

# Travel with Caution, Not Fear

## **Philip Petursson, CIM**

Chief Investment Strategist  
Philip\_Petursson@Manulife.com

## **Macan Nia, CFA**

Senior Investment Strategist  
Macan\_Nia@Manulife.com

## **Kevin Headland, CIM**

Senior Investment Strategist  
Kevin\_Headland@Manulife.com



# Setting the Stage

---

## Economic Conditions

- Global economic growth has slowed as many of the leading economic indicators such as PMI have rolled over. However, we continue to believe that the risk of recession in 2019 is low.

## Equity Market Considerations

- Equities were undervalued around the world following the sell-off at the end of the year. The strong rally to start the year has brought most major equity indices back to fair value. It is hard to argue that markets are overvalued.

## Fixed Income Considerations

- We reaffirm our theme of **“The Worst is Behind Us”**. In fact, considering we are late cycle for this expansion, a re-examination of our defense in our portfolios is worthwhile.

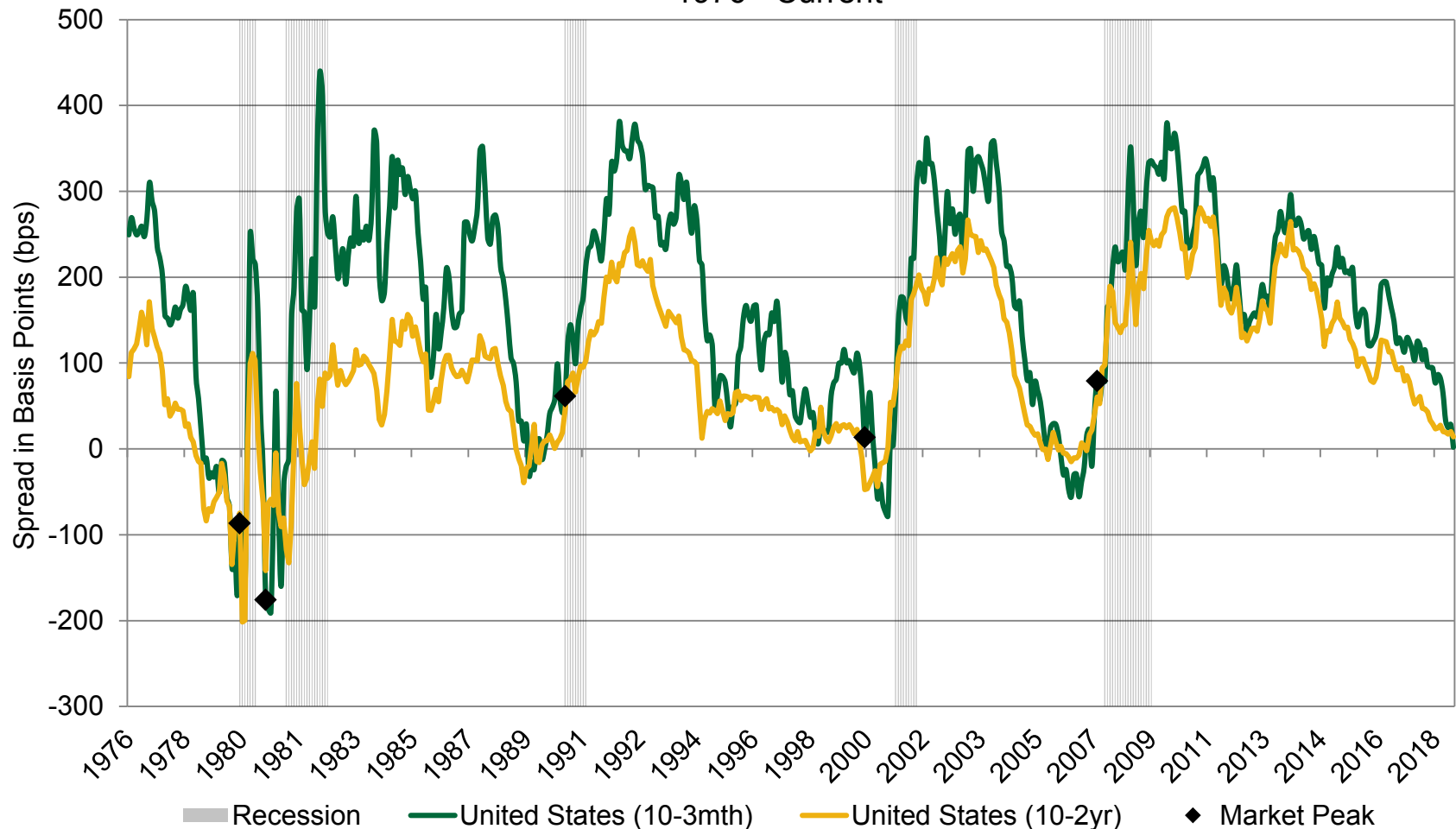
# Typical Signs Of Recession Are Not Present

Sign of Recession	Present today
Inverted Yield Curve	No
ISM Manufacturing PMI Below 45	No
Positive Inflationary Trends	No
Capacity Utilization above 80% and peaking	No
Housing Starts Declining	Yes
Labor Market Weakening	No
Leading Economic Indicators Negative	No

