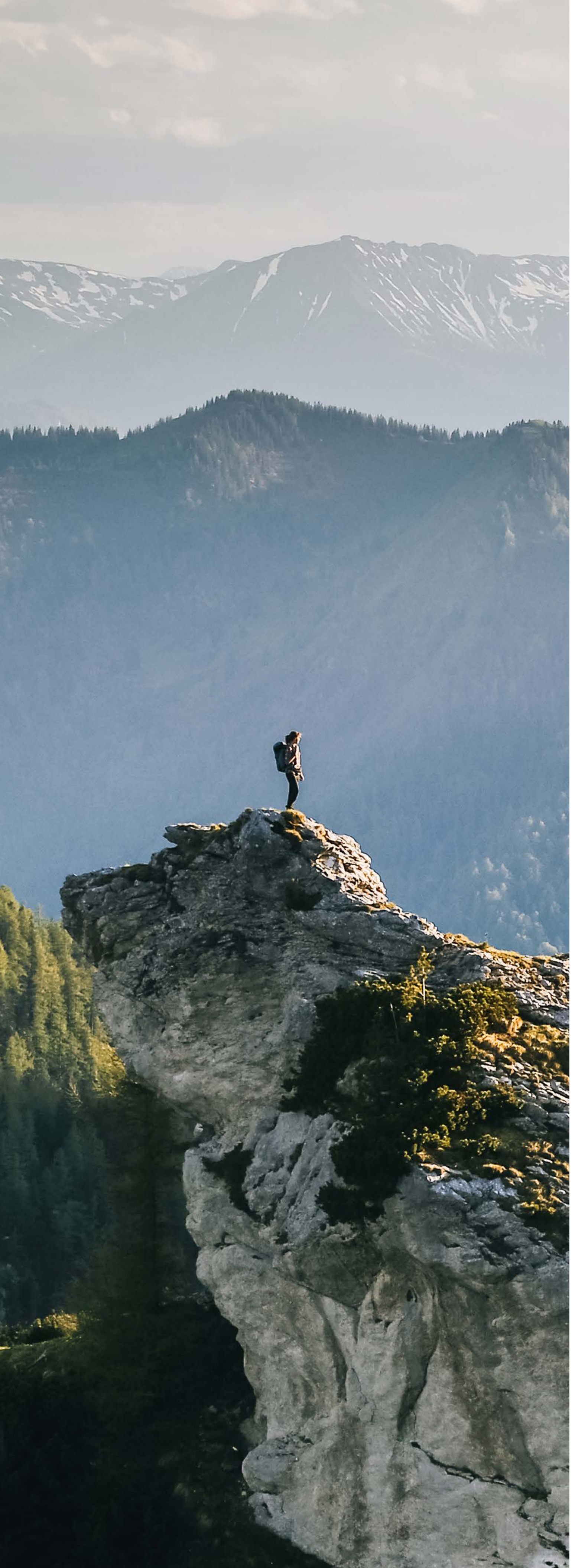

Manulife Investment Management

1H Market Intelligence

Our outlook for 2022

We'll get to our destination but there'll be pit stops along the way.

Presented by:

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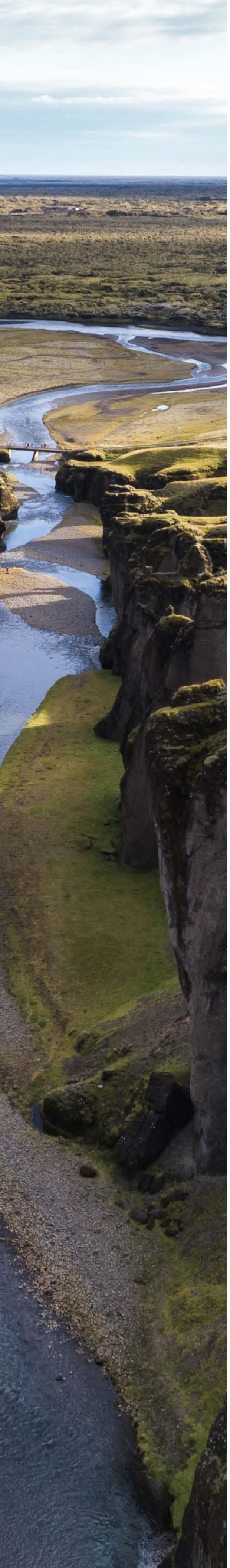


> If you make the mistake of looking back too much, you aren't focused enough on the road in front of you.
> – Brad Paisley

Many of us have fond memories of the family piling into the car and embarking on a road trip to a desired destination. These memories have likely become fonder after our experiences over the past two years. Often, the journey would be temporarily sidetracked by pit stops, some that were expected (stopping for gas, grabbing food, etc.) or unexpected (a small bladder, a speed trap, etc.). Yet, despite these short-term setbacks, we would inevitably reach our destination and the roadblocks experienced along the way were forgotten.

