

Which asset classes performed best during rate cut cycles?



Federated Hermes analyzed how 50 commonly used benchmark indexes performed during past federal funds rate cut cycles. We ranked the top 10 indexes based on median annualized return during the five periods since 1989 when the Federal Reserve (Fed) cut rates. All were fixed-income indexes.

Out of 50 equity and fixed-income indexes, the top performers were bonds and mortgage-backed securities.

Annualized total return (%) in between the first cut and the last cut of a Fed rate cut cycle since 1989

= Highest-performing index during the period.

First cut	6/5/89	7/6/95	1/3/01	9/18/07	7/31/19	Median annualized return	
Last cut	9/4/92	1/31/96	6/25/03	12/16/08	3/18/20		
Top 10 indexes ranked by median annualized return							
1	ICE BofA Current 5-Year US Treasury Index	11.54	6.06	9.64	15.01	5.63	9.64
2	ICE BofA 3-5 Year US Treasury Index	12.05	5.35	9.37	13.91	4.87	9.37
3	Bloomberg US Government Bond Index	11.69	6.02	9.22	12.81	5.78	9.22
4	Bloomberg US MBS Index	12.41	6.28	7.38	8.50	2.35	7.38
5	Bloomberg US Credit Index	12.41	6.86	11.64	-2.67	-4.06	6.86
6	Bloomberg US Intermediate Credit Index	11.97	6.27	10.76	-1.63	-1.87	6.27
7	Bloomberg 1-5 Year US Government/Credit Index	10.96	5.44	8.07	6.24	2.49	6.24
8	ICE BofA 1-3 Year US Treasury Index	10.06	4.38	6.09	7.56	3.29	6.09
9	Bloomberg US Aggregate Bond Index	11.95	5.98	9.24	5.67	1.87	5.98
10	Bloomberg 1-3 Year US Government/Credit Index	10.22	4.90	6.80	5.81	2.35	5.81

As of 12/31/23. Graph shows the top 10 performing indexes out of 50 common benchmark indexes (28 bond, 21 stock and one bank loan index). Returns for periods less than one year are cumulative.

Out of 21 equity indexes, top performers included small caps and value stocks.

Annualized total return (%) in between the first cut and the last cut of a Fed rate cut cycle since 1989

= Highest-performing index during the period.

First cut	6/5/89	7/6/95	1/3/01	9/18/07	7/31/19	Median annualized return	
Last cut	9/4/92	1/31/96	6/25/03	12/16/08	3/18/20		
Top 10 equity indexes ranked by median annualized return							
1	Russell 2000® Value Index	5.78	11.38	6.13	-31.20	-39.22	5.78
2	Russell 2500™ Index	8.13	11.76	-1.28	-34.58	-35.15	-1.28
3	Russell 2000® Index	5.31	11.09	-2.16	-32.79	-36.43	-2.16
4	Russell 1000® Value Index	8.70	17.34	-4.68	-33.71	-26.72	-4.68
5	Russell 3000® Index	11.28	16.02	-10.07	-32.66	-21.14	-10.07
6	Dow Jones U.S. Select Dividend Index	-	18.41	6.81	-30.17	-27.66	-10.43
7	S&P 500® Index	11.93	16.31	-10.90	-32.05	-18.48	-10.90
8	MSCI World ex USA Index	-2.27	8.90	-11.03	-35.37	-27.28	-11.03
9	Russell 2000® Growth Index	4.06	10.84	-11.15	-34.71	-33.80	-11.15
10	MSCI EAFE Index	-2.40	8.83	-11.32	-35.15	-26.48	-11.32

As of 12/31/23. Equity analysis excludes the 29 fixed-income indexes used in the previous analysis to determine the top performing equity asset classes. Graph shows the top 10 performing indexes out of 21 commonly used U.S. and international equity indexes. Returns for periods less than one year are cumulative.