Source: Manulife Investments. As of March 31, 2019

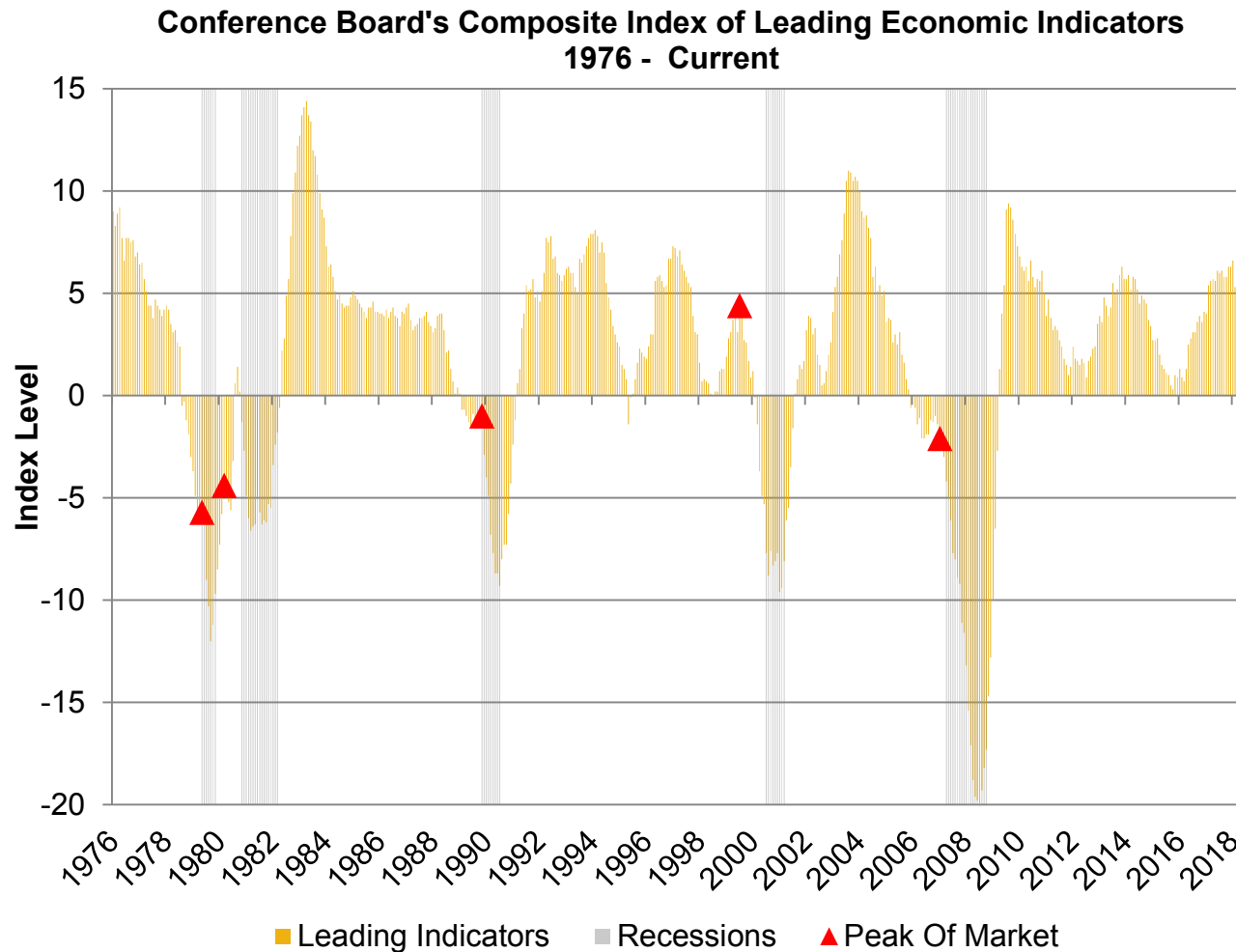
# Don't Fear The Inversion... yet

U.S. Yield Curve Spreads (10 yr - 3months) & (10yr - 2yr)  
1976 - Current



Source: Manulife Investments, Bloomberg. As of March 31, 2019

# US Expansion Remains Intact



The Conference Board's  
Composite Index of Leading  
Economic Indicators  
(**positive**/neutral/**negative**)

1. **Average weekly initial claims for unemployment insurance**
2. **Average weekly hours, manufacturing**
3. **Manufacturers' new orders, consumer goods and materials**
4. **ISM® Index of New Orders**
5. **Manufacturers' new orders, non-defense capital goods**
6. **Building permits, new private housing units**
7. **Stock prices, 500 common stocks**
8. **Leading Credit Index™**
9. **Interest rate spread, 10-year Treasury bonds less federal funds**
10. **Average consumer expectations for business conditions**