We envision the investment landscape for 2022 to be like that of a road trip. As we'll outline, when we assess the growth and inflationary environment, we believe the landscape in 2022 will provide a good backdrop for global markets. However, the ride will have many pit stops along the way, impacting sentiment towards risk assets, such as:

- fear of a policy mistake by global central banks
- impact of COVID-19 variants on growth (at the time of writing, it's the Omicron variant)
- fear of inflation affecting consumption in a material way
- U.S. mid-term elections
- geopolitical risk

If we experience any setbacks along the way, we believe that investors are likely to be rewarded if they maintain an optimistic view of the road ahead. Here's how we expect the trip to go.

Growth is likely past peak but remains resilient

Global growth and earnings likely peaked during the summer of 2021. Despite headwinds posed by supply chain disruptions and inflation, the backdrop remains positive for global growth and earnings.

The Markit Purchasing Managers Indices (PMIs) provides advance insight into the private-sector economy by tracking variables such as output, new orders, employment, and prices across key sectors. A reading above 50 indicates that the manufacturing output is growing while a reading less than 50 signals that it's contracting. Said differently, green is good, yellow is neutral, and red is bad.

Although economic activity is likely slowing and will face continued challenges including supply chain disruptions, overall, the global manufacturing environment remains in a resilient position. As we finished 2021, companies forecast (on average) that production will be higher one year from now, with the overall degree of confidence rising to a five-month high. Alongside optimism bred by the current upturn, manufacturers also expected several headwinds (including disruptions caused by supply chain stresses and COVID) to lessen during the coming year. Historically, a strong manufacturing environment provides a healthy backdrop for earnings.