Sources: Morningstar, Inc., Federated Hermes analysis. 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.

Past performance is no guarantee of future results.

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The analysis of returns during fed funds rate cutting cycles compared the returns of all indexes that are listed as Federated Hermes benchmarks in Morningstar, Inc. Rate cutting cycles for this analysis consist of the following five periods: (6/5/89 - 9/4/92), (7/6/95 - 1/31/96), (1/3/01 - 6/25/03), (9/18/07 - 12/16/08) and (7/31/19 - 3/18/20). For periods longer than one year, returns are annualized. Analysis shows the top 10 performing indexes based on median returns over the five periods. Equity analysis excludes fixed-income indexes to determine the top 10 performing equity indexes based on median returns. For indexes, also with inception dates later than 6/5/89, median annualized returns are calculated over the number of periods for which data is available.

Indexes analyzed: MSCI ACWI SMID Cap Index, MSCI ACWI ex USA SMID Cap Index, S&P Municipal Bond Index, S&P Municipal Bond Short Index, S&P Municipal Bond Intermediate Index, Bloomberg Short-term Gov/Corporate Index, S&P Municipal Bond Ohio Index, S&P Municipal Bond Pennsylvania Index, JPM EMBI Global Index, Bloomberg Municipal 1 Year 1-2 Index, Bloomberg US Govt/Credit 1-3 Year Index, Bloomberg US Govt/Credit 1-5 Year Index, Bloomberg Global Aggregate Index, Russell 1000® Growth Index, Russell 1000® Value Index, Russell 2000® Growth Index, Russell 2000® Value Index, Russell MidCap® Growth Index, Bloomberg US Aggregate Bond Index, Bloomberg US Credit Index, Bloomberg US Government Index, Bloomberg US Intermediate Credit Index, Bloomberg US MBS Index, Russell 2000® Index, Russell 3000® Index, MSCI EAFE Index, MSCI World ex USA Index, ICE BofA 1-Year US Treasury Note Index, ICE BofA US 3-Month Treasury Bill Index, ICE BofA 6-Month Treasury Bill Index, ICE BofA 1-3 Year US Treasury Index, ICE BofA 3-5 Year US Treasury Index, ICE BofA Current 5-Year US Treasury Index, MSCI ACWI Index, MSCI EM Index, MSCI World Small Cap Index, Bloomberg US Treasury US TIPS Index, MSCI ACWI ex USA Index, S&P 500® Index, S&P MidCap 400® Index, Bloomberg US Corporate HY 2% Issuer Capped Index, MSCI ACWI ex USA Growth Index, Credit Suisse Leveraged Loan Index, Dow Jones U.S. Select Dividend Index, MSCI World ex USA HDY Index, Russell 2500™ Index, ICE BofA 0-3 Dura-Worst US HY Constrained Index, ICE BofA Global HY Index Constrained - USD Hedged, Bloomberg US Corporate 1-5 Year Index, Bloomberg Municipal Managed Money Short Index.

Bloomberg 1-3 Year US Government/Credit Index includes all medium and larger issues of U.S. government, investment-grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between one and three years and are publicly issued.

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 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 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.

Bloomberg US 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).

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 1-3 Year US Treasury Index is a subset of the ICE BofA Treasury Master Index. The maturity range on these securities is from one to three years.

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.

MSCI EAFE Index is an equity index which captures large- and mid-cap representation across developed markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% 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® 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 R1000V is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. 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® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

Russell 2000® Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000® Index companies with higher price-to-value ratios and higher forecasted growth values. The Russell 2000® Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The index 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 growth characteristics.

Russell 2000® Value Index measures the performance of the 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 2500™ Index measures the performance of the small- to mid-cap segment of the U.S. equity universe, commonly referred to as "SMID" cap. The Russell 2500™ Index is a subset of the Russell 3000® Index. It includes approximately 2,500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500™ Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small- to mid-cap opportunity set.

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.

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.

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.