Q1 | 2021

Global Macro Outlook

A year of two halves

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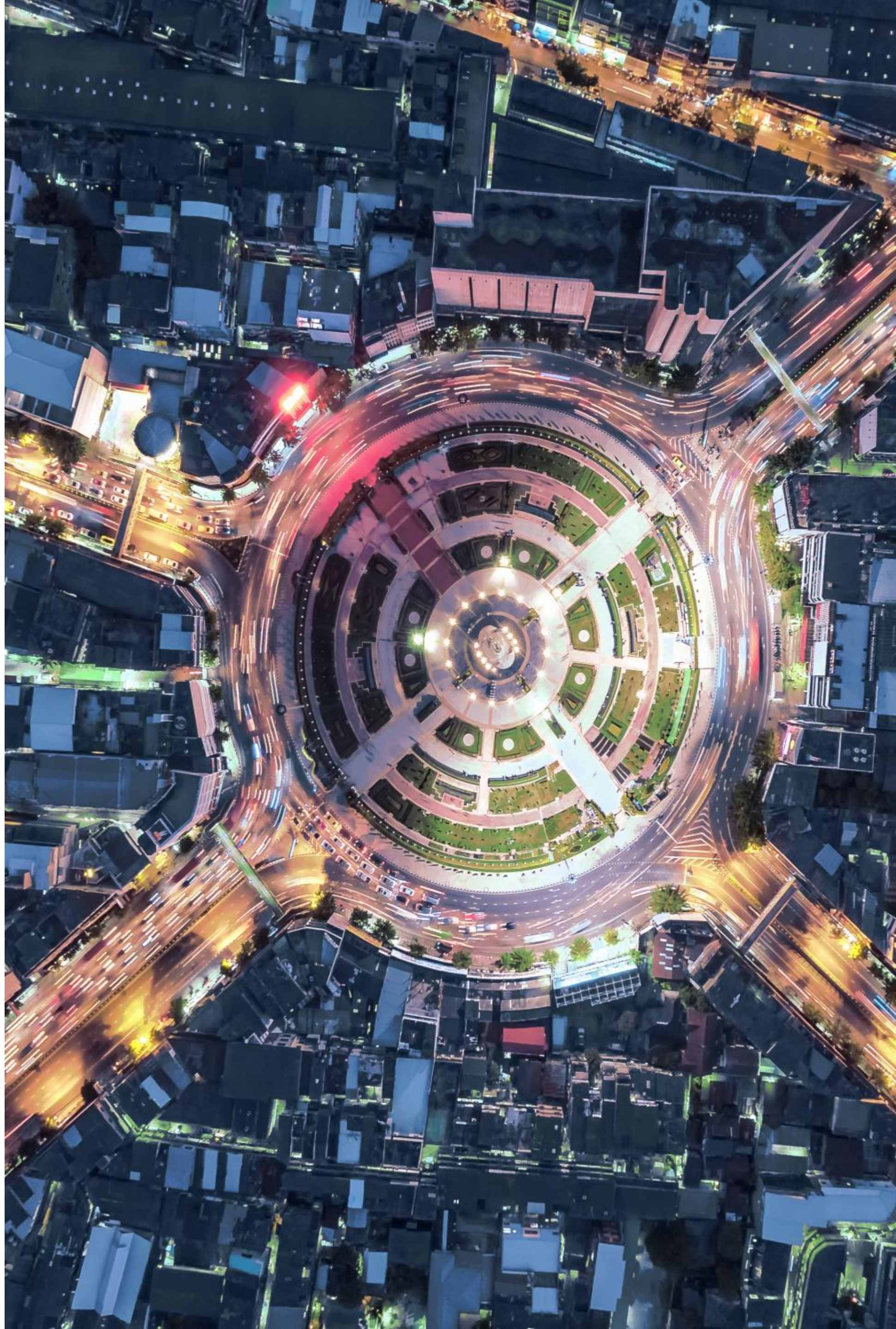


We're squarely in phase two of our three-phase framework: the stallout

We introduced our three-phase recovery framework last July, outlining key pillars of the recovery—a road map to help navigate a complicated economic rebound. In our view, 2021 will be the year we transition out of phase two and move into phase three: the new normal. We expect global economies to make this transition at different times, with Asia and other manufacturing-based economies exiting the recessionary environments earlier in the year, before their Western peers and other services-based economies. The transition, however, will likely be bumpy, marked by challenges for global central banks and policy makers due to the structural scarring created by the COVID-19 recession.

Our 3-phase recovery framework

Phase 1: the rapid rebound	Phase 2: the stallout	Phase 3: the new normal
April to ~September 2020	September 2020 to year-end 2021	From 2022
☐ Upbeat economic data	☐ Economic uplift from income support moderates	☐ Structural changes amplified by the COVID-19 outbreak are brought forward
☐ Release of pent-up consumer demand provides some support to the retail sector	☐ Reduced operating capacity (due to social distancing requirements) hurts business income	☐ The shift toward deglobalization becomes increasingly observable
☐ Extraordinary level of monetary easing	☐ Unemployment in certain segments of the economy remains stubbornly high	☐ Calls for austerity grow louder
☐ Record level of fiscal transfers to households	☐ Geopolitical risks come to the fore	

A year of two halves

In developed markets, we expect much of the first half of 2021 to be very challenging—the winter months in particular could be uncomfortable, with fiscal spending acting as a critical stopgap until normalization can begin. While our base-case scenario doesn't include a double-dip recession, we believe this period will be defined by soft economic data and we could even witness recession-like characteristics in some areas. However, we expect this period of weakness to be short-lived as the distribution effort for the various COVID-19 vaccines ramps up. In our view, a gradual return to a business-as-usual environment will create a very favorable outlook for the second half of the year.

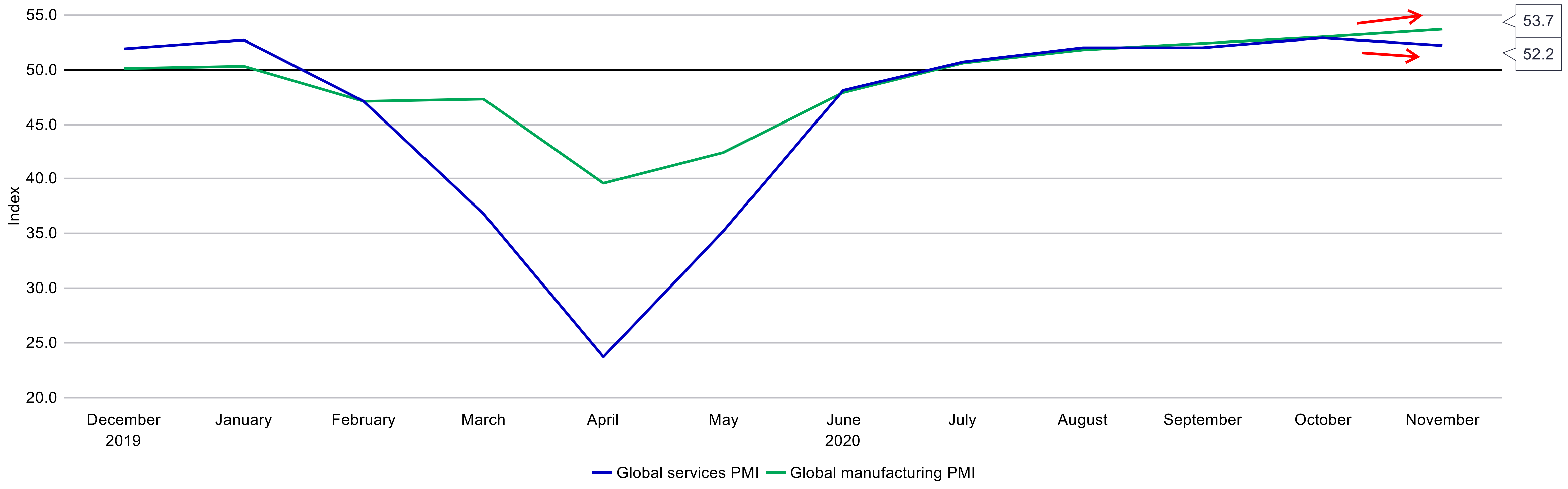
Defining macroeconomic features by quarter

First quarter	Second quarter	Third quarter	Fourth quarter
• We could see periodic surges in infection cases, dampening aggregate demand while significant segments of the economy are subject to new lockdown measures. • This period's likely to be defined by weak (and increasingly soft) economic data. • The global economy's likely to experience it's most vulnerable stage during this recovery, igniting speculation about a possible double-dip recession.	• Market focus will likely turn to an expected jump in inflation levels, which will be largely driven by base effects, a weak U.S. dollar, and supply chain disruptions. • The worst of the expected weakness in economic data should be over by this point, but economic activity such as hiring should remain muted. • Crucially, economic data wouldn't have been strong enough to warrant anything other than extremely easy monetary policy.	• A combination of warmer weather and vaccine rollout should lead to stronger economic data as revenge spending, particularly in discretionary services, takes hold. • The return of discretionary services could spur hiring in the services sector, enabling the sector to catch up with its manufacturing peer. • Combined with the ongoing base effects from inflation, we believe this could be a point where talk of normalization begins to materialize in the markets. Crucially, we expect monetary policy to remain extremely loose.	• This could be the first quarter that provides a reasonable sense of what the new normal could be like in a post-COVID-19 environment. • Some economic distortions will likely persist, including favorable second-wave base effects, and residual pent-up demand in areas such as travel; however, the quarter should provide a baseline for what activity in 2022 could look like.

The recovery takes on a more prominent K shape

We expect the K-shaped nature of the recovery to become more accentuated in 2021 as global manufacturing sectors roar back to pre-COVID-19 levels early in the year while global services and hiring activities struggle to recoup 2020's losses even after taking into account likely growth in the next 12 months. This divergence will likely add to the disconnect between global equity markets—typically biased toward manufacturing and tech sectors—and the global economy. It also suggests that stock markets with a bigger manufacturing component (emerging markets) could see higher returns. Crucially, a K-shaped recovery could aggravate global income inequalities.

A growing divergence: global manufacturing and services Purchasing Managers' Index (PMI)

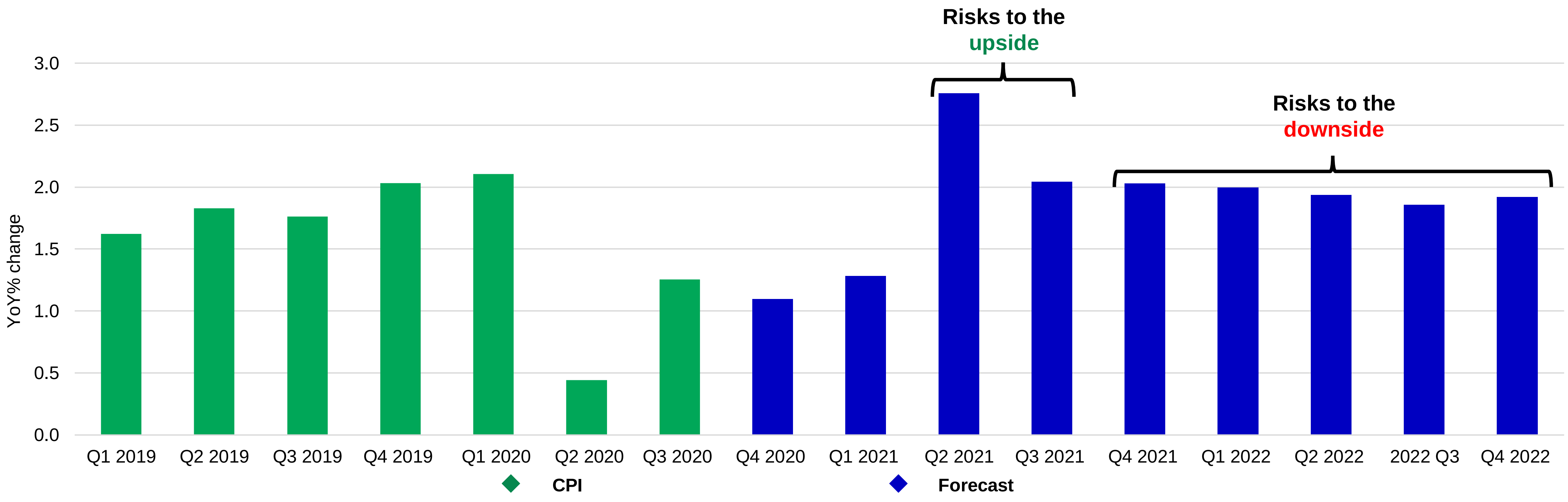


U.S. inflation outlook: a complex conversation

The U.S. inflation outlook in 2021 is likely to be complicated, featuring constant chatter about reflation. Here are four caveats to bear in mind:

1 U.S. inflation could hit close to 3% in Q2 2021, but it'll likely be temporary—it should quickly retreat to ~ 2%, with risks to the downside.
2 We expect investors and the U.S. Federal Reserve (Fed) to ignore the expected distortion and focus on the medium-term trend in inflation.
3 While inflation should fall toward 2% by year end, a likely dichotomy in prices (goods vs. services) could muddy the inflation conversation.
4 Rising U.S. price levels will likely draw attention to the reflation trade, but we don't see signs of inflationary pressures anywhere outside the United States.

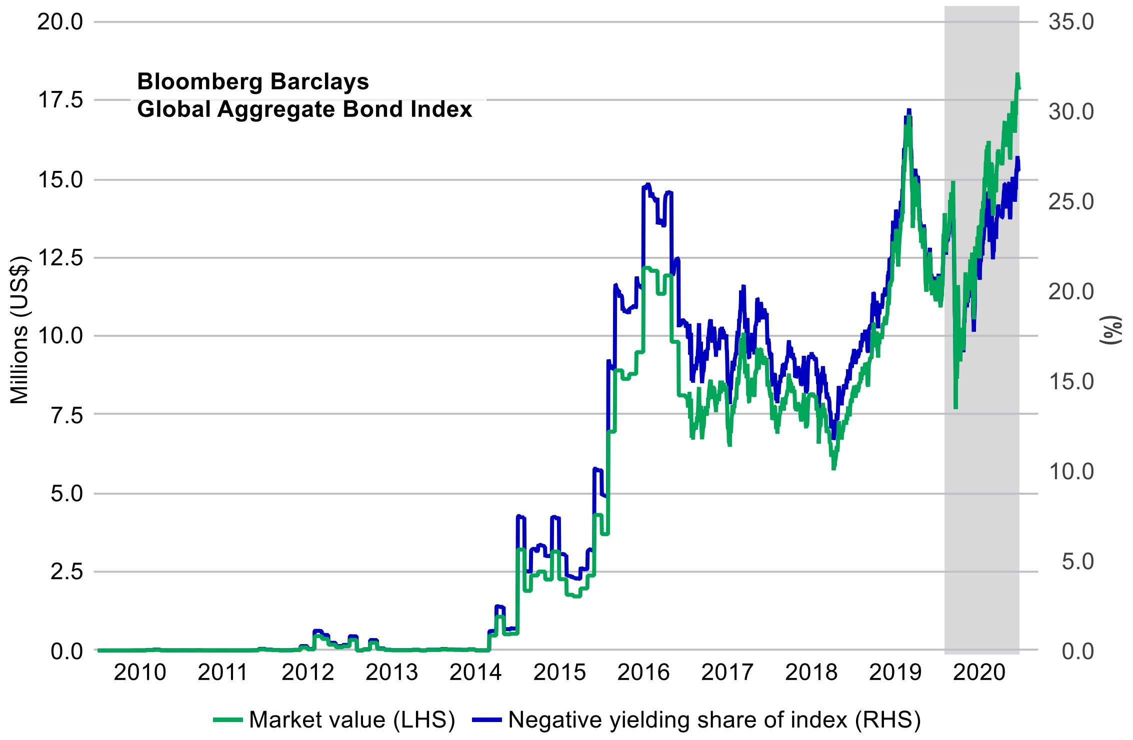
United States: Consumer Price Index



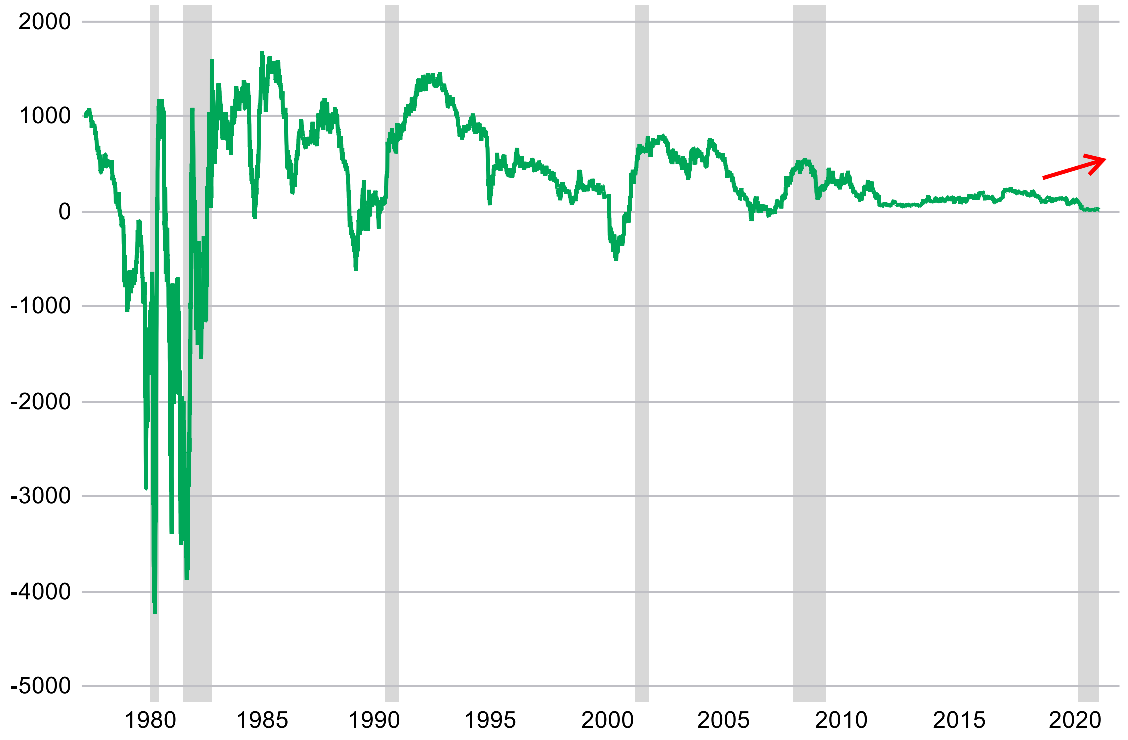
The new normal: very low interest rates and very high government spending

While the first half of 2021 will likely be focused on downside risks and growth challenges, we're confident that the global economy will continue to be supported in important ways: extraordinary accommodation from central banks and rising fiscal spending from national governments. These policies carry two important implications for investors in the year ahead: First, the search for yield narrative will continue to dominate, sending investors further out on the risk spectrum and deeper into alternative asset classes; second, as fiscal spending rises, so will government issuance (particularly at the long end of the curve), potentially driving up long-term rates, steepening the yield curve.

