

Finding opportunities in the U.S. markets

Sandy Sanders, CFA, Senior Managing Director and Senior Portfolio Manager at Manulife Investment Management

Sandy: Hi, this is Sandy Sanders, Senior Portfolio Manager of the Manulife US All Cap portfolio. I'd like to talk to you today about 2 concepts. First is starting points in a recession and the second is running a barbell strategy which includes both growth and value. The starting point in a recession matters from an economic perspective on how quickly we would recover. In the U.S., we entered 2020 on very solid footing. You had a consumer with full employment seeing rising wages and you also had a millennial demographic which had become 40% of all jobs positioned very well to continue to grow household formation. On top of this, the millennial generation was largely very underleveraged, meaning that they mostly had been renters for the past multiple years. And so the starting point for the consumer was actually a position of strength. Secondly on housing, we were crawling back to long-term averages of about 1.4-1.5M in 2020 in the United States. And this was after a very long painful recovery after the 2008 recession which certainly was a very rough starting point. And then thirdly, the banking system. After almost 10 years of federal reserve stress test, the US large cap banks are very well capitalized starting in January of this year. And when you look at that comparison for these 3 items, consumer, housing and the banking system versus 2008 and early 2009, it's completely the opposite. Back then, we were in trouble with an overleveraged consumer, a very oversupplied housing market and a banking system that was basically upside down with very weak balance sheets. So it took a long time to recover. This time, it was basically a medical crisis and in February the market shut down dramatically, we went into a freefall and essentially the Manulife US All Cap fund, we were active in that period able to pickup stocks near their worse case values because there was a dramatic selloff and that faster recovered than the prior recession was likely to play out and that seems to be happening. The second concept I want to talk to you about is running a barbell strategy so having a portfolio like Manulife US All Cap fund which can invest in both growth and value stocks where over the last several years, there's been a significant shift into high-quality growth companies. In general, those stocks had become more expensive than the marketplace than their value brothering. However, I do believe that as you start to get clarity on the timeline for a vaccine coming to the marketplace to address the medical crisis that we're going through with COVID-19, I do believe there will be a broadening out in the market and so therefore a lot of large cap financials, large cap banks, many parts of the housing industry, parts of energy, industrials and consumer discretionary, we think will participate in a much more positive fashion as you have confidence that the economy will be restarting and getting back to life as normal. And so therefore, we think this portfolio, Manulife US All Cap, gives you that exposure to both growth as we wait, but also the opportunity and bridge to the rest of the market that looks at a significant discount versus the growth side. So thank you very much. This is Sandy Sanders, Senior Portfolio Manager on the Manulife US All Cap fund.

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