Manulife Investment Management

News Release

TSX/NYSE/PSE: MFC SEHK: 945

December 18, 2019

2020 Investment Outlook: Asian fiscal firepower set to sustain growth momentum

- The global and regional easing policy that took place in 2019 will continue into 2020, driving the ongoing search for yield.
- As the world's growth engine, Asia remains an attractive region, particularly among emerging markets, thanks to solid fundamentals.
- Investors will need to be more discriminating and selective during the year ahead.

2019 has been a sanguine year for investment markets, despite a challenging macroeconomic backdrop characterized by growing risks. As the Sino-US trade tension is expected to continue to roil regional markets and impact investor sentiment, investors should be conscious of such but look beyond short-term headlines so as not to miss opportunities for gains and for exposure to some key investment trends that will persist as we move through 2020, Manulife Investment Management says in its regional outlook for the year ahead.

Our annual outlook identifies fiscal policy as a key factor that has defined the macro economic environment recently, the most recent example of which is Japan's announcement of an overall stimulus package worth some $239 billion, of which fiscal spending will make up just over half.

Sue Trinh, Managing Director of Global Macro Strategy, Manulife Investment Management, said: "In our view, the policy space within which global central banks can maneuver to support growth is constrained by the already low level of interest rates. As monetary policy reaches its natural limits, the focus is shifting increasingly toward fiscal policy. This perhaps explains why we've seen a flurry of announcements on the fiscal front in recent months—corporate tax cuts in India and Thailand, labor law reforms in Indonesia that are aimed at boosting investment, and China's decision to bring forward special-purpose bonds for infrastructure spending. Crucially, although the scope for easing fiscal policy varies widely across Asia, it's important to note that much of the region still has room to implement such measures.

The US and China are engaged in a prolonged strategic decoupling. A breakdown in the phased U.S.-China trade talks remains a key risk in the year ahead, particularly as the focus of negotiations broadens to include more complex issues. Sue added: "Within Asia, we prefer markets that are less exposed to trade tensions. As U.S. companies scramble to identify alternative products to replace Chinese imports, Malaysia is likely to feature near the top of their list in the short run, with Thailand

and the Philippines not far behind. However, if the global manufacturing and supply chain were to shift away from China in a more permanent fashion, Vietnam is likely to be the main beneficiary over the longer term, followed by Malaysia, Singapore, and India."

Amid the U.S.-China decoupling, we hold a relatively sanguine view of global risk assets across classes in 2020. Given structurally lower interest rates are one of the key drivers of the ongoing search for yield, this will favour asset classes that can offer investors positive real yields in a world where negative-yielding debt now tops US$12.5 trillion[1].

Asian equities: Eye for both cyclical and structural opportunities

2020 is likely to be a turnaround year as the successive rounds of tariff hikes, which brought trade and investment to a near standstill this year, come to an end. **Ronald Chan, Chief Investment Officer, Equities, Asia (ex-Japan), Manulife Investment Management,** believes that Asian equities offers a better risk / reward in 2020 and the region offers an attractive diversity of opportunities for investors given global equities are at record highs and bond yields are near historical lows.

"The de-escalation on the trade front has already provided green shoots in Asian economic activity such as the resilience in tech exports from Taiwan, demand surge in 5G and higher IT concentration in Asia manufacturing processes," **Ronald** said. "The combination of potential USD weakness, lower local interest rates, and improving Asia tech fundamentals and consumer discretionary spending should provide better earnings delivery in Asia compared to developed markets. Unlike the US markets with an election overhang, Asian valuations remain reasonable and earnings growth will be one of the key drivers for Asia markets in the coming year."

In North Asia, continued substitution by Chinese technology firms due to uncertainty over United States supplier access, better-than expected orders for smartphone components, and an accelerated rollout of 5G-related products should continue to benefit the IT suppliers from Taiwan. Korean earnings should also benefit in 2020 from a recovery in the global technology capex cycle and a continued rebound in semiconductor pricing.