Share of global negative yielding debt[1]



U.S. Treasuries 2-year, 30-year



1 Macrobond, Manulife Investment Management, as of December 11, 2020. The gray areas represent recession.

Hidden themes to watch in 2021

Our base-case expectations for 2021 contain no surprises—we think it's almost predictable given the context within which we're working, knowing what we know, even though we're still facing an incredible level of uncertainty. However, in light of the sizable policy responses to COVID-19, and the economic transformations and acceleration of macro trends in the months since the health crisis, we've identified some nascent themes that bear monitoring in 2021. To be clear, these themes aren't likely to be primary growth drivers in 2021, but they will, in our view, become increasingly relevant to investors.

Themes to monitor:

1. Monetary policy and fiscal policy convergence, and the gradual rise in popularity of the modern monetary theory
2. An increased mainstream focus on cryptocurrencies as a reaction to massive central banking easing and the growing size of government
3. A shift in central bank focus toward broader social issues, including income and racial inequalities, climate change, and housing affordability
4. The continued rise of sustainable investing through the lens and the incorporation of green government spending

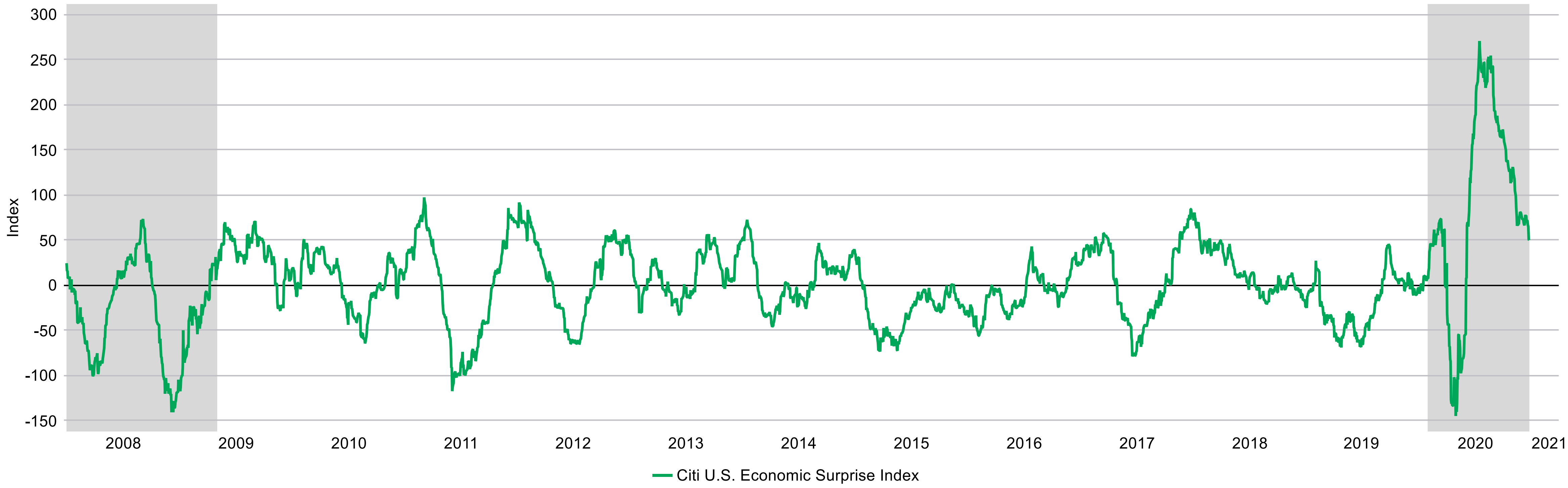
Source: Chicago Board Options exchange, Manulife Investment Management, as of 9/28/2020

United States

The end of the tunnel before the light

As outlined in the global section, we expect the first few months of 2021 to be weak in the United States. Slowing momentum from the summer and reduced mobility from the pandemic's second wave will weigh on demand, which will likely be exacerbated by weaker consumption as stimulus-driven savings dry up, and any incremental stimulus only acts as a fractional replacement. While the strength and resilience of the post-lockdown had far surpassed expectations, we believe that positive surprises are going to be less frequent in the coming months.

We expect economic data to deteriorate over the course of the first quarter[1]

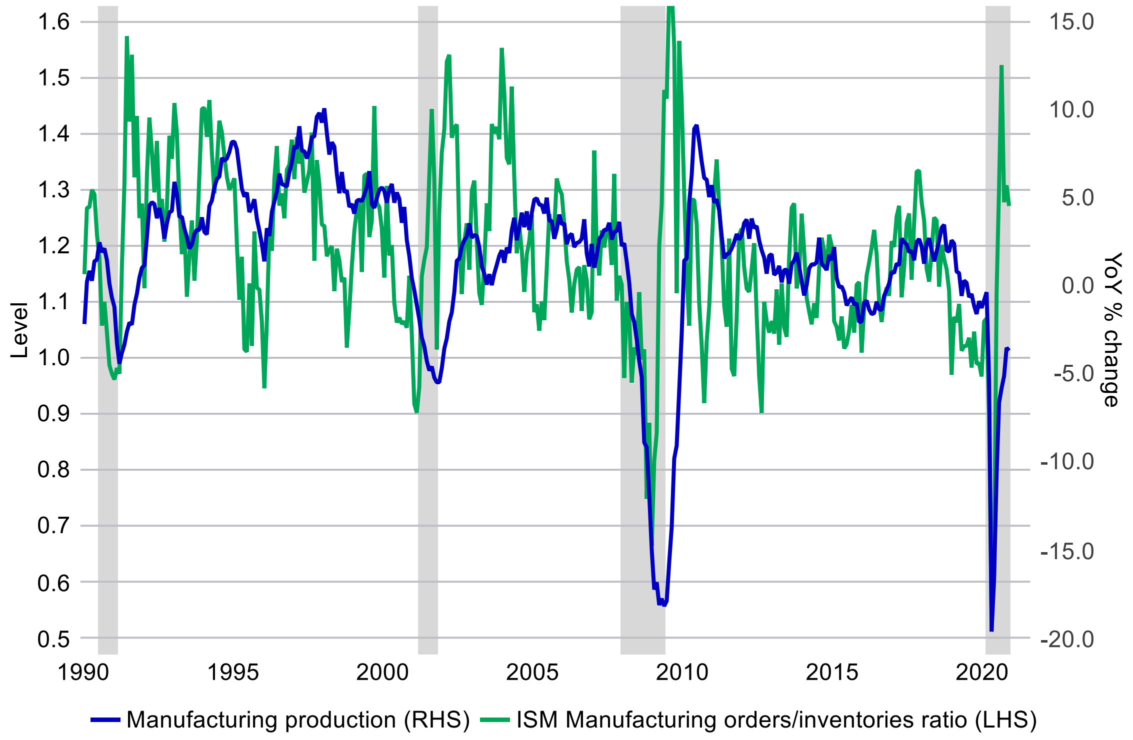


Source: Macrobond, Manulife Investment Management, as of December 21, 2020. The gray areas represent recession.

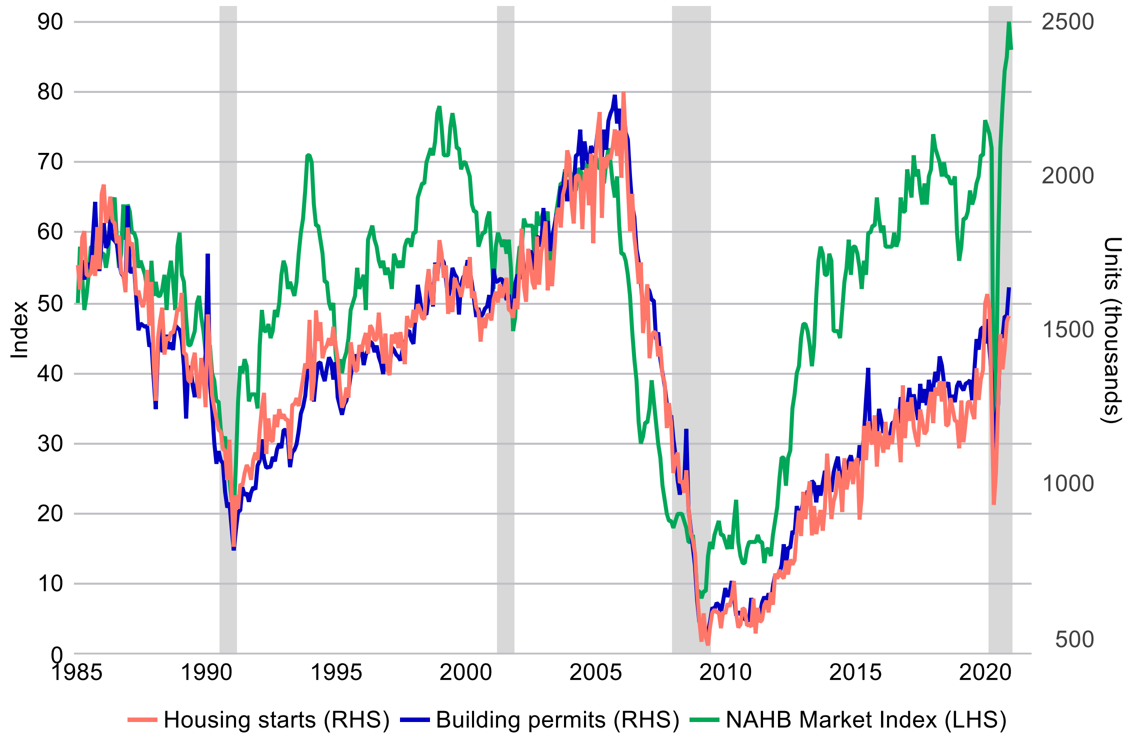
Strength in U.S. manufacturing and housing should persist

We might expect soft data in the United States during the first quarter, but two sectors should continue to perform well: manufacturing and construction. Tight customer inventories and strong orders are a source of support for manufacturing activity, while low interest rates and tight housing supply strongly imply that U.S. construction remains strong. In our view, these factors should continue to support industrials and homebuilders.

Orders are heavily outpacing inventories, which may support production[1]



There's still more upside in residential construction[2]

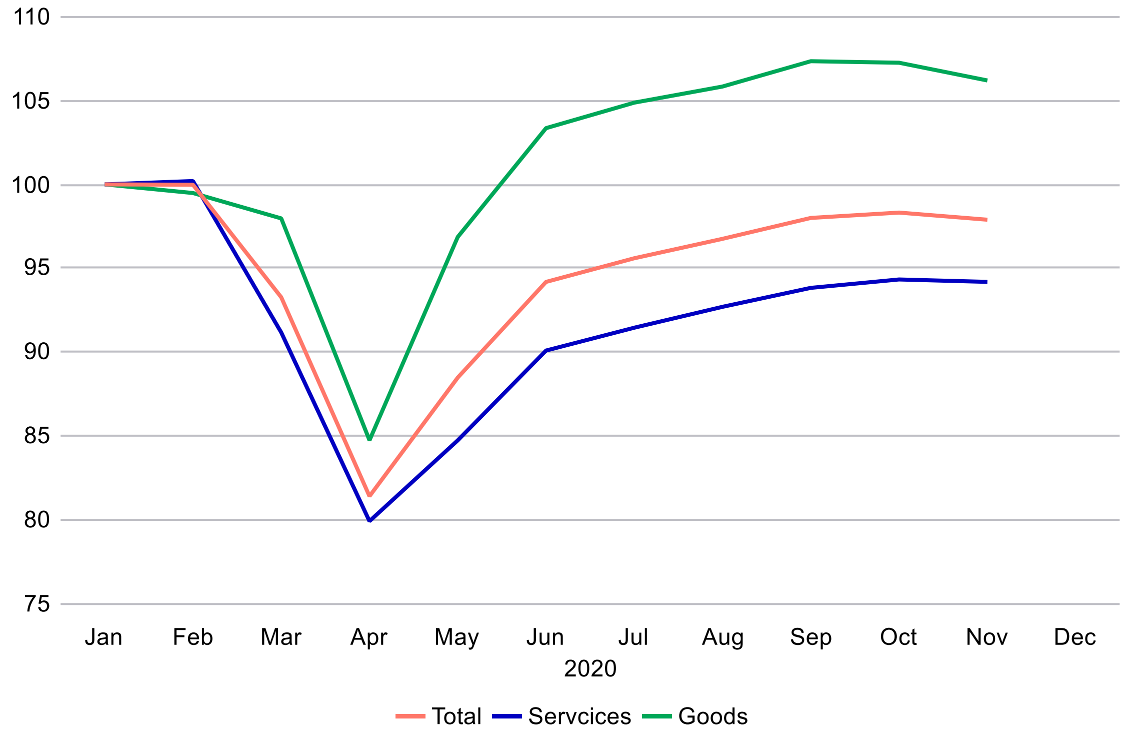


1 Institute of Supply Chain Management, U.S. Federal Reserve, Macrobond, as of December 18, 2020. LHS refers to left-hand side; RHS refers to right-hand side. **2** National Association of Homebuilders, U.S. Census Bureau, Manulife Investment Management, as of December 18, 2020. The gray areas represent recession.