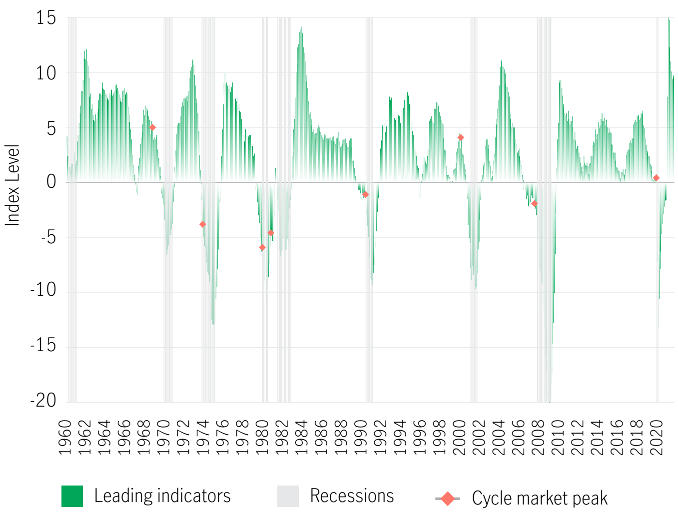
	November 2019	December 2019	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020	July 2020	August 2020	September 2020	October 2020	November 2020	December 2020	January 2021	February 2021	March 2021	April 2021	May 2021	June 2021	July 2021	August 2021	September 2021	October 2021	November 2021
JPMorganGlobal PMI	50.3	50.1	50.3	47.1	47.3	39.6	42.4	48.0	50.6	51.8	52.4	53.1	53.8	53.8	53.6	54.0	55.0	55.8	56.0	55.5	55.4	54.1	54.1	54.3	54.2
United States	52.6	52.4	51.9	50.7	48.5	36.1	39.8	49.8	50.9	53.1	53.2	53.4	56.7	57.1	59.2	58.6	59.1	60.5	62.1	62.1	63.4	61.1	60.7	58.4	58.3
Canada	51.4	50.4	50.6	51.8	46.1	33.0	40.6	47.8	52.9	55.1	56.0	55.5	55.8	57.9	54.4	54.8	58.5	57.2	57.0	56.5	56.2	57.2	57.0	57.7	57.2
Mexico	48.0	47.1	49.0	50.3	47.9	35.0	38.3	38.6	40.4	41.3	42.1	43.6	43.7	42.4	43.0	44.2	45.6	48.4	47.6	48.8	49.6	47.1	48.6	49.3	49.4
U.K.	48.9	47.5	50.0	51.7	47.8	32.6	40.7	50.1	53.3	55.2	54.1	53.7	55.6	57.5	54.1	54.1	55.1	58.9	60.9	65.6	60.4	60.3	57.1	57.8	58.1
Eurozone	46.9	46.3	47.9	49.2	44.5	33.4	39.4	47.4	51.8	51.7	53.7	54.8	53.8	55.2	54.8	57.9	62.5	62.9	63.1	63.4	62.8	61.4	58.6	58.3	58.4
Germany	44.1	43.7	45.3	48.0	45.4	34.5	36.6	45.2	51.0	52.2	56.4	58.2	57.8	58.3	57.1	60.7	66.6	66.2	64.4	65.1	65.9	62.6	58.4	57.8	57.4
Holland	49.6	48.3	49.9	52.9	50.5	41.3	40.5	45.2	47.9	52.3	52.5	50.4	54.4	58.2	58.8	59.6	64.7	67.2	69.4	68.8	67.4	65.8	62.0	62.5	60.7
France	51.7	50.4	51.1	49.8	43.2	31.5	40.6	52.3	52.4	49.8	51.2	51.3	49.6	51.1	51.6	56.1	59.3	58.9	59.4	59.0	58.0	57.5	55.0	53.6	55.9
Italy	47.6	46.2	48.9	48.7	40.3	31.1	45.4	47.5	51.9	53.1	53.2	53.8	51.5	52.8	55.1	56.9	59.8	60.7	62.3	62.2	60.3	60.9	59.7	61.1	62.8
Spain	47.5	47.4	48.5	50.4	45.7	30.8	38.3	49.0	53.5	49.9	50.8	52.5	49.8	51.0	49.3	52.9	56.9	57.7	59.4	60.4	59.0	59.5	58.1	57.4	57.1
Ireland	49.7	49.5	51.4	51.2	45.1	36.0	39.2	51.0	57.3	52.3	50.0	50.3	52.2	57.2	51.8	52.0	57.1	60.8	64.1	64.0	63.3	62.8	60.3	62.1	59.9
Czech Republic	43.5	43.6	45.2	46.5	41.3	35.1	39.6	44.9	47.0	49.1	50.7	51.9	53.9	57.0	57.0	56.5	58.0	58.9	61.8	62.7	62.0	61.0	58.0	55.1	57.1
Poland	46.7	48.0	47.4	48.2	42.4	31.9	40.6	47.2	52.8	50.6	50.8	50.8	50.8	51.7	51.9	53.4	54.3	53.7	57.2	59.4	57.6	56.0	53.4	53.8	54.4
Greece	54.1	53.9	54.4	56.2	42.5	29.5	41.1	49.4	48.6	49.4	50.0	48.7	42.3	46.9	50.0	49.4	51.8	54.4	58.0	58.6	57.4	59.3	58.4	58.9	58.8
Australia	48.1	48.3	45.4	44.3	53.7	35.8	41.6	51.5	54.0	53.6	55.4	54.2	55.8	55.7	57.2	56.9	56.8	59.7	60.4	58.6	56.9	52.0	56.8	58.2	59.2
Japan	48.9	48.4	48.8	47.8	44.8	41.9	38.4	40.1	45.2	47.3	47.7	48.7	49.0	50.0	49.8	51.4	52.7	53.6	53.0	52.4	53.0	52.7	51.5	53.2	54.5
China (caixin)	51.8	51.5	51.1	40.3	50.1	49.4	50.7	51.2	52.8	53.1	53.0	53.6	54.9	53.0	51.5	50.9	50.6	51.9	52.0	51.3	50.3	49.2	50.0	50.6	49.9
South Korea	49.4	50.1	49.8	48.7	44.2	41.6	41.3	43.4	46.9	48.5	49.8	51.2	52.9	52.9	53.2	55.3	55.3	54.6	53.7	53.9	53.0	51.2	52.4	50.2	50.9
Taiwan	49.8	50.8	51.8	49.9	50.4	42.2	41.9	46.2	50.6	52.2	55.2	55.1	56.9	59.4	60.2	60.4	60.8	62.4	62.0	57.6	59.7	58.5	54.7	55.2	54.9
Vietnam	51.0	50.8	50.6	49.0	41.9	32.7	42.7	51.1	47.6	45.7	52.2	51.8	49.9	51.7	51.3	51.6	53.6	54.7	53.1	44.1	45.1	40.2	40.2	52.1	52.2
Indonesia	48.2	49.5	49.3	51.9	45.3	27.5	28.6	39.1	46.9	50.8	47.2	47.8	50.6	51.3	52.2	50.9	53.2	54.6	55.3	53.5	40.1	43.7	52.2	57.2	53.9
Malaysia	49.5	50.0	48.8	48.5	48.4	31.3	45.6	51.0	50.0	49.3	49.0	48.5	48.4	49.1	48.9	47.7	49.9	53.9	51.3	39.9	40.1	43.4	48.1	52.2	52.3
Singapore	50.4	51.0	51.4	47.0	33.3	28.1	27.1	43.2	45.6	43.6	45.1	48.6	46.7	50.5	52.9	54.9	53.5	51.8	54.4	50.1	56.7	52.1	53.8	52.3	52.0
India	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3	53.7	55.9	57.6
Brazil	52.9	50.2	51.0	52.3	48.4	36.0	38.3	51.6	58.2	64.7	64.9	66.7	64.0	61.5	56.5	58.4	52.8	52.3	53.7	56.4	56.7	53.6	54.4	51.7	49.8
Turkey	49.5	49.5	51.3	52.4	48.1	33.4	40.9	53.9	56.9	54.3	52.8	53.9	51.4	50.8	54.4	51.7	52.6	50.4	49.3	51.3	54.0	54.1	52.5	51.2	52.0
South Africa	48.6	47.6	48.3	48.4	44.5	35.1	32.5	42.5	44.9	45.3	49.4	51.0	50.3	50.2	50.8	50.2	50.3	53.7	53.2	51.0	46.1	49.9	50.7	48.6	51.7
Saudi Arabia	58.3	56.9	54.9	52.5	42.4	44.4	48.1	47.7	50.0	48.8	50.7	51.0	54.7	57.0	57.1	53.9	53.3	55.2	56.4	56.4	55.8	54.1	58.6	57.7	56.9
Russia	45.6	47.5	47.9	48.2	47.5	31.3	36.2	49.4	48.4	51.1	48.9	46.9	46.3	49.7	50.9	51.5	51.1	50.4	51.9	49.2	47.5	46.5	49.8	51.6	51.7

