

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 330.88 thousand	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.996	Management Fee 2.25% per annum	Bloomberg Ticker PHEQUUM	

Performance Return (January 31, 2023)

USD Global Multi-Asset Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	4.93%	4.93%	n.a.	n.a.	n.a.	2.46%
Annualized	n.a.	n.a.	n.a.	n.a.	n.a.	2.46%

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.

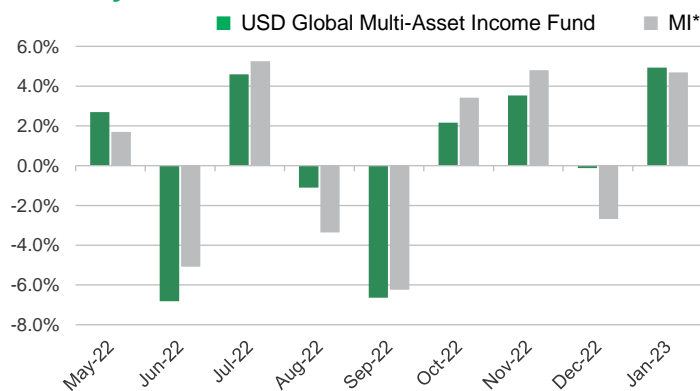
Monthly Net Asset Value per Unit



Top Five Holdings

AMAZON.COM, INC.	0.98%
ALPHABET INC.	0.84%
APPLE INC.	0.70%
MICROSOFT CORPORATION	0.68%
LENNAR CORPORATION	0.53%

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 and fixed income posted strong gains over the month of January, which has seen a market rally on moderating inflation data, a weakening US dollar and a continued China reopening, despite a shaky start for the earnings season. Markets were optimistic about the possibility that the US Federal Reserve Board (Fed) could pull off a soft-landing scenario. Equity markets in Latin America, Canada and Europe performed well. January was also an strong performing month for global high yield debt with Asian credits continuing their strong momentum post further support for the Chinese economy and property sector.

December's Consumer Price Index (CPI) in the US came in lower than expected which softened the US dollar (USD), spurring a global risk-on rally. Headline CPI was down -0.1% month-over-month (mom), but still at a lofty +6.5% year-over-year (yoy). Core CPI was up +0.3% mom and +5.7% yoy. The US labour market remained tight, so much so that job creation in December surprised to the upside, whilst the pace of jobs growth has slowed significantly. Resilient labour demand necessitated rates to remain in restrictive territory for the foreseeable future.

Global central banks have hiked interest rates with the European Central Bank (ECB) and the Bank of England (BOE) both raising rates by 50 bps. The Fed also raised its benchmark interest rates by 25 bps as expected on February 1st bringing the rate to the higher end range of 4.75%, followed by optimistic comments on progress against inflation made by Chairman Powell. However, the Fed still saw the need for ongoing increases into the target range and 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 March, followed by a pause until November where the first 25 bps cut could potentially occur. One exception is the Bank of Japan (BOJ), which expressed that tightening is too strong a term – rather it appears to be stepping away from ultra-easy policy.

Global Purchasing Manager's Indexes (PMI) have been improving with the Eurozone composite PMI coming in better than expected at 50.2, hitting a mild expansionary reading. Positive recent tides were developing in Europe as the energy market in particular has been alleviated by falling prices, helped by the warmer than usual weather and generous government assistance. Supply chain stress has eased, benefitting producers most notably in Germany.

Within Asia, the centre of attention was on the Chinese government's announcement of China reopening borders and dropping quarantine policy starting January 8th. China's national tourism and consumption recovery from zero-covid are getting off to a solid start.

Across global equities, MSCI World gained +7.1% and the S&P 500 gained +6.3%. Latin America gained +9.9%, Canada was +9.1% and Europe was +8.7%, followed by Asia Pacific ex Japan gaining 8.6%.

Sectorally, consumer discretionary performed well, gaining positive returns at +14.6%, followed by communication services and materials gaining +13.1% and +10.5%, respectively. Healthcare lagged -0.6%.

Across styles, Russell 1000 Growth performed better than the Russell 1000 Value, which gained +8.3% vs +5.2%, respectively.

Within fixed income, US 10 year Treasuries were down -33 bps to 3.55% and the Citi World Government Bond Index gained +3.2%. Barclays Global High Yield performed well, gaining +4.2% and Global Aggregate – Corporate gained +4.0%. US High Yield was +3.9%.

In terms of spreads, we saw spreads tightening over the month of January in the Bloomberg Barclays US Corporate High Yield Average OAS to 418 bps vs 469 bps at the end of December.

Within foreign exchange (FX), most currencies gained against the USD with the Australian dollar leading the gain at +4.4% and the Mexican peso gaining +3.8%, whilst the Norwegian krone and the Hong Kong dollar depreciated -0.9% and -0.4%, respectively.

In terms of a gauge for volatility, the VIX ended at 19 at the end of January vs 22 at the end of December 2022.

Overall, this month has seen a market rebound across equity and fixed income markets based on optimistic investor sentiment on cooling inflation data which could lighten the magnitude of Fed hikes going forward. The weakening USD further sparked a risk-on rally. However, considering the lag effects of the Fed's liquidity tightening, it is likely to be felt into 2023 and remains a headwind for the equity market. Although narratives have changed with respects to China's zero-covid policies and reopening, this has provided some optimism for the Asian market and broad emerging markets (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, albeit prices have moderated since last summer, as we are currently operating in a period of energy and commodity-supply shortages. 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. However, going forward the market is expecting rate cuts by the end of 2023, which is somewhat not as explicit as current Fed guidance.

CPI data suggests further moderation in prices but 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 March amidst softer inflation figures after the 50 bps and 25 bps hikes at the December and the February meeting, respectively. 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 5.25% before the end of the first half 2023.

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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 return in 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 policy was 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 Gross Domestic Product (GDP) expectations have been revised lower. Preliminary PMIs (timely global business surveys) showed global economic growth should continue decelerating in the first half of 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 cases soar and 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 fourth quarter 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.

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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