

# Global Target Income Fund

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

## Investment Objective

The fund seeks to deliver periodic distribution of up to 4.75%\* p.a. while providing the potential for capital appreciation and limiting the risk of capital erosion. The Fund will invest primarily in a diversified portfolio of collective investment schemes (including exchange-traded funds (ETFs), real estate investment trusts (REITs) and cash and cash equivalents.

## Fund Information

<b>Inception Date</b> January 2016	<b>Fund Size</b> USD 72.06 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.734	<b>Management Fee</b> 2.25% per annum	<b>Bloomberg Ticker</b> MGLTRIN	

**Investment Fund Manager (the "Manager")**  
Manulife Investment Management (Hong Kong) Limited

\* The target payout is not guaranteed. Distribution may be made out of principal investment.

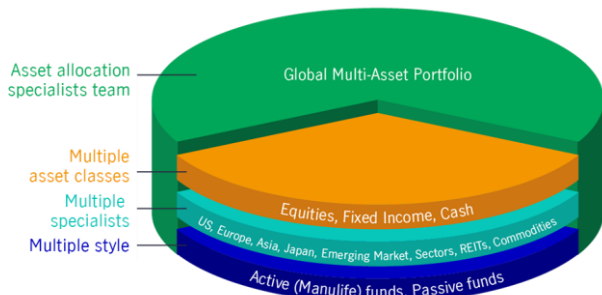
## Performance Return (April 30, 2024)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.27%	1.46%	6.17%	-6.75%	5.57%	8.26%
Annualized	n.a.	n.a.	6.17%	-2.30%	1.09%	0.96%

## Why this Fund?

The Fund is managed using the **3 "Ds"** Investment Philosophy: Diversification, Dynamic Asset Allocation, Downside Control Mechanism.

- **Diversification** - Access to diverse asset classes globally mitigates the risk inherent to individual asset classes vis-à-vis changing economic cycles and market conditions.
- **Dynamic Asset Allocation** - Optimal asset mix is achieved based on consistent application of MFST analysis - **M**acroeconomic, **F**undamental, **S**entiment and **T**echnical factors are carefully examined at each stage of the economic cycle.



- **Downside control mechanism** - Our proprietary downside risk control mechanism minimizes allocation to specific investments that are highly exposed to downside risk under certain market conditions.

## Asset Allocation^

	%
<b>Equities</b>	<b>60.73</b>
North American Equities	40.25
European Equities	8.57
Japanese Equities	6.14
Asia Pacific (ex-Japan) Equities	5.77
<b>Fixed Income</b>	<b>33.66</b>
International Bonds	18.81
US Bonds	10.13
Emerging Market Bonds	4.71
<b>Commodities</b>	<b>2.96</b>
<b>Cash &amp; Cash Equivalents</b>	<b>2.65</b>

## Top Ten Holdings

	%
SPDR Bloomberg International Treasury Bond ETF	18.81
SPDR S&P 500 ETF Trust	14.49
Amundi EURO STOXX 50 II UCITS ETF	8.57
iShares Core S&P 500 ETF	7.03
MGF - U.S. Equity Fund	6.68
Multi Units LU- Amundi S&P 500 II UCITS ETF	5.50
iShares MSCI Japan ETF	4.96
VanEck J. P. Morgan EM Local Currency Bond ETF	4.71
iShares 7-10 Year Treasury Bond ETF	4.16
Energy Select Sector SPDR Fund	4.11

^Figures may not sum to 100 due to rounding.

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## Market Review

Following five consecutive positive months, market sentiment reversed in April, resulting in declines across both equity and fixed income markets. Equities fell across most regions and sectors as markets weighed the prospect of slower interest rate cuts in the face of stubbornly high inflation and resilient US growth. This month also saw geopolitical conflicts intensify between Iran and Israel, albeit having minimal impact to the markets. The shift in rate cut expectations impacted fixed income markets as the 10-year US Treasury yield rose to 4.7% during the month. Conversely, gold continued its rally along with broader commodities including crude oil.

The US macro data released in April indicated a softening economy with stickier inflation. The Q1 GDP (gross domestic product) growth rate came in lower than expected and below the prior quarter. Consumer price index (CPI) surprised to the upside with headline inflation rising to 3.5% year-on-year (YoY) in March, while core inflation remained unchanged at 3.8% YoY. The US Federal Reserve Board (Fed)'s preferred measure, the personal consumption expenditures (PCE) price index, rose by 2.8% YoY in March, which was still above the US Fed's target. The ISM manufacturing purchasing managers' index (PMI) fell to 49.2 in April, indicating a contraction in the US manufacturing sector. Despite stickier inflation data and weaknesses in economic growth, corporate earnings in Q1 showed resilience and exceeded expectations with large-cap technology stocks reporting strong earnings supporting the artificial intelligence (AI) secular theme. Persistent inflation raised concerns over a delay in the start of the easing cycle. Markets further pushed out the expectations with only one interest rate cut anticipated by year-end.

European equities performed well with positive macro data points. In April, the eurozone economy expanded by a stronger-than-expected +0.3% in Q1 2024, while the most recent PMI data indicated continued strength in the service sector, which increased to 51.7 from 50.3 in March, although the manufacturing index remained subdued. Core inflation and headline inflation continued to decline in the eurozone at 2.7% YoY and 2.4% YoY, respectively. UK's composite PMI rose to 54.1, marking the sixth consecutive month of expansionary performance. Along with the improved growth prospects, the UK inflation rate continued to decline with core inflation at 4.2% YoY and headline at 3.2% YoY, which supported UK equities delivering positive returns during the month.