Source: The Conference Board, Bloomberg. As of February 28, 2019

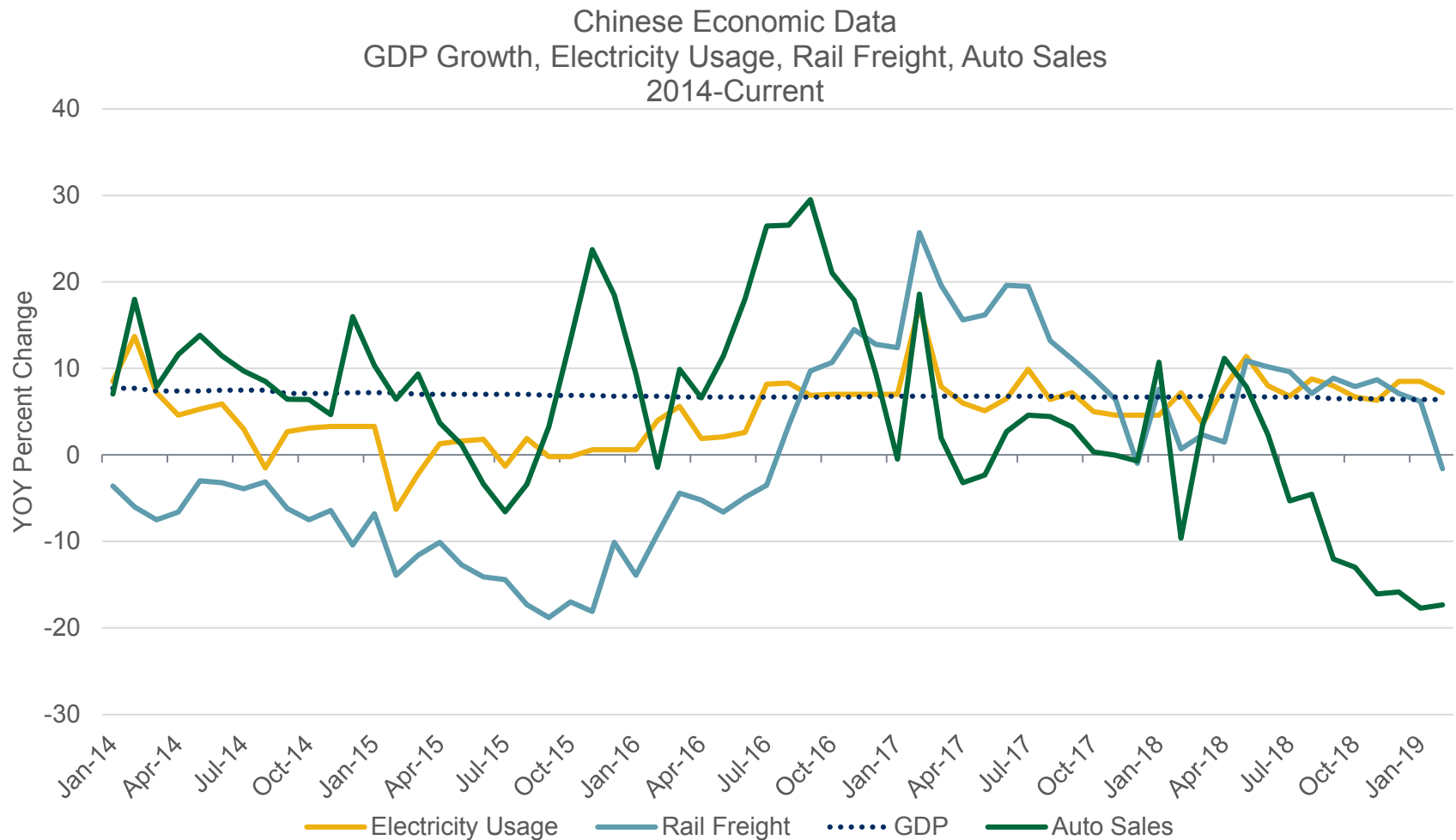
# Global Manufacturing PMI Heat Map

	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19
JPMorgan Global PMI	53.0	53.0	52.7	52.6	52.6	52.7	53.2	53.3	53.5	54.1	54.5	54.4	54.1	53.3	53.5	53.1	53.0	52.8	52.6	52.2	52.0	52.0	51.4	50.8	50.6
United States	54.2	53.3	52.8	52.7	52.0	53.3	52.8	53.1	54.6	53.9	55.1	55.5	55.3	55.6	56.5	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53.0
Canada	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55.0	54.3	54.4	54.7	55.9	55.6	55.7	55.5	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6
Mexico	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8	49.2	52.4	51.7	52.6	51.6	52.4	51.6	51.0	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6
U.K.	54.5	54.2	57.3	56.7	54.3	55.3	56.7	55.9	56.6	58.2	56.3	55.3	55.0	54.9	53.9	54.3	54.3	53.8	53.0	53.6	51.1	53.6	54.2	52.6	52.0
Eurozone	55.4	56.2	56.7	57.0	57.4	56.6	57.4	58.1	58.5	60.1	60.6	59.6	58.6	56.6	56.2	55.5	54.9	55.1	54.6	53.2	52.0	51.8	51.4	50.5	49.3
Germany	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6	60.6	62.5	63.3	61.1	60.6	58.2	58.1	56.9	55.9	56.9	55.9	53.7	52.2	51.8	51.5	49.7	47.6
Switzerland	57.8	58.6	57.4	55.6	60.1	60.9	61.2	61.7	62.0	65.1	65.6	65.3	65.5	60.3	63.6	62.4	61.6	61.9	64.8	59.7	57.4	57.7	57.5	54.3	54.4
Holland	58.3	57.8	57.8	57.6	58.6	58.9	59.7	60.0	60.4	62.4	62.2	62.5	63.4	61.5	60.7	60.3	60.1	58.0	59.1	59.8	57.1	56.1	57.2	55.1	52.7
France	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56.1	56.1	57.7	58.8	58.4	55.9	53.7	53.8	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5
Italy	55.0	55.7	56.2	55.1	55.2	55.1	56.3	56.3	57.8	58.3	57.4	59.0	56.8	55.1	53.5	52.7	53.3	51.5	50.1	50.0	49.2	48.6	49.2	47.8	47.7
Spain	54.8	53.9	54.5	55.4	54.7	54.0	52.4	54.3	55.8	56.1	55.8	55.2	56.0	54.8	54.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4	49.9
Ireland	53.8	53.6	55.0	55.9	56.0	54.6	56.1	55.4	54.4	58.1	59.1	57.6	56.2	54.1	55.3	55.4	56.6	56.3	57.5	56.3	54.9	55.4	54.5	52.6	54.0
Czech Republic	57.6	57.5	57.5	56.4	56.4	55.3	54.9	56.6	58.5	58.7	59.8	59.8	58.8	57.3	57.2	56.5	56.8	55.4	54.9	53.4	52.5	51.8	49.7	49.0	48.6
Hungary	59.4	55.9	56.2	61.9	56.9	54.2	56.8	59.3	58.3	58.8	60.5	61.1	57.2	56.6	53.3	55.2	52.9	53.3	56.0	54.1	57.1	53.5	54.3	54.7	55.7
Poland	54.2	53.5	54.1	52.7	53.1	52.3	52.5	53.7	53.4	54.2	55.0	54.6	53.7	53.7	53.9	53.3	54.2	52.9	51.4	50.5	50.4	49.5	47.6	48.2	47.6
