

# Which asset classes performed best after rate hike pauses?

Federated Hermes analyzed how 35 commonly used benchmark indexes performed in the year following the end of a federal funds rate hike cycle. We ranked the top 10 indexes based on median cumulative return during the six periods since 1984 when the Fed paused after a rate hike cycle. All were equity indexes, but select fixed-income asset classes also delivered attractive returns.

Out of 35 equity and fixed-income indexes, the top performers were high-dividend payers and value stocks.

## Cumulative total return (%) in the 12-month period after the end of a Fed rate hike cycle since 1984

= Highest-performing index during the period.

Pause start date	9/1/84	3/1/89	3/1/95	6/1/00	7/1/06	1/1/19	Median return
12-month return end date	8/31/85	2/28/90	2/29/96	5/31/01	6/30/07	12/31/19	
Top 10 indexes ranked by median 12-month return							
1 Dow Jones U.S. Select Dividend Index	-	-	34.67	38.20	18.61	23.11	28.89
2 Russell 1000® Value Index	24.01	14.44	34.14	7.68	21.87	26.54	22.94
3 S&P MidCap 400® Index	-	-	29.16	10.92	18.51	26.20	22.35
4 Russell 2000® Value Index	20.81	0.98	24.59	29.42	16.05	22.39	21.60
5 MSCI ACWI SMID Cap Index	-	-	17.50	-7.41	27.04	25.37	21.43
6 MSCI World ex USA Index	25.97	-2.72	17.09	-17.17	27.09	22.49	19.79
7 Russell 1000® Growth Index	14.99	20.46	35.65	-29.71	19.04	36.39	19.75
8 S&P 500® Index	18.23	18.90	34.70	-10.55	20.59	31.49	19.74
9 Russell Midcap® Growth Index	-	15.93	32.76	-24.28	19.73	35.47	19.73
10 Russell 3000® Index	19.20	16.32	34.31	-9.72	20.07	31.02	19.63

As of 7/31/23. Graph shows the top 10 performing indexes out of 35 common benchmark indexes (15 stock, 19 bond and one bank loan index). Returns are for 12-month periods.

Out of 20 fixed-income indexes, top performers included emerging market debt, credit, high-yield bonds and short-to-intermediate-term Treasury bonds.

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= Highest-performing index during the period.

Pause start date	9/1/84	3/1/89	3/1/95	6/1/00	7/1/06	1/1/19	Median return
12-month return end date	8/31/85	2/28/90	2/29/96	5/31/01	6/30/07	12/31/19	
Top 10 fixed-income indexes ranked by median 12-month return							
1 JPM EMBI Global Index	-	-	42.31	16.69	11.68	14.42	15.56
2 Bloomberg US Credit Index	27.41	11.98	14.32	14.51	6.71	13.80	14.06
3 Bloomberg US Corporate HY 2% Issuer Capped Index	-	-	15.75	4.21	11.22	14.32	12.77
4 Bloomberg US Aggregate Bond Index	24.15	12.74	12.24	13.12	6.12	8.72	12.49
5 Bloomberg US MBS Index	27.92	13.98	11.42	13.42	6.39	6.35	12.42
6 Bloomberg US Intermediate Credit Index	22.12	11.51	12.95	13.76	6.34	9.52	12.23
7 Bloomberg US Government Bond Index	21.97	12.33	12.10	11.79	5.56	6.83	11.94
8 ICE BofA 3-5 Year US Treasury Index	22.05	11.85	11.18	12.07	5.38	5.20	11.52
9 ICE BofA Current 5-Year US Treasury Index	-	12.06	11.44	12.25	5.30	5.91	11.44
10 Bloomberg 1-5 Year US Gov/Credit Index	18.80	11.23	9.54	11.37	5.55	5.01	10.38

As of 7/31/23. Fixed-income analysis excludes the 15 equity indexes used in the previous analysis to determine the top performing fixed-income asset classes. Graph shows the top 10 performing indexes out of 20 commonly used government and credit indexes (19 bond indexes and one bank loan index). Returns are for 12-month periods.

Sources: Federated Hermes analysis, Morningstar, Inc., MSCI, Bloomberg, Russell, Bank of America Securities, J.P. Morgan and S&P Dow Jones Indices LLC. For more information on how the analysis was conducted, including a list of all of the indexes compared, please see the disclaimers. For illustrative purposes only and not representative of any specific investment.

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The analysis of returns after fed funds rate hike pauses compared the returns of all indexes that are listed as Federated Hermes benchmarks in Morningstar, Inc. and had return history dating back to at least 3/1/95. The 12-month periods for this analysis consist of the following six periods: (9/1/1984 - 8/31/1985), (3/1/1989 - 2/28/1990), (3/1/1995 - 2/29/1996), (6/1/2000 - 5/31/2001), (7/1/2006 - 6/30/2007) and (1/1/2019 - 12/31/2019). Analysis shows the top 10 performing indexes based on median cumulative returns over the six periods. Fixed-income analysis excludes stock indexes to determine the top 10 performing fixed-income indexes based on median cumulative returns. For indexes, also with inception dates later than 9/1/1984, median cumulative returns are calculated over the number of periods for which data is available.