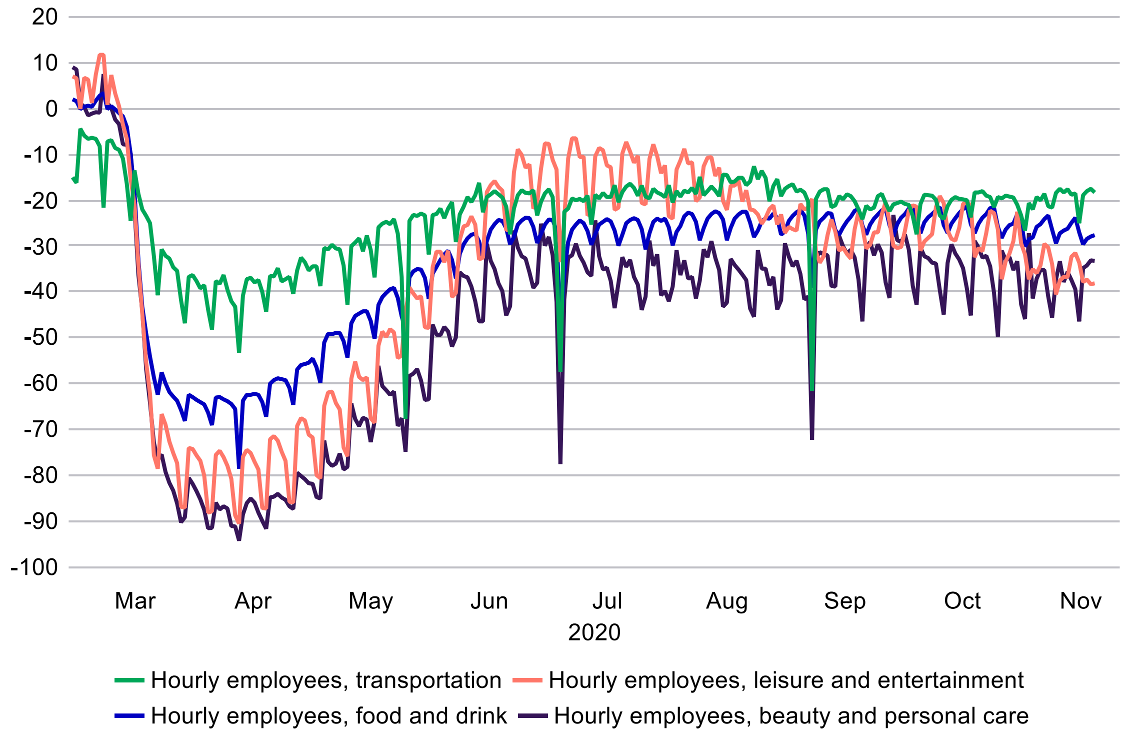
An inflection point higher in the late spring

Our expectations for a quick acceleration in economic data in the late spring will undoubtedly be flattered by base effects, but it should also be driven by improved economic activity as the wave of infection recedes and the vaccine rollout takes hold. This period's defining characteristic will likely be the sharp rebound in services spending, and an accompanying increase in services-related job openings, which have both remained depressed; while many commentators have talked about a V-shaped recovery in consumption, it's so far been limited to the goods sector—we'd expect that to change.

Consumer spending on services has lagged, but likely play catch-up[1]



As services normalize, so too should employment in those sectors (%)[2]

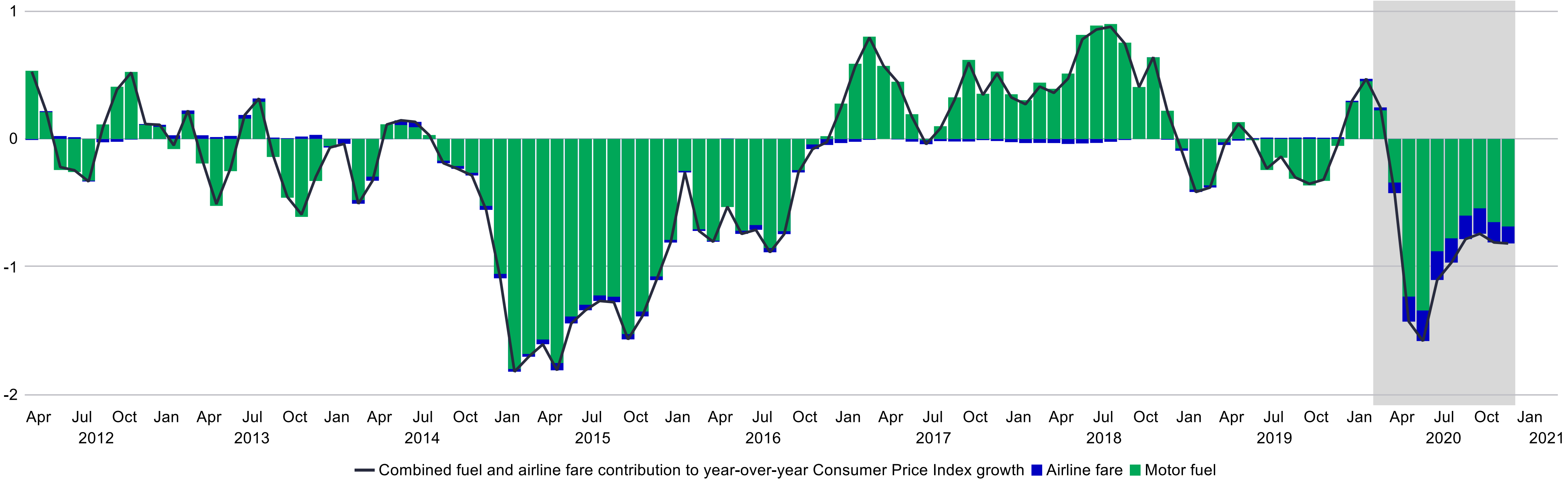


1 U.S. Bureau of Economic Analysis, Manulife Investment Management, as of December 18, 2020. All data series rebased to 100.
2 Homebase, Manulife Investment Management, as of December 18, 2020.

Inflation likely to peak at about the same time as growth

One of the more well telegraphed elements of the pandemic has been data distortions. Inflation, for instance, serves as a perfect example as the lockdown caused massive price declines in certain areas. Energy and public transport have fallen precipitously—combined, dragging headline inflation down by 0.8%.[1] That said, spring 2020's oil price collapse will soon flatter year-over-year comparisons of crude prices, and plane tickets are likely to regain pricing powers—these two categories could become net contributors to pricing pressures in the months ahead. If this trend emerges at the same time as growth inflects higher, markets might price in central bank normalization before it occurs.

Gas and airplane tickets are still suppressing inflation, but that's likely to change



Source: U.S. Bureau of Labor Statistics, Manulife Investment Management, as of December 18, 2020. The gray area represents recession.

Monetary policy: accommodative, reactive

We expect monetary policy to remain extremely accommodative over the course of 2021, with the Fed's quantitative easing (QE) program set to maintain its current pace, and its key policy rate to remain unchanged. However, the Fed has changed gears, going from proactively implementing facilities to ensuring capital market functioning to intervening in the markets if necessary—in our view, this creates the possibility of bouts of volatility. We think the Fed's relatively "looser" approach could manifest itself in two ways: through wider credit spreads if Q1 turned out to be worse than feared and through higher yields if stronger data leads to markets questioning the timing of normalization.

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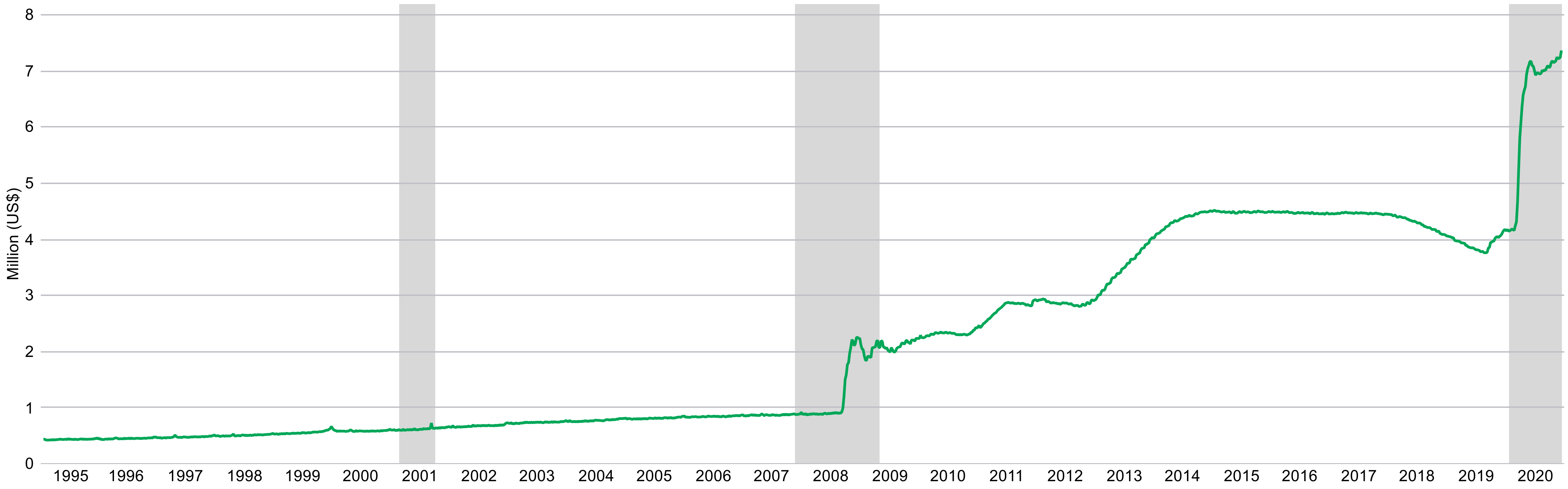


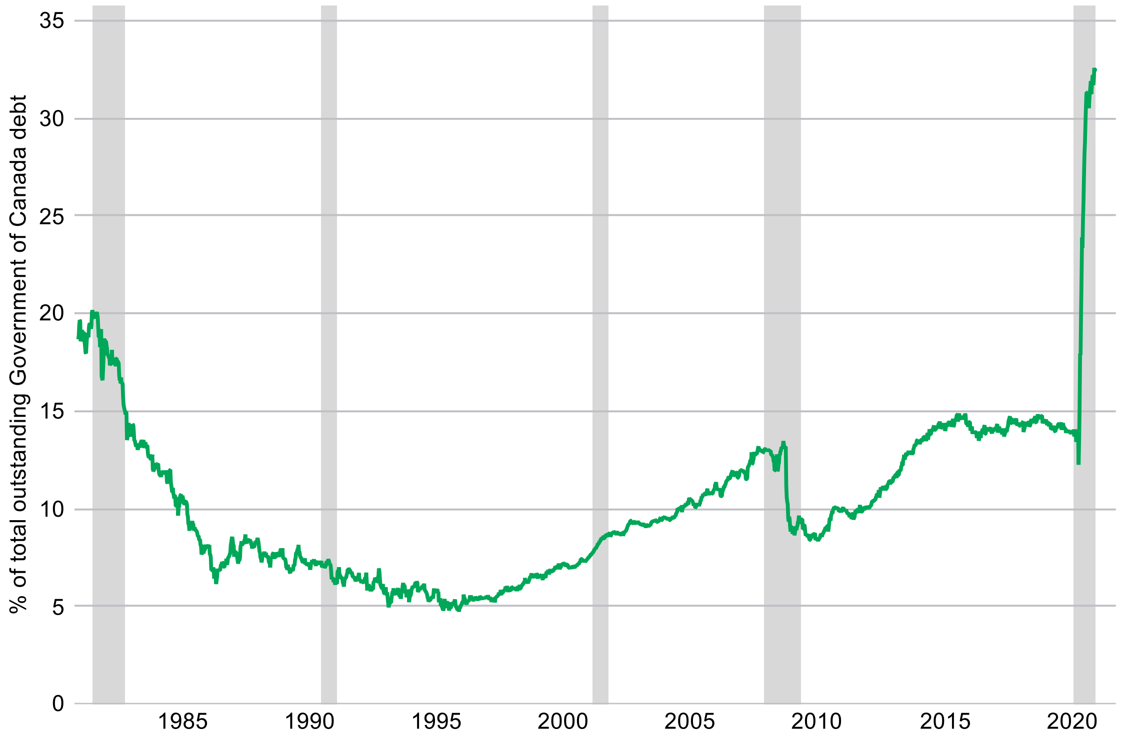
Source: U.S. Federal Reserve, Manulife Investment Management, as of December 18, 2020. The gray areas represent recession.

Canada

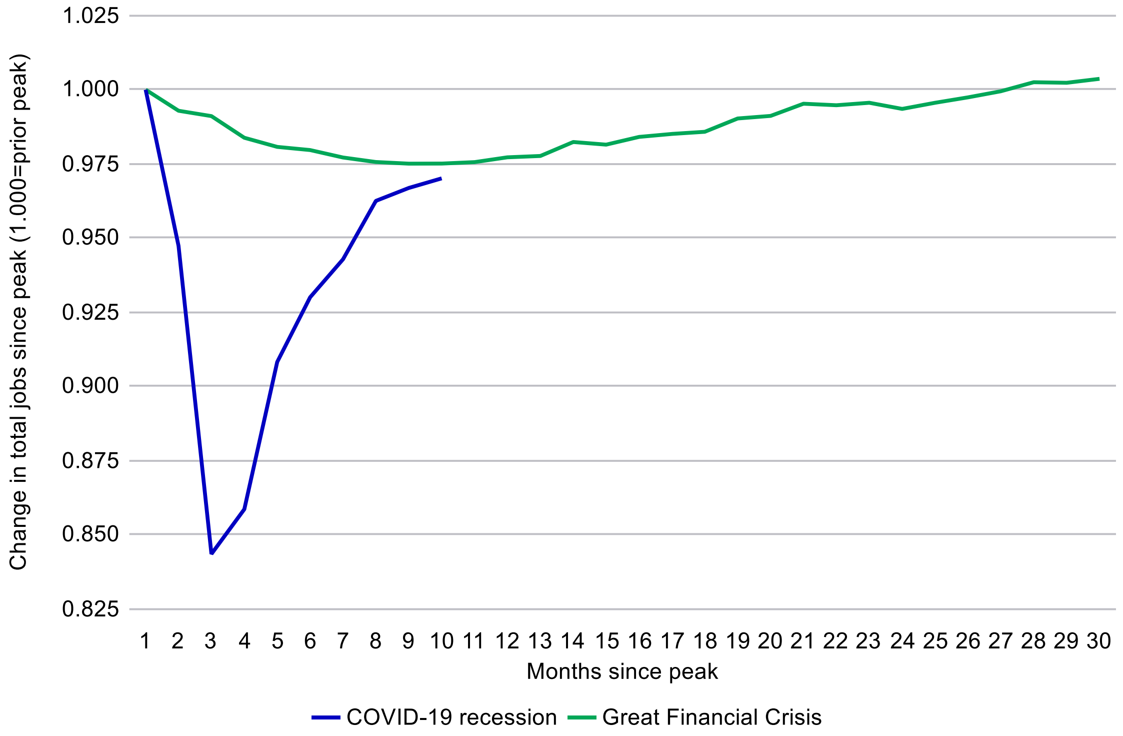
Canada—an advantageous position

We believe Canada's economic outlook will likely follow the "year of two halves" narrative. However, it's in a much stronger position than other services-based economies. The Bank of Canada (BoC) will likely be the first major central bank to shift away from monetary policy accommodation and begin a gentle process of normalization. After all, the country is benefiting from one of the largest relative fiscal spends and, on a structural basis, inflation hasn't been as pervasively below target in Canada as it has been in the United States. That said, ongoing concerns about an inflated housing market could push the BoC's hand to normalize earlier, as its suite of available policy tools dwindles.

Bank of Canada holdings of Government of Canada debt



Canada recovering job losses quickly

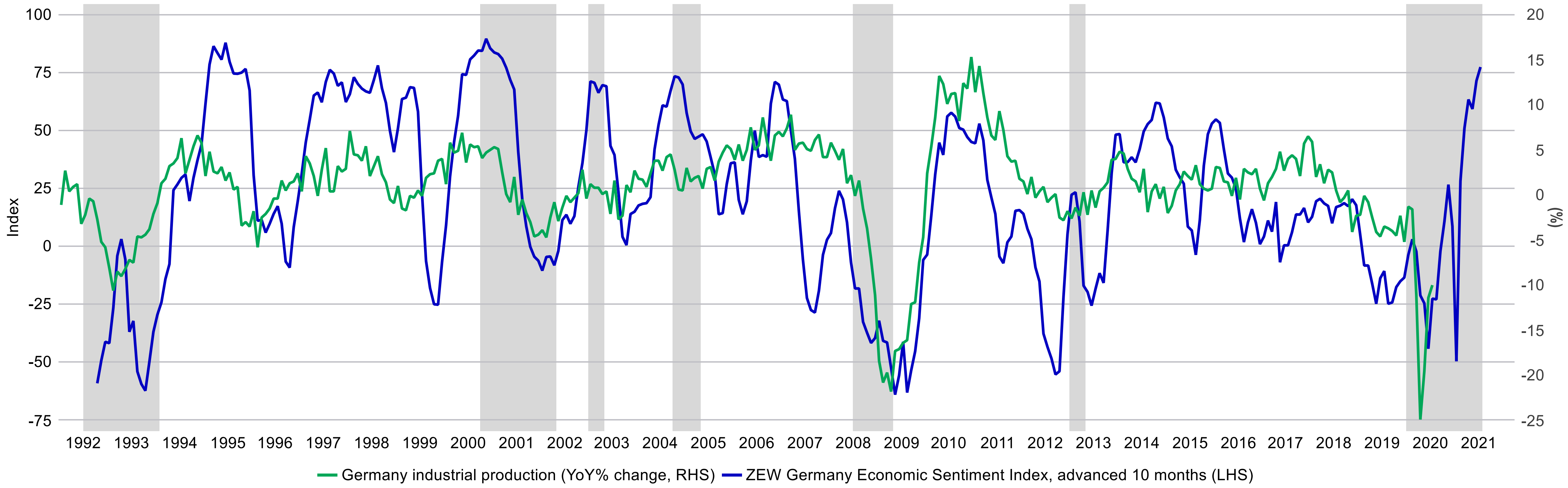


Europe

Outlook for German manufacturing remains constructive

Germany's ZEW survey of financial market experts may have moderated from its multidecade, near-record highs. However, the sentiment index remains elevated at levels that we believe will allow for a continued improvement in industrial production data and therefore maintain the K-shaped recovery narrative. The expectations subcomponent of the ZEW survey has historically offered critical insight into the outlook for industrial production, with the former leading the latter by about 10 to 12 months. We anticipate continued improvement through the first half of 2021.

