Manulife Investment Management

Foresight April 2020: key macro themes and market outlook

COVID-19: a painful disruption, but one that also creates long-term opportunities

April 2020

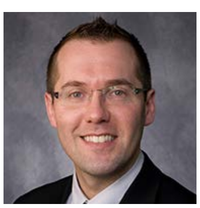
Introduction

The first few months of the year were dominated by COVID-19—a term that few had heard of coming into 2020. The world was ill prepared for the impact and scale of this pandemic, which has led to lockdowns and a still to be determined impact to global growth. The business of forecasting—difficult enough to get right in the best of times—became even more challenging in this climate, as containment efforts rendered traditional month-over-month and year-over-year comparisons largely meaningless, apart from crystalizing the fact that a significant economic contraction is already under way.

That said, as long-term investors who have navigated many episodes of stress, including the global financial crisis of 2007/2008 and the European sovereign debt crisis, we know that this too shall pass. Indeed, as of this writing, there are suggestions that the outbreak in several countries could have peaked, and that the global race to develop effective treatments and vaccines is in an advanced stage. Policy actions across the globe, both in terms of monetary and fiscal stimulus packages, should cushion the economic damage and pave the road to recovery.

As we've noted previously, history has shown us that a sharp market correction is usually followed by a rebound of a similar—if not greater—magnitude that unfolds over the following years, and the volatility of investment returns typically normalizes over time. While the seemingly endless stream of breaking news might tempt us into assessing everything through the prism of now, we believe it's important for investors with longer investment horizons to retain a strategic view: The short-term view may be gloomy, but it doesn't mean that the dark clouds will be a permanent feature of the picture.

It's through this lens that we formulate our return forecasts for the various asset classes over the next five years. Our forecasts are derived from a wide number of sources, including input from our macroeconomic strategists who are embedded within the asset allocation team. While our long-term forecasts lean heavily on model-based valuation estimates, we believe that macroeconomic views play an important role in navigating evolving market conditions and in identifying short-term investment opportunities.



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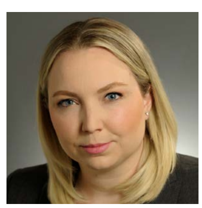

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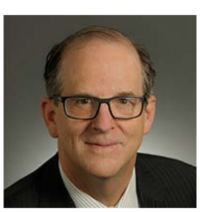

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Key macro views

Short-term macroeconomic themes

- We expect the COVID-19 shock to create the sharpest global economic contraction since the 1950s; however, we also believe the contraction will occur within a compressed timeframe and will be front loaded in nature. Unlike most past global recessions, the coming recession will be services led as opposed to manufacturing led, which will likely result in larger job losses.

- While the contraction is likely to be the largest in modern economic history, we also expect the United States—and the global economy—to bounce back in the second half of the year. In our view, global markets will be more focused on the timing and the speed of the economic recovery than the weakness witnessed in Q2, which many will perceive as transitory. Although we harbor some concerns that the rebound is more likely to be delayed than arrive early, we believe a meaningful re-acceleration seems reasonable by year end.

- Aggressive central bank action has reduced the likelihood of a credit crisis, although risks remain and should be closely monitored. We don't expect the U.S. Federal Reserve (Fed) to pursue negative interest rates, but we believe that short-term interest rates will remain anchored at low levels for a multi-year period.

- Announced fiscal measures are significant and we believe that they'll be more effective at supporting the recovery as opposed to preventing an economic contraction from taking place in Q2. We believe this amount of global fiscal support will be a catalyst to increased inflation in the medium term and is likely to steepen the yield curve.

- The recent sharp decline in oil prices is causing additional disruptions in the global economy and financial system. We believe this will be a more significant drag on global growth and markets than consensus currently recognizes.

- Absent a second wave of the virus outbreak, we're likely to see improvements in economic data out of Asia in the short term (even though the region will need to manage several long-term implications arising from the changes that occurred as a result of the outbreak). Meanwhile, we believe several developed markets with high levels of household debt (such as Australia and Canada) are at risk of experiencing a large-scale deleveraging, which could have negative implications for the residential real estate sector.

Longer-term strategic views

- With markets significantly off their early Q1 highs, our return expectations, particularly within equity markets, have increased since our last publication. Although stock prices have fallen, valuations are far from inexpensive —in many cases, a lot closer to fair value, in our view. Furthermore, as we expect some re-expansion, investors are likely going to need to be willing to accept higher levels of volatility in the equity markets in order to achieve more robust returns.

- Within fixed income, our expectations for government bonds remain in the low single digits across the globe. We see credit—both investment grade (IG) and non-IG—as being a quite attractive alternative and the risk more moderate in relation to equities.