Greece	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8	52.1	52.2	53.1	55.2	56.1	55.0	52.9	54.2	53.5	53.5	53.9	53.6	53.1	54.0	53.8	53.7	54.2
Australia	59.3	57.5	59.2	54.8	55.0	56.0	59.8	54.2	51.1	57.3	56.2	58.7	57.5	63.1	58.3	57.5	57.4	52.0	56.7	59.0	58.3	51.3	49.5	52.5	54.0
New Zealand	50.0	49.5	47.5	48.6	50.9	50.1	50.5	55.1	56.0	53.4	54.9	58.8	55.1	59.4	57.1	54.3	55.7	57.0	56.4	56.2	56.5	58.4	55.2	52.6	53.3
Japan	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.9	52.8	53.6	54.0	54.8	54.1	53.1	53.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9
China (caixin)	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51.0	51.0	50.8	51.5	51.5	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9
South Korea	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6	50.2	51.2	49.9	50.7	50.3	49.1	48.4	48.9	49.8	48.3	49.9	51.3	51.0	48.6	49.8	48.3	47.2
Taiwan	54.5	56.2	54.4	53.1	53.3	53.6	54.3	54.2	53.6	56.3	56.6	56.9	56.0	55.3	54.8	53.4	54.5	53.1	53.0	50.8	48.7	48.4	47.7	47.5	46.3
Vietnam	54.2	54.6	54.1	51.6	52.5	51.7	51.8	53.3	51.6	51.4	52.5	53.4	53.5	51.6	52.7	53.9	55.7	54.9	53.7	51.5	53.9	56.5	53.8	51.9	51.2
Indonesia	49.3	50.5	51.2	50.6	49.5	48.6	50.7	50.4	50.1	50.4	49.3	49.9	51.4	50.7	51.6	51.7	50.3	50.5	51.9	50.7	50.5	50.4	51.2	49.9	50.1
Malaysia	49.4	49.5	50.7	48.7	46.9	48.3	50.4	49.9	48.6	52.0	49.9	50.5	49.9	49.5	48.6	47.6	49.5	49.7	51.2	51.5	49.2	48.2	46.8	47.9	47.6
Singapore	51.4	52.2	52.6	51.4	50.7	51.3	53.2	53.7	54.2	54.4	52.1	53.6	55.3	53.7	55.6	56.8	56.0	53.0	51.1	49.6	52.6	53.8	52.7	50.1	49.8
India	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7	52.4	52.1	51.0	51.6	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3
Brazil	46.9	49.6	50.1	52.0	50.5	50.0	50.9	50.9	51.2	53.5	52.4	51.2	53.2	53.4	52.3	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4
Turkey	49.7	52.3	51.7	53.5	54.7	53.6	55.3	53.5	52.8	52.9	54.9	55.7	55.6	51.8	48.9	46.4	46.8	49.0	46.4	42.7	44.3	44.7	44.2	44.2	46.4
South Africa	50.5	50.7	50.3	50.2	49.0	50.1	49.8	48.5	49.6	48.8	48.4	49.0	51.4	51.1	50.4	50.0	50.9	49.3	47.2	48.0	46.9	48.2	49.0	49.6	50.2
Saudi Arabia	57.0	56.4	56.5	55.3	54.3	55.7	55.8	55.5	55.6	57.5	57.3	53.0	53.2	52.8	51.4	53.2	55.0	54.9	55.1	53.4	53.8	55.2	54.5	56.2	56.6
Russia	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9	51.1	51.5	52.0	52.1	50.2	50.6	51.3	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9	50.1