German ZEW sentiment expectations and German industrial production

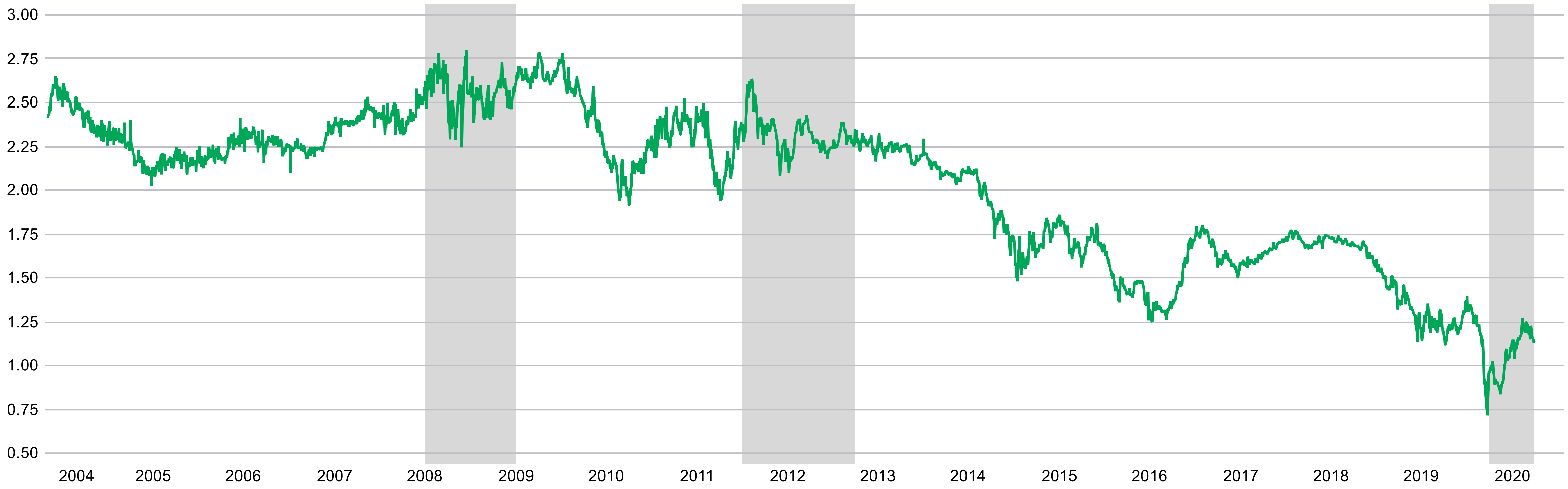


Source: Bloomberg, Macrobond, Manulife Investment Management, as December 21, 2020. YoY refers to year over year. LHS refers to left-hand side; RHS refers to right-hand side. The gray areas represent recession.

Recovery in euro area inflation expectations must be preserved

Inflation expectations in the euro area remain well supported following the most recent expansion of policy accommodation from the European Central Bank (ECB). The battle against deflation appears to have been won; however, disinflationary headwinds are likely to remain strong through the first half of 2021. That said, some of these headwinds are likely to become tailwinds in the latter half of next year as the vaccine rollout allows for a normalization of economic activity, potentially unleashing pent-up demand. This should provide for a continued recovery in inflation expectations toward the ECB's price stability target of 2%.

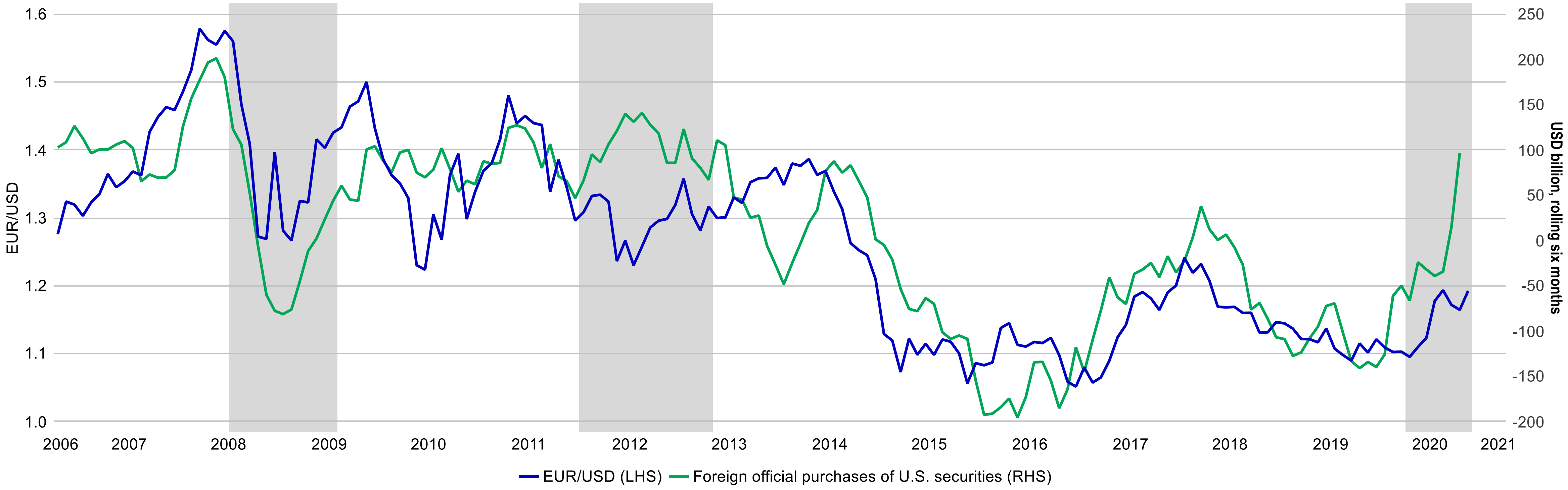
EUR five-year, five-year forward inflation expectation rate (%)



Global liquidity tsunami poses significant upside risk to EUR/USD

Global central bank reserve management trends suggest there's a significant upside for the euro (EUR), specifically, against the U.S. dollar (USD). The EUR has historically exhibited procyclical tendencies, responding positively to global liquidity conditions and vice versa. Foreign official reserve purchases of U.S. securities have surged over the past couple of months, extending to multi-year highs. These purchases imply there's a significant upside for EUR/USD if historical relationships hold, as central bank reserve managers diversify their reserves out of USD.

EUR/USD vs. foreign official purchases of U.S. securities



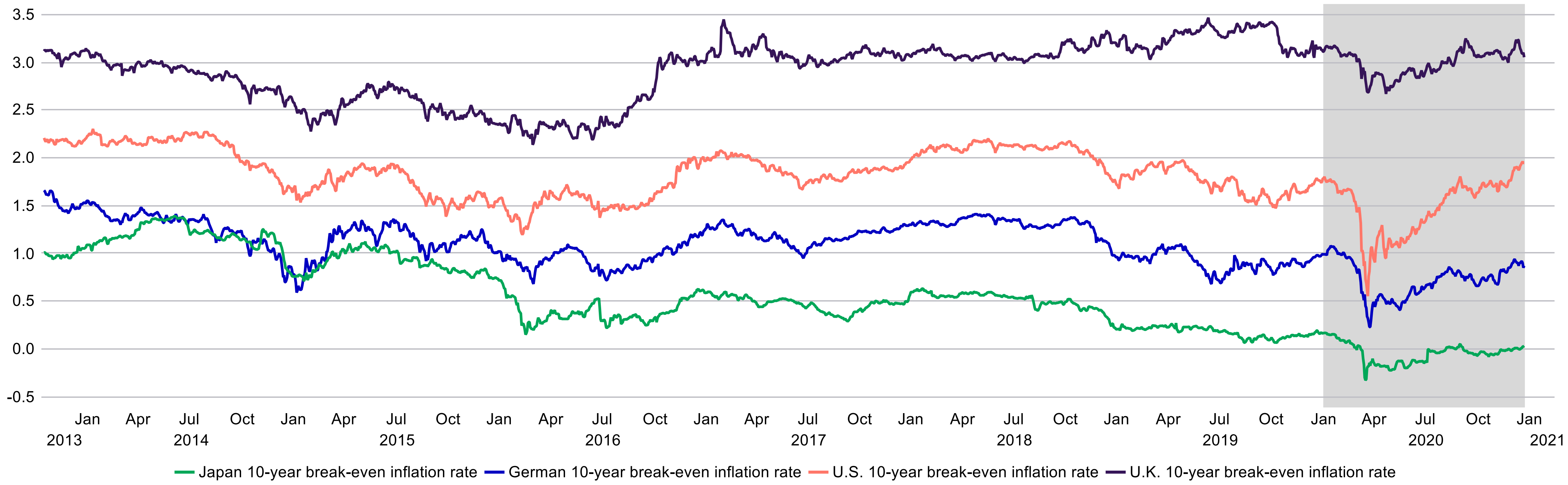
Source: Bloomberg, Macrobond, Manulife Investment Management, as December 21, 2020. LHS refers to left-hand side, RHS refers to right-hand side. The gray areas represent recession.

Japan

Japan isn't participating in the global reflation trade

Inflation expectations in Japan remain incredibly muted. The country appears alone among its G4 peers in being unable to lift inflation expectations over the past few months. Instead, Japan's breakevens, a market-based measure of expected inflation, have languished around zero, limiting the extent to which low interest rates can help the real economy (through financial repression). In our view, Japan's tool box remains limited, given elevated debt levels and already incredibly accommodative policy settings. We believe deflationary headwinds are likely to remain strong in an environment of broad-based U.S. dollar weakness (including vs. the Japanese yen).

10-year break-even yields



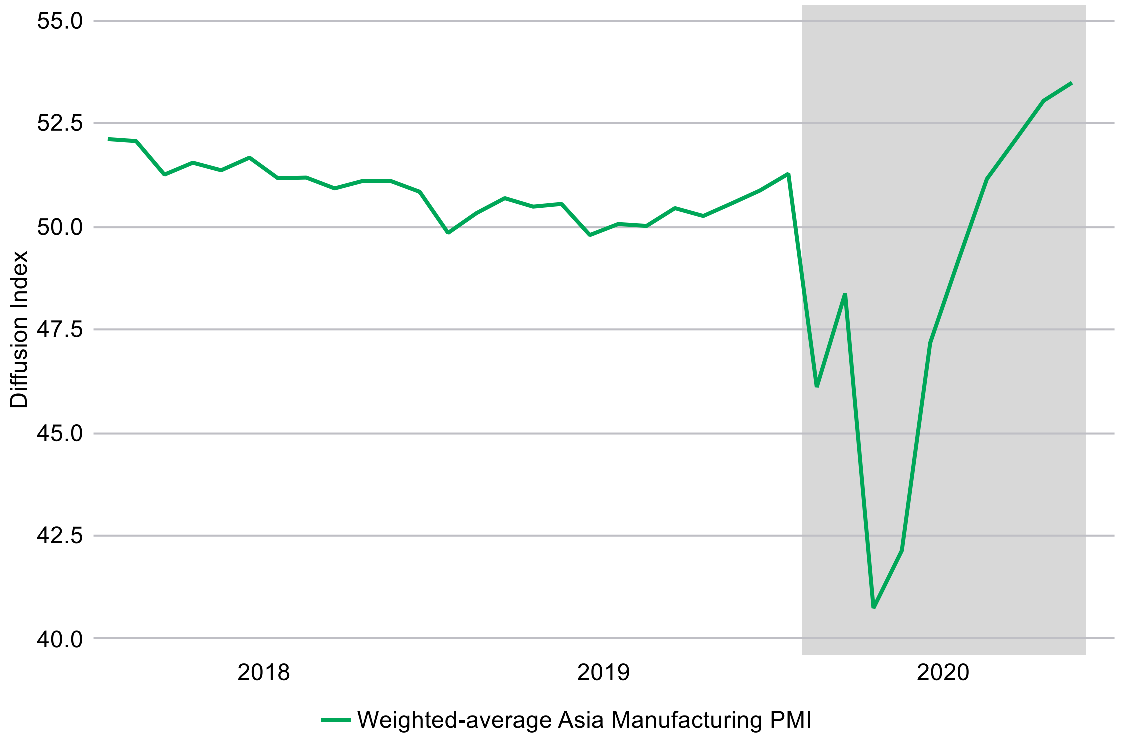
Source: Bloomberg, Macrobond, Manulife Investment Management, as December 21, 2020. The gray area represents recession.

Asia overview

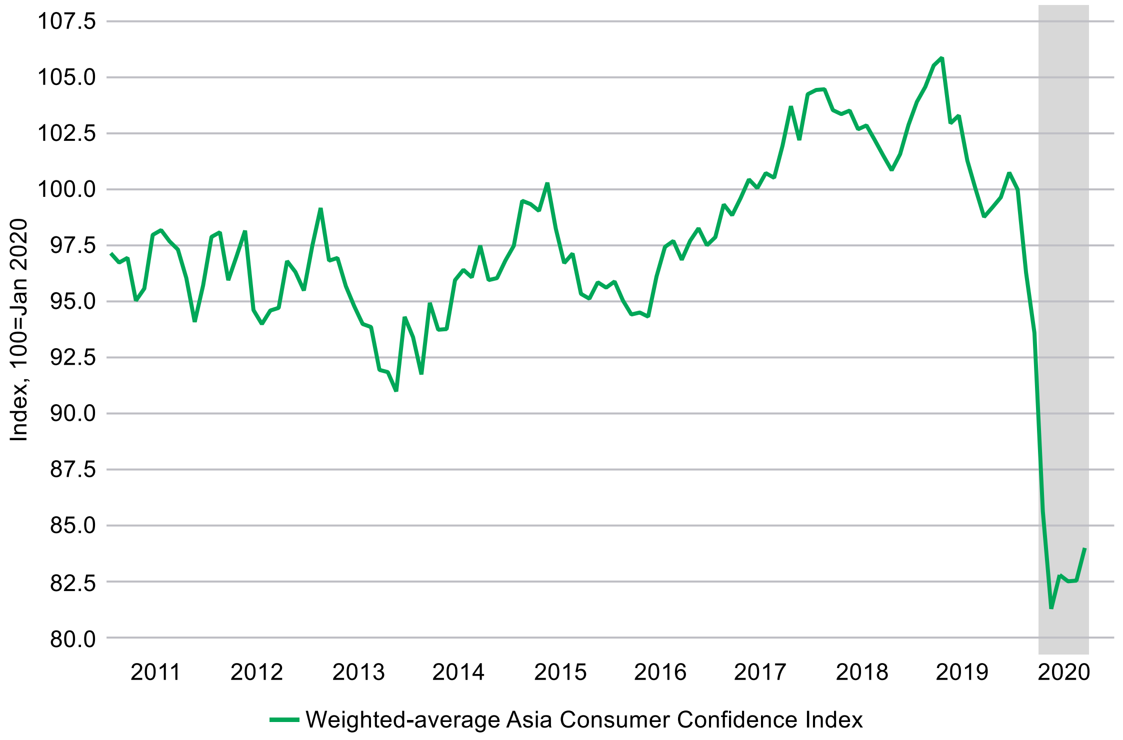
An uneven recovery

There are significant variations in the strength of recoveries across the region: For example, in the Philippines, Malaysia, and India, GDP could be—by year-end 2020—more than 10% below their respective pre-crisis trend. In contrast, Taiwan and China fared better and will likely be ~2% below their pre-crisis trend. Composition of growth within economies is also uneven: Manufacturing, particularly electronics exports, continues to power regional growth but consumer demand lags sharply. Central banks in Australia, Indonesia, and the Philippines have resumed cutting rates. We expect central banks to maintain a dovish bias in 2021, with possible cuts from Malaysia, Thailand, and Indonesia in early 2021.

