

**Tuesday, November 29, 2022**

This is the Private Wealth Podcast with Manulife Private Wealth.

### Speaker Participants

#### **Leslie Brophy**

*Head of Investments and Head of Sales, Manulife Private Wealth*

#### **Alex Grassino**

*Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management*

#### **James Robertson**

*Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management*

### Presentation

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#### **Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Hello, everyone. Welcome and thank you for taking the time to join us today for this final Manulife Private Wealth webinar for 2022.

Both the equity and the fixed-income markets in 2022 have been in full correction mode.

And as we're near the end of the year, thankfully, we are starting to see some stability in certain sectors of the equity market, as well as along the credit curve in the fixed-income markets.

No doubt these volatile markets have led investors to take a closer look at how well they tolerate volatility in the markets and consider how the time horizon for their investment portfolios might have been impacted by the extended volatility this year.

As many of you, who work with Manulife Private Wealth know, our philosophy and processes include actively managed equity and fixed-income solutions.

We believe in an active approach to investment management, as during times of heightened market volatility, actively managed portfolios tend to outperform their established benchmarks.

Another key component to our active investment management process is the review of how we allocate investments across the universe of potential asset classes.

Asset allocation can be a complicated world to navigate, as there are well over 100 asset classes to consider.

Understanding how they correlate with one another as well as their risk and return attributes over a normal business cycle is important when considering asset allocation.

Annually, MPW reviews the underlying asset allocation established for its customers investment portfolios to determine where we can optimize that allocation, based on five-year forward-looking risk and return assumptions. We collaborate closely with Manulife Multi-Asset Solutions Team on the optimization process and today we have Jamie Robertson on the call to walk you through the details.

Before turning the call over to Jamie, I'll call in Alex Grassino to comment on the macroeconomic trends he is following at the moment, which will help set the stage for Jamie's comments later in the webinar. As always, this webinar is prepared solely for your information.

For those interested in the replay or in sharing the contents of this call with others, we are recording this segment, and a copy of the recording will be available to participants on our website at [manulifepriatewealth.ca](http://manulifepriatewealth.ca) or LinkedIn at Manulife Private Wealth.

If you have any requests or questions after this call, please feel free to contact a member of the Manulife Private Wealth Team.

Our first speaker Alex Grassino is the head of North American Macro Strategy Multi-Asset Solutions Team at Manulife Investment Management.

He forecast macroeconomic and financial trends, analyze the economy and capital markets for potential opportunities and risks and contributes to thought leadership both within the firm and externally.

In addition to his work on the Multi-Asset Solutions Team's returns forecast process, Alex provides portfolio and positioning views, directs thematic research, contributes to and coordinates internal and external publications and is an active participant in various internal investment and risk committees. With all after that, Alex over to you.

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#### **Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

Thanks, Leslie, for having me on again. It's a pleasure to be here.

Well, I don't think it's an understatement to say that it's been a year. We're coming down to the end of 2022.

One of the themes that keeps coming back to me is that we're winding down. It applies to the year certainly; it also increasingly applies to any distortions that we've seen that have related to the pandemic and to Russia's invasion of Ukraine.

Unfortunately, it also applies to things like the business cycle as we get closer to a slowdown in the economy. The silver lining here though, is that it also applies to Central Bank tightening cycles.

And I think that's one of the areas where we can look to for hope as 2023 evolves.

Last three things on that list are very clearly interlinked, and it's worth spending time on each of them to get a sense of where we're going over the course of the next year.

From a capital markets perspective, the last year has been all about inflation, Central Bank's aggressive reaction to it. Whether it was COVID driven inflation at the beginning or conflict driven inflation a little later on after Russia invaded Ukraine.

The persistently high inflation rates for central banks to move aggressively to counteract them, and effectively resign them into cooling down the economy a lot more aggressively than anybody would have hoped, especially at the beginning of the year.

And when you look at crop market dynamics and of our expectations the economy going, I think that's being fully reflected at this stage.

The good news on this front is a while we don't expect inflation to really hit that 2% target that everybody associates with the balanced economy in the next year or so, we do expect to see signs of inflation cooling down to a point where central banks are comfortable in next couple of months.

And I think the market dynamics are starting to reflect that. When we look at the signs they're pretty well everywhere. So if you look at supply chains, signals of freight are starting to fade fast.

So costs of shipping from China to North America are one example, trucking costs would be another one.

You look at business surveys, any price index you'd look at, have gone from essentially screaming that they are in short supply of everything from labor to inputs to being roughly balanced, or even creating some measure of slack of the economy, which is a very welcome change from where we had been before, which basically means that prices could start to fade quickly.

And then the third kicker here really is when you get to the year over year, or the anniversary of the conflict in Europe, you'll start to see that some of the base effects

from the commodity prices will come off inflationary pressures.

So the numbers that we got used to seeing, unfortunately used to seeing, it started with an eight, we'll start to come down to six or even 5% over the course of the spring and summer.