Source: Markit, Capital Markets Strategy. As of December 31, 2021

A metric we follow closely that supports our positive view is the U.S. Conference Board's Composite Index of Leading Economic Indicators (LEI). The Index consists of 10 economic components whose changes tend to precede changes in the overall economy, including average weekly manufacturing hours, number of new building permits, and consumer sentiment, to name a few.

As of November, the LEI registered 9.8. Excluding the recent self-induced recession caused by the pandemic, since 1970, a recession and market peak occurred six months, on average, after the LEI became negative. At the current level and historical pace in which it takes the LEI to trend toward zero during the mid-cycle, it would suggest that the U.S. economy is in a stable position going into 2022.

Conference Board's Composite Index of Leading Economic Indicators 1960–current



Source: Manulife Investment Management, Bloomberg, as of October 31, 2021

Inflation—enduring but softer

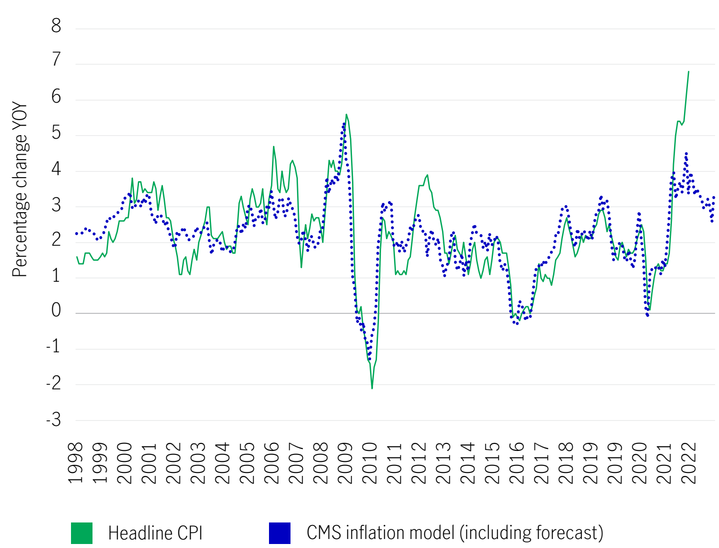
The Capital Markets Strategy (CMS) inflation model helps us forecast U.S. inflation measured by the Consumer Price Index (CPI). We use U.S. owner's equivalent rent (OER), the U.S. Dollar Index (DXY), oil measured by West Texas Intermediate (WTI), and U.S. wages measured by the Atlanta Fed Wage Growth Tracker.

