

# 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

|                                      |  |                                    |                                   |
|--------------------------------------|--|------------------------------------|-----------------------------------|
| <b>Inception Date</b><br>May 2022    | <b>Fund Size</b><br>USD 209.67 thousand  | <b>Fund Currency</b><br>US dollar  | <b>Dealing/Valuation</b><br>Daily |
| <b>Price (NAV/unit)</b><br>USD 0.953 | <b>Management Fee</b><br>2.25% per annum | <b>Bloomberg Ticker</b><br>PHEQUUM |                                   |

## Performance Return (December 31, 2022)

| USD Global Multi-Asset Income Fund<br>(net of management fee) | 1 Month | YTD  | 1 Year | 3 Years | 5 Years | Since Inception |
|---|---------|------|--------|---------|---------|-----------------|
| Absolute  | -0.12%  | n.a. | n.a.   | n.a.    | n.a.    | -2.36%          |
| Annualized  | n.a.    | n.a. | n.a.   | n.a.    | n.a.    | -2.36%          |

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.

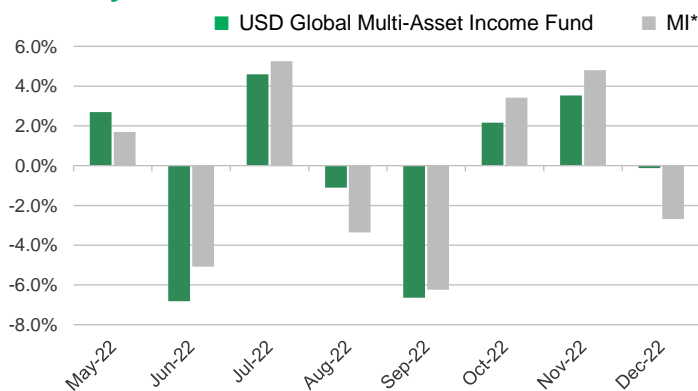
## Monthly Net Asset Value per Unit



## Top Five Holdings

|                       |       |
|-----------------------|-------|
| ALPHABET INC.         | 0.99% |
| LENNAR CORPORATION    | 0.74% |
| AMAZON.COM, INC.      | 0.72% |
| MICROSOFT CORPORATION | 0.69% |
| APPLE INC.            | 0.67% |

## Monthly Performance

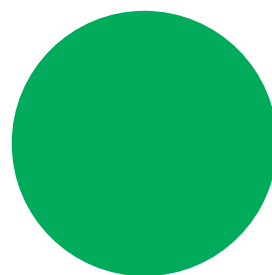


\*50% MSCI World GR (USD) Index + 50% Bloomberg Barclays Global Aggregate Bond (USD Hedged) Index

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

Global equities were in the red across the board over the month of December, which has seen a battle between the China reopening story being priced into markets and global central banks raising rates, curtailing growth. The markets ended 2022 in negative territory as elevated inflation, high interest rates and recessionary fears weighed on markets. In December, equity markets in Japan, Europe, Australasia and the Far East (EAFE) performed well given their robust exports and inbound tourism demand for Japan, as well as better economic and inflation data in Europe. December was a strong performing month for non-US High Yield debt with Asia credits extending its strong momentum post further support for the Chinese economy and property sector.

November CPI in the US saw a further moderation with headline CPI up only 0.1% month-over-month (MoM), but still a lofty 7.1% year-over-year (YoY). Core CPI was up 0.2% MoM and 6.0% YoY. The US labour market showed signs of mild cooling, though resilient labour demand necessitated rates to remain in restrictive territory for the foreseeable future.

Global Central Banks announced rate hikes in December with the European Central Bank (ECB) and Bank of England (BOE) both raising rates by 50 bps. The US Federal Reserve Board (Fed) also delivered another 50 bps rate hike as expected, bringing the Federal Funds Rate up to 4.25% - 4.5%, the highest level since 2007. The latest speech by Powell sounded mostly hawkish reiterating that ongoing hikes will be appropriate and sufficiently restrictive to return inflation to 2%. The Fed considered smaller rate moves given the lag effect that tightening policy has on the US economy. The Fed Funds Futures market is pricing in a 25 bps hike in February and in March and a terminal rate around 5.0% before the end of first half 2023.