- We expect the extraordinary easing measures announced by global central banks in the first quarter of 2020—including a return to the effective lower bound of central bank policy rates—to be maintained for several years. Indeed, we don't expect global central banks to be able to raise interest rates over the next five years, as key conditions for higher interest rates are unlikely to be met.

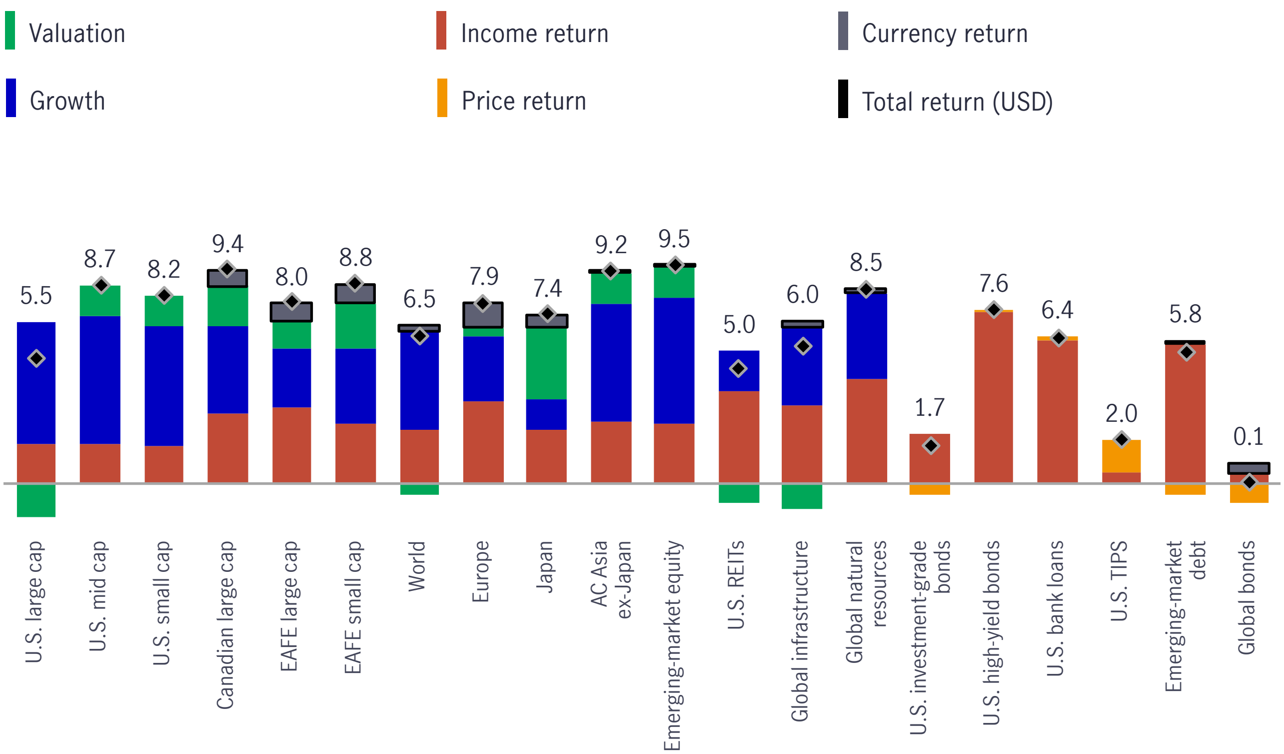
- We've long believed that search for yield is a key investment theme that will dominate the financial markets. It's now likely to be even more prominent in the midst of extremely low interest rates. We continue to favor asset classes that provide positive carry, such as emerging-market (EM) debt.

- We believe the economic shock brought about by the COVID-19 outbreak will likely be deflationary in the near term but the combination of substantial monetary and fiscal packages will likely generate higher inflation expectations in the medium term. This is likely to lead to steeper global yield curves over the five-year forecast horizon. This represents a change in our view—prior to the outbreak, we believed that the curve would remain fairly flat over the strategic horizon.

- We believe U.S. dollar (USD) strength is approaching its peak and expect the currency to weaken over the forecast horizon. The Fed's efforts to address issues relating to the global shortage of the USD (and therefore USD liquidity) should also curb the currency's strength. A weaker greenback should provide some mild to moderate support to several key non-U.S. asset classes such as EMs and other developed-market equities and bonds.

- Growth in China, the world's second-largest economy, is likely to continue to structurally decelerate, creating downside pressure on global trade activity on a long-term basis and weigh on global manufacturing activity. In our view, the combination of rising global tariffs and the shutting of borders—in the midst of COVID-19—will reduce globalization efforts and threaten global supply chains. That said, for both valuation and carry reasons, we continue to view EMs favorably over our forecast horizon.

