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

Inception Date
January 2016

Fund Size
USD 71.95 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 0.759

Management Fee
2.25% per annum

Bloomberg Ticker
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.*

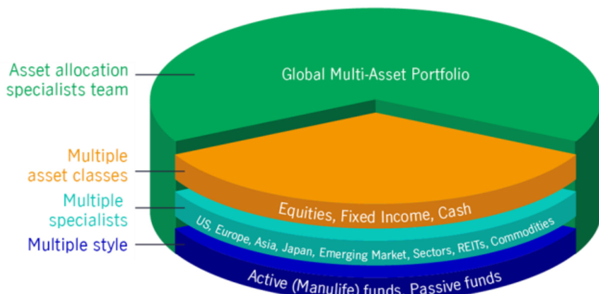
Performance Return (July 31, 2024)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.87%	6.17%	7.71%	-2.60%	10.68%	13.29%
Annualized	n.a.	n.a.	7.71%	-0.88%	2.05%	1.47%

Why this Fund?

The Fund is managed using the **3 "Ds"** Investment Philospy: 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^

	%
Equities	**49.95**
North American Equities	34.41
Japanese Equities	6.81
European Equities	4.67
Asia Pacific (ex-Japan) Equities	4.07
Fixed Income	**42.96**
International Bonds	19.58
US Bonds	18.87
Emerging Market Bonds	4.50
Commodities	**2.17**
Others	**-0.43**
Cash & Cash Equivalents	**5.36**

Top Ten Holdings

	%
SPDR Bloomberg International Treasury Bond ETF	19.58
iShares Core S&P 500 ETF	8.50
SPDR S&P 500 ETF Trust	7.83
MGF - U.S. Equity Fund	7.35
iShares 20+ Year Treasury Bond ETF	5.34
Amundi EURO STOXX 50 II UCITS ETF	4.67
iShares JP Morgan USD Emerging Markets Bond ETF	4.50
iShares 7-10 Year Treasury Bond ETF	4.38

^Figures may not sum to 100 due to rounding.

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Market Review

In July, global equities saw positive performance, accompanied by a shift in market focus from mega-cap technology to small-cap and value sectors. Fixed income segments also displayed positive performance, with interest-rate sensitive sectors performing well. Expectations of rate cuts by the US Federal Reserve Board (Fed) led to global government bonds driving the gains as treasury yields fell. The market rotation was influenced by softer inflation, a weakening labor market, moderating economic growth in the US, which increased the likelihood for multiple US Fed rate cuts this year, starting from September, accompanied by an economic "soft landing".

The US labor market data continued to moderate with the unemployment rate nudging up to 4.1% in June. Regarding inflation data in June, both headline consumer price index (CPI) and core CPI decelerated, coming in at +3.0% year-on-year (YoY) and +3.3% YoY, respectively. Earning seasons continued with earning results for the technology sector under pressure, leading to a sell-off during the month. The US Fed kept its benchmark interest rate unchanged at 5.25% - 5.5% as expected at its July meeting, while Powell indicated that a rate cut in September could be possible. Softer inflation data and weakening labor market raised expectations that there will be at least one rate cut this year. In other news, this month saw President Joe Biden exiting the presidential race, throwing his support behind Vice President Kamala Harris as the Democratic nominee, following the assassination attempt on former President Donald Trump in Pennsylvania.

European equities had a small advance in July. Euro area inflation unexpectedly edged up to +2.6% YoY in July from +2.5% YoY in June. The European Central Bank (ECB) kept interest rates unchanged at its July meeting, while ECB President Christine Lagarde expressed that there could be a possibility of a rate cut in September depending on data. The Purchasing Managers' Index (PMI) data released in June was down from the previous month, indicating signs of a slowing in both the service and manufacturing sectors. The service sector remained above expansion, while manufacturing continued its poor momentum. UK equities performed well on hopes for a recovery in the domestic economy. Inflation was steady, growing at +2.0% YoY. Both manufacturing and services PMI were revised upwards above expansion level.

Within Asia, Chinese markets fell as second-quarter activity was weaker than expected, and the Chinese economy struggled to pick up, given a still sluggish property sector. However, the Chinese government provided a stimulus to the financial system, including lowering the benchmark loan prime rates and key short-term policy rates. In Japan, the currency market saw notable fluctuations, marked by a substantial strengthening of the Japanese yen. The Bank of Japan (BOJ) increased its policy rate to 0.25% from the previous range of 0.00 to 0.10%, contributing to the further strengthening of the yen, which has hit the Japanese equity market.

