Latest Asset Allocation View

May 2024[1]

Multi-Asset Solutions Team

[1]Asset allocation views are updated every three months. The last update was issued in February 2024.

Manulife
Investment Management

Key Global Themes

1. Major central banks are getting closer to cutting rates, but they aren't there yet

- The tightening cycle is over and now attention turns to the timing of easing cycles. Major central banks have signaled that rate cuts are the next probable step, contingent on inflation continuing to moderate.
- However, persistent above-target U.S. inflation has led to a significant decrease in expected rate cuts domestically. Our outlook on assets poised to benefit from lower rates, such as core bonds and U.S. small-cap equities, has shifted as a result.
- While major central banks, including the U.S. Federal Reserve (Fed), European Central Bank (ECB), and Bank of England have held rates steady or are preparing to cut, other countries, including Brazil, Mexico, and, most recently, Switzerland, are already cutting rates.

2. Global growth continues to see significant desynchronization

- U.S. growth has defied expectations, remaining robust despite elevated interest rates, leading us to overweight U.S. equities. In contrast, other developed economies have flirted with recession, including the United Kingdom, Canada, Germany, and Japan.
- Desynchronized growth continues globally as well as within national borders where growth diverges between resilient services sectors and the manufacturing sector, which is just now exiting a prolonged recession.
- Amid challenges, there are numerous potential opportunities, particularly in Asian markets where diverse prospects such as manufacturing in South Korea and Japan, commodities in Indonesia, and domestic growth in India are prevalent.

Source: Multi-Asset Solutions Team (MAST), as of 30 April 2024. Projections or other forward-looking statements regarding future events, targets, management discipline or other expectations are only current as of the date indicated. There is no assurance that such events will occur, and if they were to occur, the result may be significantly different than that shown here.

Key Global Themes

3. Concerns remain around risks to the downside

- Although our market outlook is generally positive—reflected in our overweight in equity versus fixed income—we believe that the balance of risks remains to the downside.
- The next few months are likely to see upward pressure on U.S. interest rates. With no imminent reprieve from higher rates, more indebted parts of the market could experience strain, posing challenges for assets such as high-yield credit, small-cap equities, and real estate.
- Elevated valuations add to the risk of deeper drawdowns should a slowdown in current or forecast earnings occur; however, valuations alone aren't historically a good predictor of near-term market movements.

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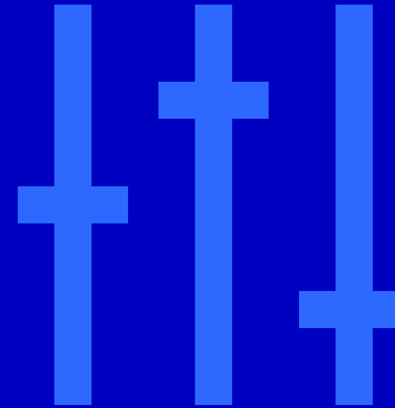
1

Asset Class Overview

2

Active Asset Allocation Views



3

Views on Key Asset Classes

1

Asset Class Overview

Broad Asset Class Outlook

Current outlook
• Represents previous quarter

		Underweight	Neutral	Overweight
Broad Asset Classes	Equities			•
	Fixed Income	•		

- We continue to favour **equities** over fixed income as economic growth and corporate earnings growth remain resilient amid a higher interest-rate environment. A reduction in the number of interest-rate cuts expected in 2024 has dampened the outlook for fixed income. Downside pressures remain a risk to this view.

- The United States remains the most resilient global market, underpinned by strong economic growth and corporate earnings, despite trending back toward the rest of the world. Although valuations may be elevated compared with other regions, the absence of clear signals for rate cuts could maintain investor focus on high-quality U.S. companies.

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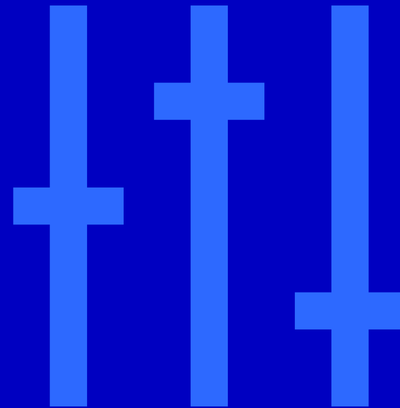
2

Asset Allocation View



Manulife Investment Management

Active Asset Allocation Views

• Represents previous quarter

Asset Class: Equities	Underweight	Neutral	Overweight
United States			■ •
Canada	■ •		
Non-U.S. developed markets		■ •	
Europe		■ •	
Emerging Markets		■ •	
U.S. small cap			■ •
United Kingdom		■ •	
Japan			■ •
Emerging Latin America			■ •
APAC ex-Japan		■ •	
Mainland China		■ •	
Hong Kong		■ •	
Real estate investment trusts		■ •	
Infrastructure			■ •
Commodities		•	■

Asset Class: Fixed Income	Underweight	Neutral	Overweight
U.S. investment grade		■ •	
Canadian investment grade		■ •	
Asia investment grade		■ •	
U.S. high yield	■ •		
Asia high yield		■ •	
Leveraged loans	•	■	
Emerging-market debt			■ •

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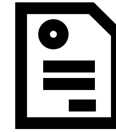
3 Equity View



Broad Equity:

- U.S. small-cap equities are currently trading near 20-year relative lows versus large-cap stocks, and we continue to maintain a medium-term overweight; however, Fed rate cuts are anticipated to be the crucial catalyst in unlocking their relative opportunity potential.
- We remain neutral on European equities relative to global equities as valuations are attractive compared with the United States, and potential rate cuts from the ECB in June could support relative returns; however, growth expectations and corporate earnings in Europe continue to lag those in the United States.