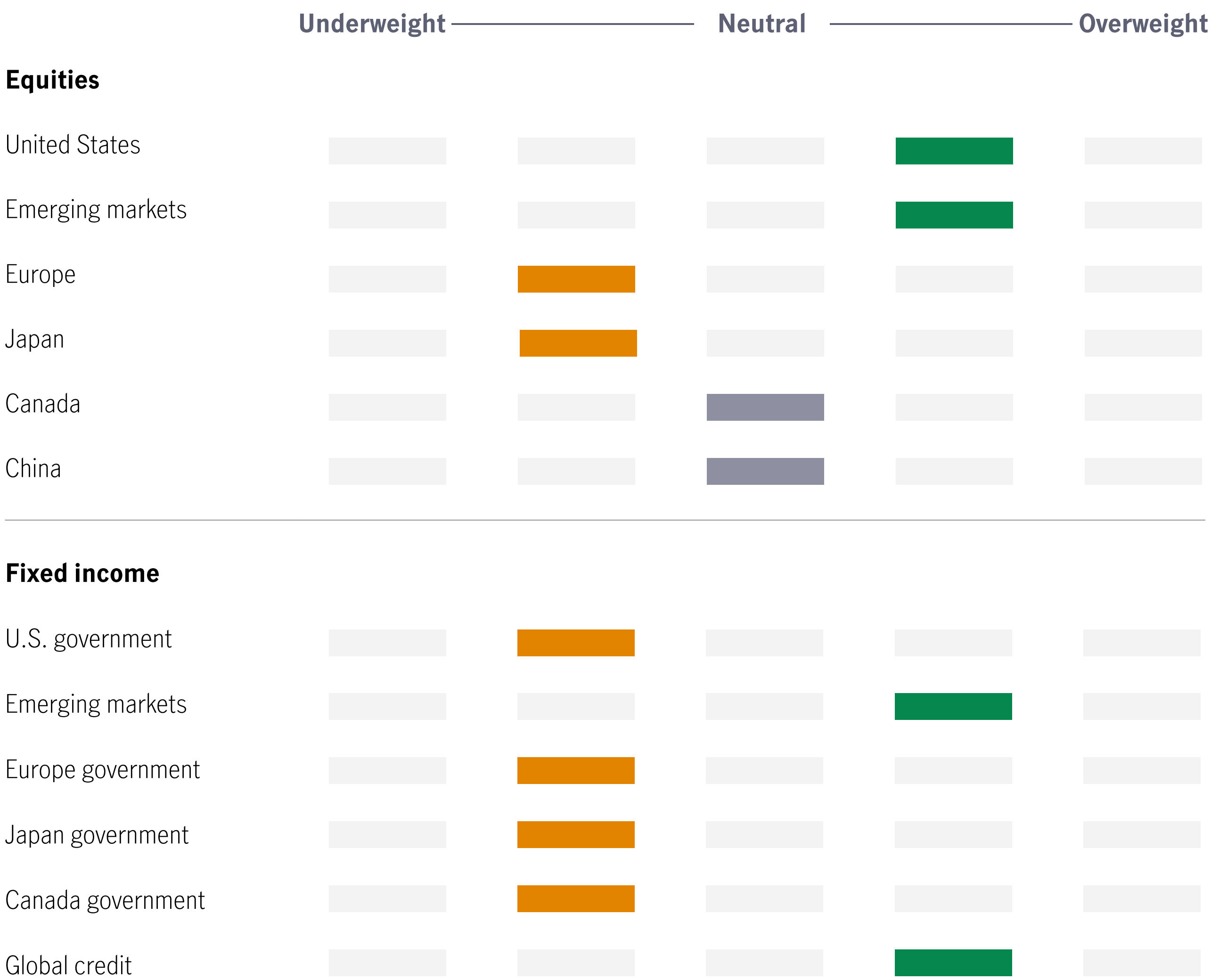
Five-year asset class forecasts—expected return components (%)



Source: Manulife Investment Management's asset allocation team, March 24, 2020. Model inputs are factors in Manulife Investment Management research and are not meant as predictions for any particular asset class, mutual fund, or investment vehicle. To initiate the investment process, the investment team formulates five-year, forward-looking risk and return expectations, developed through a variety of quantitative modeling techniques and complemented with qualitative and fundamental insight; assumptions are then adjusted for economic cycles and growth trend rates. This chart may contain projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations, and is only as 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. The information in this material, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. This material should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any investment products or to adopt any investment strategy. It is not possible to invest directly into an index. Past performance does not guarantee future results.