When you triangulate all these factors, really what you're looking at is a convergence of evidence that you're probably going to see inflation get a lot more comfortable sometime around the spring of next year.

You'll see continuing moderation over the next couple of quarters, it won't be even, but it will be an encouraging step in the right direction.

Unfortunately, one of the byproducts of what we've seen on the monetary policy tightening front is that the business cycle also looks like it's starting to wind down pretty aggressively.

There is a caveat here, when we look at what the fourth quarter is starting to look like, especially in the United States, it's looking really good.

But the reality is when you look at the major sources of growth across the developed markets, there are real headwinds across pretty well any sector you'd look at. We'll focus on the United States, but you can reapply these to Canada and Europe as well.

So on the consumer front, higher interest rates have meant that the real estate markets cooled down, any knock on effects that you would have seen from the consumer, so, transaction costs for mortgages, for real estate brokers for durable goods, for things like furniture, and TVs, all of those things are probably going to slow down as the housing market slowed down.

On top of that, the underlying root cause of that, which is higher interest rates are probably going to have an effect on what the consumer feels like they spend.

A third psychological component here would also be just the effect of how people are feeling based on what's happened in the markets in 2022.

You think about it very intuitively, if your portfolio is off by 15 or 20%, your willingness to spend a lot of money on something that's expensive and new, and it would show up more meaningfully in broad economic growth is probably a lot lower than it would have been, if the markets are up 10 or 15%.

When you flip over to the business side, you really don't have to go very far to see signs of cooling. Doesn't really matter what signal you'd like to look at from that perspective, pretty well everything looks like it's going down.

Most people tend to like looking at business surveys. So things like the ISM manufacturing survey is a long leading standard of where industrial production is going to go. That's not ambiguously negative at this point.

Things like the yield curve, which are used as markers for recession indicators also negative.

Generally speaking, there are headwinds for both the business and the consumer side.

On top of that, when you look at the government, which is usually used as a counter cyclical element for the economy, so the government tends to spend more when things are bad as it did justifiably during the pandemic, there's not really a lot of room left in that, for meaningful expansion either.

Essentially, when you look at how much money has been spent during the pandemic, we're still probably going to see some modest fiscal drag.

So all those things do generally suggest that the long and the short of it is, when you look at business developed economies, you do usually expect to see or most people would expect to see recession over the course of 2023.

If we were to rank them, we generally said United States would probably be the best off.

A lot of that has to do with diversity in the economy. We're more concerned about Canada and housing is part of it. But really, it comes down to consumer indebtedness and limited ability to spend their way out of a weak business cycle.

The real estate component of it is a factor but not necessarily in the way that most people would think. We're not necessarily worried about housing price crashes and housing leading to recession, we're more concerned about the drying up of volume that we've been seeing.

Very simply, if you look at things from a real estate broker perspective or a mortgage broker perspective, the amount of business they've been used to over the last couple of years has really dried up.

And that could have an effect on their spending in one way or another.

So that's really what we're looking at as the downside risks. And finally, when you look at Europe, the bottom line is there's just a lot of uncertainty there.

The conflict seems to have grounded into a more or less stable standstill.

So it's still ongoing, but there's no real escalation at this stage.

The real concern here is around energy supply over the course of the winter.

And until we really see what that means in terms of, for example, governments shutting down factories, it's really hard to make a choice on what the investable stocks are at that stage.

The good news is, that's coming around the corner and we'll have a pretty good idea of what things look like in the next couple of months.

So all that's pretty downbeat.

But there is a silver lining here that I think you really have to pay attention to.

And that ties back to what we're talking about receding inflationary pressures, and how central banks have been entirely focused on that part of things.

The bottom line is that, when we get to a point where inflation cools off enough, central banks can start to shift their tone.

So if you think back to the summer, you look at the Fed, the Bank of Canada, the ECB, the message was essentially that we're really looking at inflation first and foremost, nothing else matters, and this is all we're doing.

This is the singular focus of central banks, and it's all that we can focus on until things get back to a more reasonable level.

The good news is that shift in tones have already happened to varying degrees around key central banks. The Bank of Canada did a pretty abrupt about face at their last meeting, which would suggest they're getting ready to wind down. Federal Reserve has talked about slowing the pace of their tightening.

So while they might not be quite as far along simply because they have more scope to raise without hurting their economy materially, they are actually talking about it, and we'd expect to see some shift in the next FOMC decision.

If nothing else will move from 75 basis points to 50 basis points in the next couple of weeks, which would be an encouraging sign. Even the ECB is shifted a little bit dovish.

And all this is despite the fact that, when you look at inflation really not a whole lot has changed except for a willingness to look forward, which is not something that they've done before.

The reason this matters so much is that people are going to get more comfortable around where terminal policy rates end up.

And as that happens, people will start to feel like they can make more decisions.

