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 71.61 million

Fund Currency
US dollar

Dealing/Valuation
Daily

Price (NAV/unit)
USD 0.698

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.*

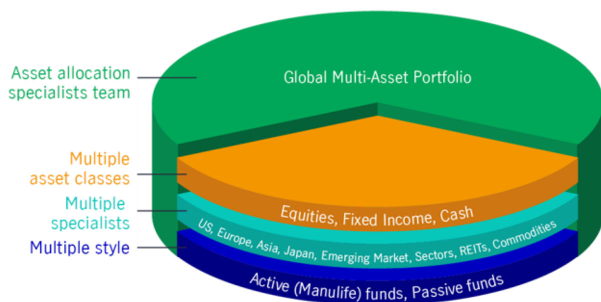
Performance Return (September 30, 2023)

Global Target Income Fund (net of management fee)	1 Month	YTD	1 Year	3 Years	5 Years	Since Inception
Absolute	-2.53%	0.75%	3.55%	-3.34%	-3.95%	0.13%
Annualized	n.a.	n.a.	3.55%	-1.13%	-0.80%	0.02%

Why this Fund?

The Fund is managed using the **3 "Ds"** Investment Philosphy: 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	**64.41**
North American Equities	36.81
Asia Pacific (ex-Japan) Equities	11.46
European Equities	8.70
Japanese Equities	7.44
Fixed Income	**31.09**
US Bonds	17.10
International Bonds	11.15
Emerging Market Bonds	2.84
Others	**0.27**
Cash & Cash Equivalents	**4.23**

Top Ten Holdings

	%
SPDR S&P 500 ETF Trust	10.51
SPDR Bloomberg International Treasury Bond ETF	10.03
iShares MSCI Japan ETF	7.44
iShares 7-10 Year Treasury Bond ETF	7.24
iShares MSCI India ETF	6.11
iShares Core S&P 500 ETF	6.03
MGF - U.S. Equity Fund	5.57
Lyxor EURO STOXX 50 (DR) UCITS ETF	5.56
Tracker Fund of Hong Kong	5.35
Invesco QQQ Trust Series I	5.20

^Figures may not sum to 100 due to rounding.

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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 Fed funds rate steady at 5.25% to 5.50%. In the press conference, Chairman Powell erred on the side of hawkishness, stating that the 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 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 slipped slightly to 50.1 from 50.5 last month.

Economy in the eurozone pointed to a 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% YoY, 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. Distress in the property sector 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 performed notably well, 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 in 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 well 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-negligeable 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 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.

Credit metrics remain stable in the large part, although companies with floating rate debt in their capital structures continue to experience more acute declines in interest coverage ratios. Consumer spending has also been uneven under the surface. Higher interest rates combined with consumer spending patterns normalising following the pandemic have both led to negative growth for goods, whilst spending on services has continued to grow. Inflationary pressures, including labour, continue to impact margins for a wider swathe of corporates whilst many higher-quality corporates should be able to withstand softening economic conditions. 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 some pickup in new issue activities but from very weak levels recorded in 2022. Default rates have also picked up, especially for CCCs, and appear likely to continue to rise from historically low levels, driven by a weakening economy, a growing number of bonds maturing over the next few years, and restrictive refinancing rates for many corporates.

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.

Disclaimer

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