Tactical perspectives

Six- to 12-month asset allocation view



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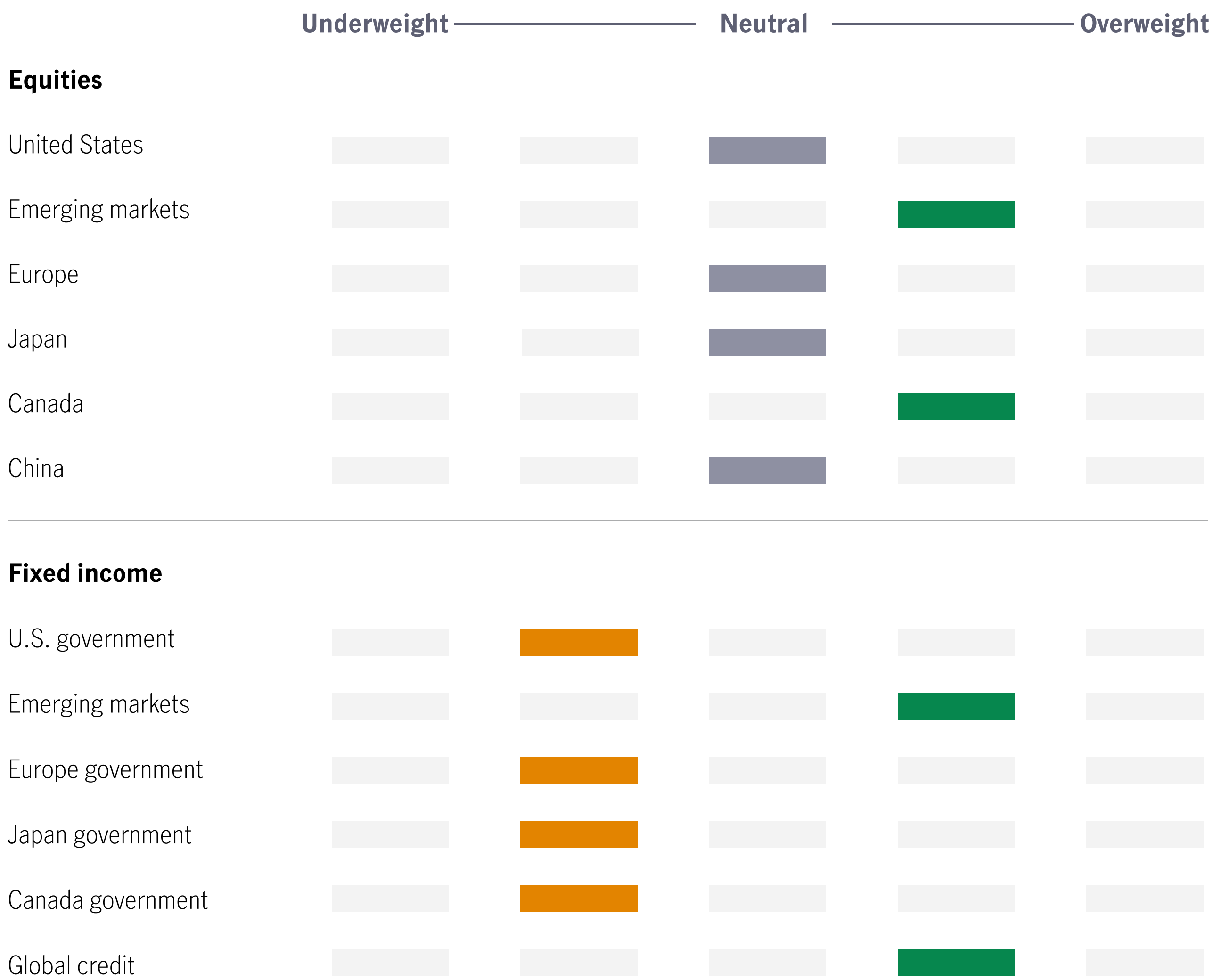
Strategic perspective

Five-year asset allocation view



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Fixed income

	Short-term views	Strategic views
U.S. government bonds	Underweight — Neutral — Overweight On one hand, we believe weakness in both the United States and the global economy will last longer than current consensus estimates suggest, which should keep interest rates low. That said, although the Fed and U.S. government are providing significant support and liquidity to the economy, the risk of solvency issues remains, and cascading credit events could emerge should the economy remain closed for many more months.	Underweight — Neutral — Overweight While we expect the Fed to keep the front end of the U.S. Treasury curve low, the introduction of significant fiscal measures and the potential corresponding rise in inflation expectations mean longer-duration Treasuries will weaken the appeal of this asset class.
Emerging markets	Underweight — Neutral — Overweight We expect most, if not all, major EM central banks to continue with monetary easing in a significant manner. In our view, Asia in particular is likely to benefit in the very short term from a resumption of activity in China. Stability in the USD and a mild to moderate resumption in risk appetite will create a short- and near-term pocket of strength for this asset class. However, we're concerned that global growth—despite stabilizing—could remain at very depressed levels, and recent USD appreciation will strain the asset class for some time, even as we expect some of it to be unwound. While we have a positive view of the asset class, these factors do place a cap on return expectations and outlook.	Underweight — Neutral — Overweight The quality of EM debt has been improving on a structural basis, and we view the asset class as a higher-quality credit relative to U.S. HY and loans; we also favor the carry available in this asset class. Within the group, we expect local currency sovereign debt to provide slightly better returns than USD-denominated EM debt. Broadly speaking, we believe EM debt stands out from a total return perspective and will benefit from the gradual softening of the USD over this period.

