

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 1.74 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.949	Management Fee 2.25% per annum	Bloomberg Ticker PHEQUUM	

Performance Return (September 30, 2023)

USD Global Multi-Asset Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.57%	3.27%	9.11%	n.a.	n.a.	0.84%
Annualized	n.a.	n.a.	9.11%	n.a.	n.a.	0.62%

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.

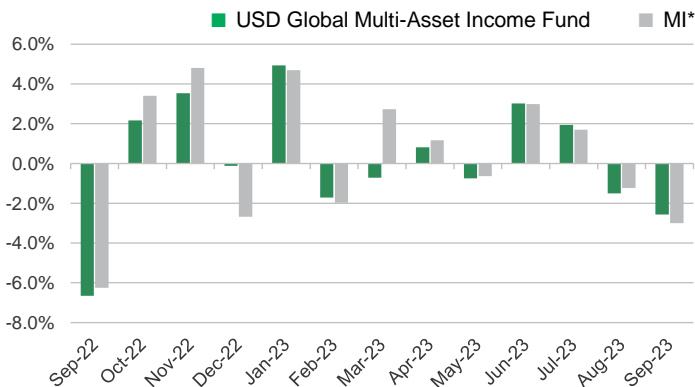
Monthly Net Asset Value per Unit



Top Five Holdings

FEDERAL AGRICULTURAL MORTGAGE CORP DISCOUNT NOTES 0% 02/10/2023	4.50%
MICROSOFT CORPORATION	1.22%
APPLE INC.	1.04%
ALPHABET INC.	0.93%
AMAZON.COM, INC.	0.88%

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

Broad equity markets extended their weakness in September, with energy as the only sector remaining positive, as investors grappled with the upward pressure on yields. The fixed income market continued to decline as further inflationary concerns, driven by higher oil prices and rising yields kept bond prices under pressure. The 10-year US Treasury yield hit a cycle high of 4.6%, the highest level in more than 15 years. This month saw central banks signalling a “higher-for-longer” interest rate cycle and potential concerns around a US government shutdown. Inflation rates saw some pullback across the US and Europe, whilst broad global economic activity remained mixed.

In September, the Federal Open Market Committee (FOMC) decided to hold the US Federal Reserve Board (Fed) funds rate steady at 5.25% to 5.50%. In the press conference, Chairman Powell erred on the side of hawkishness, stating that US economic growth is on solid footing whilst experiencing significant momentum. As a result, FOMC members were suggesting that there is lower risk of a recession, with one more 0.25% rate hike before the year-end, whilst also signalling for fewer rate cuts in 2024. The US government shutdown was averted as a last-minute stopgap bill was passed by US Congress. On the economic data front, the US Core PCE, the US Fed's preferred inflation measure, rose by 3.9% YoY, which is the lowest since May 2021. The MoM reading went up by 0.1%. Economic activities remained resilient in the US, with core retail sales and industrial production growing 0.6% and 0.4% MoM, respectively in August. The US manufacturing PMI improved to 49.8 from 47.9 in August, whilst US service PMI slipping slightly to 50.1 from 50.5 last month.

Economy in the eurozone pointed to further weakness as the manufacturing PMI came in at 43.4 and service PMI at 48.7, both remaining in contractionary territory. Consumer confidence ticked lower. The headline inflation rate declined to 4.3% YoY, coming in lower than expected in September, the lowest level since October 2021. The core inflation rate also cooled to 4.5% YoY. The European Central Bank (ECB) hiked into the weakening economic data with a 0.25% hike to 4.50%, whilst the Bank of England (BOE) unexpectedly kept rates unchanged at 5.25%.

In Asia, China's economic data posted a mixed backdrop in August as both retail sales and industrial production exceeded market estimates by 4.6% YoY and 4.5%, respectively. The Caixin China Manufacturing and Service PMI fell to 50.6 and 50.2, respectively with the Composite PMI reaching a 9-month low. Property sector distress continued to remain in focus as the Evergrande crisis deepened. China's central bank said it would cut the reserve requirement ratio (RRR) by 0.25% to 7.40% for financial institutions, which is the second cut of the year, incrementally making capital available to banks to lend out. In Japan, the Bank of Japan (BOJ) kept its accommodative policy stance and yield curve control unchanged.