For our forecasts, we made these assumptions:

- **Owner's equivalent rent** – upward pressure remains, which will see OER rise through 2022 towards 4 percent
- **U.S. Dollar Index** – recent strength in the DXY reverses and trends back down towards 93
- **West Texas Intermediate** – average of US$80/bbl is maintained for the next year
- **Wages** – trend higher towards six per cent as upward wage pressure remains.

Our inflation model suggests CPI will trend lower from current levels of 6.8 percent but will likely remain above three per cent through the third quarter of 2022. Inflation will remain a concern throughout 2022 but receive nowhere near the level of attention it's receiving today.

CPI YOY vs CMS Inflation model 1998–November 2022 (including forecast)



Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

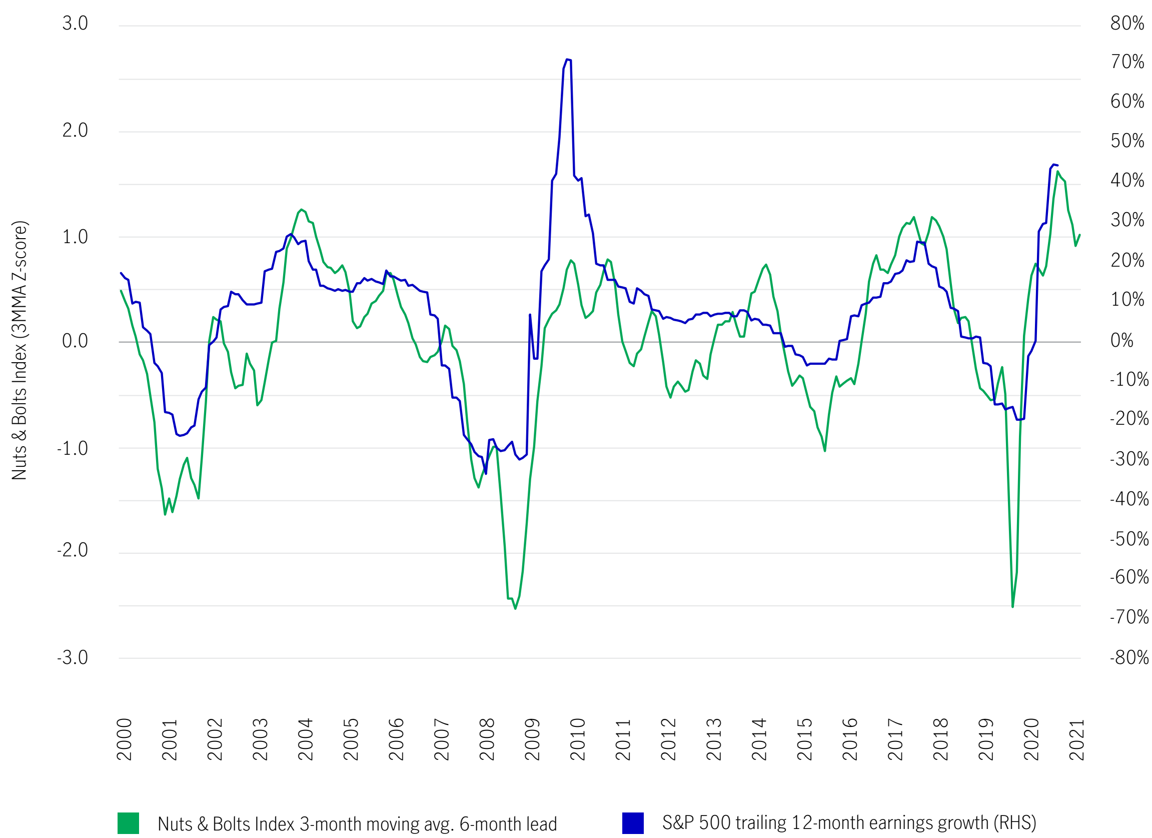
The above forecast is based on estimate and analysis made. There is no guarantee the estimate will be achieved.