Source: Manulife Investments, Bloomberg. As of February 28, 2019



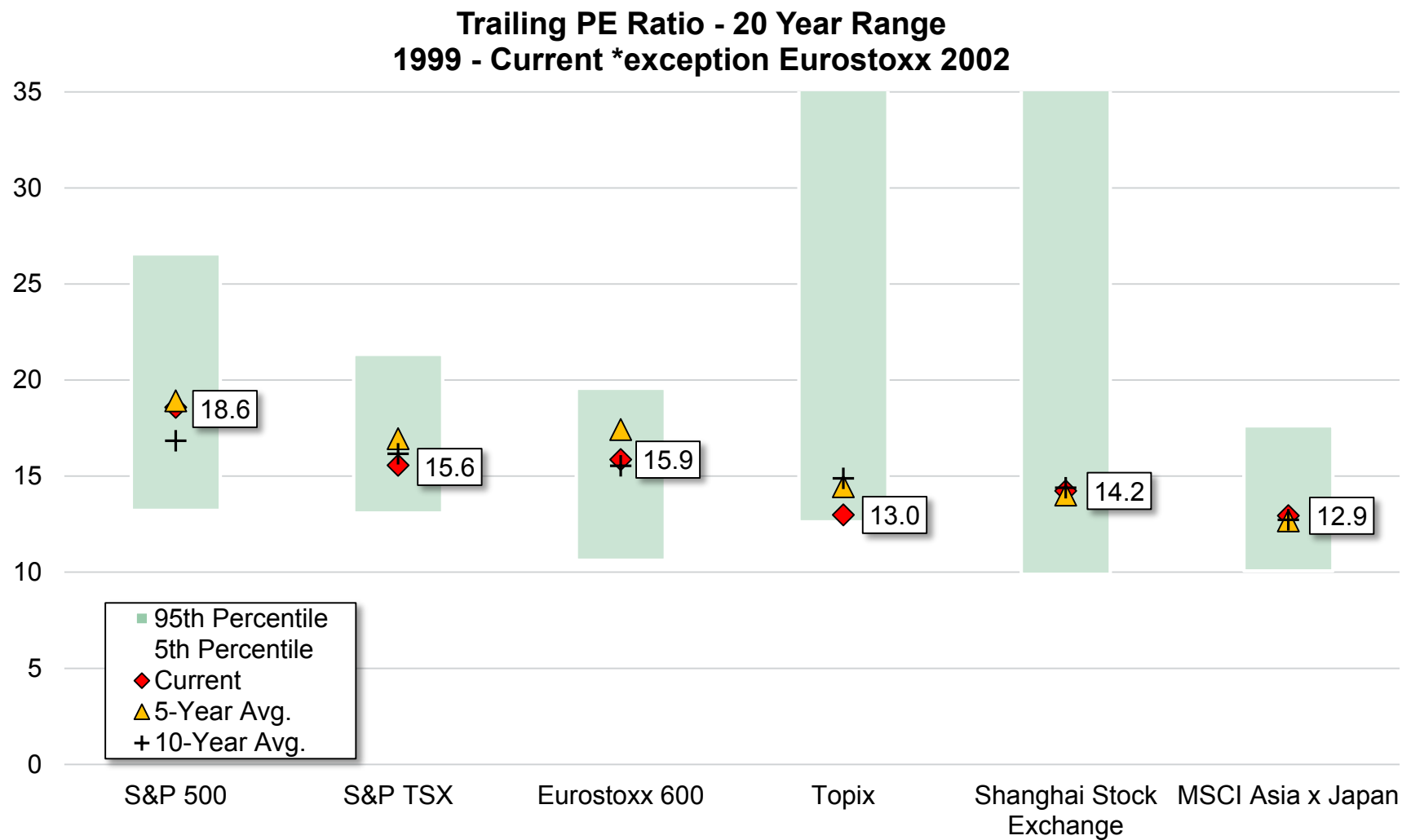
# Chinese economic data – is it a Q2 story?



Source: Manulife Investments, Bloomberg. As of February 28, 2019



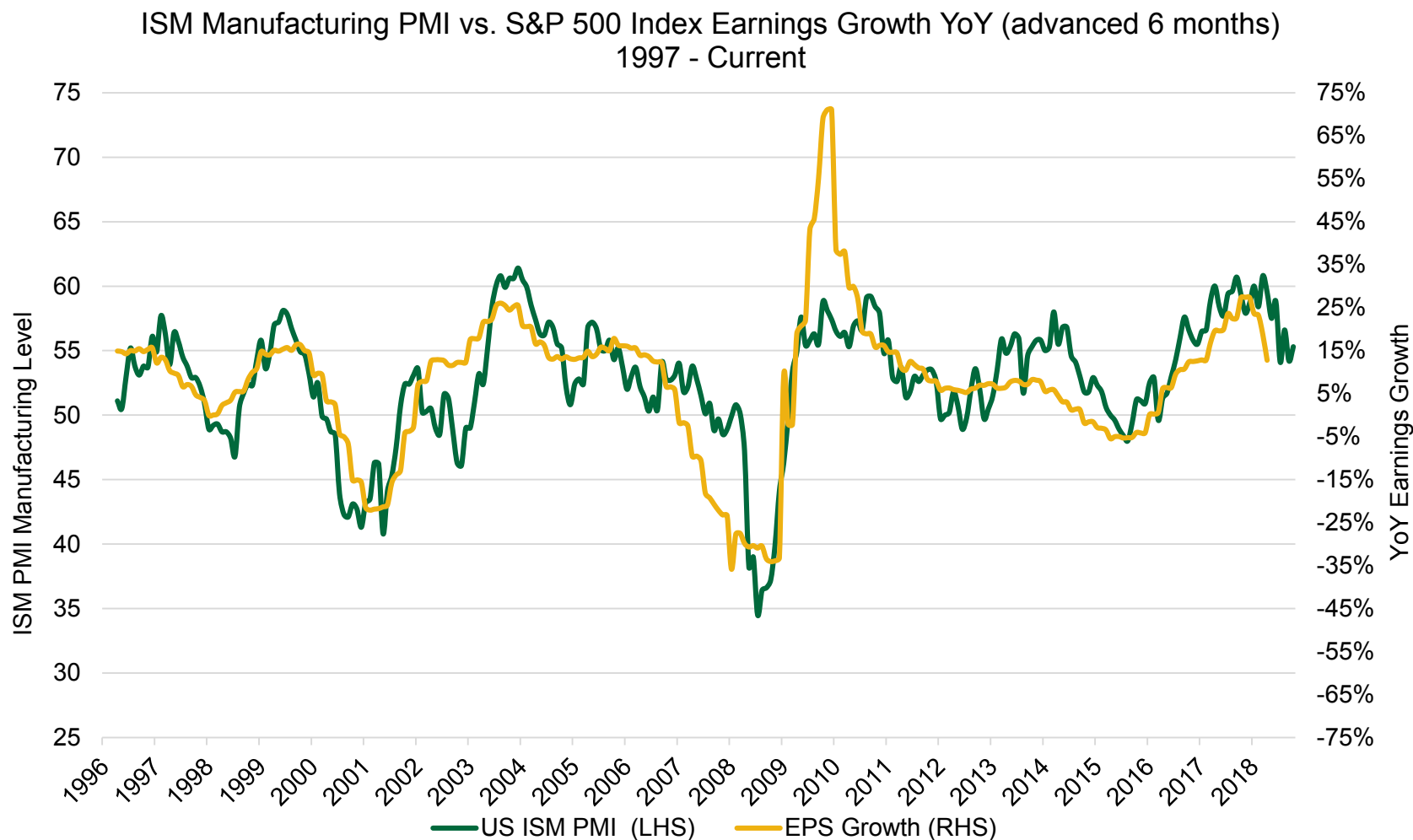
# Its hard to make a case that stocks are over-valued