Equities gained in July with the MSCI ACWI up +1.64%. In US dollar terms, developed markets performed well, with the UK leading the markets, gaining +4.2%, followed by Europe with +2.16%. Standard & Poor's (S&P) 500 was positive, adding +1.22%. Japanese equities experienced high volatility during the period as the TOPIX index ended in negative territory at -0.5%, pressured by a stronger yen. Emerging market equities lagged but managed to eke out +0.37% gains.

Within MSCI World, more defensive and interest rate sensitive sectors drove the gains with real estate and utilities, gaining +6.86% and +6.68%, respectively, followed by financials +5.83%. Information technology and communication services detracted over the month, falling -2.05% and -3.07%, respectively.

Fixed income markets broadly gained over the month as bond yields fell on the expectations for US Fed rate cuts in September. The US 10-year Treasury yield ended at 4.05% at the end of the month. The FTSE World Government Bond Index gained +2.86%. Global Investment-grade credits have been brighter spots over the month, adding +2.76%, while global high-yield credits also had decent gains +1.96%.

In foreign exchange, major currencies strengthened against the US dollar, including the JPY (+6.91%), GBP (+1.61%) and EUR (+0.97%).

Outlook

Looking ahead, our medium- to long-term outlook suggests that ultimately lower interest rates would be accommodative for economic growth with inflation coming down and resiliency in 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, inflation and job data are likely to remain front and center for the US Fed, which would lead to higher-than-usual volatility around major data releases. Recent developments in respect of the US elections are likely to result in further uncertainty around candidates and their policy impact to varying market sectors.

We believe the global easing cycle has begun with signs of disinflation across most regions, albeit there are concerns around a weakening job market. All major central banks have indicated that the next moves are cuts, provided inflation continues to moderate, except for the Bank of Japan (BOJ), which finally moved out of its negative interest rate policy. We still expect cuts to occur in most developed markets in 2024, even with inflation in the 2%-3% range. While the bumpy, super-core inflation in the US is likely to moderate, there has been a reprieve in speculation around the timing and pace of the US Fed's move. Our base case is for the US Fed to cut three times in 2024. This view is being supported by the recent moderation in inflationary pressure. Notably, the unemployment rate's 4.1% reading is already past the Federal Open Market Committee (FOMC)'s June projections for the end of 2024, which could in turn lead to dovish revisions to September's Summary of Economic Projections. From a growth perspective, a range of data has shown a slowing momentum: the housing market has deteriorated noticeably, the last couple of retail sales prints have been weak, and disappointing June ISM surveys also corroborate softer activity.

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We maintain our medium-term view that US growth is the "cleanest dirty shirt" for now as the recession odds in America are lower than in other developed market economies. However, the gap is narrowing through a combination of softer US data and stabilizing-to-slightly-improving growth in most other regions. The global divergence between manufacturing (exiting a prolonged recession) and services (still positive) is complicating standard forecasting and creating global de-synchronicities. We still expect a slowdown in the US economy for fundamental reasons even though the economy remains resilient, but there are clear signs of wear in US consumers. Our forecast remains consistent with a steady pace of 25 bps cuts into the year-end, not a knee jerk reaction to selected data points. Having said that, we will closely monitor the data to assess if the US economy needs a faster pace of easing and if the US Fed would be willing to deliver it. 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 going into the November US election, it is likely that 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.

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. We maintain our neutral medium-term view on China as growth in policy-supported sectors and exports is offset by weakness in the property sector and domestic consumption. Government policy will prove insufficient to boost consumer, corporate, and real estate sentiment. However, 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.

Elsewhere in Japan, the BOJ hiking cycle is an outlier against global easing cycle. Forward guidance on the policy rate path reads hawkish by outlining that real rates are too low and that higher rates will have a limited impact on the economy. This implies that the BoJ may raise rates further and normalize policy to a still undetermined neutral level. We now see a potential terminal rate for 2024 at 1.0% and expect at least two more hikes in 2025, which could cause significant volatility in the yen and the subsequent impact of the carry trade on global risk assets. The yen should strengthen due to favorable interest rate differentials with the rest of the world, and the yield curve should slowly flatten as the BoJ raises rates towards neutral.

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, albeit more recently that could be coming into question. 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 artificial intelligence (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, continuing into the second half of the year, 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 rates may also not come off at the magnitude the market has priced in. Tactical positioning will be more prevalent again as we continue into the rest of 2024, to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise.

Disclaimer

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