Regional/Sector-specific Equity:

- We continue to favor Japanese equities due to their robust fundamental outlook, strong earnings growth, and positive corporate governance reforms.
- We're overweight emerging Latin America, particularly Brazil, supported by resilient cyclical macroeconomic data reflecting improving economic activity and credit data. The structural macroeconomic backdrop is bolstered by foreign direct investment and export growth.
- We maintain a neutral outlook on China, despite attractive valuations, due to ongoing weakness in the Chinese property market and the unlikelihood of large-scale fiscal stimulus in the near term.
- Commodities offer valuable portfolio diversification in an environment where interest-rate and inflation volatility pose challenges to the correlation benefits between equities and longer duration fixed income.

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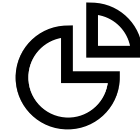
3 Fixed Income



Fixed Income:

- We favor leveraged loans to high-yield bonds due to their more favorable spreads and attractive yield. Additionally, leveraged loan issuers have already adjusted to higher short-term rates while investment-grade and high-yield bond issuers are just now starting to experience the effect of higher interest costs.
- We have a divergent view within the U.S. investment-grade bond universe with government debt remaining neutral, while our view on investment-grade credit is less favorable as spreads are not sufficiently compensating investors for any potential risk-off event.
- We remain overweight emerging-market debt, driven by strong foreign currency reserves, positive sovereign debt trends, and elevated spreads relative to U.S. corporate high-yield debt.

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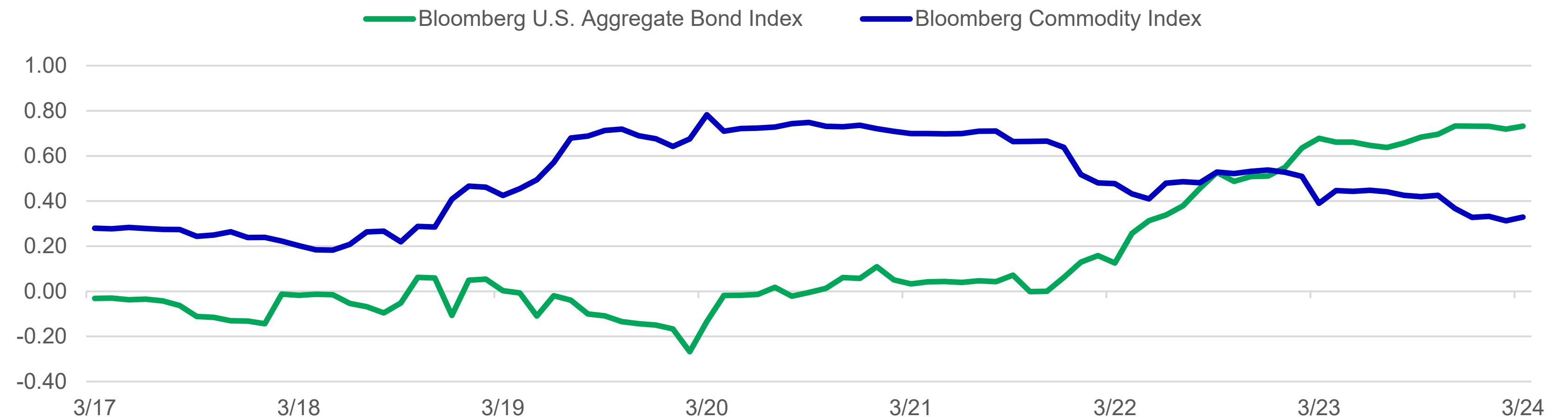
Commodities: a much-needed portfolio diversifier

- While gold has made headlines in recent months, climbing to new highs amid strong demand, we think the metal combined with a broader mix of commodities offers attractive potential upside and value for investors.
- Given increased volatility in inflation and interest rates, long duration bonds have become a less effective diversifier. Commodities may be an alternative diversification option, providing a more favorable relationship with inflation and a distinct performance profile compared to equities and bonds.
- Broad commodities should benefit from resilient economic growth and a recent uptick in manufacturing activity globally. Certain commodities, including oil and gold may also serve as a hedge against geopolitical risk, which has been escalating globally.
- Gold—in particular—remains an appealing commodity. In addition to its potential benefit amid geopolitical uncertainty, gold may benefit from favorable supply-demand dynamics given high mining costs, structural demand from China and India, an uptick in demand from global central banks for the physical commodity, and global increases in trading volume.



Source: Bloomberg, Manulife Investment Management, April 2024. The Bloomberg Commodity Index provides a broadly diversified representation of commodity markets as an asset class. The Bloomberg U.S. Aggregate Bond Index tracks the performance of U.S. investment grade bonds in government, asset-backed, and corporate debt markets. The MSCI World Index tracks the performance of large- and mid-cap stocks of developed-market companies. It is not possible to invest directly in an index.

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