Manulife Investment Management

Asset allocation outlook: Proceed with caution

A number of key economic and market themes were in play in 2023. Most notably, we had an economic environment globally that did much better than most people anticipated 12 or 18 months ago. We also had an environment globally where inflation rates were coming down, and we believe most major global central banks at this point in time have now accomplished peak rates for this economic cycle. And then lastly, on the equity front, we had equities generally do better than many people anticipated, particularly driven by growth stocks, U.S. leadership, and themes within the technology and artificial intelligence (AI) space.

Moving into 2024, we anticipate a number of new themes to develop. Two of those themes include that the growth environment is likely to slow, particularly for the U.S. where we anticipate lower economic growth than what we've seen in the course of 2023. We also anticipate an environment globally, where most of the major central banks will begin an interest rate cutting cycle after having hike rates for much of the last two years.

This environment will also likely lead to interest rates coming down across the entire yield curve in our view. And one of the last key themes we anticipate in the coming 2024, is a theme where we anticipate broader participation, particularly in the equity markets. We envision an environment where while we may continue to see leadership across technology growth in AI, we'll also see some participation from other areas that have been laggards in the recent past, areas such as the healthcare sector, where we see a number of opportunities.

We also see opportunities in small caps relative to large caps. Small caps tend to do better, particularly in an environment where central banks are beginning to cut rates. We also envision that some of the factors that have underperformed recently, such as dividend stocks and parts of the quality market may do quite a bit better, particularly in face of an environment where growth is likely to slow. And last but not least, other themes like the Japanese equity market, which has done well in 2023, we anticipate that to continue to do well in 2024.

And on the fixed income front, we're more interested in increasing our duration and playing the duration play versus adding to our credit exposures in our portfolios. You can hear more about our themes on our website and our publications.

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