Manulife Investment Management

2020 Outlook Series: Multi-Asset

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Risk – it's a word that all investors should be familiar with but may not be at the forefront of their minds when making investment decisions. Yet it should be. More often than not, retail investors follow short-term headlines and consequently may miss opportunities that could help them meet their objectives. Luke Browne, Head of Asset Allocation (Asia), shares the multi-asset outlook for 2020.

Within our asset allocation team, we believe in adopting both a global and regional approach to investment allocations. Even more critically, we must discern risk and opportunities both across and within asset classes – whether this is growth versus value, defensive or cyclical equities, the varied credit risk profiles/capital structures present within fixed income or the countries and sectors in both.

Skilled asset allocation means possessing a big-picture view of prevailing global macroeconomic conditions coupled with specific on-the-ground knowledge. In this way, your long-term portfolios can be managed in a well-diversified manner, which acts as a bedrock that enables us to navigate the evolving market conditions and investment opportunities we identify.

Despite potential market headwinds, we believe that the investing environment in 2020 offers opportunity, guided by three key global themes.

Trade, the Fed, and China

1. **Trade policy –** Talk of an agreement on US-China trade has been a crucial driver of market sentiment this year.

   In the short term, there may be more positive headlines around tariffs. However, a more significant underlying risk is the ongoing uncertainty around the future of trade not only between the US and China but also China and the rest of the world. Supply chains have been severely disrupted and this is likely to be the new norm in the coming year, putting structural downside pressure on global trade and growth. The broader uncertainty surrounding global trade means that safe-haven assets will be in demand, which should provide support for the US dollar.

2. **The Fed and US growth –** Central banks in both developed and emerging markets continue to pursue accommodative monetary policies. Recent rate cuts and balance sheet expansion by the Fed should help to ease financial conditions and support rate-sensitive sectors. The US consumer has held up well, and we expect at least a few more quarters of growth in the world's largest economy. We do not foresee a technical recession in the near term, given the stance of the Fed, and would view overly negative sentiment as an opportunistic entry point. Careful scrutiny of evolving financial conditions later into 2020 and 2021 will be critical to understanding emerging downside risks.

3. **China growth –** Long regarded as the engine of global economic growth, we feel that in the short term, the Chinese economy will, at best, stabilise. The subsequent "positive feedthrough" to the region and global trade will likely be much more muted than before. Over the longer term, China's ongoing transition towards a consumer-focused economy, and with it developed-market status, will have global implications farther down the road. We don't expect any "big bang" policy stimulus from China, as we saw in 2008/2009, 2013/2014 and more recently in 2016, but rather conventional monetary policy will benefit the domestic economy.

Global and Asian opportunities and risks

Moving into 2020, we hold a constructive view of many global risk assets across asset classes. Structurally lower interest rates are a vital driver of the ongoing "search for yield", and this investor pursuit will favour asset classes that can offer investors positive real yields in a world where negative-yielding debt now tops US$12.5 trillion[1].

In the near-term, we expect emerging-market central banks, particularly those in Asia, to continue with monetary easing. However, any easing from China is expected to be mild by historical comparison and focused on the domestic economy, rather than globally. Our longer-term strategic view is that the quality of emerging-market debt is improving on a structural basis and offers a diversified return to US high yield and loans. We also favour the "carry" that the asset class offers. Within the group, we expect local-currency sovereign debt to provide robust returns. Broadly speaking, we believe that emerging-market debt – and particularly credit – stands out from a total return perspective.

Breaking it down further by looking within Asia, our short-term preference (from a valuation perspective) is for H-shares over onshore Chinese equities. Momentum in onshore Chinese names has been waning, although there may be some near-term signs of stabilisation in PMI's. The ongoing unrest in Hong Kong continues to unsettle the market. Meanwhile, in South and Southeast Asia, we maintain exposure through a broad range of strategies within our Fund of Fund multi-asset portfolios. We generally have a positive view on these economies given they are less exposed to trade ructions and primarily driven by domestic consumption (think of places such as India, Malaysia, Indonesia and the Philippines). Over a longer time frame, we still see many sources of potential growth in Asia, particularly if the region embraces digital, becomes a sustained leader in AI, big data, and robotics. China still has significant room to develop, given its GDP per capita in 2019 was recorded at US$10,000 (16% of the US)[2].

Elsewhere, there are potential opportunities for a re-rating in Europe given continued easing in the eurozone, the compelling valuations on offer, stabilising manufacturing activity, and firmer business confidence. We expect a continuation of "easy" monetary policy, as central banks are constrained by the low growth, low inflation conundrum. A key risk for Europe remains the banking sector.

