A message to shareholders

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President and CEO

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Returns in global financial markets were mostly positive for the first three months of 2017, but the environment calls for maintaining a diversified approach.

Wishful thinking

The postelection rally in U.S. stocks showed signs of strain as the quarter drew to a close. Stocks in several sectors had been bid up in the hopes that the new administration would quickly implement a variety of pro-business reforms, from tax reductions to an across-the-board rollback of industry regulations. As the slower pace of governing set in and the administration grappled with a series of unrelated controversies, the timetable for those initiatives was pushed out, and investor enthusiasm began to wane. Nevertheless, returns for the full quarter were generally strong, and the eight-year-old bull market remains underpinned by steady economic growth, rising employment and wages, and modest inflation. A clear-eyed view of market expectations is probably healthy for investors wondering what comes next for U.S. equities. From the lows of February 2016 through the end of March 2017, stocks advanced roughly 25% as measured by the S&P 500 Index, making a repeat performance highly unlikely. Also, valuations remain high by historical standards. A more discerning approach tied to company fundamentals may be prudent until such time as the legislative and regulatory landscape comes into focus.

Outside the United States, equity markets have been fueled by a different kind of optimism. Economic growth in Europe, Japan, and several emerging markets has turned up along with corporate earnings, providing support for stocks that, by and large, trade at more attractive valuations than their U.S. counterparts. In a year of high-profile European elections, investors have also been encouraged by the rejection of populist candidates with nationalist and trade-inhibiting agendas. This is welcome news, although key elections in France and Germany later this year could quickly shift this sentiment. Historically, international stocks and U.S. stocks have gone through multi-year cycles where one side outperforms the other before the cycle reverses. Until March 2017, U.S. stocks had outperformed for a record 111 months.[1] Investors in international markets are hoping the results of the past month are finally a harbinger of better days ahead.

Fixed-income returns were generally more subdued than those of equities for the quarter. The steady drumbeat of growth in the United States convinced the U.S. Federal Reserve to raise short-term interest rates by a quarter of a percentage point again in March and hint at two more rate hikes later this year. Intermediate-term bond yields have risen sharply since the summer of 2016, peaking at 2.60% in early March.[2] Bond prices—which move in the opposite direction of interest rates—have suffered, particularly in the highest-rated segments of the market. Investor demand globally for higher-yielding sources of income may provide some support for U.S. bond prices in the coming months, and investment-grade bonds continue to provide important diversification from equity market risk, but the environment for fixed-income investors will nevertheless remain challenging.

Maintaining a balanced approach

With U.S. stock valuations high, bond yields still relatively low, and no shortage of global uncertainty, investors have no easy answers. Maintaining a diversified portfolio of stocks, bonds, and alternatives, alongside a disciplined investment program, is one approach that has stood the test of time. As always, your best resource for uncertain markets is your financial advisor, who can help ensure your portfolio is sufficiently diversified to meet your long-term objectives and to withstand the inevitable bumps along the way.

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

Sincerely,

Andrew Arnott

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President and CEO
John Hancock Investments

1 Bloomberg, FactSet, 2017. International performance is measured by the MSCI EAFE Index; U.S. performance is measured by the S&P 500 Index.

2 U.S. Federal Reserve, 2017.

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