JP Morgan global manufacturing purchasing manager indices PMIs hit a cycle low of 48.6 in December (below 50 is considered contractionary). Europe and the UK have seen a weaker macro backdrop. Data in the Eurozone has managed to see a modest uptick to 47.8 from 47.1. Although it is still in contraction territory, the region has seen improvement in recent months since manufacturing PMI bottomed at 46.4 in October. Eurozone stimulus has been helping sentiment with USD 700 billion in spending on energy related subsidies. UK and Germany PMIs hit 45.3 and 47.1, respectively, which highlighted macro challenges across the region.

Within Asia, the centre of attention was on the Chinese government's announcement of China reopening borders and dropping quarantine policy starting on January 8th. The China re-opening theme has improved sentiment across Asia, driving regional markets over the fourth quarter 2022 period. Chinese equities have rallied strongly alongside oil prices rising to \$80/barrel on WTI. Risk-on sentiment has improved over the short term, which has sparked further depreciation of the US dollar (USD). However, many countries have imposed compulsory covid testing and restrictive measures against arrivals from China. In Japan, The Bank of Japan (BOJ) raised the cap for its long-term interest rate policy, shifting the target for 10-year bond yields to between 0% - 0.5%. The Japanese yen (JPY) has rebounded after the BoJ decision.

Across global equities, MSCI World fell -4.2%, driven by the S&P 500 falling -5.8%. Europe was generally flat gaining +0.04%, Japan gained +0.3% and Latin America fell -3.9%, whilst emerging markets (EM) fell -1.4%, and APAC ex Japan fell -0.4%.

Sectorally, utilities performed well, being the only sector gaining positive returns at +0.2%. Lagging were consumer discretionary, information technology and communication services, losing -8.5%, -8.0% and -6.4%, respectively.

Across styles, Russell 1000 Value performed better than the Russell 1000 Growth, which fell -4.0% vs -7.7%, respectively.

Within fixed income, US 10 year Treasuries were up +18 bps to 3.88%, and the Citi World Government Bond Index fell -0.2%. Barclays EM USD Aggregate performed well, gaining +0.9% and Global High Yield gained +0.7%, whilst US High Yield suffered, losing -0.8%.

In terms of spreads, we saw spreads widening over the month of December in the Bloomberg Barclays US Corporate High Yield Average OAS to 469 bps vs 448 bps at the end of November.

Within foreign exchange (FX), most currencies gained against the USD with the JPY leading the gains at +5.8% and the Korean won gaining +6.9%, whilst the Mexican peso and Brazilian real depreciated -0.6% and -0.4%, respectively.

In terms of a gauge for volatility, the VIX ended at 22 at the end of December vs 21 at the end of November 2022.

Overall, this month has seen a continuation of tightening policy by global central banks to fight against persistent inflation, whilst weaker economic market data has pointed towards a deteriorating growth profile. Equity markets gave back gains from the previous month of November, whilst non-US High Yield bonds stood out and performed well. Although narratives have changed with respects to China's zero-covid policies and reopening, this has provided some optimism for Asian markets and broad EM. Challenges, however, lie ahead as covid cases soar within the region, which could give rise to challenges within hospital and healthcare systems across Asia.

## Outlook

Tighter financial conditions, recessionary fears and heightened geopolitical risks have exerted a heavy toll on the economic outlook and valuations. Elevated inflation persists as we are currently operating in a period of energy and commodity-supply shortages. These are being driven by the Russia-Ukraine conflict, tight labour markets, and disrupted supply chains – albeit inflation has moderated since summer 2022. As Fed officials have consistently stated their unconditional commitment to fight high inflation, investors have finally come to terms with the reality of a higher-interest rate environment in both developed and EM.