GDP-weighted Asia Manufacturing PMI[1]



GDP-weighted Asia consumer confidence[2]

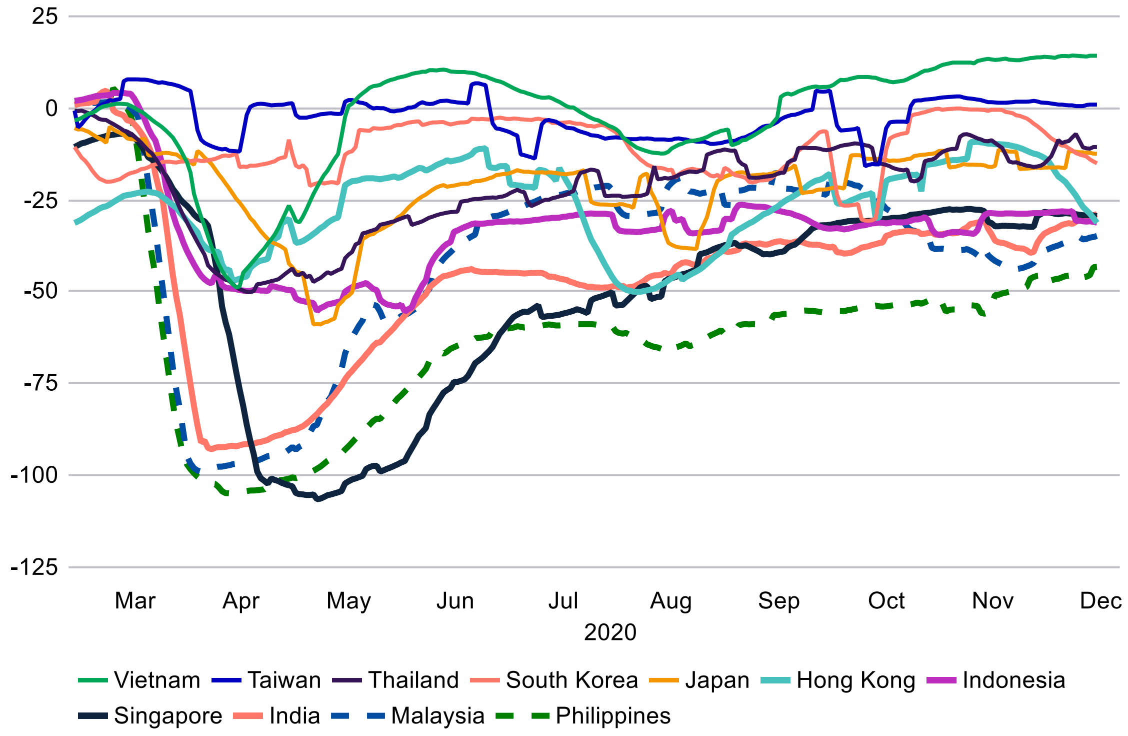


1 Bloomberg, IHS Markit, Macrobond, Manulife Investment Management, as of November 30, 2020. **2** National statistics agencies, Macrobond, Manulife Investment Management, as of September 30, 2020. The gray areas represent recession.

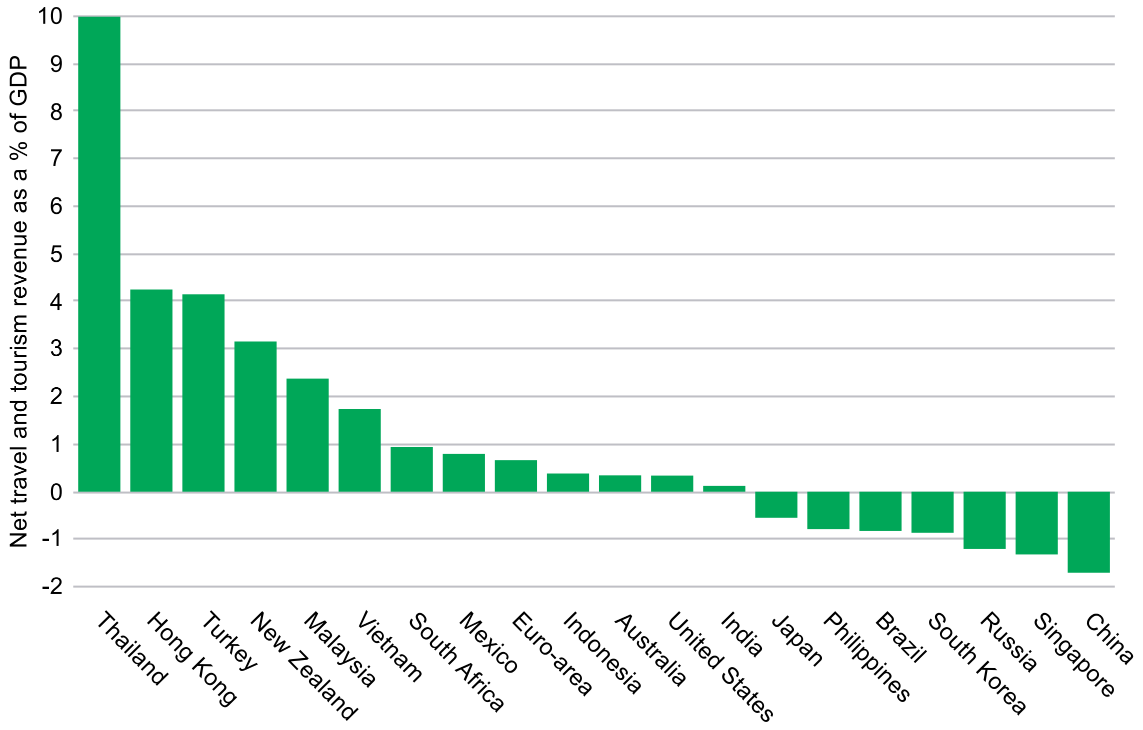
How might a successful vaccine cycle impact Asia?

In our view, an effective vaccine will be meaningful for economies such as India, Indonesia, the Philippines, and Malaysia, where social mobility restrictions have severely affected activity. It could also revive global tourism and help tourist-dependent economies such as Thailand, Taiwan, and Hong Kong. Trends in vaccine procurement, immunization coverage, GDP relative to pre-COVID-19, and social mobility are also important variables to estimate a successful vaccine cycle/economic recovery sequence in 2021. Taken together, we think a successful vaccine rollout will support North Asia economic outperformance relative to South Asia, and Southeast Asia in 2021. That said, Thailand is a key exception to Southeast Asian underperformance in this scenario as it has the most to gain from a viable vaccine.

Mobility trends across Asia (%)[1]



A successful vaccine could revive depressed tourism sectors[2]



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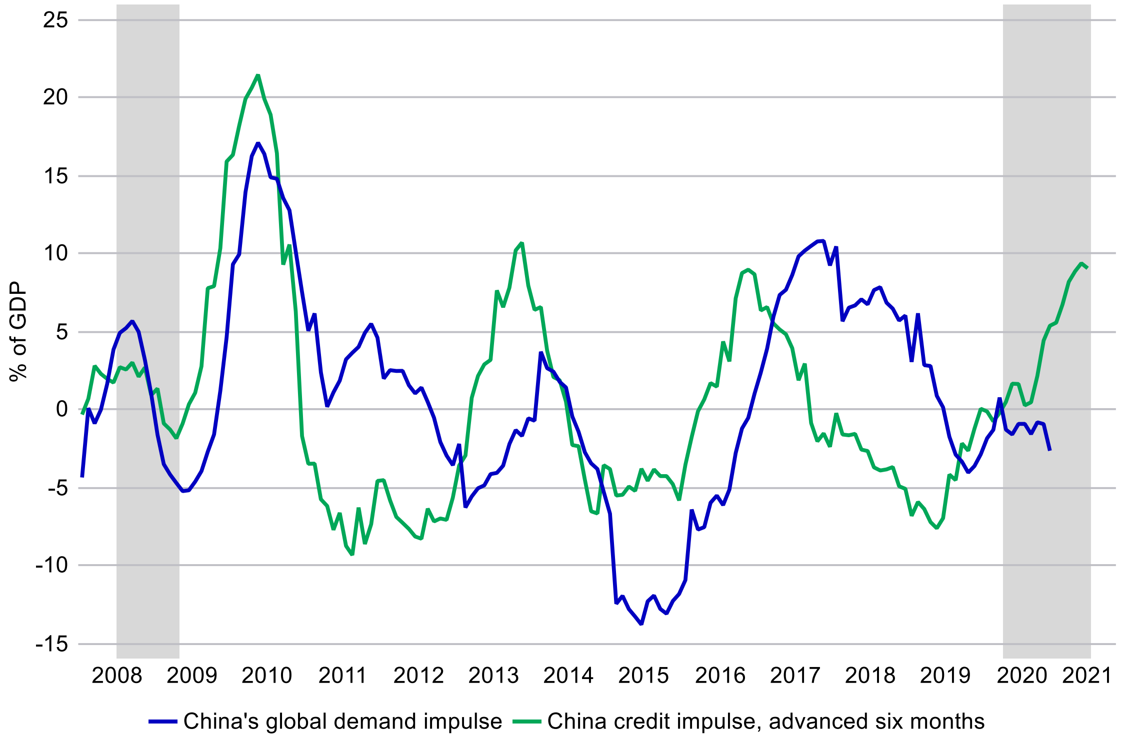
1 Google, Macrobond, Manulife Investment Management, as of November 30, 2020. % mobility is determined by visits and length of stay-at-work places minus length of stay at residential locations, compared with a baseline for the corresponding day of the week, during the five-week period January 3–February 6, 2020. **2** World Bank, Macrobond, Manulife Investment Management, as of December 31, 2019.

Asia

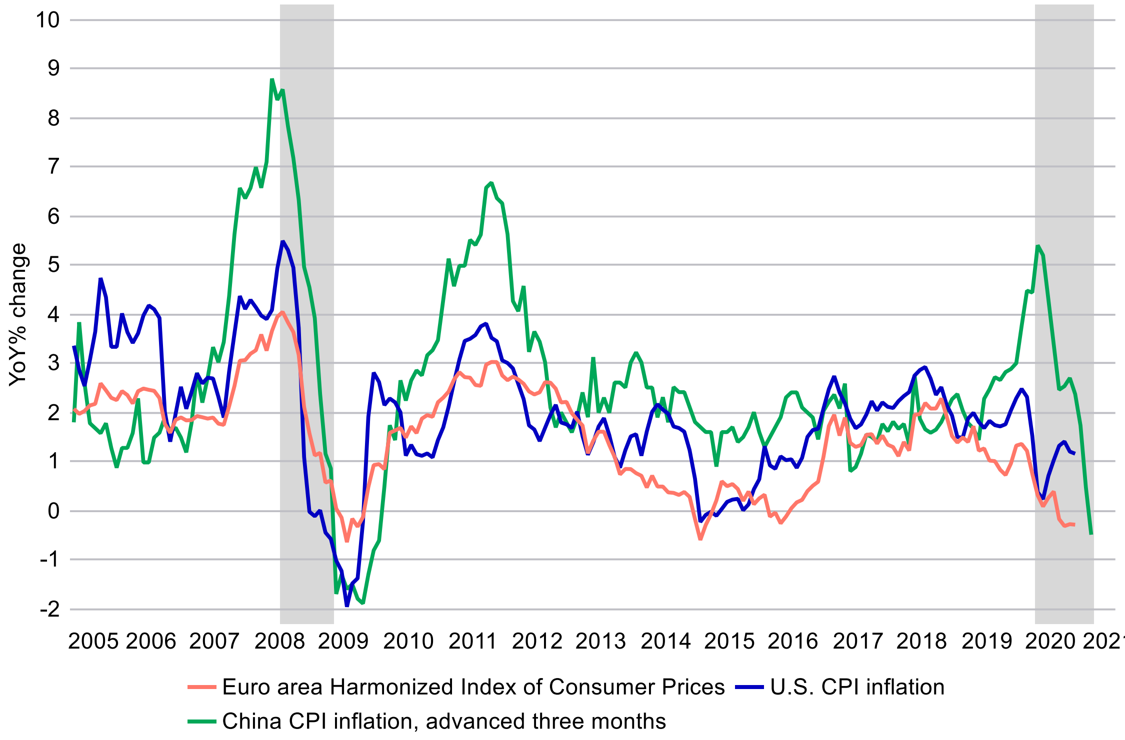
China's strong credit impulse isn't a positive global demand impulse

In previous global growth slumps, a surge in China's credit growth has typically translated into a strong positive global demand impulse (with a six-month lag) as China's net imports surged. This time around, however, the dynamics of China's sharply rising credit impulse are very different. Not only has net import growth fallen sharply, it's also net negative, meaning that it's a net *detraction from* global growth. China's record November trade surplus is equivalent to a contraction of ~1.1% of annual global growth.[1] Worryingly, China reported deflation in November and its inflation trends are usually exported to the rest of the world with a three-month lag.

China's credit impulse vs. China's global demand impulse[1]



China's inflation is transmitted to other markets with a three-month lag[2]

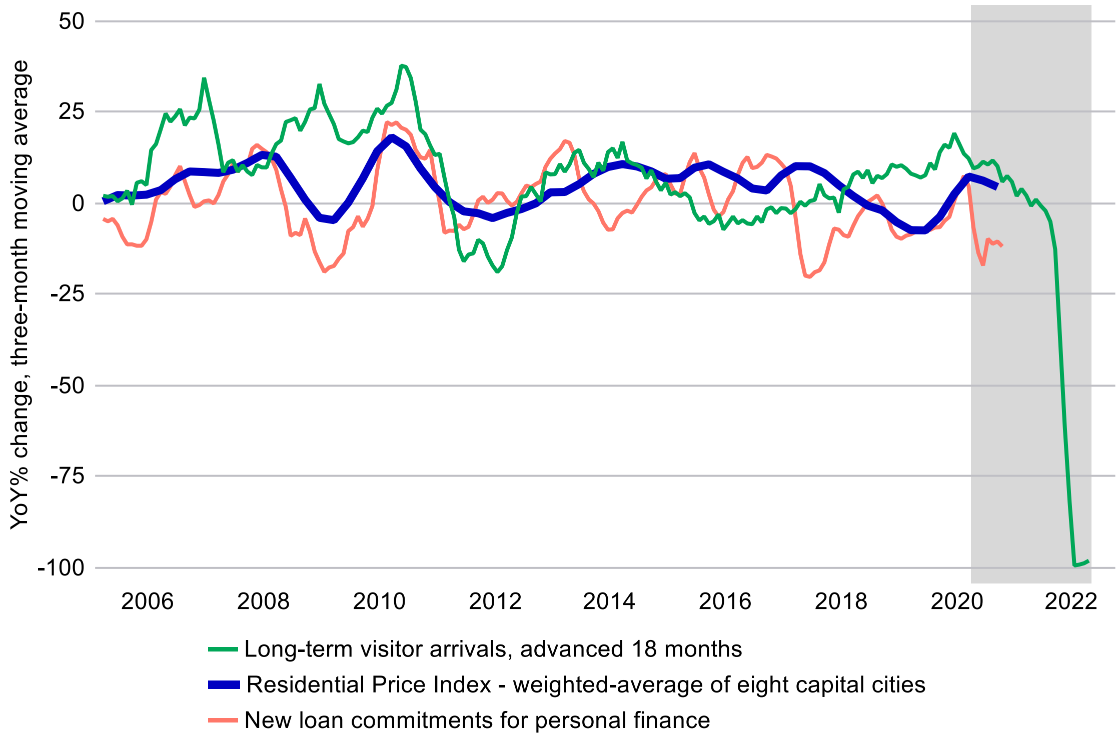


1 Macrobond, Manulife Investment Management, as of November 30, 2020. Credit impulse measures the growth in credit to GDP growth. Demand impulse measures the differential of annual import growth to annual exports. The gray area represents the divergent paths of China credit impulse and China's global demand impulse since 2019. **2** Manulife Investment Management, as of November 30, 2020. YoY refers to year over year. The gray areas represent recession.