I think that when you look over the course of the last year, it was really the uncertainty around what things would cost, whether it's business expenses, whether it's financing a new TV or buying a house, or whether it's in basically looking at companies and what their value is based on things like DCF's, not knowing what rate to use has been the real problem.

Once you know you can start to make decisions.  
And I think we're getting to that point pretty quickly.

As that happens, we do suspect that there'll be an unblocking of sorts.

When you look at things like investable assets, we do think that once we know what the terminal rate will be, you'll start to see markets move better.

And we've seen evidence of that already beginning to happen in the last couple of weeks.

And the reason we take comfort in that is if you look at the last year, the year was universally bad but there was a respite during the summer when markets generally behaved better.

A large part of that was basically the financial markets had come to terms with the three and a half percent Fed funds rate.

Now it's higher so maybe the optimism is a little less good but there's growing confidence it'll be something close to 5% which really is something that people can start to work with.

Leads us to asset classes. When we look out over the next year, we do think that there are opportunities that are presenting themselves.

The last few months has really been about battering down the hatches and being concerned about where things would go.

I think people are starting to take a look at asset classes that were unfairly punished based on the volatility that we saw over the last year.

For to flag three things, I'd look at the fixed-income markets.

When you look at broad indices for fixed income in North America, so whether it's the FTSE TMX or the US global aggregate index, we've had historically bad years.

What that's effectively done is shifted the discussion in fixed income around being a search for yield to being pushed farther up the risk curve, could something that

goes a little more like well, now we can actually lock in reasonable interest rates and there's potential for capital appreciation.

When things stabilize, it actually becomes a pretty interesting argument for that space.

Second, if you look at international equities and how badly they've been punished partly as a function of geopolitical events but also partly due to a flight to safety, I think that what you'll start to see is that as people get more comfortable with what new realities in places like Europe look like, once the unknowns have become "knowns", you'll start to see people make more sober decisions around what they should and shouldn't be invested in there, which probably in turn means further risk on.

Finally, one of the important things that I'd say is, when you're making investment decisions over the course of the next year, I would urge you to look carefully at what the foreign exchange rate implications are for any decisions.

For example, if you're sitting in Canada and you're expecting a weaker US dollar, maybe being invested in the US isn't as appealing if you just look at the index level.

The reason I mentioned this is because for the last year or so we've seen an exceptionally strong US dollar and as policies start to stabilize, and if you start to see cuts and relative narrowing of policy stances across the world, you could see a meaningful move back in foreign exchange rates.

Certainly, a spot to watch over the next year.

I think I've given you a lot to think about so Leslie on that front, I'll pass it back to you. Thank you.

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### **Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Thanks, Alex.

I think you nailed it. It's certainly been a roller coaster ride this year in the markets and having some themes to look forward to over the next few months and quarters certainly helps clients to better understand the positioning of their investments over the near term. At Manulife Private Wealth, we offer institutional investment management expertise tailored to your personal goals.

Our professionally managed portfolios provide complete investment solutions for clients who prefer a disciplined approach to investing and the comfort of knowing professionals are actively managing risk. As I mentioned earlier in the introduction to today's webinar, Manulife

Private Wealth collaborates with Manulife Multi-Asset solutions team, "MAST", to formulate MPW asset mixes.

Based on specific parameters established by MPW Investment Committee, the Multi-Asset Solutions Teams analyzes data gathered on multiple asset classes to establish forward looking risk and return estimates for model portfolios.

This methodology and framework is very similar to that developed by Manulife to manage its own trillion dollar balance sheet.

The outcome of this in-depth analysis conducted by the MAST team is presented to the MPW Investment Committee for discussion and approval.

Where the suggested changes to the asset mixes are meaningful, the Investment Committee gives the green light to rebalance customer's portfolios.

Many of our listeners on the webinar today who are customers of MPW would have seen these changes take effect in their portfolios in the fall of this year. Our next speaker, Jamie Robertson, is the head of Asset Allocation Canada and global head of Tactical Asset Allocation for the Multi-Asset Solutions Team.

Jamie is responsible for overseeing all aspects of the firm's Canadian asset allocation franchise, including portfolio management, research and development, product development, business development, and training.

He leads Canadian portfolio management efforts across a wide range of multi-asset and multi-manager solutions. In addition, Jamie takes a leading role in driving the tactical positioning and portfolio construction process of tactically oriented solutions globally.

I'm pleased to welcome Jamie as today's featured speaker.

Jamie, over to you.

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

Thank you, Leslie. If I could ask Sharon to maybe put up my slides, we can get this show on the road. Thank you. I also want to thank Alex Grassino for his macro update.

You know, one of the great advantages of our team is that he and Francis Donald and all their colleagues around the world provide us day to day active insights into macro environment, what the data looks like diving into the details of it is extremely important and helpful for us to have that so, thank you Alex.

So, on the next slide, we wouldn't normally give sort of a market review but if you'll bear with me, I think it does feed into the broader narrative.

