

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 79.08 million	Fund Currency US dollar	Dealing/Valuation Daily
Price (NAV/unit) USD 0.726	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.

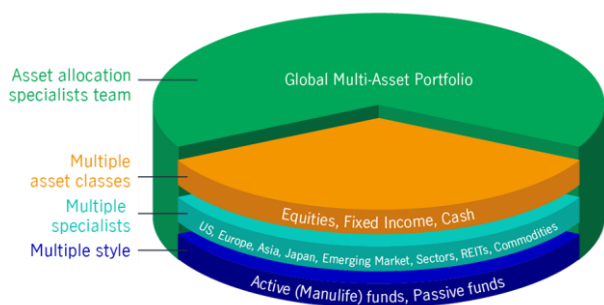
Performance Return (November 30, 2022)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	1.51%	-14.59%	-13.67%	-3.19%	-5.83%	0.09%
Annualized	n.a.	n.a.	-13.67%	-1.08%	-1.19%	0.01%

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[^]

	%
Equities	60.74
North American Equities	44.60
European Equities	6.38
Asia Pacific (ex-Japan) Equities	5.90
Japanese Equities	3.85
Fixed Income	36.15
US Bonds	21.34
International Bonds	9.85
Asian Bonds	4.97
Commodities	1.82
Others	-0.20
Cash & Cash Equivalents	1.48

Top Ten Holdings

	%
Lyxor S&P 500 UCITS ETF D USD	11.02
SPDR S&P 500 ETF Trust	9.38
MGF - U.S. Equity Fund	8.17
iShares 7-10 Year Treasury Bond ETF	6.93
Vanguard Total International Bond ETF	6.90
iShares Core S&P 500 ETF	5.14
Invesco QQQ Trust	4.76
Energy Select Sector SPDR Fund	4.45
iShares 20+ Year Treasury Bond ETF	4.28
Tracker Fund of Hong Kong	4.05

[^]Figures may not sum to 100 due to rounding.

Global Target Income Fund

Market Review

Global equities were positive across the board over the month of November, led by APAC ex Japan and broad emerging markets (EM) on the back of the announcement of easing quarantine rules and a series of supportive measures targeting the property sector in China. Although it was a remarkable month for broad EM and APAC ex Japan, they are the worst performers year to date (YTD), posting -18.6% and -16.8%, respectively.

October CPI in the US, released in November, indicated early signs of moderation in prices. Both headline inflation and core inflation data came in lower than estimates and the prior month. The US labour market showed signs of mild cooling, though resilient labour demand necessitated rates to remain in restrictive territory for the foreseeable future. All sectors in the S&P 500 posted positive returns led by materials and industrials.

The latest speech by Powell on the last day of November hinted at a more prudent and slower rate hike path ahead as the US Federal Reserve Board (Fed) considers smaller rate moves given the lagging effect that tightening policy has on the US economy. The market anticipates a 50 bps hike in December and a slightly lower terminal rate, compared to that of last month, under 5.0%.

Within Europe, PMIs from UK surprisingly improved from October and remained above levels that historically signalled recession. Manufacturing PMI from Germany further deteriorated, highlighting the prolonged challenges faced by the country. Whilst Germany's services PMI remained in contractionary territory, the figure showed improvement from last month.

Within Asia, the centre of attention was on the Chinese government's potential shift in its zero-covid policies after widespread protests against restrictions broke out in major cities in November. Markets seemed to have perceived this as a positive development towards a faster reopening timeline. Sentiment improved on the back of policies pointing to an eventual reopening and supportive measures taken to stabilise the property market.

Narratives from the Fed sparked risk-on sentiment across markets which saw further depreciation of the US dollar. Although signs of cooling inflation and change in direction on China's covid policy provide optimism for the market, challenges lie ahead as the impact of tightened monetary policy gets fully realised.

Across global equities we saw MSCI World gain +7.0%, driven predominantly by APAC ex Japan gaining +17.6% and EM gaining 14.9% as China gained +32.1% in view of the reopening narrative. Europe gained +11.4%, whilst Japan gained 9.7%. The S&P 500 gained +5.6% and Latin America +0.5%.

Sectorally, materials equities performed well, gaining +14.1%, followed by industrials +9.1% and financials +8.9%, whilst energy and consumer discretionary only gained 3.3% and 4.9%, respectively.