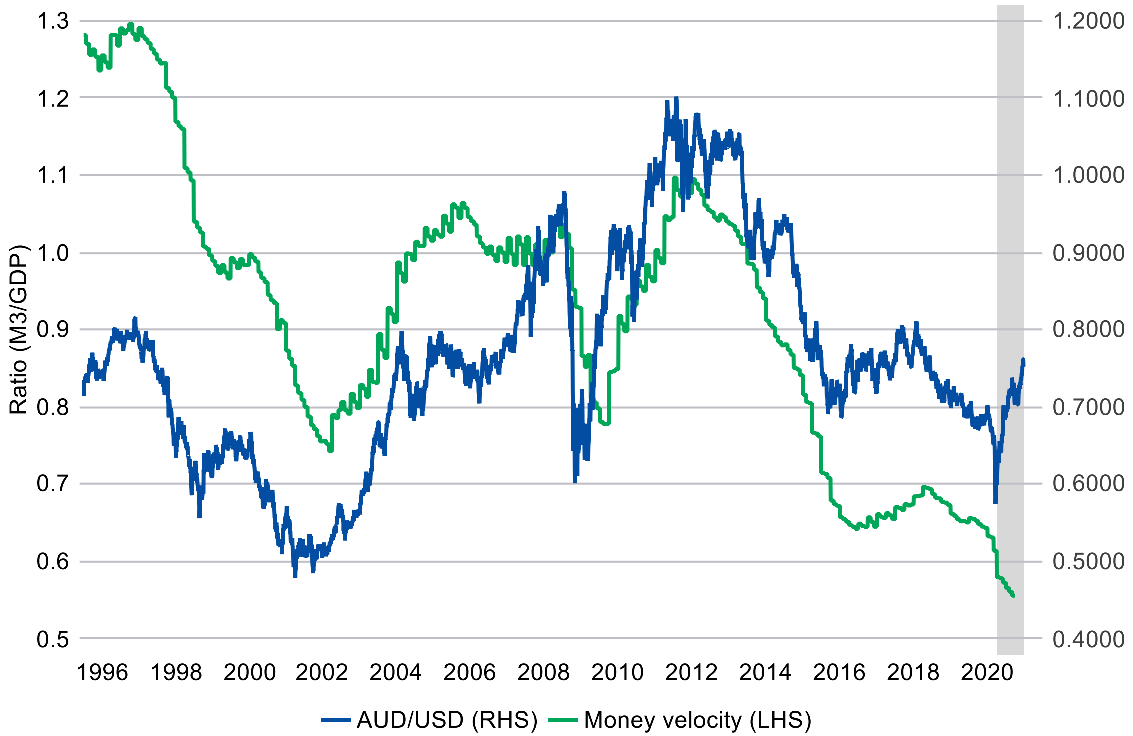
RBA's outlook hinges on Australian house prices, which face downside risk

Since the Reserve Bank of Australia (RBA) announced its new QE policy on November 3, economic data has proven stronger than the central bank had expected. We think the RBA should remain cautious, however. Unsurprisingly, the RBA monitors house prices closely, and the sharp decline in immigration inflows suggests there's a downside risk to house prices in the coming year, exacerbated by the tapering of the country's JobKeeper wage subsidy program, which is set to end on March 28, 2021. We see scope for the Australian dollar (AUD) to weaken this year given weak economic trends reflected in the fall in the velocity of money.

Australia house price inflation, new loans, and immigration[1]



The AUD and money velocity[2]

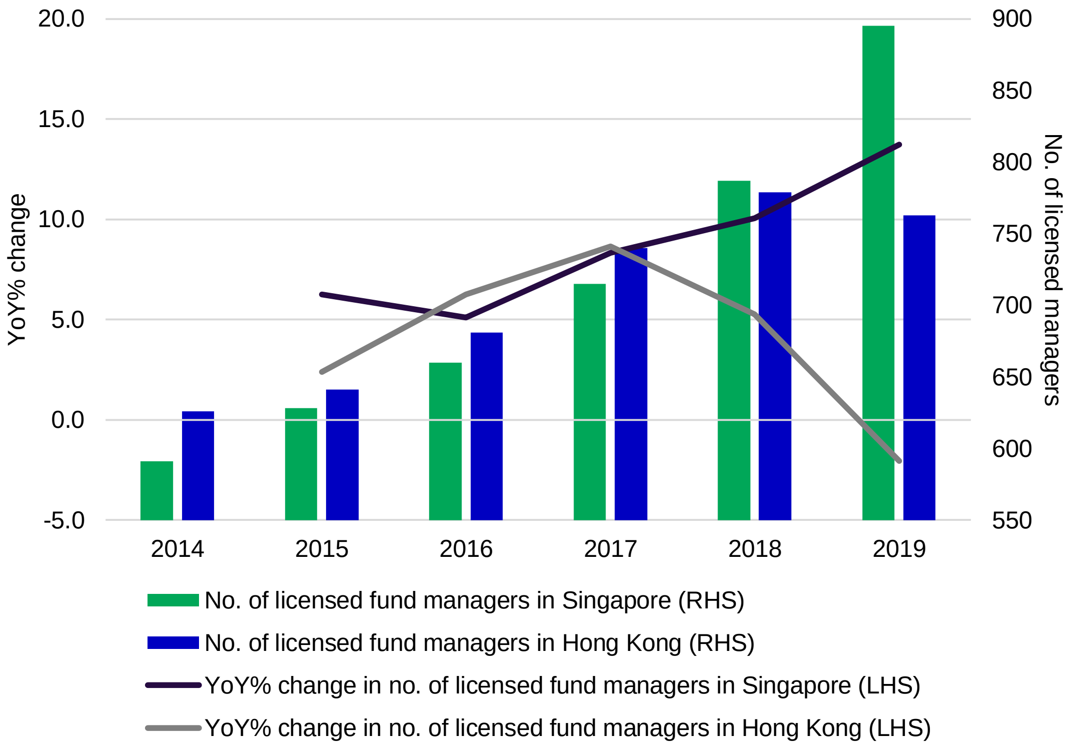


1 Australian Bureau of Statistics, Macrobond, Manulife Investment Management, as of September 30, 2020. **2** Australian Bureau of Statistics, Reserve Bank of Australia, Macrobond, Manulife Investment Management, as of December 18, 2020. LHS refers to left-hand side; RHS refers to right-hand side. M3 is a measure of the money supply that includes cash, near-liquid assets, and large time deposits, institutional money market funds, among others.The gray areas represent recession.

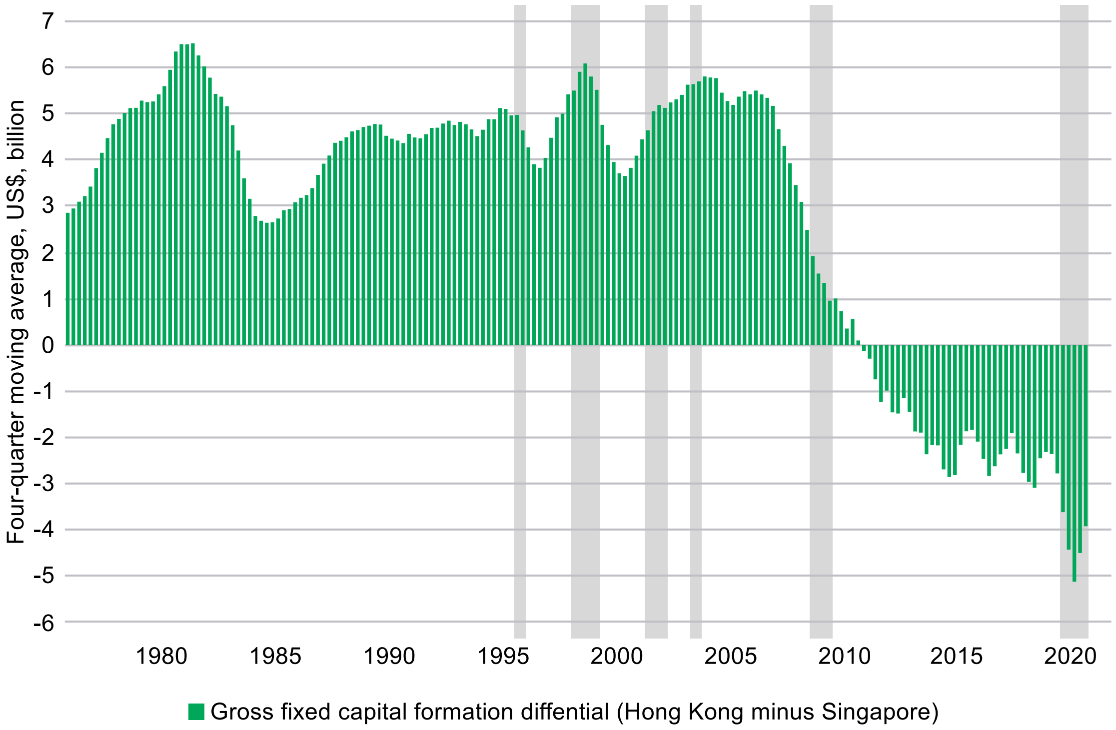
Continued divergence between Hong Kong and Singapore

Recent data continues to highlight the divergent trends for Asia's rival international financial centers—Hong Kong and Singapore. In year-over-year percentage change terms, growth in the number of registered and licensed fund managers in Singapore has increased from 8.3% in 2017 to 13.7% in 2019, while the equivalent metric in Hong Kong fell from 8.7% in 2017 to -2.1% year over year in 2019. We're seeing a similar picture in investment growth trends in these two economies. In U.S. dollar terms, Singapore began outpacing Hong Kong in 2010 and the investment gap between the two economies has grown increasingly larger.

Divergent trends in number of licensed fund managers[1]



Fixed asset investment in Singapore outpacing Hong Kong[2]

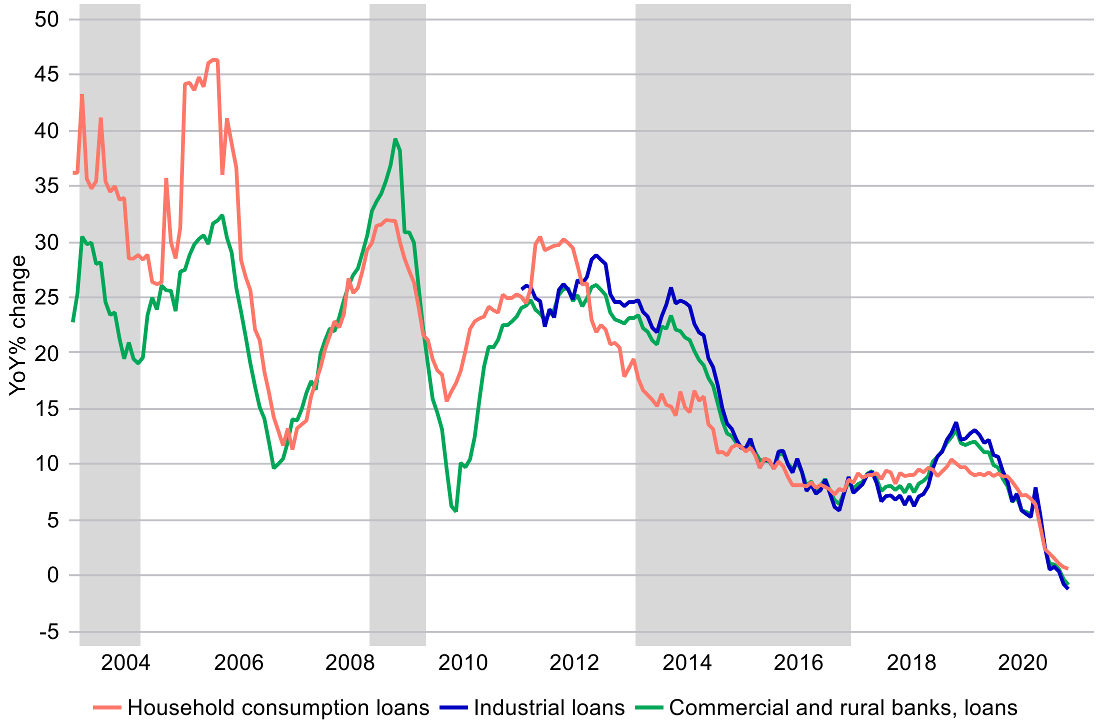


1 Monetary Authority of Singapore, Securities and Futures Commission of Hong Kong, Macrobond, Manulife Investment Management, as of December 31, 2019. YoY refers to year over year. **2** Hong Kong Census and Statistics Department, Singapore Department of Statistics, Macrobond, Manulife Investment management, as of September 30, 2020. The gray areas represent recession.

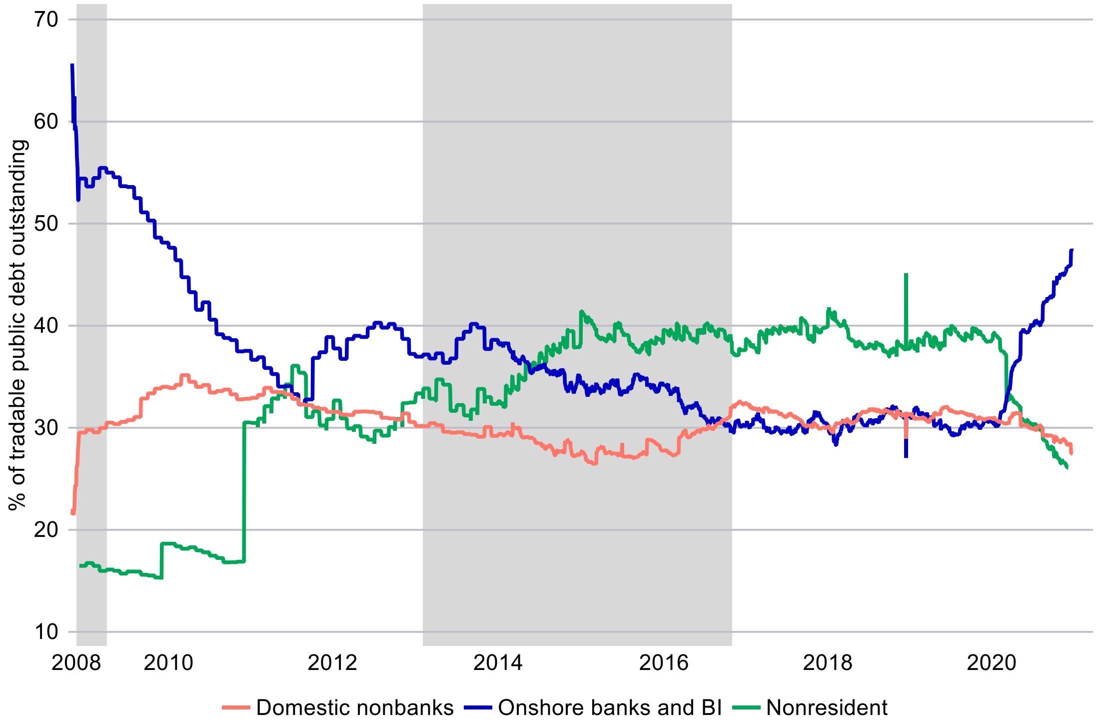
Bank Indonesia to front-load easing; foreign bond investors await clarity

With one of the weakest bank credit growth rates in the region, low inflation, a sluggish economic recovery, and a manageable current account deficit, we expect prolonged monetary accommodation from Bank Indonesia (BI) to be front-loaded in 2021. Foreign investors' share of total outstanding government debt fell sharply in 2020 as they await further clarity regarding the financials sector reform bill and legislative changes to BI's mandate, which is currently being mooted. Of most interest will be any hints regarding the debt burden sharing arrangement and potential changes to BI's foreign exchange policy.

Indonesian bank credit growth[1]



Foreign investors await clarity on key reforms[2]



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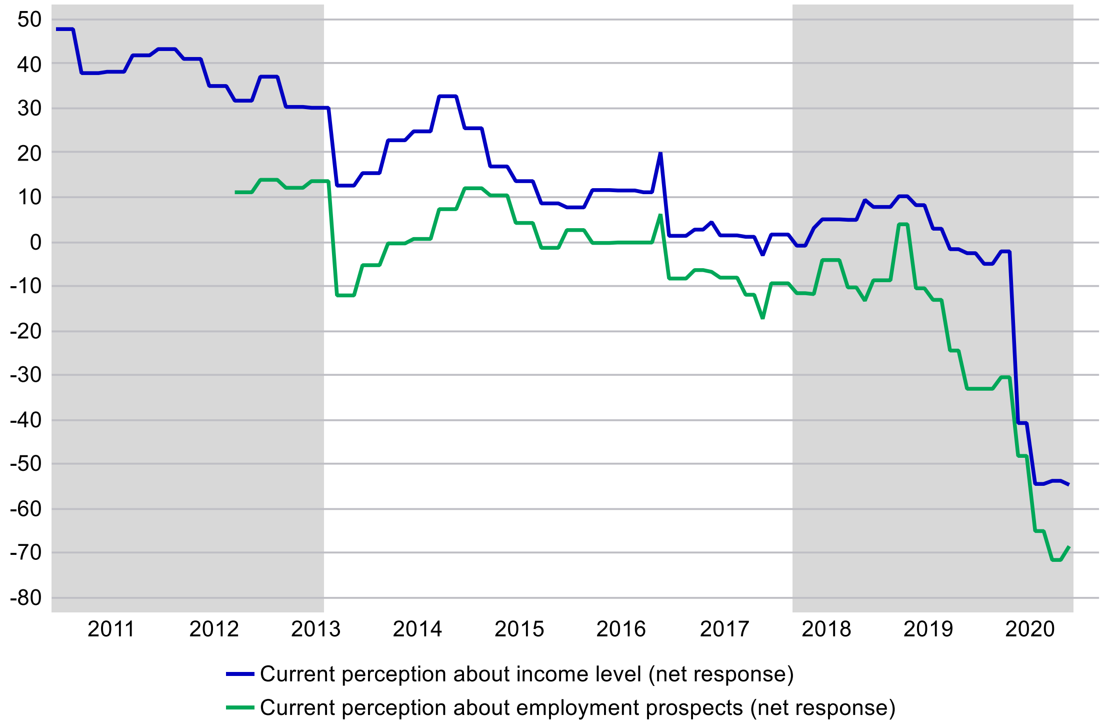
1 Bank Indonesia, Otoritas Jasa Keuangan, Macrobond, Manulife Investment Management, as of October 31, 2020. YoY refers to year over year. **2** Indonesia Ministry of Finance, Macrobond, Manulife Investment Management, as of November 30, 2020.