Simply said, what you're looking at here is, for each of these various asset classes, we've got the third quarter of 2022 results, the trailing one year, and then the trailing three-year results.

Now, the third quarter was actually pretty, pretty stable. There was a lot of noise, what we refer to as a lot of travel in the markets but after all was said and done there was not any huge movements with the exception of some of the issues coming out of the emerging markets.

But the takeaway here is, on a one-year basis, it has been an extraordinarily difficult period of time for all asset classes, and I think probably even more so just from the perspective on the fixed-income side of the asset allocation.

The problem that we faced was that a year ago or two years ago, there was very little income to be derived from investing in fixed-income asset classes and as such, there's very little income protection so when rates started to move up, that's where really what has had core bonds on a year-to-date basis, even worse than what you're showing here around that 13, 14%.

So, a very difficult year on the on the fixed-income side, not surprisingly on a trailing one-year basis.

You're seeing quite large declines in the equity markets as well.

If you look at the - I'm colorblind, so I always struggle with this so I apologize - but the three year numbers still show a number of asset classes on the fixed-income side is still generating positive returns.

But the bottom line is that, when I think of our balanced portfolios, and a lot of our longer term portfolios, they're down in double digits and I know this causes anxiety for investors and I know that, there's a big behavioral bias just sort of sitting there saying you know, really, I've had enough, I'm going to put it in GICs and be done with it, I can't take it anymore.

And I could not unrecommend doing that anymore vehemently. And the next slide, which will give you an idea of why that is.

And that is that, is that there is a great tendency on the part of market participants, and I would say that this is sort of broadly the retail market but, I can tell you that institutional investors are influenced by the market, they're influenced by returns.

But here on this slide, what you see on the bars is the trailing one year returns for Canadian equities. And the solid lines are the flows into those equities.

And there's a very common characteristic which is that, individual investors have a tendency of chasing returns. You can see through 20, and 21, when returns were extremely robust, you saw massive flows into equities, actually record flows into equities.

We are now starting to see that turn occur. You saw the same similar phenomena in 2013, and 14. So it's one of these things where there is a tendency to chase returns, there is a tendency to buy after the markets are already gone up a lot and, then there's also that tendency to be big sellers when you go through a period of time over which you've had negative returns.

And the thing that I always like to stress is that the timeframe is so important to this.

So on the next slide, what you what do you see, I think this is an interesting depiction of how markets are generally speaking more often positive than they are negative.

So, just really from the top of the chart, you can see on a daily basis, you basically have a 51% chance of having positive returns, largely random.

If you move it out to monthly, it's a little better at 60. You know, on a one-year basis, three quarters of the time, the markets are up.

But for myself, because I still expect to live another 15 or 20, or 25 or 30 years, I still have an extraordinarily long-time horizon.

So the two bars that I look at the most or the five years in ten years returns.

And you can see that over five years, almost 90% of the time you're going to get positive returns from an equity exposure.

And over a 10-year basis, which is really an appropriate time horizon for most investors, regardless. Even if you're 75 years old, you probably have a time horizon of 10 years; the probability of having negative returns is extraordinarily low.

So that's one of the things that I really like to focus on for people, which is that you really have to have an idea of what your true investment horizon is and think about that when you go through a year like today when the inclination might be to panic and to time the market instead of get into the market and stay in the market. It's incredibly important.

So obviously, staying in the market is important, but the asset allocation part is very important as well.

So, on the next slide you can see that asset allocation, I'm not going to say it's simple, because it's complicated. There are a lot of factors that go into it.

But the bottom line is I'm showing here six years of returns for a broad number of asset classes that we would use in these portfolios.

And you can see that in any given year, there can be an enormous difference between the best performing asset class and the worst performing asset class. In 2016, that's the bar across the bottom, 40% was the difference between Canadian small caps and international equities. So, it's not unusual in any given year to have 20 or 30% differences in the best and worst performing asset classes.

And it would be so great if there was just a simple heuristic that would tell you, just buy the worst performing asset class from last year and buy the best one this year.

But it doesn't work that way unfortunately. If it were, my job would be easier and I probably wouldn't even have a job.

And it's interesting too, because this year, we've had basically positive correlation from our last class. There have been very few places to hide.

There have been a few which we've managed to find but really, for the most part, the dispersion of returns this year is going to be quite narrow but, it's really within the context of equities down 20 and fixed income down 10 or 12.

So, it's not particularly reassuring shall we say. So what do you need to do to be able to navigate this world of asset allocation?

Well, on our next slide, really, our choice is that we do run diversified portfolios. There are going to be periods of time over which that diversification will dampen volatility, it will lower downside risk, it will give you the smoother ride that we're looking for. A smoother ride that I'm sure that you're looking for as you're working with your advisor in terms of establishing your asset mix.

And we build that up into a strategic asset allocation, where we take that five-year time horizon, and I'll talk a little bit about why we think about the world within a five year lens, and we're building portfolios really, with that type of horizon in mind.