In South and Southeast Asia, markets such as India, Indonesia and the Philippines have further room to cut interest rates, while a number of Southeast Asia economies are fiscally positioned for further infrastructure spending. We foresee that India, Indonesia and Vietnam are best positioned to benefit from two emerging trends: deepening economic reforms and shifting regional supply chains. In India, the government is reaping dividends from structural economic reforms carried out over the last three years. After elections last year, the government cut the basic corporate tax rate and introduced further tax incentives to attract manufacturing firms - improving the business environment and investment prospects. With this unique opportunity to boost growth, we are selectively positive on companies in financials and industrials.

"Asia's economic growth prospects arguably outweigh those of other emerging markets, as global growth stabilises in 2020, offering both cyclical and structural opportunities as mentioned above.

[1] Bloomberg, as of November 2019

Further, with many structural opportunities more levered to domestic demand than the global economic cycle, they also could provide valuable diversification benefits for global investors," **Ronald** said.

Asia Fixed Income: Opportunities in the Asian local currency bond market

Asian fixed income posted strong gains in 2019 in an environment mainly driven by the Fed's accommodative monetary policy, with both investment-grade and high-yield credit segments advancing[2]. Asia is still expected to post the fastest GDP growth among developed and emerging markets over the next two years, despite protracted global trade tensions[3]. Importantly, Asia is one of the few regions that still enjoys capacity for monetary and fiscal stimulus. Asian markets have a more extensive range of interest rates (2000 to present) than many others[4], which means it may be better positioned for a handoff to fiscal policy.

Endre Pedersen, Chief Investment Officer, Fixed Income, Asia (ex-Japan), Manulife Investment Management, said: "We believe Asian fixed income will continue to be a relative beneficiary of a favorable macro backdrop in 2020, in which quality Asian credits should be broadly supported. However, a sluggish global economy means that investors should pay increased attention to risk.

"For Asian corporate bonds, we do not expect that a pickup in defaults and refinancing issues will present a problem for high-quality names, which will provide support for credit spreads next year. Overall, we prefer the credits of strategically important state-owned enterprises SOEs and local government financing vehicles (LGFVs), which stand to benefit from a continuation of the government support via lending and fiscal stimulus. One area which our credit team will remain cautious on is the country's LGFVs operating in sectors that are not systemically important and in which we expect the Chinese government to permit defaults onshore as part of the push to encourage tighter discipline and reduce moral hazard.

Investors will also be able to tap into a diverse array of economies outside China, particularly in Southeast Asia where our investment teams operate on-the-ground. We believe that the Asian local currency bond markets of domestically-driven economies stand out, given their sound fundamentals and compelling real yields." **Endre** added: "We remain positive on fixed-income opportunities in Indonesia and Malaysia, as we believe those markets have room for monetary easing by cutting interest rates further in 2020."

Looking ahead, the chances of a broad-based increase in risk asset volatility might diminish as global central banks remain committed to accommodative monetary policies. However, we will be mindful of specific volatility in individual asset classes and explicit market risks. For us, diversification, flexibility and credit risk management have always been part of our DNA.

– End –

[2] JACI investment grade posted a 10.73% gain, while JACI high-yield posted a 11.58% gain up to 6 December 2019
[3] International Monetary Fund World Economic Outlook, October 2019: Projected real GDP growth for Emerging and Developing Asia is 6%, versus 1.7% for Advanced Economies, 2.5% for Emerging and Developing Europe and 1.8% for Latin America and the Caribbean.
[4] Nomura, August 2019

About Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than 150 years of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-asset solutions, and private markets teams—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

Headquartered in Toronto, we operate as Manulife Investment Management throughout the world, with the exception of the United States, where the retail and retirement businesses operate as John Hancock Investment Management and John Hancock, respectively; and in Asia and Canada, where the retirement business operates as Manulife. Manulife Investment Management had US$645 billion in assets under management and administration as of September 30, 2019[1]. Not all offerings available in all jurisdictions. For additional information, please visit our website at manulifeinvestmentmgt.com.

1. Source: MFC financials. Global Wealth and Asset Management AUMA at September 30, 2019 was US$881 billion.

For media enquiries, please contact:

Willa Lau

Manulife Investment Management

Phone: +852 2919 3259

Email: willa_ps_lau@manulifeam.com