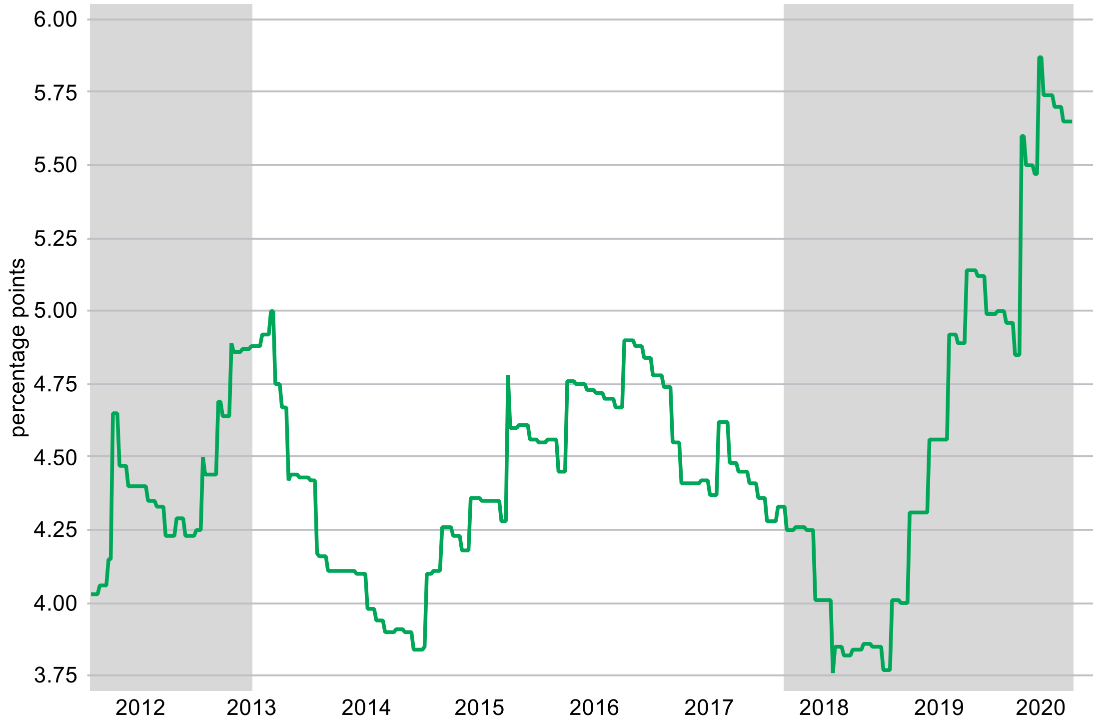
Indian consumer confidence is weak and policy transmission is clogged

Progress in vaccine development is good news for India since it has the second-highest number of COVID-19 cases in the world. This has hurt Indian consumer confidence, employment prospects, and income as containment measures have been relatively tighter than in most other emerging-market economies. Stagflationary dynamics constrained the Reserve Bank of India's ability to ease into the end of 2020, but the monetary transmission mechanism has also been challenged for a long time, with banks and nonbank financial corporations not passing on the benefits of monetary easing. In our view, addressing the prolonged slowdown in lending is key to unlocking one of the highest potential growth rates in the world.

Indian consumer confidence is low (%)[1]



RBI policy transmission clogged (%)[2]

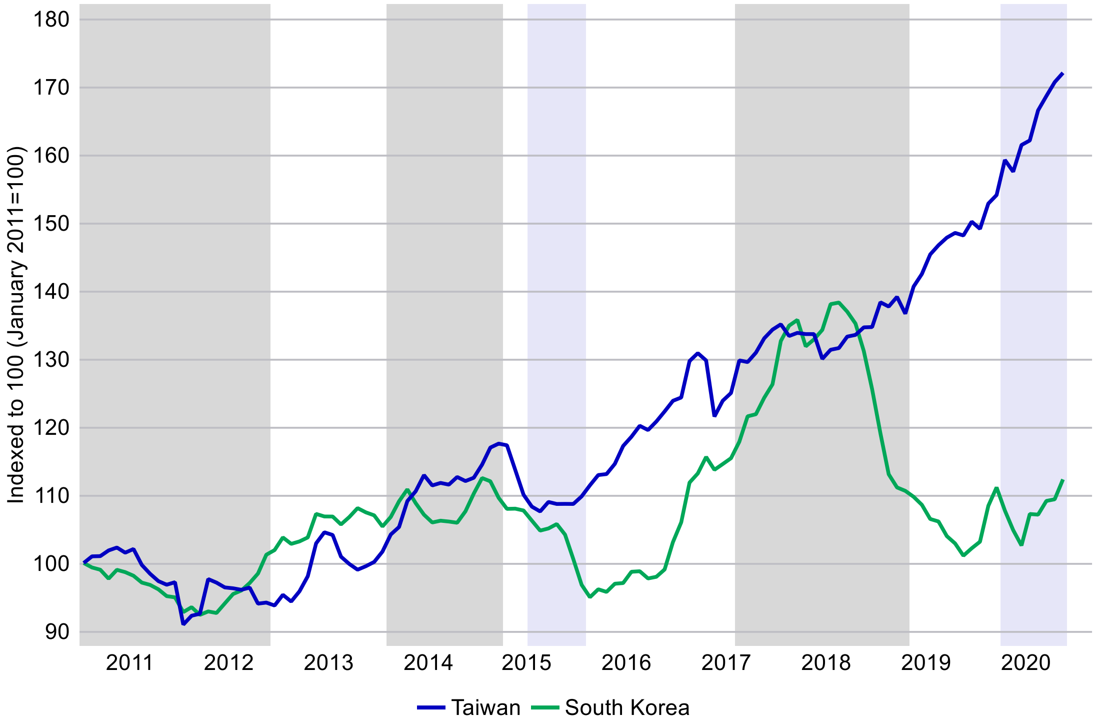


1 Reserve Bank of India, Macrobond, Manulife Investment Management, as of November 30, 2020. **2** Reserve Bank of India, Macrobond, Manulife Investment Management, as of September 6, 2020. Transmission is measured by the weighted-average lending rate on outstanding loans minus the Reserve Bank of India policy rate.

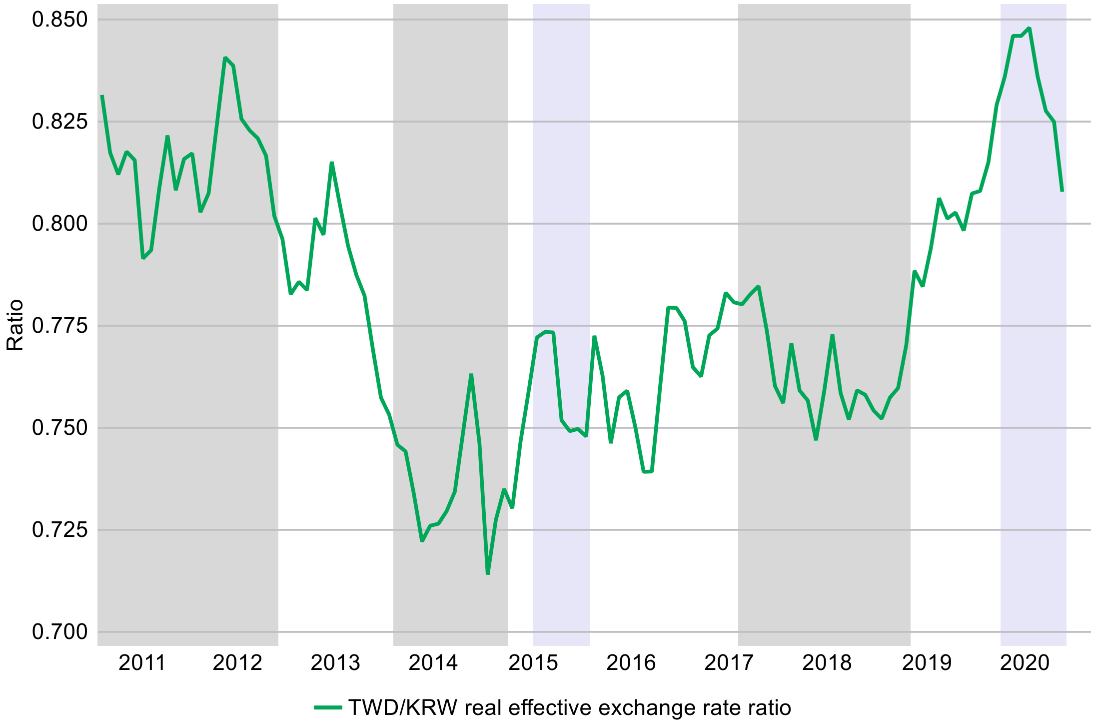
Taiwan and South Korea—growth is powered by electronics

Taiwan and South Korea's electronics industries have been notable beneficiaries of the stay-at-home economy as consumers demanded more home office, home entertainment, and do-it-yourself equipment than otherwise would have been the case. Tailwinds from the ongoing U.S.-China trade conflict have also been crucial for these industries. For example, amid uncertain sanctions facing Huawei, Samsung deepened its U.S. presence by signing a major network deal with Verizon worth US$6.65 billion.[1] On a relative basis, growth in South Korea's technology exports has lagged Taiwan by much more than relative currency competitiveness would suggest. We see scope for this gap to close in 2021.

Taiwan's tech exports have outperformed South Korea's since 2018[2]



Taiwan dollar (TWD) has been more competitive than Korean won (KRW)[3]

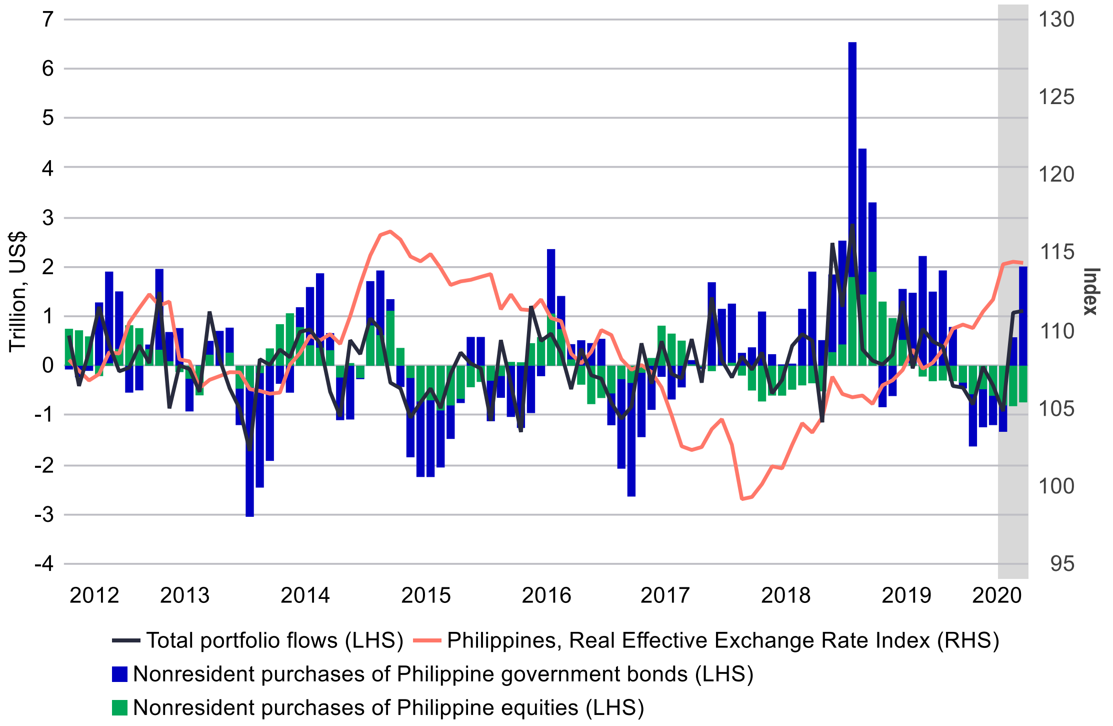


1 "Samsung Wins $6.6 Billion 5G Verizon Deal While Huawei Struggles," Bloomberg, September 7, 2020. **2** Macrobond, Manulife Investment Management,. as of November 30, 2020. **3** Bank of International Settlements, Macrobond, Manulife Investment Management, as of November 30, 2020. The gray areas represent periods of recession in South Korea. The light blue areas represent periods of recession in Taiwan.

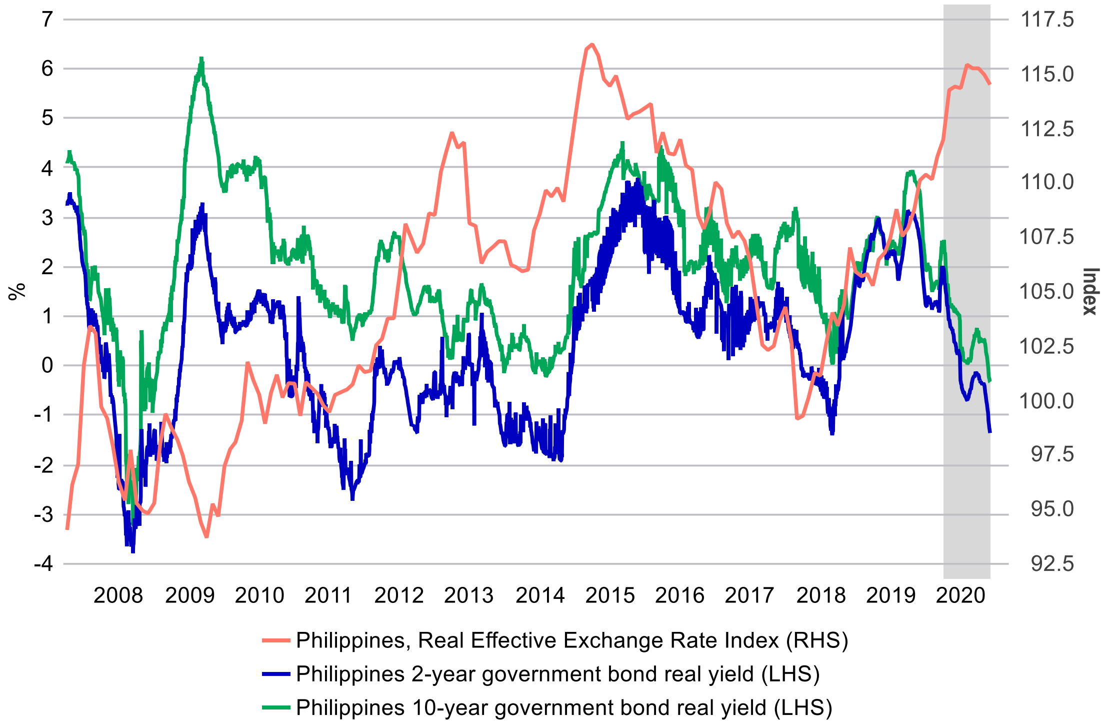
The Philippine peso: scope for underperformance in 2021

Bangko Sentral ng Pilipinas resumed its rate-cutting cycle (providing clear dovish guidance) in November, citing growth concerns, including muted business and household confidence, and the impact of recent natural disasters. We would add fiscal drag to the list, thereby shifting the onus onto the central bank. Public sector spending swung into *negative* territory in Q3 last year with public sector construction activity growth falling to -28.0% year over year from 3.6% in Q1, and government consumption spending growth plunging to 5.8% from 21.8%.[1] The real effective exchange rate for the peso (PHP) is near multidecade highs, but with negative real interest rates and a tapering in portfolio inflows, we see limited scope for PHP outperformance in 2021.