Source: Manulife Investments, Bloomberg. As of Mach 31, 2019



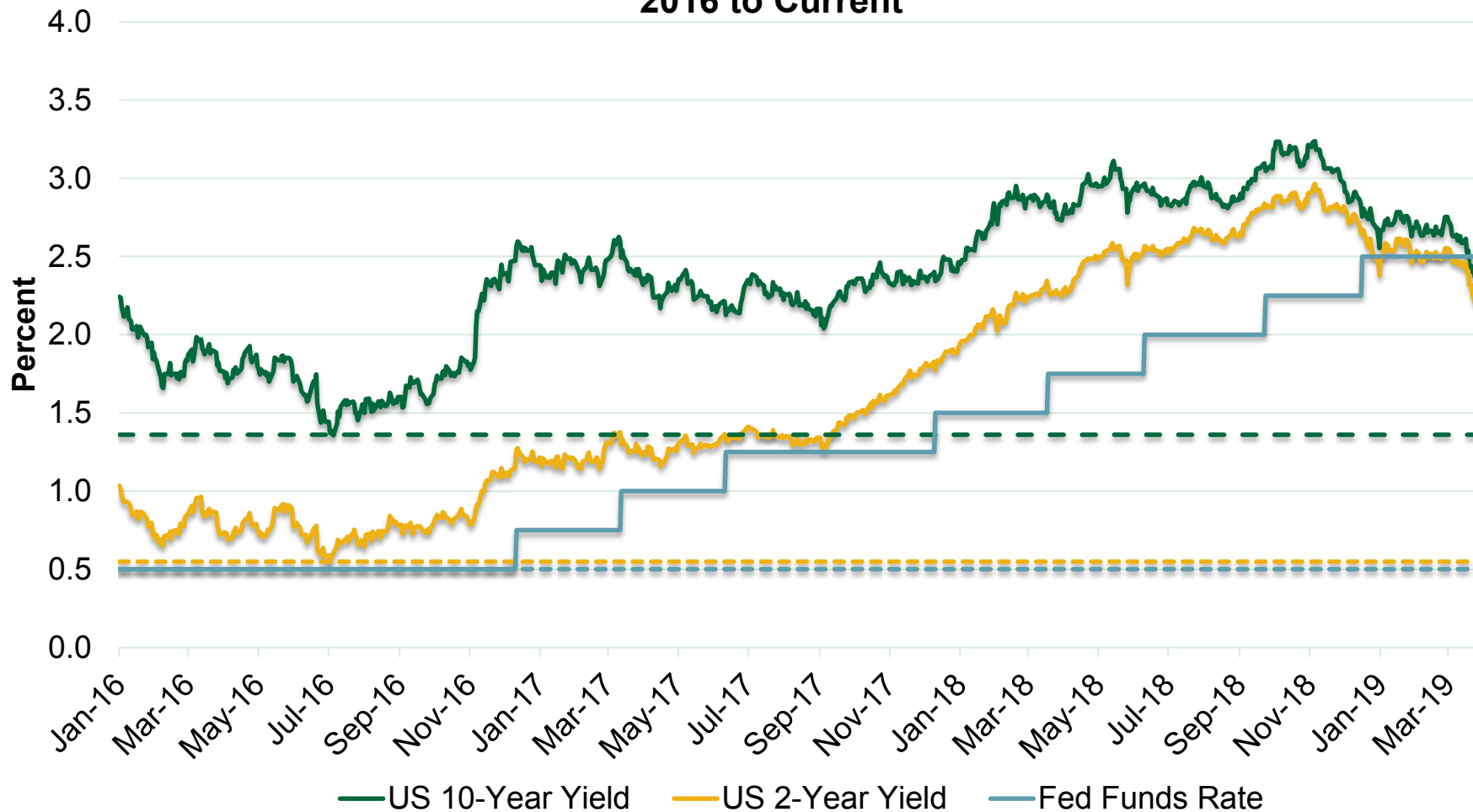
# ISM Manufacturing PMI indicates positive but lower earnings growth



