Manulife Investment Management

News Release

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Manulife Investment Management expects headwinds to moderate in second half of 2023 as risks remain in the near term

- Inflation, rate hikes and a global growth slowdown will moderate in the second half of 2023, resulting in more conducive market conditions
- The broader Asian economy will benefit from economic re-opening and increasing policy support from China
- Outcome-based strategies that offer a natural-yielding income and return profile typically can be more cushioned in the current challenging macro conditions and maintain high and sustainable dividends across changing market cycles

KUALA LUMPUR – 2022 has been a year filled with challenges for many investors. Russia-Ukraine issue, lingering pandemic-related disruptions, the highest inflation in several decades, a broad-based and sharper-than-expected slowdown, a cost-of-living crisis, and the fastest pace of Fed tightening in decades are key factors that impacted equity and debt markets.

Looking ahead, the aggressive pace of tightening and associated lagged effects are expected to drive a synchronized global growth downturn through 2023. Overall, most advanced and interest-rate-sensitive economies will experience recessions in the first half, while Asia may see a slow-motion recovery due to a fuller economic reopening in mainland China, Hong Kong SAR, Japan and the Taiwan market. Improving sentiment with a bias towards more defensive assets near term is likely to bring about continued outperformance of investment-grade bonds and a noticeable rebound for high-yield assets.

Sue Trinh, Co-Head of Global Macro Strategy, Manulife Investment Management, said, “Amid a macro backdrop characterized by elevated global inflation, uncertainty over when Fed rates might peak, and rising odds of a global recession, the first half of 2023 could bear witness to a series of sharper and longer bouts of market volatility. Thankfully, the picture does brighten slightly in the second half, during which these headwinds are likely to moderate, ushering in more conducive conditions for financial markets.”

“Our base case is that the looming negative demand shock would be sufficient to see growth concerns overtake worries of inflation, and that could pave way for the Fed to take a dovish pivot and potentially ease rates during the fourth quarter of 2023. The main risks to our base case are around the timing of the stagflation trough, China’s full reopening and the USD’s peak.”

Diversifying into natural-yielding exposures in a mixed market outlook

With multiple challenges ahead, **Paul Kalogirou, Head of Client Portfolio Management, Asia & Global Multi-Asset Solutions, Client Portfolio Manager, Manulife Investment Management** explained how a global and flexible investment approach that dynamically shifts between asset classes during market volatility can help stabilize a portfolio’s income stream.

"Income-oriented strategies typically have defensive attributes and are particularly relevant in challenging growth outlook environments such as the one we are in. A portfolio with a reasonably high natural yield in relation to its overall payout can help investors generate a stable income from the underlying investments. This could be dividends from equities or coupons paid on bonds, or even via derivative implementation strategies with minimum complexity. Natural yields can be an attractive investment tool, especially during a negative market environment while being less reliant on the continued outperformance of growth assets. If the underlying natural yield of a portfolio is sustainable, it gives investors' capital a longer-term investment horizon to grow and possibly ride through any downturns."

"Risk assets continued to move higher, we see enhanced yield opportunities in US High Yield and select USD denominated emerging market (EM) debt. US High Yield could generate solid yields, while there may be spread opportunities within EM dollar bonds given cheaper valuations."

"As we approach the final stages of the economic slowdown, we also see opportunities in select government bonds and high-quality equities that offer potential capital appreciation and dividends. Stable businesses with solid balance sheets could demonstrate ongoing earnings resilience and offer relative protection if earnings come under pressure. Select commodity-related economies could also benefit from tight supply dynamics. Where appropriate, multi-asset income-oriented portfolios could use option-writing strategies to harvest option premiums, which can enhance portfolio yields."

Asia: Economic outlook will become clearer in the second half of 2023 as interest rate peaks

Ronald Chan, Chief Investment Officer, Asia ex-Japan equities, Manulife Investment Management analyses the factors that will continue to impact Asian and China equity markets, and potential bright spots within the asset class.

"We've seen signs of a rebound in the mainland China economy given the government's lifting of some COVID restrictions. China will be one step closer to a rebound when we see further loosening of prevention measures and decline in confirmed cases within the country. We expect the upcoming Central Economic Work Conference will release more supportive policies in terms of fiscal and monetary sides, which will be a positive sign for the equity market."

"We are also positive on longer-term thematic investments, including advanced manufacturing, machinery and semiconductor, which we could potentially see a rise in local demand. We become more selective on renewables and other beneficiaries of carbon control within the region. In order to price into companies that offer great value and growth opportunities amid uncertainties and lower fundamentals, we believe selectivity will be key in 2023 and beyond."

"Although we expect global inflation to gradually slowdown in the year ahead, we still need to pay close attention to it. We see risks of economic recession in developed economies which will continue to add volatility to Asian markets in the first half of 2023. However, when interest rates peak, the overall outlook will become clearer."

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About Manulife Investment Management

Manulife Investment Management is the global brand for the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than a century of financial stewardship and the full resources of our parent company to serve individuals, institutions, and retirement plan members worldwide. Headquartered in Toronto, our leading capabilities in public and private markets are strengthened by an investment footprint that spans 19 geographies. We complement these capabilities by providing access to a network of unaffiliated asset managers from around the world. We're committed to investing responsibly across our businesses. We develop innovative global frameworks for sustainable investing, collaboratively engage with companies in our securities portfolios, and maintain a high standard of stewardship where we own and operate assets, and we believe in supporting financial well-being through our workplace retirement plans. Today, plan sponsors around the world rely on our retirement plan administration and investment expertise to help their employees plan for, save for, and live a better retirement. Not all offerings are available in all jurisdictions.
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