Within Asia, Chinese markets rose strongly over the month as investor sentiment improved. The government also deliberated on initiatives to bolster the property market at the politburo meeting, especially in light of declining property prices that have dampened consumer confidence. Additionally, both the official manufacturing and service PMI stayed in expansionary territory. In Japan, the Japanese yen weakened as interest rate differentials between Japan and other developed markets widened. Japanese equities gave up some gains from previous months on the potential risk of imported inflation on domestic demand.

Equities mostly declined across the board in April with MSCI ACWI down -3.26%. Asia Pacific ex Japan and emerging markets were two performing markets, driven by China, with increased investor interests gaining +0.42% and +0.47%, respectively. Developed markets lagged with S&P and Japan falling -4.08% and -4.85%, respectively.

Within MSCI World, utilities and energy posted positive returns of +0.81% and +0.34%, respectively, while more interest rate-sensitive sectors including real estate and information technology detracted, falling -7.20% and -5.70%, respectively.

Fixed income markets also saw broad declines over the month. The FTSE World Government Bond Index detracted by -2.60%, and the Bloomberg Global Aggregate Corporate Index was also down -2.28%. Less rate-sensitive high-yield bonds fared well, with Bloomberg Global High Yield falling -0.84%.

In foreign exchange, most major currencies fell against the US dollar, including the JPY (-3.83%), EUR (-1.00%) and GBP (-0.88%).

## Outlook

Looking ahead, our medium- to long-term outlook suggests that ultimate lower interest rates to be accommodative for economic growth with inflation coming down and resilient corporate earnings growth. However, geopolitical challenges and the upcoming US Presidential Election could pose challenges to investor sentiment. We expect short-term market volatility as growth and inflation data is likely to continue to paint a difficult picture for the US Fed, which would lead to higher-than-usual volatility around major data releases.

We believe we are at, or soon past peak rates, and the global easing cycle has begun with global disinflation firmly in place. All major central banks have indicated that the next moves are cuts, provided inflation continues to moderate, except for the Bank of Japan, which finally moved out of its negative interest rate policy. We still expect cuts to occur in most developed markets, even with inflation in the 2%-3% range in 2024, as markets reprice the reduced magnitude of rate cut expectations. In the US, a combination of strong growth and stubbornly high month-over-month (MoM) inflation during the first three months of 2024 would have made it difficult for the US Fed to credibly ease in June. We expect that while bumpy, super-core inflation in the US is likely to moderate in the next quarter or two. As this occurs, we could well see markets pricing earlier cuts back in, which would likely lead to lower yields across the yield curve and another rally in equity markets. The balance of risks is now weighed towards a later start to the US Fed's easing cycle, with our base case presently for cuts to begin in Q3.

We maintain our medium-term view that US growth is the "cleanest dirty shirt" for now, as the recession odds in the US are lower than in other developed market economies and declining in light of the US Fed's telegraphed early pivot. However, we still have a low to medium recession conviction for Q2/Q3 as the lagged impact of higher interest rates is arriving shortly. We continue to emphasize weakness in non-US growth (Europe, Japan, and Canada) where recessions are more likely to happen. That said, whether or not economic activity has contracted to the extent that it fits the official definition of recession is much less important than the decline in growth momentum that lies ahead. Although we are mindful that going into the US November election, it is likely fiscal support remains strong in order to help the positive macro narrative. Given that outcome, the US Fed would have to make the critical concession of cutting interest rates while inflation remains above their target. Markets could be particularly sensitive to any variance away from the soft-landing narrative. If we, however, determine that the data is too strong, we could see further pricing out of the US Fed's Fund rate cuts.

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In Asia, negative sentiment has been dominated by a faltering structural trend in aggregate growth in China, with particularly persistent tail risks to the property sector. In our view, easier monetary policy does not sufficiently stimulate lending. Incremental economic policy to stabilize the real estate sector and improve consumer and corporate sentiment will continue, but large-scale fiscal stimulus appears less likely. Consequently, China will not be the main driver of global/regional manufacturing activity. China's manufacturing PMIs (official and Caixin) were above 50 again this month. The official gauge was slightly weaker than last month, but the positive momentum in the average of both sources remains intact. We believe the lagged effects of incremental policy easing should generate some recovery in credit growth. Equity valuations in Asian markets tip toward the favorable side of the equation. 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, the potential end of the global rate-hike cycle is supportive of our view of equities, but an uncertain macroeconomic landscape is a potential headwind for equities. Corporate earnings have generally remained strong, and consumers have remained resilient for the most part. Given the uncertainty surrounding several factors—among them monetary policy, geopolitical tensions, and recessionary risks—we are focusing on quality across equity assets. At the same time, we appreciate the excitement surrounding AI and the magnitude of its potential impacts on revenue monetization, productivity, and cost-cutting, and seek pockets of related growth opportunities. The second half of 2024 should see a more favorable environment for equities with corporate earnings strength broadening beyond large-cap technology names, while market support into the November US election should also help keep markets broadly buoyant.

Overall, we expect the market to experience some volatility in the first half of 2024, particularly as investors reprice interest rate and potentially inflation expectations. We maintain that there are downside risks to the economy, given tighter credit conditions and may see higher interest rates for longer than expected, but may also not come off at the magnitude the market is pricing in. Tactical positioning will be more prevalent again as we go into 2024, to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise.

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## Disclaimer

The Global Target Income Fund is an investment fund option for The Manufacturers Life Insurance Co. (Phils.), Inc. and is managed by Manulife Investment Management (Hong Kong) Limited.

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