Manulife Investment Management

Investment Note

30 Mar 2026

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Recent developments in the Middle East have had a meaningful impact on global markets, particularly through higher oil and gas prices. These dynamics have increased the risks of elevated inflation, slower economic growth, and weaker corporate earnings. Despite the heightened market volatility, the Global Equities Diversified Income (GEDI) strategy has demonstrated resilience. We have made selective portfolio adjustments to address the rising risks and believe that by combining four powerful pillars—growth, value, income equities, and options—the strategy is well positioned to potentially deliver attractive yield alongside long-term capital growth.

Global Equity Diversified Income (GEDI) strategy: Recent update amid Middle East developments

Market Update

The relatively limited sell-off in markets globally suggests investors may be underpricing the risks to the inflation and growth outlook from the recent military activity in the Middle East, which leaves energy prices higher for longer. Recent developments have disrupted energy markets, increasing uncertainty around key supply routes and pricing, contributing to higher oil and liquefied natural gas (LNG) prices.

This risk-on view has been challenged by the Middle East crisis, whilst the jump in oil and LNG prices is casting a stagflationary spectre across markets.

We expect upcoming activity data to soften, with oil, gas and other commodity prices remaining elevated until supply normalises. If tensions remain or intensify, this could trigger further energy price shocks, posing an even larger upside risk to inflation and a downside risk to growth and earnings. This suggests a somewhat cautious, risk-averse approach to portfolio de-risking.

Month to date, the risk-off rotation has been well contained, with international equities down 6.8%, the S&P 500 off 5.7%[1], and large US technology stocks experiencing significant declines in US dollars (USD). Overall, the market has proven relatively resilient, on expectations that the geopolitical tensions will be relieved somewhat in the near future.

However, could this view be too complacent? A disruption of the Straits of Hormuz means a loss of 20 million barrels of oil per day (perhaps reduced to 15 million with offsets). This dramatically alters expectations, especially given the expectations coming into 2026 for an oil supply glut. Two more weeks of missed supply could push the oil price significantly higher. Strategic reserves releases help but may take time to get where they are needed.

In terms of markets, oil-dependent countries, and those with little refining capabilities, have been most impacted by recent events, and the question remains: Will there be a reversal in USD strength and a rotation back into non-US markets (which would align with previous trends)? Alternatively,

[1] Source: Bloomberg, data as of 26 March 2026. International equities are represented by MSCI World Gross total return USD index. US equities are represented by S&P 500 total return index. Total returns in US dollars. Past performance is not an indication of future performance.

could we see a more pro-US, pro-USD dynamic as investors return to the US, which is energy independent?

The global economy is still experiencing a lag effect from earlier rate cuts (with more on the horizon), and the One Big Beautiful Bill Act (OBBB) plus other fiscal incentives could make US markets look more attractive. However, politically, should we also see the Democrats take more power in the mid-term elections, potentially leading to some backtracking of fiscal policy.

Strategy update

Our recent concerns are focused on three areas: 1) the broader Middle East development, 2) private credit developments and 3) inflation from soaring oil and gas prices. As such, we have adjusted the GEDI strategy to accommodate some of these rising risks, aiming to de-risk where appropriate and “hedge” against further disruption through additional USD and energy/oil-related exposure.

Amid the current geopolitical uncertainty, the GEDI strategy, by design, will retain elements of resilience given its broad geographic, sector, style and income-focused allocations. A focus on income investing, which is the primary objective of the GEDI strategy, is expected to offer defensive attributes, given the strategy's allocations to high-quality income-generating securities across the Growth, Value and Income Equity investment pillars.

Growth Equities

We have added Asian equities to the Growth Equities component of the portfolio, including names listed in Chinese Mainland, Hong Kong, Singapore, Taiwan, South Korea, and Indonesia, given the recent underperformance across the Asia Pacific region - these holdings have a dividend bias in order to fulfil the income focus of the GEDI portfolio.

In sector terms, these names span the technology, consumer, financials, real estate, telecommunications, and power and industrials segments. Going forward, we could potentially add more Asia exposure. Likewise, we are also looking at index options to write covered calls and collateralised puts on the respective regional Asia and single-market Asia indices, in addition to the US and Europe, Australasia, and the Far East (EAFE) index option writing currently in place. Lastly, we see incremental option premium capture from writing options on Asian indices, which will further enhance the income mandate of GEDI.

Value Equities

For the Value Equities component, recent strategy changes include a reduction in our exposure to financials, specifically to some major US banks, given concerns around private credit, the effects of artificial intelligence (AI) developments on the credit cycle, and potential central bank policy impacts arising from the conflict.

Elsewhere, we have increased exposure to more defensive sectors, such as healthcare and consumer staples and added to utilities. Finally, we have raised the energy exposure in response to evolving market conditions.

Income Equities

Over the year to date, preferred stock new issuance has been robust. The preferred securities held in the GEDI strategy are a high-quality core investment pillar. One that is better positioned to withstand any economic shocks that might occur.

We have recently added securities that benefit from higher oil prices, balancing that with more defensive purchases in the utilities space. Furthermore, we are also taking advantage of some of the price weakness in retail preferreds and buying “quality on sale," a strong long-term alpha driver.

Option Writing

As volatility has risen in the market, there has been an increased drive for investors to hedge their exposures, often paying higher premiums to insure themselves against downside risk. The current options market is not yet pricing in panic, as the VIX volatility index has shown near-term stability, albeit has crept higher to the 30 level.

We remain consistent in selling covered calls and collateralised puts, taking advantage of higher premiums as volatility persists. Looking ahead, should we have a greater conviction in a strong market recovery emerging over the coming weeks, our call writing could be reduced (or more puts could be written), or call writing could be taken off completely to allow for higher equity-market participation in a recovery.

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