Source: Manulife Investments, Bloomberg. As of March 31, 2019

# We may have seen the end of this tightening cycle

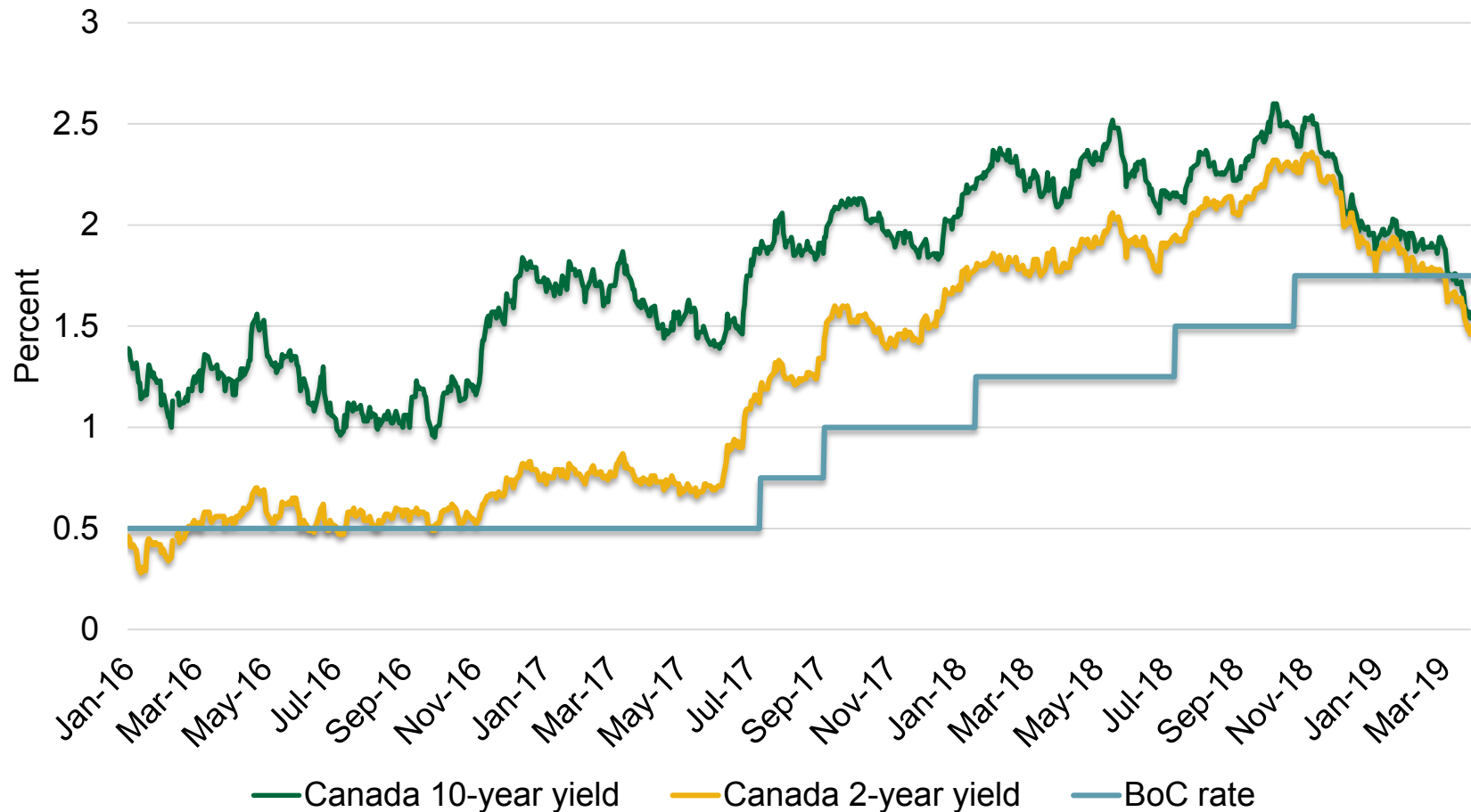
**US 10 and 2 Year Yields  
2016 to Current**



Source: Manulife Investments, Bloomberg. As of March 27, 2019

# Canada rates

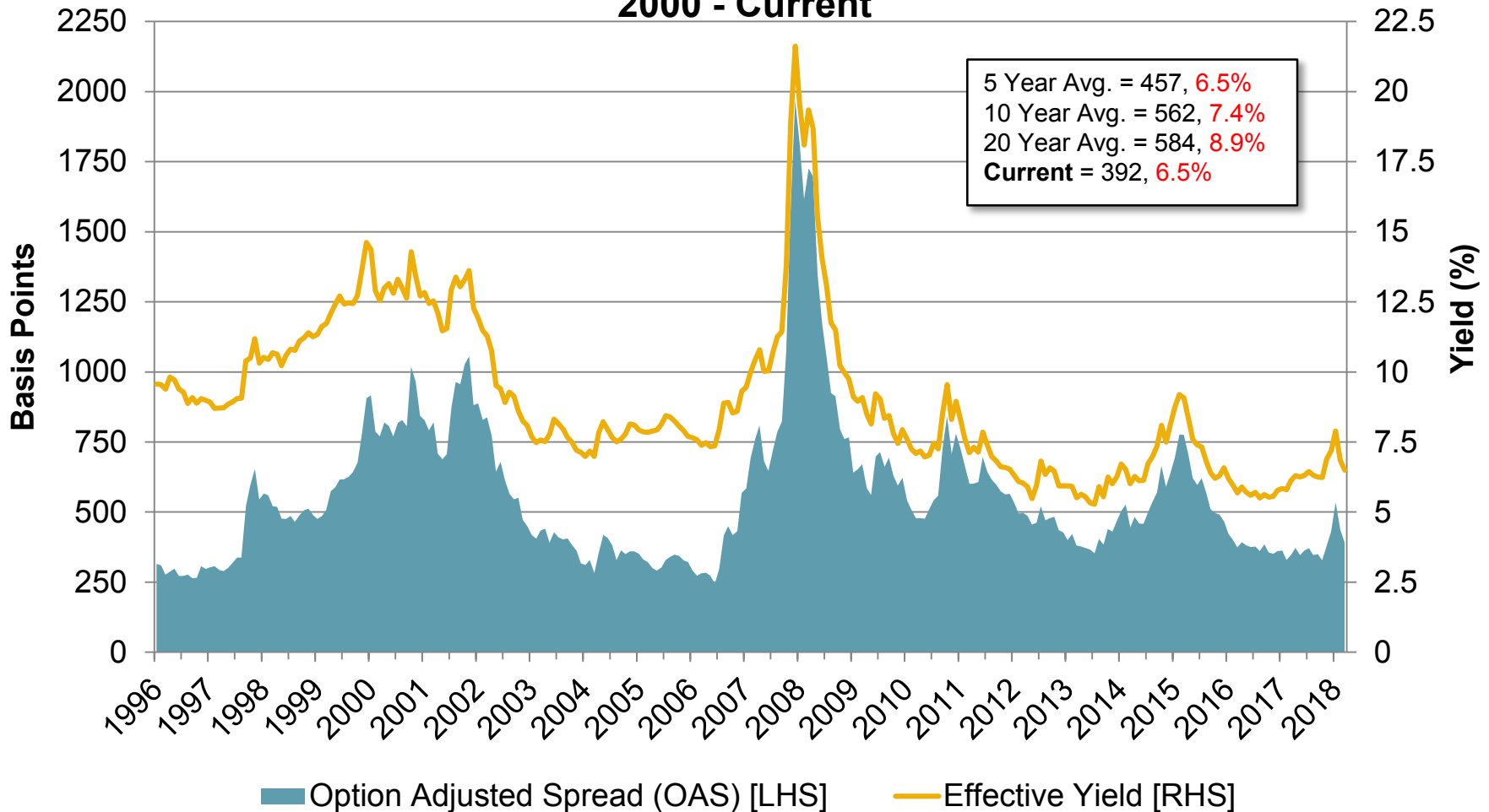
**Canada 10 and 2 Year Yields and Bank of Canada Rates  
2016 to Current**