And to do that, you need a team. And the next slide shows you what the team looks like.

We are the largest portfolio management team at Manulife. We have over 176 billion of AUM. We've got investment professionals really across the board.

Alex Grassino is in Montreal. I think this is probably the second or third time I've spoken with him today so there's connectivity on that side.

I have colleagues here in Toronto, Boston, as well as Hong Kong and London and I can tell you that I've been in touch with each of those branches already today. So, we are a global team, we are interconnected in a very meaningful way.

And I think you're going to be hard pressed to find another portfolio management team that has on their payroll the chief economist of a major institution and her team of eight strategists, without being one of those very key members.

So, we have tremendous resources and we've been doing this since 1995.

So, this is part of our DNA, it's what we do. You have 50 investment professionals who get up every morning with one singular focus in mind and that is, how do we allocate the next dollar of capital to where it's going to be treated the best. Because when we think of it being treated the best, we think of it from a risk reward standpoint. We try to build portfolios with the highest risk adjusted returns.

So that's the broad team and obviously, one of the things that that you might say is, the so what of that is really the dedication to teams. Asset allocation is really all that we do.

On the next slide you can see a little bit more specifically to the people who are more directly involved in these portfolios.

So that's myself in the upper left-hand corner. I've got Alex Richard here in the Toronto office with over a dozen years' experience.

We've just been very fortunate to hire Misbah Lalani, who comes to us from both an asset allocation and from a consultant background and has been a great addition to the team.

Nathan Thooft and Jeff Kelly, who are domiciled in Boston but Jeff Kelly certainly brings as head of strategic asset allocation, a very breadth of depth experience, it's incredibly important. And then we've got those macro strategists as well underneath.

So we've got a very large resource team. We have tremendous capabilities. We've got activities really across the spectrum from tactical asset allocation to LDI, to retirement, and model portfolios such as these.

But how do we actually do that? Like, what is our process? Well, on the next slide, the process is really this.

We start off with an exercise as we go through four times a year and I'll speak to that in a few minutes in terms of how we actually do it.

But we do expect a return forecast for over 140 asset classes.

We also take that cohort of asset classes, and we're thinking about the specific objectives for a portfolio. We go out and we make asset class decisions as to what goes into those portfolios.

In a lot of the portfolios, we are responsible for making the final selection on manager selection; this is part of the offering that Manulife Private Wealth provides for you, and then we've got a portfolio function, that construction process whereby we're using a wide variety of mean variance optimization, we optimized for a number of key objectives. The portfolios are constrained depending upon the objectives required.

So there's a very deep and detailed operation that goes in to building those portfolios.

So let me on the next slide talk a little bit about how we build those expected return forecasts.

And why do we use five years? Well, there are two reasons why we use five years.

The first is that it may sound funny, but valuation is a lousy timing mechanism.

An asset class can be cheap and it can stay cheap for longer than you would expect and it can get expensive and stay expensive for longer than you would expect. But when I think of the broad arc of capital market experience over the last 25 or 30 years, whenever you've seen periods of time over which valuations really got extreme, and I always think back to 1999 and 2000, when the S&P got to basically almost double its long-term average of valuations, it was really only until 2003-2004 that had reverted back to the mean.

So, when you had those expensive valuations that got cheaper over that five-year time horizon, this had a big impact negatively on what those returns were.

Conversely, in 2008-2009, valuations got cheap. Our process would point us towards adding equities in that environment and by 2014 they had of course reverted back to their longer-term average.

So, that's why we think about that five-year time horizon. We think of it as a good time horizon from a strategic standpoint, but also, it's where that our research has shown us, you can expect to see some sort of reversion back to the mean in terms of valuations.

So, once a quarter we get together. There's over 60 people on the call and we start off with the macro inputs

that are provided by Alex Grassino and his team which looked at GDP growth across the climate of rate forecasts, inflation expectations, central bank policy, climate and social factors, you name it, it's a very deep and detailed exercise.

We then break down the various asset classes, and we break them into their sub-components.

So for instance, on the fixed-income side, what we'll look for here is we have an expression which is "unfixed-income side", what you see is what you're going to get. So, a year ago, you basically saw US 10-year notes were around 1%. And that was all you could expect over that five-year time horizon if you invested in them. You're actually looking at more significant losses, because that whole issue of rates going up as dampened the prices of those bonds.

But the point is, is that your starting yield is a very key determinant for what you're going to end up getting after that five-year period.

We're also looking at when we're moving away from treasuries or sovereigns; we're looking at what default rates might look like in the high yield space, what the recoveries might look like and then, because we are Canadian investors, we do have to have a view on what the Canadian dollar will do over that five-year time horizon, and we bake that into those fixed-income forecasts as well.

On the equity side, we break it again down into four components.

So when you think about it, when you buy an equity what are you expecting to receive?

Well, the first thing you're expecting to receive, hopefully, is you're buying quality companies; hopefully quality companies will pay dividends so there's going to be some dividend yield, some income that will come off of those equities.