Also, a reduction in Brexit-related uncertainty should afford opportunistic positioning in both sterling and UK equities.

On our radar

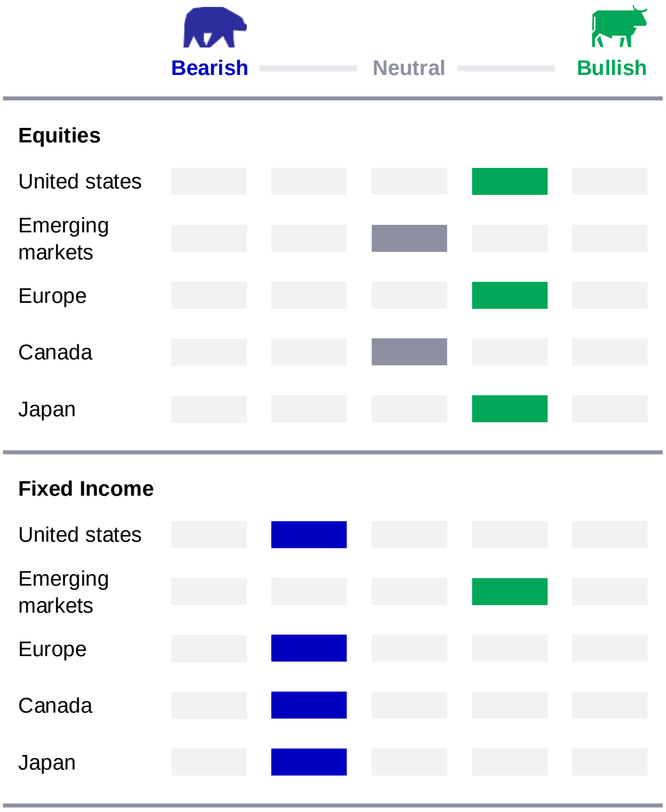
Looking ahead, the chances of a broad-based increase in risk-asset volatility might reduce as global central banks are committed to accommodative monetary policies. However, we will be mindful of specific volatility in individual asset classes and explicit market risks. Corporate debt may also cause some concern, but as we touched on earlier this means responsibly managing downside risks in a world rife with uncertainty. For us, risk management has always been and will continue to be, part of our DNA and integral to our portfolio construction and investment process.

[1] Bloomberg, as of November 2019.

[2] International Monetary Fund, 2019.

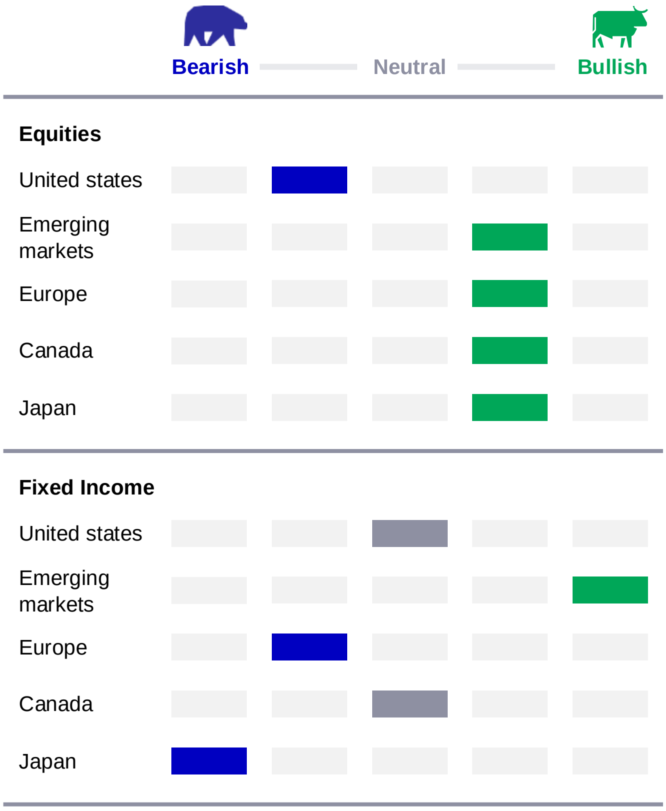
Our asset allocation view

Short-term (6-12 months) asset allocation view



Source: Asset Allocation Team, Manulife Investment Management, Q4 2019. The asset allocation view is by no means, reflective of current positioning. Projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations are only current as of the date indicated. There is no assurance that such events will occur, and if they were to occur, the result may be significantly different than that shown here.

Long-term (3-5 years) asset allocation view



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Manulife Investment Management

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