Across global equities, MSCI World lost -4.28% in September, whilst the S&P 500 lost -4.77%, notably lagging across regions. Emerging markets performed well, losing -2.57% on the back of a looser expected central bank policy. Europe and Asia Pacific ex Japan closed the month with a loss of -3.96% and -2.68%, respectively. Japan held up relatively well, falling -1.97%.

Based on sector within MSCI World, energy added +2.75% and notably performed, making it the only sector to gain over the month, bolstered by gains in WTI crude. Information technology lost the most ground by falling -6.79%. Real estate, utilities, and consumer discretionary also showed disappointing performances losing -6.40%, -5.57% and -5.46%, respectively.

Style-wise, value performed well, though both value and growth were negative, with the Russell 1000 Value falling -3.86% and Russell 1000 Growth falling -5.44%.

Within fixed income, returns were broadly negative in September as yields moved higher over the month. The Citi World Government Bond Index and Barclays Global Aggregate Index ended the month -3.24% and -2.92%, respectively. Riskier segments including global and US high yield performed though still in negative territory, with the Barclays Global High Yield and Barclays US High Yield Index falling -1.59% and -1.18%, respectively.

In foreign exchange, most major currencies weakened against the USD in August, including the GBP (-3.68%), EUR (-2.45%), and JPY (-2.44%) as the BOJ kept its policy stance unchanged.

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, albeit we believe we are close to US Fed peak rates. Hawkish language suggests the possibility of further hikes, 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 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 the year-end.

September jobs report was up 336,000, with 96,000 leisure and hospitality jobs and 73,000 government jobs. Whilst job growth was strong, wage growth was muted up only +0.20% MoM, making YoY wage growth +4.2%, which is still elevated and getting closer to pre-pandemic levels of +3.0% to +3.5%. At first glance, the strong increase in jobs in September's nonfarm payrolls (NFP) report might suggest that a soft landing is increasingly becoming the base case. However, we maintain a more cautious approach, and, one print notwithstanding, continue to expect recessionary conditions in 2024. This report paints a benign picture: strong job growth, moderating pressure from the labour market. If CPI and PCE remain well contained, the US Fed would have the backing needed to extend its pause, especially given the current market environment, where higher yields are doing a lot of the US Fed's heavy lifting.

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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 the 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 China's growth forecasts revised downwards, hope is fading for China to be an engine of growth. Negative sentiment has been dominated by a faltering structural aggregate growth trend in China, with particularly persistent left tail risks to the property sector. In our view, the negative sentiment has likely run ahead of itself for the time being. The gloom belies the green shoots of a cyclical rebound: car sales and commodity demand have been a bright spot, and the lagged effects of incremental policy easing should generate a recovery in credit growth in coming weeks. Whilst we don't expect the cyclical rebound to be as large as previous cycles, we see tactical upside for Chinese risk assets into the Third Plenum in October/November as market hopes for a more meaningful support package to be revived into the event. However, 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.

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 artificial intelligence (AI) and the magnitude of its potential impacts on revenue monetisation, productivity, and cost-cutting, and seek pockets of related growth opportunities.

High-yield bonds and loans, and spread sectors more broadly, have continued to benefit from comparatively high levels of carry and current yield from a historical basis, and from positive investor sentiment and spread levels that have moved tighter year to date.

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 new issue activities pick up in the latter half of the third quarter, but from very weak levels recorded earlier in the year and in 2022. Default rates have also picked up, particularly for CCC rated issuers, and we believe this trend will likely continue, driven by a potentially weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates facing many corporations.

Against this backdrop, the importance of security selection and differentiation among spread sector allocations and capital structures is at a premium, preserving capital and limiting permanent capital losses due to defaults. Despite these challenges, we maintain a favourable medium-term view of the high-yield asset class and spread sectors more broadly as high absolute yields should help provide a buffer in the event that spreads do begin to widen. Having the ability to select securities from a broad credit universe and the flexibility to allocate across fixed income sectors and up and down the credit spectrum should also help with navigating a potentially softer economic landscape.

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.

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