



As we move into 2022, the pace of recovery is difficult to predict, given the sheer number of variables to consider. Data has seen pockets of improvement, but areas of weakness remain. However, all indications point to an extended period of low interest rates and continued government support to put the global economy back on a positive trajectory. We think the environment should prove favourable for income-oriented solution like the Manulife Global Fund - Global Multi-Asset Diversified Income Fund, as investors continue to seek income, but tactical positioning in three different sleeves (fixed income, equity and options) would be key to generating performance returns.

An income-oriented solution in a higher-yielding environment

This is a challenging environment for global markets – growth and earnings could disappoint due to logistical challenges, and there is pressure on policymakers to reduce stimulus in the face of rising and less transitory inflation.

Indeed, the inflationary backdrop is worth considering. We've seen reasonably strong job creation; however, the labour market is still tight, which is leading to wage inflation. Looking ahead, we think above trend inflationary pressures will remain in place for longer than people have originally hoped, but these are not expected to be permanent.

Accommodative policy remains supportive even as tapering begins

Across the largest developed markets, fiscal tailwinds are likely to start to fade as the US Federal Reserve (the Fed) began tapering in November 2021. Meanwhile, the Bank of England raised interest rates in December 2021.

In the US, Jerome Powell will be entering his second term as Fed Chair, which we believe will be positive for the market, as he takes a pragmatic and thoughtful approach to inflation. For example, Powell

is data dependent when considering rate-hike decisions, taking a less hawkish stance. The quality of economic data over the coming months is more likely to determine how the Fed's tapering is conducted and help guide the market's reaction.

We think the Fed's monetary policy will remain highly accommodative with a slow and gradual approach to rate hikes, which we expect sometime in 2022. Against this backdrop, we believe the Fund is well positioned to benefit from the re-opening theme and capture higher yields given its diversified income-oriented objective. This environment should prove favourable as investors continue to seek income.

Fixed Income: Emerging-market credits look compelling

The Fund's strategically neutral asset allocation is broadly 50% fixed income, 25% global equities and 25% option-writing strategy. From this, the underlying yield generated from fixed income (developed and emerging market credits and sovereigns) is just over 6%, preferred securities approximately 6.7%, whilst the dividend yield of the global equities portion is around 1.7%. The option premium is approximately 100-150bps per month. The Fund's latest distribution yield is 7.26%¹.

¹ Source: Morningstar, Manulife Investment Management, as of 1 December 2021. Distribution yield only applies to AA (USD) MDIST (G) Share class. **Distributions are not guaranteed.** Investors should refer to distribution disclosures at www.manulifeam.com.sg. Distributions may be made out of income, net capital gains, and/or capital. Past distribution yields and payments do not represent future distribution yields and payments. Any distribution is expected to result in an immediate decrease of the net asset value per unit of the Fund. Annualised

yield = [(1+distribution per unit/ ex-dividend NAV)^{distribution frequency}]-1, the annualised dividend yield is calculated based on the latest relevant dividend distribution with dividend reinvested, and may be higher or lower than the actual annual dividend yield. Information about the asset allocation and portfolio holdings is historical and is not indication of the future composition. Diversification or asset allocation does not guarantee a profit nor protect against loss in any market.

In 2022, fixed income credit remains a key income source for the Fund, in particular, we think that Developed Market high-yield and Emerging-market credits (accounting for approximately 22% and 17% of the overall Fund) will provide the most significant investment opportunities.

US high-yield (as represented by Bloomberg US HY Index) outperformed emerging-market credits (as represented by Bloomberg EM USD Aggregate Index) in 2021, driven, in part, by demand for developed-market issues, where fundamentals are improving. As such, spreads remain relatively tight.

However, we have seen a lot of capital flow seeking opportunities, so the outlook for US high-yield remains balanced. We expect uncertainty to remain in the coming months but believe investors are generally being compensated for the risks. We believe that defaults have peaked and the trailing 12-month default rate will remain stable to lower.

More broadly, income-seeking investors are chasing credits in the broader emerging market space, as well as Asia. The situation here is more complex, as spreads are compelling, especially in Asia, where a shorter duration, higher-quality market versus broad emerging market, mean that credit spreads could be 60 to 100 basis points cheaper relative to high-yields. This is mainly driven by the property sector in China, where the market is pricing in default rates we won't see in the wider credit market.

We think that widening credit spreads, recently experienced, in emerging markets present attractive opportunities in the fixed income sleeve, and this should be a significant performance contributor in 2022. The idea of trade-off plays between emerging-market and developed-market credits depends on whether we can uncover opportunities at an individual security level.

Equities: Tilted towards the US

Equities have been a key performance driver over the year, with developed-market stock exposure dominating the equity sleeve.

Equity exposure is tilted towards the US (74% of the equity sleeve). One of the drivers here is our confidence in the country's vaccine rollout programme. Specifically, our US positioning is a balanced blend between growth and non-growth stocks, albeit with a slight value tilt. These market

and sector allocations reflect our bottom-up approach to security selection, whereby we focus on individual company fundamentals. Ultimately, this stance has helped the Fund, given the outperformance of US equities (as represented by S&P 500 US Equities) over emerging markets and Asia during 2021 (as represented by MSCI Emerging Markets Index and MSCI Asia Pacific ex Japan Index respectively).

While many equities have corrected significantly from their recent highs, we are still comfortable with our current allocation versus fixed income and options. The Fund's primary objective is to deliver a high level of income, and we do not think that equity markets will deliver overly excessive returns in 2022.

Option Writing: Expected higher premiums due to rising interest rates

Through option writing, we remain committed to managing downside risk when appropriate and harvesting consistent premiums to enhance the Fund's yield. Option writing (covered calls and collateralised puts) allows the Fund to forego some future equity upside in order to generate income today.

Option premiums are related to volatility. In the near term, we have two COVID-related concerns that may trigger a spike in volatility – namely, new variants and further developments with the Omicron strain, which could impact our ability to collect premiums.

We view the market through a long-term security-selection lens, which means we're better placed to predict short-term bouts of volatility. The Fund is able to tactically adjust the option strike rate as well as lean towards more or less equities with a call writing structure. If we're really bullish, we can stop writing covered calls altogether in order to participate fully in equity upside.

The lasting impact of COVID-19 on the global economy is not the only factor to monitor. We believe that rising geopolitical tensions, decelerating post-stimulus growth rates, supply-chain disruptions, and the general deglobalisation trend raise questions about the future trajectory of global debt and equity markets.

Conclusion: Tactical positioning is key

Overall, the Fund is positioned to generate a potentially high sustainable income yield² as well as being tilted towards capturing higher rates. Tactical positioning will become more prevalent as we move into 2022, allowing us to nimbly increase and decrease the risk profile of the Fund, as well as add yield opportunities when they arise. The trade-off between generating yield, which is the primary objective of the Fund, and capital appreciation through tactical equity allocations or options writing will be a vital determinant of the Fund's performance in 2022.

² Annualized distribution yield; only applies to AA (USD) MDIST (G) share class: as at November 2021 – 7.26%, as at December 2020 – 7.53%, as at December 2019 – 7.25%. Additional disclosures for distribution yield can be found in footnote 1.

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