CPI data suggests further moderation in prices but the Fed Chairman Jerome Powell still remains hawkish, reiterating the need to combat persistent inflation with appropriate and sufficiently restrictive rate hikes. Markets are pricing in a 25 bps hike in both February and March amidst softer inflation figures after the 50 bps hike at the December meeting. Inflation seems to be showing easing signs, whilst labour market conditions remain too tight for the Fed to consider cutting rates anytime soon. Despite some positive developments in price stability, interest rates likely need to stay at restrictive levels for longer until the full effect of tightening this year is felt in the US economy well into 2023. Looking ahead, we expect a pause in the Fed's aggressive rate hike cycle and a pivot to eventually occur as the narrative shifts to growth concerns. It is anticipated that a terminal rate may reach closer to 5.0%.

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Furthermore, more recently the Fed have highlighted that rate cuts are unlikely in 2023, which is contrary to the market (and ourselves) currently pricing in rate cuts by year end. We believe the Fed guidance is likely anchored around the potential concern for inflation to possibly come back into 2024, should the Fed choose to pivot towards easier monetary conditions by year end. We believe this is a reasonable concern and historically is evidenced by the inflation profile in the mid-1970s, where victory was announced on inflation, only for it to return the following year as policies were loosened. The disjuncture between market expectations and Fed guidance will keep volatility expectations heightened into 2023.

Many of the world's largest economies—including the US, China, and especially now the UK and Euro zone—are facing slowing growth and lower economic growth forecasts. Global GDP expectations have been revised lower. Preliminary PMIs (timely global business surveys) showed global economic growth should continue decelerating in the first half 2023. Our outlook suggests that the US, Canada, and Europe are expected to slip into recession in 2023. Stagflationary dynamics remain in play. Given slow progress on inflation rates, central banks are now poised to amplify recessionary dynamics, knowingly hiking into a global contraction. We are less concerned about the binary “recession or no recession” call than we are about the risk of a 4-6 quarter period of very slow growth.

Given tightening liquidity conditions, weaker economic growth momentum, coupled with ongoing geopolitical uncertainty, we expect equity markets to experience heightened volatility. The continuing conflict between market expectations surrounding the peak inflation narrative, and reality remains one that is driving near term volatility. Going forward into 2023, there will be a macro battle between the China reopening hope being priced into markets and global central banks raising rates curtailing growth to fight inflation.

With the recent announcement of policy support and reopening measures, we believe that sentiment will continue to drive these markets higher in the short run. We expect a disruptive transition from zero-covid over a 1-3 month investment horizon as covid cases soar which could hinder mobility rates and consumption. We need to see an improvement in economic activity, a sustained recovery in property sales, an orderly recovery of outbound travel and a revival of consumer confidence.

The rally in cyclical sectors across global equities in the fourth quarter 2022 suggests that markets are not pricing much of an economic slowdown. We need to be careful over emphasising a risk-on view in portfolios as monetary policy works with a lag and central banks have just turned on one of the most aggressive monetary tightening policies in history, that will likely be felt well into 2023.

Markets with significant exposures to energy, materials and agricultural commodities (as inflation hedges) and the low volatile, defensive attributes of consumer staples, utilities, broad dividend names as well as investment grade credits may find some insulation. We also like income-themed portfolios that offer resilience whilst keeping pace with inflation.

Tactical positioning will be more prevalent again into 2023, to be able to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise. Valuations within some sectors have more than halved without a corresponding decline in earnings or cash flows. This suggests a disconnect between market conditions and fundamentals in some quality franchises. Overall, we are tilted towards higher rates and stable spreads, but see yields keeping contained given the potential for macro data disappointments.

A rising number of questions are growing around Fed policy. Fiscal stimulus is unlikely to be enough for a rapid economic recovery, as getting back to pre-pandemic growth rates is likely to be pushed into 2023 and beyond. The lasting impact of the pandemic on the global economy is not the only factor to monitor. Rising geopolitical tensions in Ukraine, decoupling between China and the West, decelerating growth rates post stimulus, supply chain disruptions and a general deglobalisation trend all raise questions about the future trajectory of global debt and equity markets.

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