Manulife Investment Management

Manulife Strategic Income Fund

Global multi-sector fixed income team

Copy goes here - Hi everybody this is Dan Janis, I'm the lead manager of the strategic income fund and strategic income opportunities fund, and I just wanted to give you guys some color on, know what's going on in the market.
First we'll highlight the state of the bond market, so what's going on in the bond market?

I'm gonna give you where we were before, during, and now where we are now, okay.

Before the market started to take its dip on the Coronavirus.

IG was basically between 90 and 100 basis points over treasuries.

It got to its widest point of 373 basis points, and what's interesting there is the price decline there was about 10 to 12%.

So pretty sizable especially on investment grade.

Now we're probably plus or minus 20 around 300 versus treasuries.

On the high yield market it was 340 to 400 basis points.

During the highlight of the crisis here in the short term, it went to a 1,000 basis points over treasuries, which was roughly on average 15 to 16 points lower in bond price.

So again, highly volatile in those markets.

Right now, we're probably around a 1,000 just to a little bit below a thousand right now.

On the interest rate side, and I'll just highlight the US markets 'cause the other ones commercially would work the same way.

We started rates in the beginning of the year at 190.

We went as low as 45 basis points on the ten year, and currently right now we're 60 to 70 basis points, and if we use the rule of 14 basis points per point you can do the math on how far the treasuries have moved up in price.

Now let's go to the foreign exchange markets.

The dollar index which most people use, little bit distorted because it's highlighted with yen, sterling, and euro.

97 to 95, went as high as 103, again as you understand the dollar is a flight to quality when people have dislocations in the market and get concerns and currently right now between 98 1/2 and 100.

So, that's where we are currently there.

We do think, when we look at the currency markets, we do think over time that the dollar will embark on a downtrend.

What are our reasoning for that?

And we don't think it's today but we think over time they will be a catalyst for that to happen.

Well number one, intraday differentials now don't favor the dollar as much.

Number two, we do have sort of growth around the world at low areas and I think that over time as the Coronavirus, people start to get a little bit more confident maybe that picks up a little bit.

So the rest of the world will grow together.

And then number three, there won't be that flight to quality into the dollar.

On the interest rate side, effects side, credit side, and liquidity.

When we look at our four risks that we have to deal with.

Interest rates, let's highlight what we're doing there.

Basically, we've been between say 4.2 and 5.2 on duration currently right now.

Probably our tight range is 4.7 to 5.2, slightly higher than our pay group which is about 3.7, and we're going to remain in that.

If the numbers improve and we get the economic numbers down the road and the Coronavirus starts to abate, maybe that duration will go down to more than 4.25 to 4.5.

But right now we're going to remain 4.7 to 5.2.

On the effects side, I think we highlighted that we do think that over time, the dollar will have a bias to go lower.

Where do we think we can express those situations on the currencies?

Probably sterling, Canada, to a lesser extent euro, and maybe some selected EM countries, probably in Asia.

On the credit side, as you know, we had a lot of volatility on the credit side with spreads widening significantly in price dislocations.

That was the major part of our down move.

I think that selectively there could be some opportunities on the credit side that we may dip our toes into over time.

On the liquidity side, I think, when we look at the floor risk, probably the most important we kept predominant part of our liquidity throughout this situation.

We have cash bonds, we don't have derivative substitutes, so that has worked out pretty well for us.

And I think over time that liquidity profile will remain intact.

We've managed these four risks pretty well over the last probably month and a half, relative to our peer group.

I think we did our job like we did in 08, but there's still a lot of work to be done.

So we can't claim victory yet.

What are we gonna do now?

I think slowly and selectively.

I think as we get better news, it wouldn't be surprising, like I said, we dip our toes into some credit opportunities, whether it be investment grade, high yield, or EM.

And then we'll be tactical on the currencies waiting for that inflection point, to give us that opportunity to go into more foreign currencies on an unhedged situation.

So I think as you look at the market going forward, I can't be a predictor of what's gonna happen because I'm not a health person.

But I do think that we're taking remedies to help the situation from exceedingly getting worse.

And down the road if those remedies work, maybe that curve will go lower, and the uptake of Coronavirus new cases will diminish.

And eventually the market can get back to work and leave their houses and take care of business.

Just wanted to say one thing before I part, everybody, I want to thank everybody for helping support our products.

I know the markets have been very difficult, and I know it's difficult to take questions when the market is moving up and down so rapidly.

Number two, I want to make sure that everybody is safe with their families in their homes, to make sure that they don't get any of these Coronavirus problems.

And again, just thank everybody on my team for spending the time from, whether we do Saturday meeting, Sunday meeting,

Sunday calls, all different times of the day.

It is truly a 24/6 job.

So, my team has done an admirable job during this point of crisis.

So I wanted to thank everybody again and hopefully we can continue to do our job and manage the risk the way we're used to.

Thank you.

Bye bye.

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