Equity markets enter the *normalization* phase of this market cycle

This next phase of the post-recession recovery can be characterized as a normalization phase, where earnings growth will moderate but remain strong, valuation will decrease in an orderly fashion, and yields across the curve are likely to increase. Typically, in this phase, equity returns remain solid but not spectacular and there's more emphasis on security selection. **Investors should temper return expectations relative to 2021 performance, and portfolio construction will be paramount.**

The historical relationship between year-over-year (YOY) earnings growth and our proprietary manufacturing index (Nuts & Bolts Index) would suggest a weaker but still solid earnings environment through, at minimum, the first half of 2022. A continuation of the current fundamental backdrop should be supportive of earnings growth on a YOY basis through 2022. Earnings growth in the 10 to 15% range with risk to the upside is very possible for U.S. equities.

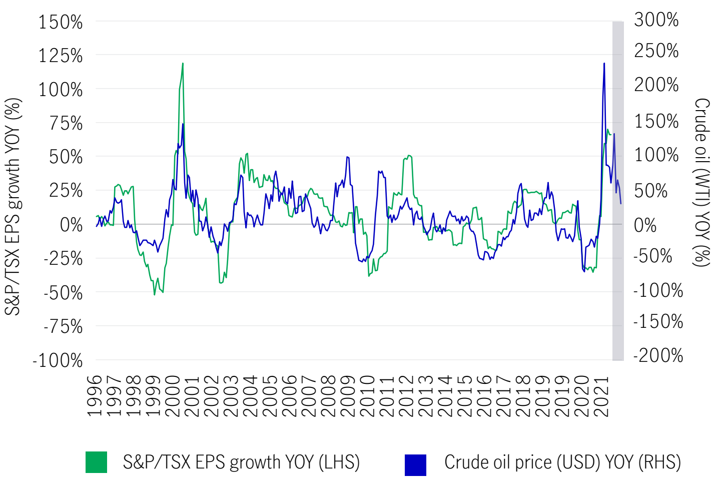
Nuts & Bolts vs S&P 500 trailing 12-month earnings growth 2000–current



Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

When looking at domestic equities, historically, earnings growth for the S&P/TSX Composite Index has correlated with the change in the price of WTI YOY. While we've seen a recent drop in the price of oil, supply-and-demand fundamentals support further upside from where we are today, around US$72/bbl. Using US$80/bbl as an average target price, we expect S&P/TSX Index earnings to come down from recent elevated levels but remain attractive through the first half of 2022.

Change in oil price (YOY) vs Change in S&P/TSX earnings per share lagged three months (YOY)
1996–May 2022 (estimated)



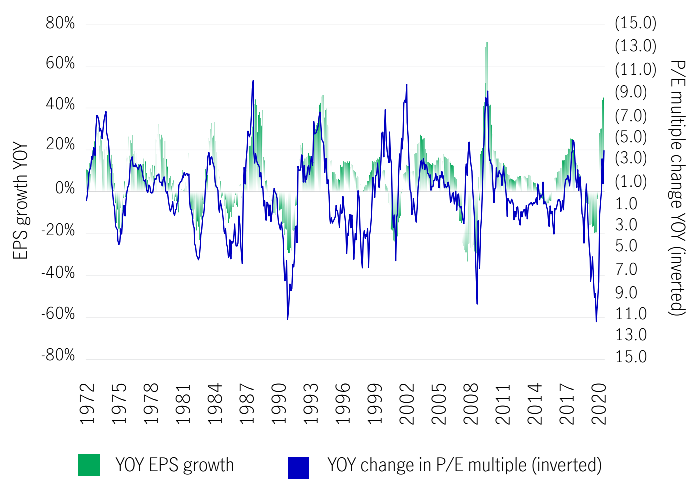
Oil at $80 implies positive earnings growth through the first half of 2022.
(Shaded area is an estimate of YOY change based on $80 US/bbl WTI price.)

Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

The above forecast is based on estimate and analysis made. There is no guarantee the estimate will be achieved

Valuation is another important factor to consider when looking at the opportunities in the equity markets. What we've seen across many major equity markets in 2021 is moderation in trailing price-to-earnings (P/E) ratios in an environment of robust earnings growth. Given the expectation of continued solid but slower levels of earnings growth for 2022, we think this valuation moderation could continue. During periods when earnings growth is between 10% and 20% on a year-over-year basis (as we believe it'll be in 2022), the average P/E contraction is one multiple point. When earnings growth is between 10% and 20% YOY, the average 12-month returns for the S&P 500 Index is 8.9%. This helps us frame our expectations for returns in the upper single-digit/low double-digit returns, with risk to the upside for the S&P 500 Index in 2022.

Year-over-year change in S&P 500 Index earnings per share vs Change in trailing P/E multiple
Last 50 years

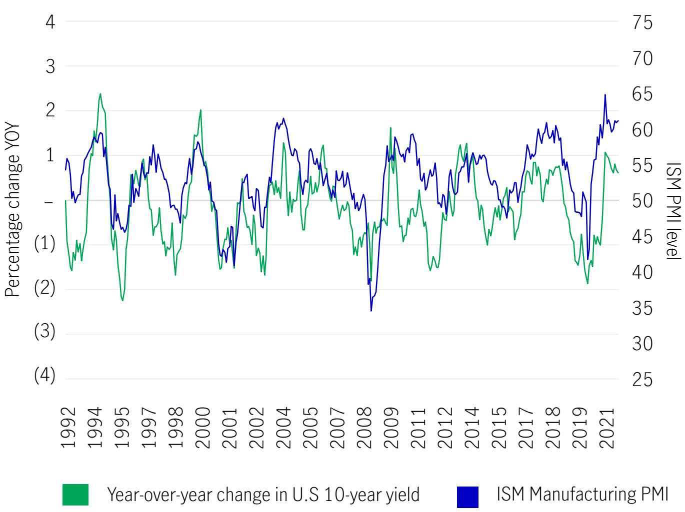


Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

Remember what role fixed income plays in a portfolio

We think bonds, for the most part, remain a misunderstood asset class—and for good reason, as it's a complicated one. Given current elevated levels of inflation and the forecast we outlined above, you'd expect that bond yields would be much higher than they are, especially at the longer end of the curve. While the U.S. 10-year Treasury yield is up approximately 50 basis points this year, we'd expect them to be higher. Manufacturing strength has historically had a strong relationship with the move in 10-year yields. With the ISM PMI currently over 60, the 10-year Treasury yields should be up closer to 70 basis points. Going forward, with the positive economic environment, we expect PMI levels to remain above 55, and therefore, the 10-year Treasury yield should continue to move higher. When the ISM PMI is above 58, the average year-over-year increase in the 10-year yield is 50 basis points.

ISM Manufacturing PMI vs U.S 10-year Treasury yield
Last 30 years

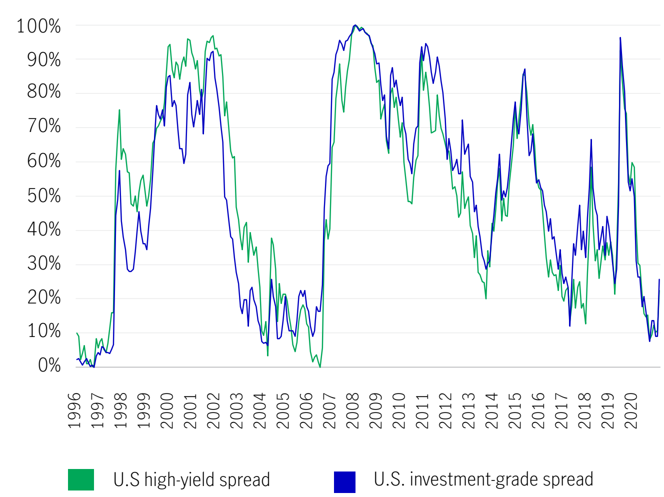


Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

In our 2021 outlook, we suggested that fixed-income investors should target shorter-duration bonds and credit, including both high-yield and investment-grade bonds. This proved to be the right areas to target as they outperformed the more traditional long-duration sovereign bonds that performed well during the depths of the recession in 2020. Once again, however, we need to ignore the recent performance and look ahead to determine where the opportunities exist in fixed income.