Philippine peso may pull back in line with tapering portfolio inflows[1]



The peso looks richly valued compared to negative bond yields[2]

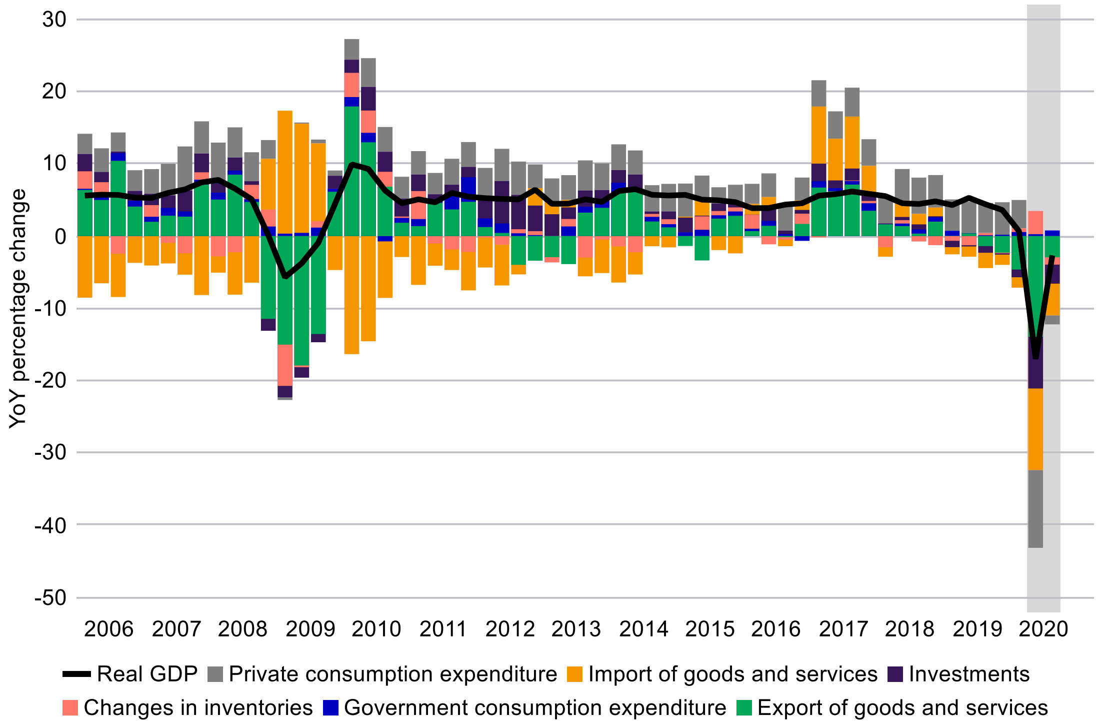


1 International Institute of Finance, Macrobond, Manulife Investment Management, as of June 30, 2020. REER refers to real effective exchange rate. LHS refers to left-hand side; RHS refers to right-hand side. **2** Bank of International Settlements, Bangko Sentral ng Pilipinas, Philippine Dealing and Exchange Corporation, Macrobond, Manulife Investment Management, as of November 30, 2020.

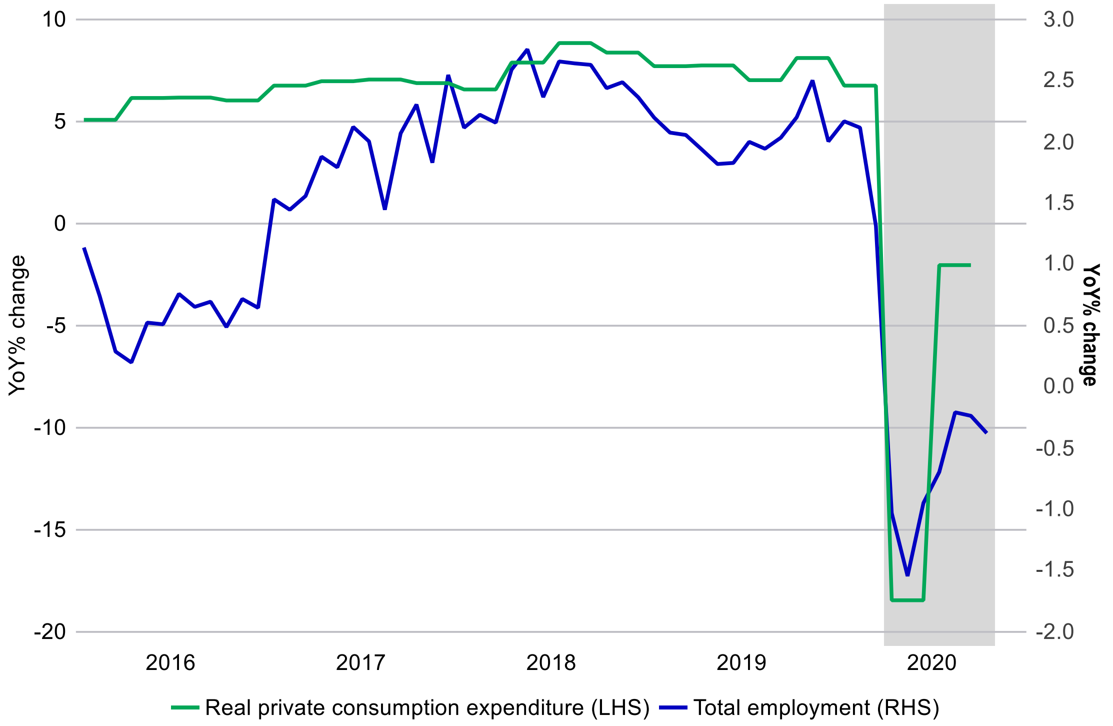
Bank Negara may be too optimistic about growth prospects

In its November statement, Bank Negara Malaysia (BNM) sounded relatively upbeat on the outlook for the economy, noting that "the latest indicators point towards significant improvement in economic activity."[1] We think BNM may be too optimistic—high-frequency mobility data shows activity remains weak. A recovery in the labor market and, by extension, private consumption expenditure, will be crucial to the economic recovery, but weak employment growth suggests downside risk to consumer spending. In early December, Fitch downgraded its sovereign credit rating for Malaysia by one notch to BBB+ from A- rating (stable), citing the impact of the COVID-19 crisis to the economy and to the fiscal balance, lingering political uncertainty, and the downside risks to economic growth.[2]

Contributions to Malaysian GDP growth[3]



Employment is key to Malaysian consumption recovery[3]

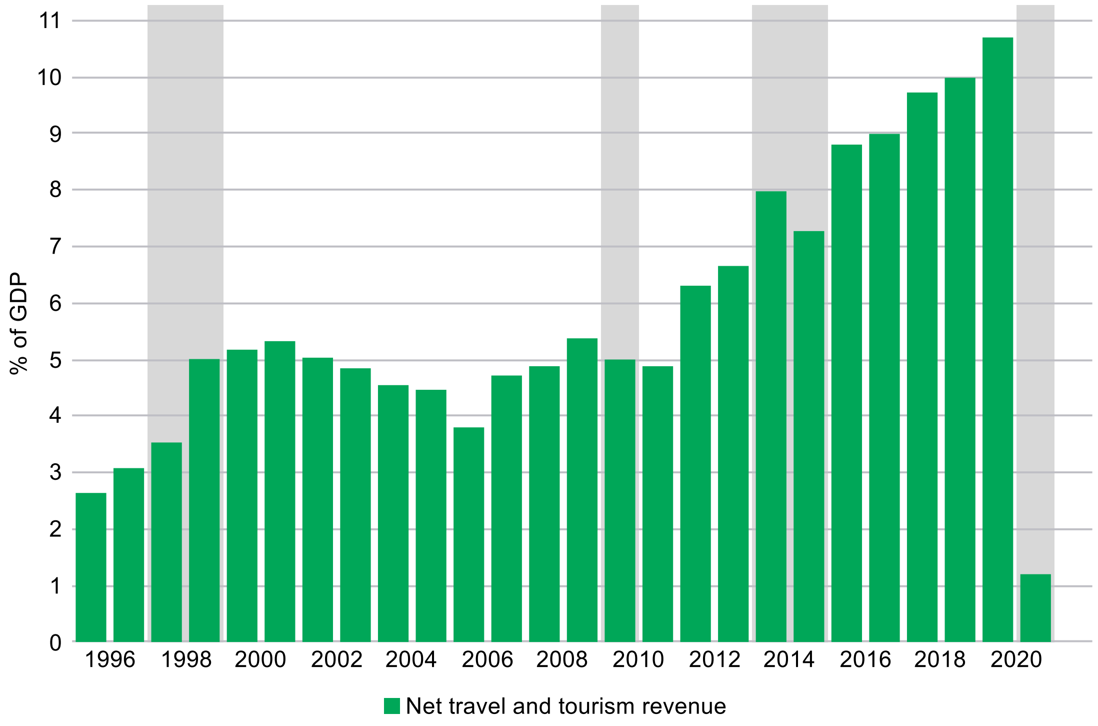


1 "Monetary Policy Statement," Bank Negara Malaysia, November 3, 2020. 2 "Fitch Downgrades Malaysia to 'BBB+'; Outlook Stable," Fitch Ratings, December 4, 2020. 3 Department of Statistics Malaysia, Macrobond, Manulife Investment Management, as of September 30, 2020. Seasonally adjusted, constant prices. YoY refers to year over year. LHS refers to left-hand side; RHS refers to right-hand side. The gray area represents recession.

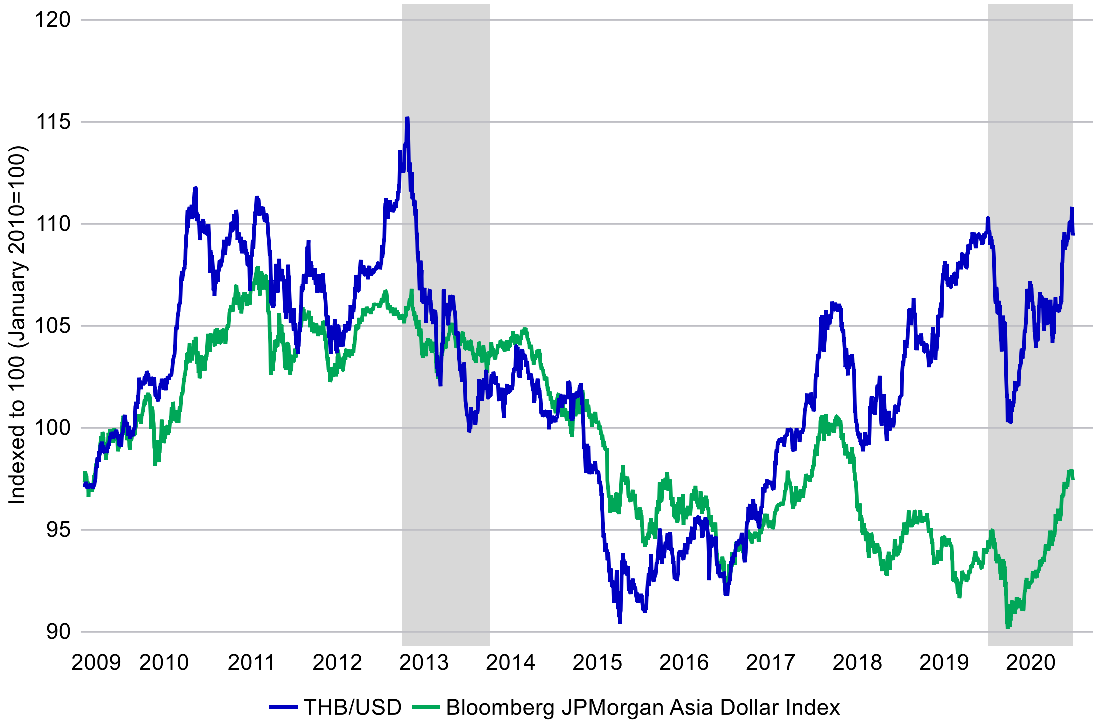
A successful vaccine could boost Thai growth, but THB looks overvalued

Even as people's mobility has largely normalized amid low COVID-19 case counts, the collapse in tourism receipts remains the main drag to Thailand's economy since net travel and tourism revenue accounted for ~10% of GDP prior to the crisis. A widespread and effective vaccine rollout could help reboot Thailand's tourism sector in 2021, as would a weaker exchange rate. The Bank of Thailand and the Thai Finance Minister recently expressed concern about the strength of the Thai baht (THB)—despite being one of the weaker Asian currencies in 2020, THB has outperformed the Bloomberg JPMorgan Asia Dollar Index for a number of years, prompting a number of measures in an attempt to limit THB appreciation. We may see stronger measures in 2021.

Before COVID-19, net travel and tourism revenue was worth ~10% of GDP[1]



THB has outperformed Asian currencies and looks overvalued[2]



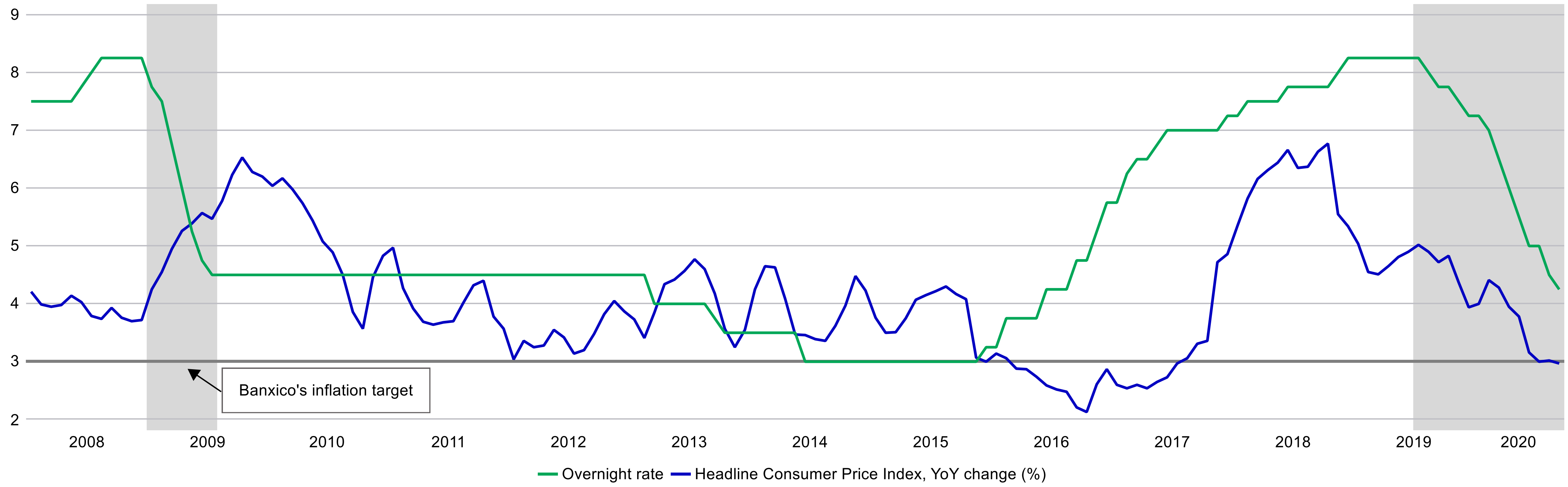
1 World Bank, Macrobond, Manulife Investment Management, as of September 30, 2020. The gray areas represent recession. **2** Bloomberg, JP Morgan, Macrobond, Manulife Investment Management. As of December 15, 2020.

Latam

Banxico hold expected to extend into the first half of 2021

Banxico, the central bank of Mexico, has left rates unchanged since September and policy makers appear comfortable with the idea of an extended hold on rates. Inflation in the country has recovered toward the upper end of the central bank's inflation target range—3% inflation target with a 1% uncertainty band on either side—and policy makers remain sensitive to capital flows in the context of domestic policy uncertainty. The global reflationary impulse will likely pose some upside risk to the outlook for inflation trends in 2021. Regionally, we're already seeing some of Banxico's peers (most notably the Central Bank of Brazil) laying the groundwork for policy tightening in 2021.

Mexico headline CPI and Banxico Overnight Target Rate



Source: Bloomberg, Macrobond, Manulife Investment Management, as December 21, 2020. YoY refers to year over year. The gray areas represent recession.

Definitions

Citi Economic Surprise Index, U.S.	The Citi Economic Surprise Index, U.S., tracks how actual economic data deviates from market expectations by comparing the actual economic data with the median reading of a prerelease survey among market participants. A positive reading suggests that economic releases have, on balance, been beating consensus and vice versa. It is not possible to invest directly in an index.
Bloomberg Barclays Global Aggregate Bond Index	The Bloomberg Barclays Global Aggregate Bond Index tracks the performance of global investment-grade debt in fixed-rate treasury, government-related, corporate, and securitized bond markets. It is not possible to invest directly in an index
ISM manufacturing index	The Institute for Supply Management (ISM) manufacturing index monitors employment, production, inventories, new orders, and supplier deliveries. It is not possible to invest directly in an index.
ZEW Economic Sentiment Index	The Zentrum für Europäische Wirtschaftsforschung (ZEW) Economic Sentiment Index tracks institutional investor sentiment, reflecting the difference between the share of investors that is optimistic and the share of analysts that is pessimistic. It is not possible to invest directly in an index.
Purchasing Managers' Index (PMI)	The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment. It is not possible to invest directly in an index.
Real Effective Exchange Rate	REER refers to the real effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) of a currency, divided by a price deflator or index of costs.
Bloomberg JPMorgan Asia Dollar Index	The Bloomberg JPMorgan Asia Currency Index is a spot index of emerging Asia's most actively traded currencies valued against the U.S. dollar. The composition of the index is primarily based on trade weights. It is not possible to invest directly in an index.

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