, while longer-term yields have risen during tightening cycles, the move has typically been a fraction of what occurs on the short end of the curve; during the past three tightening cycles, 10-year U.S. Treasury yields have only risen by around 50 basis points.

Past tightening cycles have typically produced flatter yield curves as short- and long-term rates compress

Target federal funds rate and 10-year U.S. Treasury (UST) yields at start and end of tightening cycles (%)

	2/3/94	2/2/95	Change
Fed funds	3.00	6.00	3.00
10-year UST	5.81	7.68	1.87

	6/29/99	5/17/00	Change
Fed funds	4.75	6.50	1.75
10-year UST	5.93	6.48	0.55

	6/24/04	6/30/06	Change
Fed funds	1.00	5.25	4.25
10-year UST	4.66	5.15	0.49

	12/15/15	12/20/18	Change
Fed funds	0.00	2.25	2.25
10-year UST	2.28	2.79	0.51

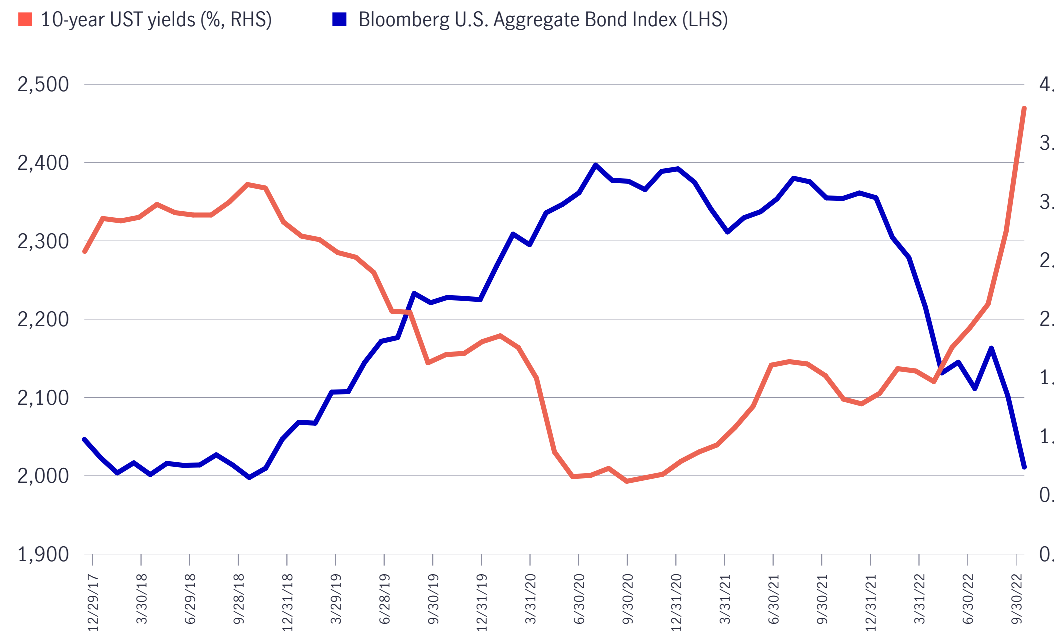
	3/15/22
Fed funds	0.00
10-year UST	2.15

Source: Federal Reserve Bank of St. Louis, as of 9/30/22. Past performance does not guarantee future results.

Diversified bond funds could be a good way to weather rising rates

The underappreciated side of higher interest rates is that they offer opportunities to lock in higher yields. For investors with longer time horizons who can weather the price volatility that rate movements inevitably entail, an environment of generally higher interest rates may be a good thing. Remember, not all segments of the bond market are affected equally by rising rates. Funds that take a broad approach and offer exposure to more economically sensitive segments of the market may be worth a closer look.

Treasury yields and the Agg have historically moved in opposite directions



Source: Bloomberg, as of 9/30/22. RHS refers to right-hand side; LHS refers to left-hand side. The Bloomberg U.S. Aggregate (Agg) Bond Index tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index. Past performance does not guarantee future results.

The federal funds rate is the interest rate at which a depository institution lends funds maintained at the U.S. Federal Reserve to another depository institution overnight. One hundred basis points equals one percent. Volatility measures performance fluctuation, may not be indicative of future risk, and is not a predictor of returns.

Fixed-income investments are subject to interest-rate and credit risk; their value will normally decline as interest rates rise or if an issuer is unable or unwilling to make principal or interest payments. Investments in higher-yielding, lower-rated securities include a higher risk of default. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. Mortgage- and asset-backed securities may be sensitive to changes in interest rates, and may be subject to early repayment and the market's perception of issuer creditworthiness. Currency transactions are affected by fluctuations in exchange rates. Liquidity—the extent to which a security may be sold or a derivative position closed without negatively affecting its market value, if at all—may be impaired by reduced trading volume, heightened volatility, rising interest rates, and other market conditions. Hedging and other strategic transactions may increase volatility and result in losses if not successful. The use of hedging and derivatives could produce disproportionate gains or losses and may increase costs. Fund distributions generally depend on income from underlying investments and may vary or cease altogether in the future. Please see the funds' prospectuses for additional risks.

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