

# 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 78.13 million	<b>Fund Currency</b> US dollar	<b>Dealing/Valuation</b> Daily
<b>Price (NAV/unit)</b> USD 0.723	<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.

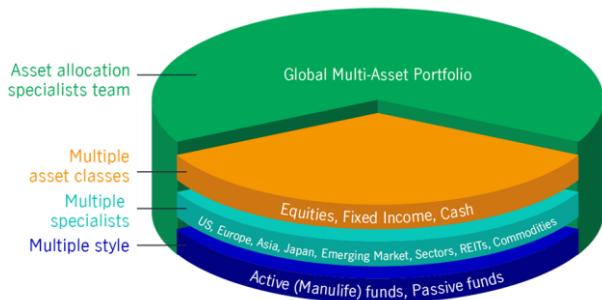
## Performance Return (March 31, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.11%	1.91%	-8.74%	11.34%	-4.95%	1.28%
Annualized	n.a.	n.a.	-8.74%	3.64%	-1.01%	0.18%

## 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<sup>^</sup>

	%
<b>Equities</b>	<b>52.26</b>
North American Equities	34.53
European Equities	9.24
Asia Pacific (ex-Japan) Equities	6.45
Japanese Equities	2.04
<b>Fixed Income</b>	<b>43.54</b>
US Bonds	30.15
International Bonds	8.09
Asian Bonds	5.30
<b>Cash &amp; Cash Equivalents</b>	<b>4.20</b>

## Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	9.61
Lyxor S&P 500 UCITS ETF D USD	9.48
iShares 7-10 Year Treasury Bond ETF	9.13
iShares 3-7 Year Treasury Bond ETF	7.56
iShares 20+ Year Treasury Bond ETF	5.99
Invesco QQQ Trust	5.31
iShares Core S&P 500 ETF	5.27
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.26
Tracker Fund of Hong Kong	5.09
Vanguard Total International Bond ETF	5.00

<sup>^</sup>Figures may not sum to 100 due to rounding.

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## Market Review

Global equities and fixed income markets broadly gained in March despite concerns around the stability of the banking system. Implications for financial market stability, triggered by the collapse of Silicon Valley Bank and the subsequent merger of two Swiss banks, became a key concern for investors. Authorities reacted swiftly in which the US Federal Reserve Board (Fed) and Swiss National Bank announced new lending facilities to enhance liquidity and alleviate imminent bank stress. Problems in the banking sector further complicate an already challenging task for the Fed, which is trying to tame inflation whilst simultaneously engineering a soft landing for the economy. Although the Fed stayed the course with respect to hiking rates, markets still speculate that the Fed may need to cut rates sooner rather than later, which prompted a rally in government bonds and technology-related stocks.

Even though inflation data has seen moderation over the past few months, inflation remains elevated through February. In the US, headline CPI inflation came in at of 0.4% MoM, 6.0% YoY (from 0.5%, 6.4%), but core CPI inflation was a bit hotter at 0.5% MoM, 5.5% YoY (from 0.4%, 5.6%). The domestic US economy continued to show signs of resilience, despite months of sustained tighter monetary policy. The manufacturing and services PMIs trended higher, remaining in expansion territory, whilst labour market remained strong. The Fed hiked rates by 25 bps to 4.75-5.0% and continued its agenda to pursue price stability. The ECB did not flinch either, hiking rates by 50 bps to 3%, with inflation in Europe too high to ignore. The Bank of England also continued to hike policy rates by 25 bps to 4.25%.

Within Asia, China continued to reopen with rebounding economic activity (manufacturing PMI of 51.9 for three consecutive months of expansion) complemented by supportive monetary policy (25 bps cut in the reserve requirement ratio). Chinese officials have announced a 2023 GDP target at around 5% at the National People's Congress and have set to adopt a pro-growth stance to the business and outside world. The comments translated to a positive market impact for the internet sector.