When it comes to credit, we look at the spread as a good indicator for whether we're getting appropriately compensated for the additional risk of owning credit over government bonds. The 20-year median spreads for the ICE BofA U.S. High Yield Index and the ICE BofA U.S. Corporate Index are 477 and 138 basis points, and currently, they're 361 and 102 basis points respectively. This puts them around the twenty-fifth percentile over their history, which means that 75% of the time, spreads are greater than what they are today. We believe that, although there's little probability of material downside in credit, current credit spreads don't leave much room for upside. The opportunity in credit is more of a relative yield decision than total return.

U.S. high-yield and investment-grade spreads percentile ranking
1996–current



Source: Manulife Investment Management, Bloomberg, as of November 30, 2021

Model portfolio

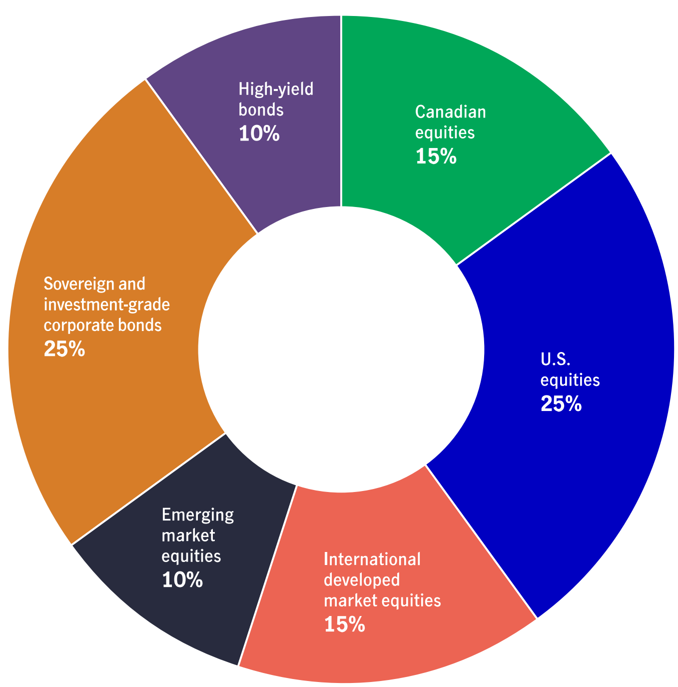
In keeping with our process (ignoring the short-term noise that we're experiencing today), and based on reasonable valuations and a positive outlook for earnings into 2022, we're maintaining our asset allocation the same. As of December 31, 2021, the CMS model portfolio remains overweight equities at 65% (+5% to benchmark) and 35% to fixed income (–5% to benchmark). The portfolio is well balanced across equity geographies.

The one change we've made is within our fixed-income sleeve. We believe it's important to always have an umbrella for a rainy day, especially when it's uncertain as to when it might rain. Because of the current environment, it makes sense to reduce our high-yield exposure by 5% and increase our defensive fixed-income allocation. This will allow us to protect on the downside and add to equities should we get a better entry point.

Throughout the pandemic, we've been advocating rebalancing portfolios to target asset allocations and dollar-cost averaging into this market. We continue to emphasize that approach today. We don't know what the market holds for us over the near term. A correction within that timeframe would be entirely consistent with normal market activity. If we get a correction, it's important to remember that the markets reward those investors who are eternal optimists and take advantage of the pullback.

CMS model portfolio

Model portfolio by asset class as of December 31, 2021



CMS Model portfolio by asset class are subject to change at any time and are for illustrative and reference purpose only.

Conclusion

Our philosophy within the Capital Markets Strategy team is fairly simple: ask ourselves, how do we make money? With regards to the markets, it includes (but isn't limited to) identifying the direction for earnings growth, inflation, interest rates, and the economy; be aware of valuation (but don't handcuff ourselves to it); and understand that any short-term fickle nature of the market isn't reflective of the longer-term opportunity set. It's always important to understand where the balance of risks lies.

As we settle into a new year, with the realization that it'll take some time yet for the world to get a handle on the pandemic or come to terms with the fact that interest rates are likely to increase, it can be easy for investors to still feel quite nervous about the state of things. However, as we've outlined, despite these setbacks, the backdrop for the global economy will likely be positive for investors. There'll be twists and turns and bumps along the way, but we need to remain focused on the road ahead to make sure we arrive at our destination.

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A rise in interest rates typically causes bond prices to fall. The longer the average maturity of the bonds held by a fund, the more sensitive a fund is likely to be to interest-rate changes. The yield earned by a fund will vary with changes in interest rates.

Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a fund's investments.

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