Indexes analyzed: Dow Jones U.S. Select Dividend Index, Russell 1000® Value Index, S&P MidCap 400® Index, Russell 2000® Value Index, MSCI ACWI SMID Cap Index, MSCI World ex USA Index, Russell 1000® Growth Index, S&P 500® Index, Russell Midcap® Growth Index, Russell 3000® Index, MSCI EAFE Index, Russell 2500™ Index, MSCI ACWI ex USA SMID Cap Index, Russell 2000® Index, JPM EMBI Global Index, Bloomberg US Credit Index, Russell 2000® Growth Index, Bloomberg US Corporate HY 2% Issuer Capped Index, Bloomberg US Aggregate Bond Index, Bloomberg US MBS Index, Bloomberg US Intermediate Credit Index, Bloomberg US Government Index, ICE BofA 3-5 Year US Treasury Index, ICE BofA Current 5-Year US Treasury Index, Bloomberg 1-5 Year US Gov/Credit Index, Bloomberg 1-3 Year US Gov/Credit Index, ICE BofA 1-3 Year US Treasury Index, Bloomberg US Corporate 1-5 Year Index, Credit Suisse Leveraged Loan Index, ICE BofA US 6-Month Treasury Bill Index, ICE BofA US 3-Month Treasury Bill Index, Bloomberg Global Aggregate Index, Bloomberg Municipal Managed Money Short Index, Bloomberg Municipal 1 Year 1-2 Index, JPM GBI Global Ex US Index.

**Bloomberg 1-5 Year US Government/Credit Index** is a broad-based benchmark that measures the non-securitized component of the Bloomberg US Aggregate Bond Index. It includes investment-grade, U.S. dollar-denominated, fixed-rate treasuries, government-related and corporate securities that have a remaining maturity of greater than or equal to one year and less than five years.

**Bloomberg Mortgage-Backed Securities (MBS) Index** tracks agency mortgage backed pass-through securities (both fixed-rate and hybrid ARM) guaranteed by Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

**Bloomberg US Aggregate Bond Index** is an unmanaged index composed of securities from the Bloomberg Government/Corporate Bond Index, Mortgage-Backed Securities Index and the Asset-Backed Securities Index. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. Indexes are rebalanced monthly by market capitalization.

**Bloomberg US Corporate High Yield 2% Issuer Capped Index** is an issuer-constrained version of the flagship U.S. Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value index wide on a pro rata basis. The index was created in 2002, with history backfilled to January 1, 1993.

**Bloomberg US Credit Index** is composed of all publicly issued, fixed-rate, nonconvertible, investment-grade corporate debt. Issues are rated at least Baa by Moody's Investors Service or BBB by Standard & Poor's, if unrated by Moody's. Collateralized Mortgage Obligations (CMOs) are not included. Total return comprises price appreciation/depreciation and income as a percentage of the original investment.

**Bloomberg US Government Bond Index** is a market value weighted index of U.S. government and government agency securities (other than mortgage securities) with maturities of one year or more.

**Bloomberg US Intermediate Credit Index** measures the investment-grade, U.S. dollar-denominated, fixed-rate, taxable corporate and government-related bond markets. The index only includes securities with maturity between one and ten years. It is composed of the Bloomberg US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

**Dow Jones U.S. Select Dividend Index** is all dividend-paying companies in the Dow Jones U.S. Total Market Index that have a non-negative, historical, five-year dividend-per-share growth rate, a five-year average dividend earnings-per-share ratio of less than or equal to 60% and three-month average daily trading volume of 200,000 shares. Current index components are included in the universe regardless of their dividend payout ratio. The Dow Jones U.S. Total Market Index is a rules-governed, broad-market benchmark that represents approximately 95% of the U.S. market capitalization.

**ICE BofA 3-5 Year US Treasury Index** is an unmanaged index which includes U.S. Treasury securities with maturities of 3 to 4.99 years. This index is produced by BofA Merrill Lynch, Pierce, Fenner & Smith, Inc.

**ICE BofA Current 5-Year US Treasury Index** is a one security index comprised of the most recently issued 5-year U.S. Treasury note. The index is rebalanced monthly.

**JPM EMBI Global Index** captures a broad universe of emerging market bond issuance and is composed of only USD-denominated emerging market sovereign/quasi-sovereign bonds. The index is rebalanced monthly.

**MSCI ACWI SMID Cap Index** captures mid- and small-cap representation across 23 Developed Markets and 24 Emerging Markets countries. With 7,814 constituents, the index covers approximately 28% of the free float-adjusted market capitalization in each country.

**MSCI World ex USA Index** captures large- and mid-cap representation across 22 of 23 Developed Markets countries, excluding the United States. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics.

**Russell 1000® Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000® index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000® Value Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics.

**Russell 2000® Value Index** measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value® Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics.

**Russell 3000® Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000® Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

**Russell Midcap® Growth Index** measures the performance of the mid-cap growth segment of the U.S. equity universe. It includes those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values. It is constructed to provide a comprehensive and unbiased barometer of the mid-cap growth market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true midcap growth market.

**S&P 500® Index** is an unmanaged capitalization-weighted index of 500 stocks designated to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**S&P MidCap 400® Index** is an unmanaged capitalization weighted index of common stocks representing all major industries in the mid-range of the U.S. stock market.

Indexes are unmanaged and cannot be invested in directly.

International investing involves special risks including currency risk, increased volatility, political risks and differences in auditing and other financial standards.

Prices of emerging markets securities can be significantly more volatile than the prices of securities in developed markets countries and currency risk and political risk are accentuated in emerging markets.

Small company stocks may be less liquid and subject to greater price volatility than large company stocks.

Bond prices are sensitive to changes in interest rates and a rise in interest rates can cause a decline in their prices. High-yield, lower-rated securities generally entail greater market, credit/default and liquidity risks, and may be more volatile than investment-grade securities.

In addition to the risks generally associated with debt instruments, such as credit, market, interest rate, liquidity and derivatives risks, bank loans are also subject to the risk that the value of the collateral securing a loan may decline, be insufficient to meet the obligations of the borrower or be difficult to liquidate.

Investments are subject to risks and fluctuate in value.