

USD Global Multi-Asset Income Fund

An investment fund option for variable life insurance products of **The Manufacturers Life Insurance Co., (Phils), Inc.**

Investment Objective

The Fund aims to maximize total return by investing substantially all of its assets in one or more collective investment schemes which aims to achieve income generation by investing primarily in a diversified portfolio of equity, equity-related, fixed income and fixed income-related securities of companies and/or governments globally (including the emerging markets).

Fund Information

Inception Date May 2022	Fund Size USD 1.78 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.978	Management Fee 2.25% per annum	Bloomberg Ticker PHEQUUM	

Performance Return (August 31, 2023)

USD Global Multi-Asset Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-1.51%	5.99%	4.55%	n.a.	n.a.	3.50%
Annualized	n.a.	n.a.	4.55%	n.a.	n.a.	2.73%

Past performance is not an indication of future results. Information about the portfolio's holdings, asset allocation, or country diversification is historical and is not an indication of future portfolio composition, which will vary.

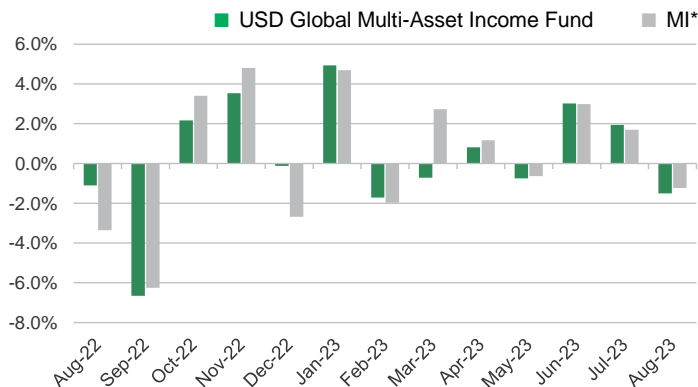
Monthly Net Asset Value per Unit



Top Five Holdings

MICROSOFT CORPORATION	1.22%
APPLE INC.	1.10%
ALPHABET INC.	1.04%
AMAZON.COM, INC.	0.92%
ORACLE CORPORATION	0.73%

Monthly Performance



*50% MSCI World GR (USD) Index + 50% Bloomberg Barclays Global Aggregate Bond (USD Hedged) Index

This is not a deposit product. Earnings are not assured and principal amount invested is exposed to risk of loss. This product cannot be sold to you unless its benefits and risks have been thoroughly explained. If you do not fully understand this product, do not purchase or invest in it.

Portfolio Breakdown

Asset Allocation (at Market Value)



Manulife Global Fund - Global Multi-Asset Diversified Income Fund
100.00%

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Market Review

Markets have experienced a turbulent month of August with broad equities and fixed income finishing lower, despite a strong rebound towards the end of the month. This month saw the US government's credit rating downgraded by Fitch, mixed signals of global economic activities, contagion fears in China's sluggish property sector, and an abatement in inflation. US treasury yields surged to 4.35% (highest since 2007) before ending the month at 4.09%. A highly volatile bond market led to a sell-off in stocks. However, a consecutive four-day rally in late August narrowed losses as market interest reverted to Artificial Intelligence (AI) companies.

At the beginning of August, the US long-term government debt credit rating was downgraded by Fitch to AA+, citing a deterioration in debt conditions and governance standards over the past two decades. At the Jackson Hole Summit, US Federal Reserve Board (Fed) Chairman Powell reaffirmed the data-dependent approach and emphasised the need for potential further rate hikes to bring inflation back to the 2% target. US Fed officials would closely monitor economic data before the next Federal Open Market Committee (FOMC) meeting in September. On the economic data front, in July, headline inflation edged higher to 3.2% YoY, whilst core inflation moved lower to 4.7% YoY. Shelter cost was still the largest contributor to the increase in total CPI. The disinflation narrative was still in play. Economic activity remained resilient in the US with core retail sales and industrial production growing 0.7% and 1.0% MoM, respectively in July. The US manufacturing PMI ticked down from 49.0 to 47.0. Unemployment rate went up to 3.8% in August, which the market saw as a normalisation of the labour market.

