Manulife
Investment Management

Asset allocation views: uncharted territory

It's hard to believe we're sitting here towards the end of June, just about to turn the page on the first half of 2024. And as we reflect back on the first six months of the year, I think it's safe to say that there's really been no shortage of key market events and narratives that investors have had to focus on, including the pace of global disinflation and what it's meant to global central bankers. Secondly, the pace of earnings growth or the delivery of earnings growth above what analysts expected coming into 2024. And then notably, the performance of risk assets, most notably that of US equities.

Now, when we look at the global macro environment, we believe the global economy remains in decent shape as we stand here at the midpoint of the year. Leadership from an economic perspective remains with the US, and we know that the US consumer has been a big driver of that. And even though we've seen some signs of cooling, depending on the data point that you look at more recently, the US remains in decent shape at the moment. In addition, we've seen signs of stabilization, and in some cases, improvement from some of the non-US economies, many of which have experienced challenge over the past 12 to 24 months. I would include places like Europe or Japan and even places like China, where policymakers have been keen to intervene more recently to shore up some of the more challenged areas of the economy, like the property sector.

But for us, as we look into the second half of the year, our team will be very focused on the pace of disinflation globally and in particular in the US. Now, we've seen central banks be able to cut over the past several months in the developed world. That would include places like Switzerland and Sweden, seeing it in Canada, and recently with the ECB. But in the US, it's been a bit trickier. The Federal Reserve has acted a bit more cautious, rightfully so, as the pace of disinflation has proven to be one step forward, one step back for much of the first half of the year. And much of that can be attributable to some of these one-off inflationary factors like auto insurance or shelter costs, which have remained a bit more buoyant.

However, as we look into the latter portion of the year, our view is that these one-offs will come into line and ultimately provide cover for the Fed to cut interest rates towards the end of the year. And we believe that's very important because we see interest rate cuts in an environment where growth remains on decent footing as a potential catalyst to unlock relative value in the markets. What I mean by that is we've seen over the past six months, but really over the past 18 months, 2023 and year-to-date '24, leadership really exhibited by US large-cap stocks solely, and in particular, mega-cap growth stocks. When we think about rate cuts, there's areas within the market that could benefit, like US smaller cap stocks. They've been highly leveraged to the interest rate cycle. They trade at multi-decade relative valuation discounts and are poised to benefit from rate cuts.

In addition to that, areas outside of the US, some of which I mentioned, both in the developed and emerging world, also look attractive and could benefit from a rate cutting cycle. So our team's point of view will be to continue to monitor the trends from an economic standpoint, inflation standpoint, how that translates into the central banker view, and what that means for market leadership in terms of leadership being exhibited by areas outside of US large cap stocks. So we will monitor that and keep you posted. And in the meantime, please feel free to check out our asset allocation views on the website. Thank you so much for your time. Take care.

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