Fixed income	Short-term views	Strategic views
European government bonds	Underweight — Neutral — Overweight We expect European short-term sovereign yields to remain at current levels or to move lower in the near term. Given that economic conditions in Europe are in a weaker state than the United States, it's likely that we could see a higher number of corporate defaults in Europe.	Underweight — Neutral — Overweight We find the Japanification of Europe (i.e., sustained deflationary pressure and weak demographics) problematic and expect the region's central banks to keep interest rates low for a longer period than most of the developed markets.
Japanese government bonds	Underweight — Neutral — Overweight In the short term, we expect minimal movement on the rates front since the Bank of Japan's yield curve control mechanism places a cap on any upside movement in yield. The strengthening Japanese yen—partly a result of its reputation as a safe haven amid uncertainty—is a modest source of upside potential for this asset class.	Underweight — Neutral — Overweight We expect interest rates in Japan to remain at or near 0% for the next few years, subject to some volatility. Inflationary pressure in the country is likely to remain negligible throughout our five-year forecast period, and total return in this asset class is likely to be relatively muted.
Canadian government bonds	Underweight — Neutral — Overweight We expect investment returns in this asset class to remain lower than their U.S. counterparts because of smaller yield differentials between them. We also expect the COVID-19 outbreak to have a deeper and more pronounced economic impact in Canada than the United States, given the country's relatively higher debt level and the comparatively lower savings rate of Canadian households.	Underweight — Neutral — Overweight In our view, Canadian fixed income could benefit from a stronger Canadian dollar (CAD) (in the form of enhanced currency returns), but it's likely to be offset by negative price returns. We expect U.S. IG bonds to marginally outperform Canadian fixed income in part because of the larger valuation reset that's already taken place in that segment.

Fixed income	Short-term views	Strategic views
Global credit	Underweight — Neutral — Overweight In our view, investment-grade corporate bonds are very attractively priced relative to sovereign bonds, especially within the context of central bank-buying programs. We think HY bonds may look more compelling than some equities as the asset class has more negativity priced into current levels.	Underweight — Neutral — Overweight We view HY and leveraged loans more favorably than U.S. IG bonds. In our view, HY should benefit from the relatively benign interest-rate environment, and the recent COVID-19-induced valuation reset makes the segment more attractive than it was even six months ago. We remain cautious on certain sectors of the HY market—energy, for example—but believe there's good room to run within the segment over the upcoming five years.

Fixed income: five-year forecast (%)

	U.S. investment grade	Canadian investment grade	U.S. high yield	U.S. bank loans	U.S. TIPS	Emerging-market debt	Asia investment grade	Multiverse
Income return	2.2	2.0	7.5	6.2	0.5	6.1	2.5	1.5
Price return	-0.5	-0.8	0.1	0.2	1.4	-0.4	-0.6	-0.4
Currency return (vs. USD)	0.0	0.7	0.0	0.0	0.0	0.2	-0.6	1.0
Total return (USD)	**1.7**	**1.9**	**7.6**	**6.4**	**2.0**	**5.8**	**1.3**	**2.1**
Currency return (vs. CAD)	-0.7	0.0	-0.7	-0.7	-0.7	-0.5	-1.3	0.3
Total return (CAD)	**1.1**	**1.3**	**6.8**	**5.7**	**1.3**	**5.1**	**0.6**	**1.4**
Currency return (vs. EUR)	-0.9	-0.2	-0.9	-0.9	-0.9	-0.8	-1.5	0.1
Total return (EUR)	**0.8**	**1.0**	**6.6**	**5.4**	**1.0**	**4.8**	**0.4**	**1.2**
Currency return (vs. GBP)	-1.6	-0.9	-1.6	-1.6	-1.6	-1.5	-2.2	-0.6
Total return (GBP)	**0.1**	**0.3**	**5.9**	**4.7**	**0.3**	**4.1**	**-0.3**	**0.5**

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Equities

United States

Short-term views

Underweight — Neutral — Overweight

Uncertainty about the duration and severity of disruptions related to the COVID-19 outbreak has limited the visibility of this asset class. However, given massive fiscal and monetary policy support, we maintain that the correction we saw in March will eventually create an attractive entry point for long-term investors. Inevitably, timing is contingent on the effectiveness of COVID-19 containment efforts. A recovery in oil prices could also provide additional support to the asset class.