You also expect to see some sort of price appreciation. And again, our research has shown is that in developed markets, your nominal GDP is a pretty good proxy for what your price appreciation might be.

It does waver from for over extended periods of time but generally speaking, it's a pretty good proxy.

So your nominal GDP growth, which is the GDP you see reported in the paper plus the inflation rate, that's a pretty good proxy for price appreciation.

And then we add that valuation component to it, which is that in the case of US equities, valuations are a little bit expensive so we would expect that return to be dampened over the next five years as a result of that.

And again, we start moving into the whole issue of currency returns when we're talking about the Canadian context.

So, really the important thing is when we're building portfolios for folks like yourself is that, what are the changes look like within those forecasts as we go through those portfolio reviews.

So on the next slide, a little bit of a busy slide, and the next few slides, I'm sorry, when they are going to get a little busy but I did want to provide the level of detail and granularity to help you understand what the outlooks look like, what the changes have been, and what have been driving those changes.

So, what I would encourage you to do really is on the left-hand side, on the fixed-income side, bring your gaze down to those colored boxes.

And you can see that what you're seeing is that you're seeing materially improved expected returns on the fixed-income side. So in 2020, the cash was yielding 0, 5%, it's now yielding 266.

So cash has improved its return profile by 220 basis points which is interesting, but not the opportunity really to generate much more than that.

Core fixed-income is up 330 basis points. So Canadian core fixed income, which we expected to return 1%, we now look at five years and see 4.3%.

Corporate bonds are a similar type of situation and global multi sector bonds are the same as well.

So, you're seeing really across the board. Because we're starting at a higher rate and because spreads are wider than normal, the outlook on a five-year basis is very positive for fixed-income returns.

On the equity side, on the right-hand side of your screen, you can see that the return changes have been a little bit more muted.

And that's largely a function of over that five-year time horizon, we are expecting to see slightly lower GDP growth than we than we had. We're sort of taking into consideration the potential for a recession, a modest recession in 2023 and as a result of that, you're seeing US large cap, again, one of our less preferred asset classes is only 2.9%, that's fallen by a couple of percent over the last couple of years.

But really, in terms of the rest of the asset classes, you're still looking around that seven, eight, and nines.

So, you're certainly looking at expected returns from the equity side of the asset allocation that are more in line with longer term averages.

So, when we're building these portfolios, we're looking at returns that are significantly more attractive than they were just two years ago.

On the following slide, again, I wanted to provide some level of granularity for you but again I'm going to ask you to really focus on that bottom part of the slide that where it shows differences.

And I think that really the key issue you'll see here is, for instance, in the upper left-hand corner, that 100% fixed-income bucket, prior to this year we were running 18% in cash which this year happened to have been an absolute lifeline in terms of having provided zero or a few basis points of return against a backdrop that saw a very material decline in fixed income.

We are taking this opportunity to take advantage of that large positioning cash and allocate more to global multi sector bonds.

So they are a big recipient, really in the more fixed-income heavy portfolios, and we think that this result in a much more attractive risk profile, return profile for your portfolios that have a little bit more equities or more fixed-income, excuse me.

And then you can see consistence on the left-hand side, you see that their returns or the movements are a little bit more muted, but I still think it's noteworthy that global infrastructure, really from anywhere from a balanced portfolio up to 100% portfolio still looks like a more attractive asset class to us.

So we've taken some from global REITs and provided, added a little bit to global infrastructure and we continue to have a very high level of exposure to Canadian equities because clearly, Canadian equities have an attractive forward looking return. The home country bias is I think, completely justified in terms of, of having, a decent amount of the equity exposure in Canada.

And Canada is an interesting market and I think that there's a lot to be said for the Canadian equity space right now, but it does seem to go through cycles that basically go on for about 10 years between the US and Canada.

And we were just now starting to see a market where, after having had 10 years of quite remarkable underperformance from Canada, we are starting to see some better performance; it's outperformed the US market by about 1000 basis points so far this year so, we're very happy to maintain a pretty significant at 37% equities and 100% equity portfolio in Canada.

And when we pull all this together, we end up with a group of portfolios that have a much more attractive risk reward profile going forward. We believe that it's a very good place right now to be invested in these portfolios, not the time to be liquidating portfolios and moving to

cash, we would be doing the exact opposite, as you can see from this graph.

So just to finalize, on the final slide, this is a breakdown of the portfolios after we've done the rebalance. You can see that they are highly diversified; they've got a good spattering of both EM and international equities, US equities, not surprisingly, is one of our least preferred asset classes and then that global infrastructure jumps out as a meaningful investment.

Global infrastructure is ideally suited to take advantage of an inflationary environment that is slightly more elevated. But just the sheer capital allocation in the global infrastructure at this point that means it's an asset class that's extraordinarily interesting.