Across global equities, MSCI World gained 3.2% and S&P 500 propelled 3.7% higher. The Nasdaq surged 6.8%, thanks to the technology and communication services sectors. Emerging markets also held firm gaining 3.1% to match the performance of DM. Asia performed well as a region in EM over the month, buoyed by North Asia. Tech-heavy Taiwan and Korea benefited from the decline in bond yields.

Sector-wise, within MSCI World, information technology led the gain, thanks largely to big tech names, posting a positive return of 10.1%. Communication services also gained by 9.0%. Financials detracted from performance, falling 7.7% as a result of the fallout surrounding multiple regional US banks. Real estate and energy fell as well, down 2.1% and 1.6%, respectively.

Within fixed income, yields trended lower with the pricing in of possible rate cuts. The US 10-year Treasuries ended March at 3.5%, around 50 bps lower than in the month prior. The Citi World Government Index rallied 3.8%, similarly the Barclays Global Aggregate Index gained 3.2%, and the Barclays Global High Yield Index slightly gained 0.9%.

Most currencies moved higher against the USD in March as investor sentiment improved. Most major currencies strengthened in comparison, including the JPY (+2.4%), EUR (+2.5%), and GBP (+2.1%).

In March, gains across equity and fixed income markets reflected optimistic investor sentiment on a possible pause of the current tightening path or even rate cuts by central banks, despite banking contagion fears. Economic activities remained robust, and inflation might gradually subside.

However, considering the lag effects of the Fed's liquidity tightening, the impact is likely to be felt into 2023 and remain a headwind for the equity market.

## 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 emerging markets. That said, we believe it will become increasingly difficult for the central banks of developed markets to begin easing before the end of the year, as stickier inflation coupled with a steady buoyant economy drags the need for short-term easing. Recent banking stress has complicated the market environment, as the Fed aims to ringfence banking challenges, whilst continuing to commit to its inflation focus.

Whilst data released last month point to a resilient global economy at the beginning of 2023 and would likely push back the timeline for sluggish growth, it is important to point out that the current outperformance generally reflects coincident economic indicators. In the same vein, labour market data, such as for unemployment rate and job openings, usually deteriorate well into an economic downturn, and as such are considered lagging indicators. Markets may have to reconcile stronger-than-expected coincident data with recession calls, the latter of which is still consensus among analysts. Meanwhile, with the Fed solely focused on messaging its intent to lower inflation whilst reacting to coincident and lagging data, the trading environment is likely to stay challenging until a clear direction for the economy sets itself.

Most of the world's advanced economies including the US, eurozone, the UK and Canada are expected to slow down in 2023. Global GDP expectations have been revised lower. We expect economic growth to continue deteriorating and remain weak during the first three quarters of 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. The odds of a hard landing (which we would characterise as a recessionary environment) and a rise in unemployment are still high given tighter lending standards. The shutdown of regional banks has reinforced our base-case expectations on the US economy. We continue to expect growth to slip into negative territory around Q4 2023. Should efforts to contain the fallout fail to work as hoped, recession could begin sooner. The impact of Fed's tightening typically takes some time to hit the real economy. Considering that the Fed only started to raise interest rates last March, it's fair to say that the economy has yet to absorb the full effects of recent rate hikes. Bank lending standards are likely to become even tighter, which has typically weighed heavily on growth.

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We are also watching how China's transition from zero-Covid is progressing. Whilst many households may look to minimise in-person interaction due to concerns about being infected by the virus, pent-up savings and demand could give a boost to travel and consumption once worries subside.

Given tightening liquidity conditions, weaker economic growth momentum, coupled with ongoing geopolitical uncertainty, we expect equity markets to experience heightened volatility. Moreover, the continuing conflict between market expectations surrounding the peak inflation narrative and reality remains one that is driving near-term volatility.

Our broad asset allocation is tilted towards defensive, quality assets that provide a ballast to the portfolios in times of increased uncertainty. Low-volatility, defensive attributes of consumer staples, utilities and broad dividend names 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 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 the Fed policy. Fiscal stimulus is unlikely to be enough for a rapid economic recovery, as getting back to pre-Covid growth rates is likely to be pushed into 2024 and beyond. The lasting impact of Covid-19 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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