Strategic views

Underweight — Neutral — Overweight

On a structural basis, the United States has the healthiest long-term economic profile in the developed world. In previous outlooks, we've noted that some caution on U.S. equities over the strategic horizon was merited as a result of the combination of high valuations, unsustainable margins, and a strong USD. However, the correction in March provided a valuation reset that brings this asset class back to a level that we find attractive. Furthermore, we continue to have a positive view on sectors such as healthcare, technology and financials. Note, though, that our expectation of a weaker USD over the long run could provide a modest headwind for this asset class.

Emerging markets

Short-term views

Underweight — Neutral — Overweight

On a short-term basis, one of the thematic trades that should emerge is a re-rating higher in EM equities as economic activity resumes. At this stage, EM Asia is likely to have moved furthest along that path, and we believe that a resumption of global supply chain activities in 2020 could lead to a short-term boost to this asset class.

Strategic views

Underweight — Neutral — Overweight

We find this asset class attractive at current levels and believe there's potential for further upside in the long term, driven by expectations for a structurally weaker USD.

In our view, this asset class has the most attractive growth profile relative to its peers and could translate into a solid source of returns in the event of a global cyclical upswing/rebound.

Equities	Short-term views	Strategic views
Europe	Underweight — Neutral — Overweight While recently announced monetary and fiscal policies should provide a base measure of stability, the region's heavy exposure to global trade and supply chain disruptions means European economies are more likely to be negatively affected by the COVID-19 outbreak than the United States, which is more domestically oriented.	Underweight — Neutral — Overweight Our analysis suggests that valuation and dividend profiles for this asset class remain relatively attractive over a longer investment horizon. However, the investment case for European equities is partly counterbalanced by the Continent's weak growth profile. A modest appreciation in the euro could translate into a tailwind over the medium term, as would a cyclical upturn.
Japan	Underweight — Neutral — Overweight Lower global trade activity, higher value-added tax, and the deferral of the Olympics are all short-term negatives for Japan's economy. On the plus side, the Bank of Japan and the Japanese government have introduced massive fiscal and monetary stimulus, which includes central bank purchases of equity exchange-traded funds. We believe these measures should provide some support for the market.	Underweight — Neutral — Overweight In our view, the structural factors in favor of Japanese equities include inexpensive valuation, continued improvement in corporate governance, and corporate share buyback programs—measures that should provide a good counterbalance to the market's modest growth profile. We remain mildly positive on the asset class over the long term.

Equities	Short-term views	Strategic views
Canada	Underweight — Neutral — Overweight In addition to dealing with the uncertainty brought about by the outbreak of COVID-19, Canada's economic outlook is also tied to oil prices. In the event of protracted job losses, high consumer debt levels and a richly valued residential real estate market could exacerbate any economic impact created by shorter-term factors.	Underweight — Neutral — Overweight In our view, the asset class continues to benefit from having a strong dividend profile. Attractive valuations, particularly with reference to the energy and financials sectors, make up about half of the main Canadian stock index.
China	Underweight — Neutral — Overweight We adjusted our views on the asset class within the EM basket after it outperformed relative to other EM equities in Q1 as the COVID-19 outbreak took hold. As the world's largest net importer of oil, China should also benefit from the recent decline in energy prices. Markets appear to be pricing a significant policy response from China as it attempts to revive its economy. At this point, the question is, "What hasn't been priced in?" In our view, Chinese equities were fully valued prior to the outbreak, therefore leaving little room to cushion any tail risk should policy action fail to meet market expectation.	Underweight — Neutral — Overweight We've maintained the view that Chinese growth must decelerate gradually in order to facilitate a rebalancing from its industrial growth model toward a consumer growth model. While the COVID-19 outbreak will hasten the expected slowdown, we expect official policy response to the outbreak to be meaningful enough to keep China in a relatively gradual growth deceleration mode over the next five years. In our view, valuations have become modestly expensive given the shift in focus (particularly among global index providers) away from large state-owned enterprises and toward consumer and technology stocks. As a result, we no longer expect China to benefit from valuation expansion relative to the rest of the world, including EM. We also expect the renminbi to depreciate during the forecast period.