So, I wanted to just end it there. I will pass it back to Leslie, but I think that I will say that; thank you for your ongoing support. We're excited by how the portfolios have performed over the last year during this difficult period of time and I really think we're in great shape moving forward over the next one, five, and ten years.

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**Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Thanks, Jamie. Thanks for walking us through the asset allocation process that we use here at MPW.

We certainly work very closely with you and always a treat to have you come and talk to our audience.

As you've seen today, certainly, the Multi-Asset Solutions Teams process is certainly very robust, and has over the years provided clients with good returns, and particularly this year with that higher allocation to cash, a buffer, while returns in the equity and bond markets have turned negative.

So, I see we've got some time left on the clock and I've got some questions prepared just hoping that both Jamie and Alex can stay for us for a little while.

Alex, feel free to speak up as I do the question.

So, as we kind of come down to the end of the year, we've gone through this cycle of rising interest rates, what do you think would be the right circumstances under which the Bank of Canada would start to consider actually lowering them, not even just holding them where they're at, but actually start lowering them and take some of the pressure off the interest rates?

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**Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

I think the unfortunate reality is there probably any right circumstances for it to happen over the next short term.

Ideally what you'd see is, interest sorry, inflation growth crashed back down towards 2% quickly without any meaningful hit to the economy, and then the bank would feel like they'd be in a position that they could bring their policy rate back down towards neutral, so called two to two and a half percent.

The reality is though, that at this stage I think, when we're looking at a recessionary type of environment, I'm more concerned about a dynamic where the central banks around the world will feel like they need to bring interest rates back down because they've created too much of a tightening situation over the last year.

It's not to say that the policy moves they made since the beginning of 2022 were wrong, they had to act swiftly and decisively to curtail high inflationary pressure but the reality is that when you move that quickly, chances are things start to go awry.

So, when you look at the circumstances around cuts, I think it is unfortunately going to be a situation where people won't be asking why they're doing it at that stage.

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

Yeah, I'm always, because we are operating in the markets on a day-to-day basis, we are really attuned to narratives and, one of the narratives that we've been talking about lately is, in the case of the US we started in March of this year at 25 basis points. We are now at 4% in terms of where Fed Funds are and, now the big discussion is, what's the terminal rate? Where do we end? We ended five or is it five and a quarter? Is it higher? But I think the bottom line is that the story of central banks having been the story is probably behind us and that is that we are either 50 or 60 or 70 or 80% through the tightening cycle.

They have got conditions to where they need them to be. We're starting to see some nascent signs that inflation will start to back off a little bit, if not precipitously. So they've sort of got it to where they need it to be. And I suspect that they'll probably be able to hold it at these levels. I don't think they're going to be too inclined to ease anytime soon but I think within that context, I think equities can do extraordinarily well against a 4 or 5% Fed funds rate. Your average, not your average, but your superlative equity manager who would build DCF models was never using 1% as his tenure note. He was looking at late rates that were in, they were in the sort of this 4 to 5% area.

So I don't think it's been a massive shock from that perspective.

So I think that, yes they're going to stop. We're closer to the end of the beginning but really the bottom line is that, the market, I think the focus will shift away from what the minutiae of the Fed to really what the economy looks like, and how earnings comes through and I think people will be very pleasantly surprised at how well equities can do even with the overnight rate around 4%.

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**Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Thanks, Jamie, I think I saw this morning in the Globe and Mail a couple of forecasters out there that are looking at very bullish markets next year.

So we'll see how this works through with the interest rate increases we've had, and the other pieces, what's going to happen to the economy.

And, as I was going through the Globe and Mail this morning, I noticed that Morgan Stanley is predicting a soft landing for the Canadian economy next year. What do you think the implications are for stock and bond markets if we do in fact get a soft landing?

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

Well, I think, Alex, that you're looking for, probably a, I don't know exactly how we define soft landings anymore but, I suspect that we're looking at some negative growth in the next 12 to 24 months that will not be horrific. But if we got simply a market that or an economy that did not fall off, and that's certainly not our base case, I think that higher interest rates with a lag will continue to dampen, growth.

Clearly, we've got some sectors in the economy that are very interest rate sensitive, particularly real estate, real estate construction area and real estate markets in general. So that will have a longer-term impact but I think that if we were sitting here in a year from now and we saw a year where growth in Canada was net 1% over the year or something, I think that a lot of good things would be happening in the Canadian marketplace and I think we'd probably see equities take that to be very positively. So, I think that there's good reason to believe that we're not going to have a major recession. That we will have some economic weakness and it won't necessarily be catastrophic for the markets.

I think we've already seen that aspect. I think that was the story of 2022.

**Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

Yeah, I would generally agree with Jamie. I mean, we do have a recession factored in. It is reasonably benign.

I'm concerned about the downside risks. So, if you were to tell me that there was going to be a soft landing in the Canadian economy, I would say that's actually a risk on event. Because it means things are going far better than people are already bracing for at this stage.