The euro-zone composite PMI revised lower to 46.7 in August, indicating a broad-based deterioration across the manufacturing and services sectors. July Inflation continued to ease with the headline inflation remaining at 5.3% YoY, whilst core inflation edged lower to 5.3% YoY. The Bank of England (BOE) delivered a 25-bps rate hike to 5.25% with potential room for further hikes ahead.

In Asia, China's economic data continued to disappoint with China's industrial output and retail sales coming in lower than expected at 2.5% YoY and 3.7% YoY, respectively. China's Composite PMI fell to 51.7 in August from 51.9 in July as the economy experienced a softer expansion in service activity. Contagion fears continued to spread as one of the largest property developers grappled with default risks. Furthermore, a major financial conglomerate risked a failure due to missed payments. China has introduced further stimulus measures from lowering mortgage rates to cutting the key policy rate, as well as reducing tax on stock gains with an aim to support the market.

Across global equities, MSCI World lost -2.35% in August, whilst the S&P 500 lost -1.59%, which posted its first monthly decline since February this year. The tech-heavy Nasdaq 100 saw its worst monthly losses since December 2022. Emerging markets lagged, losing -6.13%, which was led by China as the property crisis exacerbated. Asia Pacific ex Japan and Latin America also showed disappointing performance falling -6.07% and -7.22%, respectively.

Regarding sectors within MSCI World, energy added +1.86% and was a notable performer, making it the only sector to gain over the month, bolstered by rising oil prices. Utilities, materials, and financials were the laggards falling -5.36%, -4.48% and -3.64%, respectively.

Style-wise, growth performed well, though both growth and value were negative, with the Russell 1000 Growth falling -0.90% and Russell 1000 Value falling -2.70%.

Within fixed income, returns were negative overall in August. The Citi World Government Bond Index and Barclays Global Aggregate Index ended the month -1.39% and -1.37%, respectively. US high yield was a notable outperformer, with the Barclays US High Yield Index gaining +0.28% over the month.

In foreign exchange, most major currencies weakened against the USD in August, including the CAD (-2.71%), EUR (-1.56%), and GBP (-1.52%). The JPY also fell (-2.41%) as the BOJ continued its monetary easing policy.

Outlook

The current tightening cycle in advanced economies is already the most aggressive in decades, and central banks are continuing down their path of rate hikes. Hawkish language suggests the possibility of further hikes remaining on the table, even as ramifications for the global economy continue to unfold. Key to central bank decision-making is the persistence of inflation, which has shown signs of moderation but remains too high relative to their stated goals. There is a two-sided and substantial risk around central bank outlooks, and the slow improvement in inflation injects a non-negligible risk of continued further tightening that we feel is underappreciated in markets. Bond yields continue to push higher on the US Fed factor, and due to higher oil prices, which could lead to an uptick in inflation towards year end.

In August, the Job Openings and Labour Turnover (JOLTS) report illustrated that the number of job openings moderated far more than expected (8.8 million vs 9.5 million expected). Moreover, the quit rates embedded in the report moderated further. Nonfarm payrolls also showed cooling sentiment, which has altered perceptions around how 'hot' hiring has been. Taken as a whole, these components paint a picture of shifting labour demand/supply dynamics that would suggest a normalisation of the labour market. Over the short term, this print will lower the already low probability of a September hike. Over the medium term, a move like this will go some way to removing concerns about entrenched wage growth pushing medium-term inflation dynamics higher. Average hourly earnings are still high, but if the labour market keeps moderating and wage growth follows, the hurdle to the US Fed lowering its policy rate as the economy weakens becomes incrementally lower.

