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ADVISORS ASSET MANAGEMENT

Income-Oriented Investments

The Long-Term Investor Shouldn't Fear Rising Rates

As most investors know, the absolute level and direction of interest rates is only one of several factors driving stock and/or bond performance. Returns may also reflect investor sentiment, news headlines, individual stock fundamentals, as well as broad sector, economic, political and global conditions. Despite understanding this, many investors still believe that tightening monetary policy negatively impacts income-oriented investments *across the board*.

When you look at the data however, this (mis)conception is proven not to be true. After analyzing returns of several income-oriented asset classes over 25 years (1992-2016), not only did many areas generate positive total returns a mere six-months and one-year after the last interest rate increase, several actually moved higher *during* the Federal Reserve's (Fed) tightening cycle. Please note that the index returns shown below are total return figures and not reflective of income-only results.

Tightening Cycle 1: 2/4/1994 - 2/1/1995

Beginning Fed Funds Rate: 3.00% Ending Fed Funds Rate: 6.00%
10-year US Treasury Yields: 5.94% (2/4/1994) to 7.66% (2/1/1995)

Cumulative Performance (%) for Select Income-Oriented Indexes

	6 Months Prior to Start	During Fed Cycle	6 Months After End	1-Year After End
Dividend-Payers	7.15	2.20	19.71	34.33
Utilities	-7.89	-2.36	8.66	27.10
Municipal Bonds	7.21	-8.75	9.26	21.36
US Investment Grade Bonds	2.77	-1.89	11.12	20.57
Foreign Bonds	-1.88	-36.17	17.61	48.18

Source: Ned Davis Research Inc. See back page for indexes and index definitions. MLP data was not available during this period. **Index returns shown are total return figures and not reflective of income only results. Past performance does not guarantee future results.** It is not possible to invest directly in an index.

What was going on in 1994?

President Bill Clinton was in office; Alan Greenspan was Chairman of the Federal Reserve; the US was emerging from recession, job growth was substantial and yields on 10-year US Treasuries were beginning to move higher after having fallen to a low of 5.28% in September 1993.

The Fed surprised markets and embarked on an aggressive tightening campaign—doubling rates from 3.00% to 6.00% in 7 steps including two 50 basis point (bp) hikes and an unheard of "between meeting" increase.

Tightening Cycle 2: 6/30/1999 - 5/16/2000

Beginning Fed Funds Rate: 4.75% Ending Fed Funds Rate: 6.00%
10-Year US Treasury Yields: 5.81% (6/30/1999) to 6.43% (5/16/2000)

Cumulative Performance (%) for Select Income-Oriented Indexes

	6 Months Prior to Start	During Fed Cycle	6 Months After End	1-Year After End
Dividend-Payers	13.70	-4.02	4.38	20.97
MLPs	5.54	-2.97	19.60	72.82
Utilities	0.81	8.27	22.28	24.99
Municipal Bonds	-2.59	-2.97	8.39	16.27
US Investment Grade Bonds	-1.56	1.59	8.00	15.55
Foreign Bonds	17.58	29.15	33.21	34.19

Source: Ned Davis Research Inc. See back page for indexes and definitions. **Index returns shown are total return figures and not reflective of income only results. Past performance does not guarantee future results.** It is not possible to invest directly in an index.

What was going on in 1999?

Bill Clinton was in the eighth year of his Presidency. Alan Greenspan, still Chairman of the Fed, summed up the environment in his 2/23/1999 testimony before Congress "…after eight years of economic expansion, the economy appears stretched…The robust increase of production has been using up our nation's spare labor resources… Equity prices are high enough to raise questions about whether shares are overvalued. The debt of the household and business sectors has mounted…" Four months later, the Fed began raising the Fed Funds rate, increasing it from 4.75% to 6.00% over a period of roughly one year.

Tightening Cycle 3: 6/30/2004 - 6/29/2006

Beginning Fed Funds Rate: 1.00% Ending Fed Funds Rate: 5.25%
10-Year US Treasury Yields: 4.62% (6/30/2004) to 5.22% (6/29/2006)

Cumulative Performance (%) for Select Income-Oriented Indexes

	6 Months Prior to Start	During Fed Cycle	6 Months After End	1-Year After End
Dividend-Payers	7.56	26.78	11.77	21.23
MLPs	-3.34	38.40	17.57	42.40
Utilities	3.81	45.74	16.36	26.44
Municipal Bonds	-3.13	16.14	6.83	4.61
US Investment Grade Bonds	0.66	6.12	6.32	7.05
Foreign Bonds	-0.79	17.40	8.87	12.01

Source: Ned Davis Research Inc. See below for indexes and definitions. **Index returns shown are total return figures and not reflective of income only results.** It is not possible to invest directly in an index.

What was happening in 2004?

George W. Bush was President and Alan Greenspan was still Chairman of the Fed (Ben Bernanke took the reins in February 2006 near the end of this cycle). The Fed Funds rate was a very low 1% in an effort to stimulate economic growth after the bursting of the dot.com/Technology-Media-Telecom (TMT) bubble and the devastating events of September 11, 2011 which had further shaken business confidence. By June 2004, the economy began to exhibit stable positive growth and job creation returned. The Fed slowly increased rates in 17 steps to 5.25%.

Contact a financial professional to discuss the potential benefits and risks that income-oriented investments may have on your portfolio in today's environment.

Indexes and Definitions

US Equities represented by the **S&P 500 Index**, an unmanaged capitalization-weighted index (weighted by the market value of the companies) of 500 stocks listed on various exchanges. Dividend-payers represented by the **S&P 500 Dividend Payers Equal-Dollar-Weighted Index**. MLPs represented by the **Alerian MLP Index** (Total Return), a float-adjusted, capitalization-weighted index, which includes 50 prominent companies and captures approximately 75% of available market capitalization. Utilities represented by the **S&P 500 Utilities Index**, which is a subset of the S&P 500 Index and includes all companies classified in the GICS utilities sector. Municipal Bonds represented by the **S&P Municipal Bond Index** (Total Return) which is a broad, market-value-weighted index that tracks fixed-rate, tax-free bonds. The Index includes bonds of all qualities from AAA to unrated, including defaulted bonds and from all sectors of the municipal bond market. US Investment Grade Bonds represented by the **Bloomberg US Aggregate Bond Index**, an unmanaged, broad based index composed of US dollar denominated, investment grade, fixed-rate taxable bonds with at least $250 million par amount outstanding and at least one year to final maturity. Foreign Bonds represented by a Composite Index of Foreign Bonds ETFs (Total Return). **Past performance does not guarantee future results.** It is not possible to invest directly in an index.

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