So I think when you think about it from a sentiment perspective and how much is priced into markets, I can almost extend that argument to Europe as well, people are bracing for something they don't know it's coming up, but I think that uncertainty is putting a discount on multiples across the board.

So things start to come in better than expected, I'd view that as very positive.

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

Yeah, I would just add that part of the reason why I think, you know, I can be a little bit more constructive in the market is that, I don't recall in my career a period of time over which there was absolute unanimity within an amount of investors and strategists and economists that we are going to have a recession is imminent.

The last numbers I saw was that well over 80% of market participants expect a recession to occur. And that basically coincided with April of 2009 and other major turning points in the market.

So, I think that, again, sentiment not only from an from a market participant perspective but also from an overall investors view of the economy has been so negative that it was going to take a lot for it to surprise to the downside and I think that's one of the key reasons why you can be constructive going forward just because there is such a high level of negativity that's already baked into the markets.

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**Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

So just thinking from a summary perspective from both commentators today; the pain is almost over and, we can look to generally better markets, not necessarily bullish or extraordinary markets.

But definitely the trend upwards is something that we would be looking forward to in 2023?

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

I think that's the right depiction. I don't know. I actually think personally that we probably have seen the low back on that October 13, the horrible CPI data but markets can confound one, and we might go back and retest those lows.

But I think if you look out over that one or three- or five-year horizon, those numbers that I showed earlier, point the way to higher equity markets over the medium term. So yeah, I would say I'm quite constructive at this point.

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**Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

On that note as well, I think, to me, the big take away from this year and, hopefully we'll leave it in this year, is uncertainty and the removal of uncertainty, to me, will give people direction.

For us, the biggest problem has been a lack of direction. If there's a direction that we're going in I'm very confident that the guys on Jamie's team and across the world will be very good at identifying where it is. It's more the rudderless movement.

So as uncertainty gets removed, and heaven knows we need it after the three years we've had, I think that with certainty will come a sense of purpose and direction which I think will be good for the markets as a whole when you look at it from a critical point of view.

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**Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Thank you.

One last question.

We just have a couple minutes left and I just want to get your thoughts on the Canadian Dollar. It is always an important piece as we look to investing and investing domestically, investing internationally.

Where do you think in the next 12 months, Canadian dollar is going, is trending?

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**Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

Well, when you look at the Canadian dollar, there are really two major sources, or two major correlations that you look at.

One is the price of energy.

Not to say we're a petro dollar, but it does matter to some extent and another big one is rate differentials with the United States. The end of the day, I think that when you look at the Canadian dollar from those two perspectives, we'll call energy prices being roughly stable to maybe slightly down over the next little while only because of weakening demand from a global perspective, although there are geopolitical developments that can clearly play against that. Then it becomes a question of looking at what the relative policy paths are for Canada and the United States.

I think Canada probably stopped sooner. So maybe that gives us a little bit of pressure on the dollar, downward pressure on the Canadian dollar but as the United States starts to cut, I think that will go down. If you look at our five-year forecasts, really what you look at that stage is a broad appreciation of the Canadian dollar against the US dollar over an extended period.

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**James Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management**

Yeah, and just to add to that in terms of some of the key determinants, I agree that clearly interest rate differentials are going to have an impact on it.

And we're not a Petro currency but we remain very constructive to the whole energy story and the fact that the Canadian market has got such a large component of energy in it. We think that energy is a very interesting space because there's been a chronic underinvestment in the oil patch, in productive capacity and that has collided with a chronic under investment among active investors who have been very happy to not be invested in that space but, as Alex alluded to, a reopening of China, a soft landing that didn't absolutely crush oil demand or even a reacceleration, would have a very positive impact on demand for oil and we are many years away from Peak Oil consumption on a global basis.

Then we got the US who also needs to step in at some point and replenish their strategic petroleum reserves. So, we do think that the story of the out performance of energy stocks in general has not played out completely and therefore the out performance of the Canadian markets has not played out completely and filtering through the Canadian dollar, that should have a boiling impact, particularly when we started to see some investment, active investment in that space. So, I agree with Alex that over the five-year time horizon, they will see

an appreciation of the Canadian dollar with some potential volatility along the way.

But certainly, over the next 12 to 18 months, there's a reason to believe that the Canadian dollar could navigate these waters and do better as well.

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**Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management**

Just to be clear, I was talking about short term demand related to recession; Jamie articulated the structural case for energy far better than I did.

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**Leslie Brophy, Head of Investments and Head of Sales, Manulife Private Wealth**

Well, thank you, Jamie. Thank you, Alex. I think that's all the time we have for today.

I hope today's comments were insightful from a macroeconomic perspective as well as providing a lens into Manulife Private Wealth Portfolio Construction Process. Should you wish to learn more about our platform, please reach out to a member of the Manulife Private Wealth team.

And with that, thank you for joining us today. We look forward to hosting you at our next session and wishing you all the best for the holiday season. Have a good afternoon.

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