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Our framework for the US Fed outlook remains intact with our forecasts having a 5.5% peak US Fed Funds rate and first cuts beginning in Q1 24. Our base case is that most central banks are now either finished or close to completing their rate hike cycle, though action remains desynchronised. Pockets of resilient macro is prolonging a pivot from the US Fed to ease. We remain confident that we get a deterioration in growth. We are forecasting recessionary conditions to envelop much of the globe albeit we believe the recession has been postponed rather than cancelled, with expectations of continued near-term market volatility. Continued tight financial conditions, slowing manufacturing production, a negative consumer wealth effect, and ongoing fiscal drags are all important headwinds to growth. However, the exact timeline for this decline is unknown given now-positive real wages, continued full employment, residual benefits from fiscal stimulus and residential construction could all provide support to GDP for a few more quarters. Against that backdrop, we see material risks around the timeline for when the US Fed might cut, which would leave the US Fed at peak policy rates for longer than our base case would suggest.

With global growth forecasts revised downwards, hope is fading for China to be an engine of growth. China's economy has stalled recently, and headwinds are still intensifying on multiple fronts: weaker than expected activity, market disappointment around the lack of a stronger stimulus response, further losses in the property sector, growing concerns about local government debt, investment, and depreciation of the CNY. For the cyclical rebound to strengthen itself beyond the mechanical reopening boost, we would need to see a sustained recovery in household consumption and property sales, but there was limited evidence of either. It was unlikely that China would deliver policy support proportional to the economic headwinds China faces, and that market hopes of stimulus were overdone. The emerging narrative around China for the second half of the year would be the refinancing problems of local government and property developers.

In markets, an uncertain macroeconomic landscape is a potential headwind for equities. That said, corporate earnings have remained strong, outpacing expectations. Given the uncertainty surrounding several factors—among them monetary policy, corporate earnings, geopolitical tensions, and recessionary risks, we are focusing on quality across equity assets and taking a more defensive position. At the same time, we appreciate the excitement surrounding AI and the magnitude of its potential impacts on revenue monetisation, productivity, and cost cutting, and seek pockets of related growth opportunities.

Credit metrics remain stable in the large part, although companies with floating rate debt in their capital structures continue to experience more acute declines in interest coverage ratios. Consumer spending has also been uneven under the surface. Higher interest rates combined with consumer spending patterns normalising following the pandemic have both led to negative growth for goods, whilst spending on services has continued to grow. Inflationary pressures, including labour, continue to impact margins for a wider swathe of corporates whilst many higher-quality corporates should be able to withstand softening economic conditions. Companies of lower-credit quality will have to carefully navigate worsening conditions compounded by increased required rates of return by financial markets. We have seen some pickup in new issue activity but from very weak levels recorded in 2022. Default rates have also picked up, especially for CCCs, and appear likely to continue to rise from historically low levels, driven by a weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates for many corporates.

Tactical positioning will be more prevalent again into the end of 2023 to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise. Overall, we are tilted towards higher for longer rates, whilst seeing yields keeping contained given the potential for macro data disappointments.

The investment fund option for The Manufacturers Life Insurance Company's variable life insurance product is managed by Manulife Investment Management and Trust Corporation.

The Fund mentioned in this document is specific to variable life insurance contracts and is not considered a mutual fund. Yields depend on interest and foreign exchange rate levels, both of which may fluctuate. Other factors that affect yield include changes in the credit standing of the issuers and changes in the value of the stocks and dividends received. Further, investments of the Fund may provide that their values be determined based on prices or yields of other securities, instruments or foreign currencies, and such provisions may result in negative fluctuations in the value of these investments and, in turn, the Fund's yields. Thus, the performance of the separate account(s) is not guaranteed and the value of the policy could be less than the capital invested. THE VARIABLE LIFE POLICYHOLDER SHALL BEAR ALL INVESTMENT RISKS. Past performance of the Fund is not necessarily indicative of future performance. Yields are not guaranteed.

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