Developed-market equities: five-year forecast (%)

	U.S. large cap	U.S. mid cap	U.S. small cap	Canadian large cap	Canadian small cap	EAFE large cap	EAFE small cap	World	Europe	Japan
Income return	1.8	1.7	1.7	3.1	2.7	3.3	2.6	2.4	3.6	2.3
Nominal GDP/ growth	5.2	5.5	5.1	3.7	4.1	2.6	3.2	4.3	2.8	1.3
Valuation	-1.4	1.4	1.4	1.8	2.7	1.2	2.0	-0.5	0.4	3.1
Currency return (vs. USD)	0.0	0.0	0.0	0.7	0.7	0.8	0.8	0.3	1.0	0.5
Total return (USD)	**5.5**	**8.7**	**8.2**	**9.4**	**10.3**	**8.0**	**8.8**	**6.5**	**7.9**	**7.4**
Currency return (vs. CAD)	-0.7	-0.7	-0.7	0.0	0.0	0.1	0.2	-0.4	0.4	-0.2
Total return (CAD)	**4.8**	**7.9**	**7.5**	**8.7**	**9.6**	**7.2**	**8.2**	**5.8**	**7.2**	**6.7**
Currency return (vs. EUR)	-0.9	-0.9	-0.9	-0.2	-0.2	-0.1	-0.1	-0.6	0.1	-0.4
Total return (EUR)	**4.6**	**7.7**	**7.2**	**8.4**	**9.3**	**7.0**	**7.8**	**5.5**	**6.9**	**6.4**
Currency return (vs. GBP)	-1.6	-1.6	-1.6	-0.9	-0.9	-0.8	-0.8	-1.3	-0.6	-1.1
Total return (GBP)	**3.8**	**6.9**	**6.5**	**7.6**	**8.6**	**6.2**	**7.0**	**4.8**	**6.2**	**5.7**

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Asia and emerging-market equities: five-year forecast (%)

	Emerging markets	Latin America	Brazil	AC Asia ex-Japan	India	China	Hong Kong	Taiwan	S. Korea	Singapore
Income return	2.6	3.1	3.2	2.7	1.3	2.0	3.2	3.6	2.3	4.3
Nominal GDP/ growth	5.4	5.6	6.0	5.1	8.1	5.3	3.3	2.7	4.8	3.7
Valuation	1.4	1.4	-0.2	1.3	0.8	0.9	2.3	0.3	1.9	3.3
Currency return (vs. USD)	0.0	1.0	1.2	0.0	-0.5	-1.0	0.0	0.8	1.3	1.3
Total return (USD)	**9.5**	**11.3**	**10.3**	**9.3**	**9.6**	**7.3**	**8.8**	**7.4**	**10.5**	**12.8**
Currency return (vs. CAD)	-0.6	0.3	0.5	-0.6	-1.2	-1.6	-0.7	0.1	0.7	0.6
Total return (CAD)	**8.8**	**10.6**	**9.5**	**8.5**	**8.9**	**6.6**	**8.1**	**6.7**	**9.8**	**12.1**
Currency return (vs. EUR)	-0.9	0.1	0.3	-0.9	-1.4	-1.9	-0.9	-0.2	0.4	0.3
Total return (EUR)	**8.5**	**10.3**	**9.3**	**8.3**	**8.6**	**6.3**	**7.9**	**6.4**	**9.5**	**11.8**
Currency return (vs. GBP)	-1.6	-0.6	-0.4	-1.6	-2.1	-2.5	-1.6	-0.9	-0.3	-0.4
Total return (GBP)	**7.8**	**9.6**	**8.5**	**7.5**	**7.9**	**5.6**	**7.1**	**5.7**	**8.8**	**11.0**

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Alternatives/real assets

	Short-term views	Strategic views
U.S. real estate investment trusts (REITs)	Underweight — Neutral — Overweight (position 2 of 5)	Underweight — Neutral — Overweight (position 3 of 5: Neutral)
	U.S. REITs have been significantly affected in the recent market dislocation. In our view, the outlook for the sector remains fairly uncertain given unknowns such as rent collection and recovery after being effectively shut down as part of the COVID-19 containment measures. Fundamentals are expected to be weak in the short term as landlords look to work with their tenants to agree on a way forward—a development that could lead to reduced income.	REITs are certainly at more compelling valuations, and we expect a rebound to take place over the coming five years. While we expect yields offered by the asset class to be higher than many IG bonds, the anticipated recovery will likely vary according to asset type with segments such as industrial and multifamily residences outpacing retail, lodging, and senior housing. As a result, returns may be choppy, and we could see reductions in dividends.
Global natural resources	Underweight — Neutral — Overweight (position 2 of 5)	Underweight — Neutral — Overweight (position 3 of 5: Neutral)
	With oil at historic lows and not expected to move significantly off these levels in the short term, we're avoiding this space at the moment. Energy is attractive, but we're looking for clearer signs that oil inventories are falling—as production cuts occur and storage declines—to become more positive on the asset class. We're positive on gold as a safe haven investment during this period of volatility.	We expect a strong rebound in oil prices over the five-year horizon, which should provide a boost to the asset class; however, there still remains tension between Russia and the Middle East that may temper this rise. Significant fiscal and monetary stimulus may increase not only economic activity but also inflation in the longer term, which could be very beneficial for global natural resources, especially if supply doesn't increase substantially.