Value equities measured by the Russell 1000 Value outperformed the Russell 1000 Growth gaining +6.3% vs +4.6%.

Fixed Income posted positive returns across the board as the 10 year Treasury fell to 3.70% by the end of November 2022, from 4.07% in the prior month. Barclays EM US dollar Aggregate performed well, gaining +6.6% along with Barclays Global Aggregate – Corporate +5.5%, whilst US High Yield Corporate lagged, only gaining +1.9%.

Within foreign exchange (FX), most currencies gained against the US dollar amidst a slower path of rate hikes indicated by the Fed. The Korean won led the gains at +8.0%, the New Zealand dollar +6.9% and the Japanese yen +6.5%, whilst the Brazilian real depreciated -0.2%.

In terms of spreads, we saw spreads narrowing over the month of November in the Bloomberg Barclays Euro High Yield Average OAS to 526 bps vs 619 bps at the end of October.

In terms of a gauge for volatility, the VIX retreated to 21 to end November vs 26 at the end of October.

This month saw a narrative change in Fed guidance, focusing more on overtightening risks after the release of October CPI data in the US. The Fed's prudent stance towards a slower rate hike path was deemed dovish by the market which saw non-US equities and oil rally. China's supportive measures, particularly in the property market, and covid policy pivot took centre stage as a recovery in the country will be a key driver and catalyst for the Asian region and broad EM.

Outlook

October CPI data suggests early signs of moderation in prices followed by what the market deemed to be a relatively less hawkish speech by the Fed Chairman Jerome Powell. Markets are increasingly anticipating a 50 bps hike in December amidst softer inflation figures after the 75 bps hike at the November meeting. Inflation seems to be easing, 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.

The Fed remains hawkish and is still committed to tightening against a slowing economy. Whilst Powell reiterated that the prospect of a soft landing is still possible, wage pressures could push terminal rates higher. Investors are becoming more and more concerned with recession risk and a higher possibility of downward earnings revisions. Treasury yields eased in the longer-term and credit spreads are pricing in little default risks, whilst equities have rallied more recently – asset markets are not yet pricing a recession. With global central banks normalising policy into slowing growth conditions, risk assets will remain under pressure.

Furthermore, the continuing conflict between market expectations surrounding the peak inflation narrative and reality remains one that is driving near term volatility.

Tightening financial conditions, heightened geopolitical risks and fears of recession have enacted a heavy toll on valuations and positioning. We are currently operating in a period of energy and commodity supply shortages, tight labour markets, and disrupted supply chains. This is leading to unprecedented levels of inflation, not seen in decades. Due to above trend inflation, we expect both developed and EM to be operating in a new normal of higher interest rates.

Global Target Income Fund

More indebted emerging markets will need to maintain positive real yields to retain capital flows and avoid currency depreciation. Consequently, the pace of rate increases from the US Fed is something we continue to closely monitor, although the peak pace of tightening could likely already be upon us.

The Biden Administration's pressure on the Fed to continue to go after inflation is likely driven by the front and centre concern by the US voter profile, whilst the growth repercussions and potential job losses that may become more a focus in the latter part of the year are still not yet being overly felt.

An aggressive rhetoric is likely to continue from the Fed over the near term, rather than any finessing of the hike profile. We do believe however that growth concerns may become more a dominating factor on decision making in the latter part of the year which will push a Fed pivot towards guiding for a slowdown in their already aggressive move towards a terminal rate which we see closer to 5%.

As a result of the Russia/Ukraine conflict, lower growth and higher inflation resulting from high commodity prices and uncertainty are likely to derail any short lived momentum. Global growth forecasts are being reduced, with Europe most vulnerable, whilst the US will also remain challenged.

Levels of uncertainty suggest continued market volatility ahead. However, 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.

The market is pricing in an aggressive hawkish Fed, whilst sentiment is arguably at extreme bearishness. We believe the Fed will eventually have to pivot away and guide for less hikes than the market is pricing, as growth begins to moderate in the first quarter and further into 2023.

Tactical positioning will be more prevalent again into late 2022, to be able to nimbly add and de-risk portfolios, as well as add to yield opportunities as they arise. Overall, we are tilted towards higher rates and stable spreads, but see yields being 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.

Disclaimer

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