Alternatives/ real assets	Short-term views	Strategic views
Hard assets: real estate (U.S. and Canada)	Underweight — Neutral — Overweight (rating: 2 of 5)	Underweight — Neutral — Overweight (rating: 4 of 5)
	While we tend not to make significant shifts in this asset class in the short term due to liquidity issues, it's worth noting that hard assets in the United States and Canada have been fairly resilient amid the current market turmoil. That said, the asset class is also facing uncertainties; for example, within direct real estate, rent collection may be delayed as a result of the temporary lockdown.	Commercial real estate isn't immune to significant economic shocks, but we believe private real estate can provide several benefits within a diversified portfolio that should become increasingly apparent during an economic downturn, such as the one we're in. We continue to have a favorable view of the asset class as the characteristics of income generation, return stability, and low correlation with other asset classes continue to appeal. In our view, fundamentals within the hard assets space should rebound post-COVID-19.

Alternatives/real assets: five-year forecast (%)

	U.S. REITs	Global natural resources	Global listed infrastructure	Commodities	
Income return	4.0	4.6	3.4	Collateral	0.5
Nominal GDP/growth	1.8	3.7	3.4	Nominal GDP/growth	1.1
Valuation	-0.8	0.0	-1.0	Inflation	1.9
Currency return (vs. USD)	0.0	0.2	0.3	Roll yield	0.3
—	—	—	—	Diversification	1.0
Total return (USD)	**5.1**	**8.5**	**6.0**		**4.8**

	U.S. REITs	Global natural resources	Global listed infrastructure
Currency return (vs. CAD)	-0.7	-0.5	-0.4
Total return (CAD)	**4.4**	**7.7**	**5.3**
Currency return (vs. EUR)	-0.9	-0.7	-0.6
Total return (EUR)	**4.1**	**7.5**	**5.0**
Currency return (vs. GBP)	-1.6	-1.4	-1.3
Total return (GBP)	**3.4**	**6.7**	**4.3**

Source: Manulife Investment Management's asset allocation team, March 24, 2020. 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. Model inputs are factors in Manulife Investment Management research and are not meant as predictions for any particular asset class, mutual fund, or investment vehicle.

Hard assets

Please note: The following forecasts and commentary are provided by investment teams managing strategies that correspond to each asset class. Expected returns are related to the specific index of the underlying strategy, and as a result may differ from the broader asset class.

Hard assets: five-year forecast (%)

	Expected return	Historical standard deviation
Global farmland	8–10	4.5
Global timberland	6–9	6.6
U.S. commercial real estate	6–8	7.6
Canadian commercial real estate	6–8	3.5
U.S. infrastructure	9–14	—

Source: Forecasts are from investment teams managing the respective asset classes within Manulife Investment Management's private markets, as of March 31, 2020. 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. Expected returns are produced by the teams at Manulife Investment Management's private markets that specialize in each of the asset classes referenced in the above table. These are not meant as predictions for any particular asset class, mutual fund, or investment vehicle. Historical standard deviation is calculated using the following indexes: global farmland, the NCREIF U.S. Farmland Index; global timberland, the NCREIF U.S. Timberland Index; U.S. commercial real estate, the NCREIF Open End Diversified Core Equity (ODCE) Index (2005 to 2019); Canadian commercial real estate, the MSCI/REALPAC Canada Quarterly Property Fund Index (Unfrozen, 2005 to 2019); and U.S. infrastructure, the Cambridge Associates LLC Infrastructure Index. Please note that the ODCE and the MSCI/REALPAC Canada Quarterly Property Fund Index have leverage of 21.5% and 21.0% respectively, as of Q4 2019.

Index definitions

Cambridge Associates LLC Infrastructure Index

The Cambridge Associates LLC Infrastructure Index is a horizon calculation based on data compiled from 93 infrastructure funds, including fully liquidated partnerships, formed between 1993 and 2015.

MSCI/REALPAC Canada Quarterly Property Fund Index

The MSCI/REALPAC Canada Quarterly Property Fund Index tracks unlisted open-end real estate funds operating in Canada. The index measures the investment performance at the property and fund level.

NCREIF Farmland Index

The NCREIF Farmland Index is a quarterly time series composite return measure of investment performance of a large pool of individual farmland properties acquired in the private market for investment purposes only. NCREIF Timberland Index The NCREIF Timberland Index is a quarterly time series composite return measure of investment performance of a large pool of individual U.S. timber properties acquired in the private market for investment purposes only.

NFI–ODCE

The NCREIF Fund Index–Open-End Diversified Core Equity (NFI–ODCE) is a fund-level capitalization-weighted, time-weighted return index that includes property investments at ownership share, cash balances, and leverage.

It is not possible to invest directly in an index.

A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange trading suspensions and closures, and affect portfolio performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future, could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other pre-existing political, social and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

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