Source: Manulife Investments, Bloomberg. As of March 27, 2019

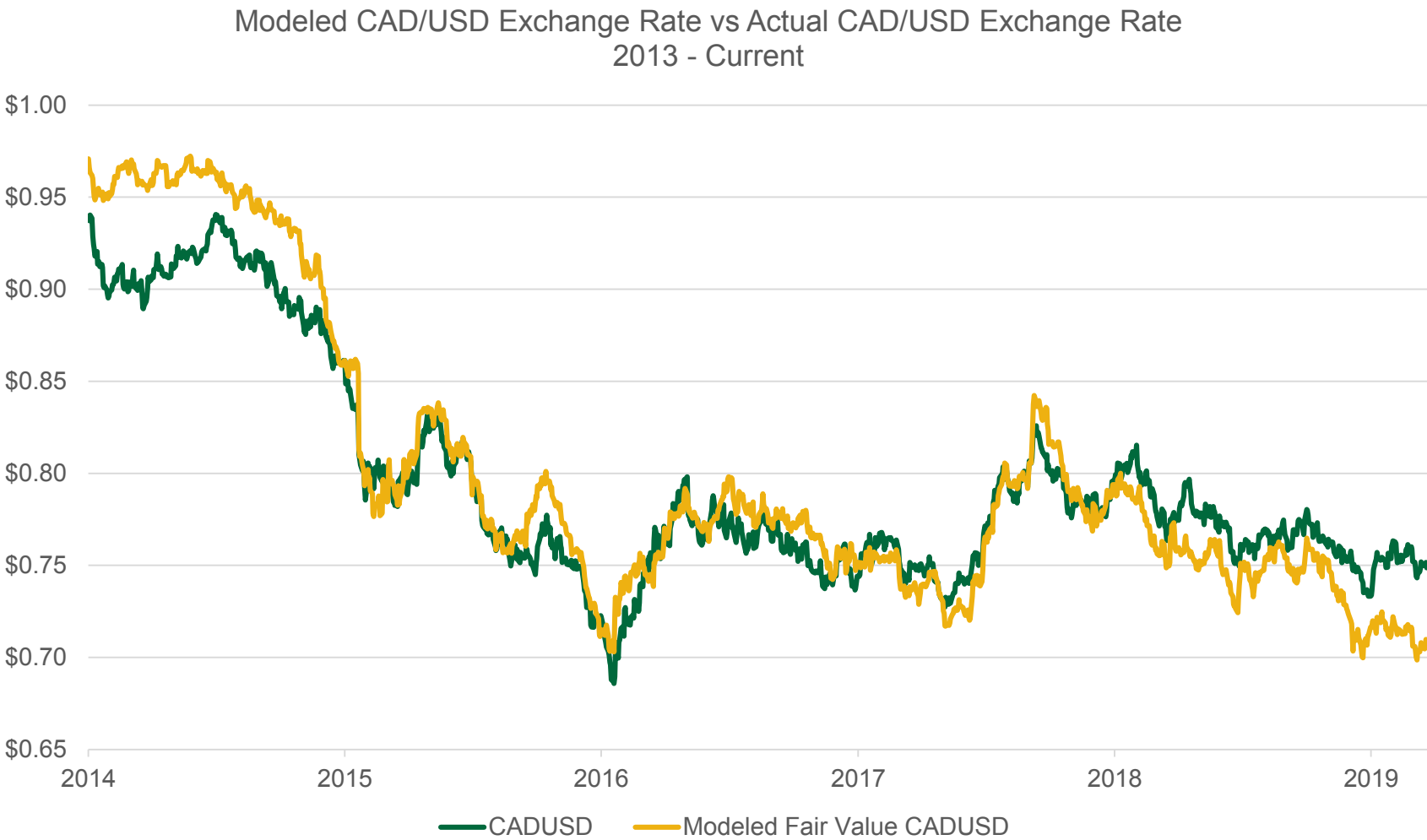
# High yield and spreads

**U.S. High Yield - Spreads (OAS) & Yield  
2000 - Current**



Source: Manulife Investments, Bloomberg. As of February 28, 2019

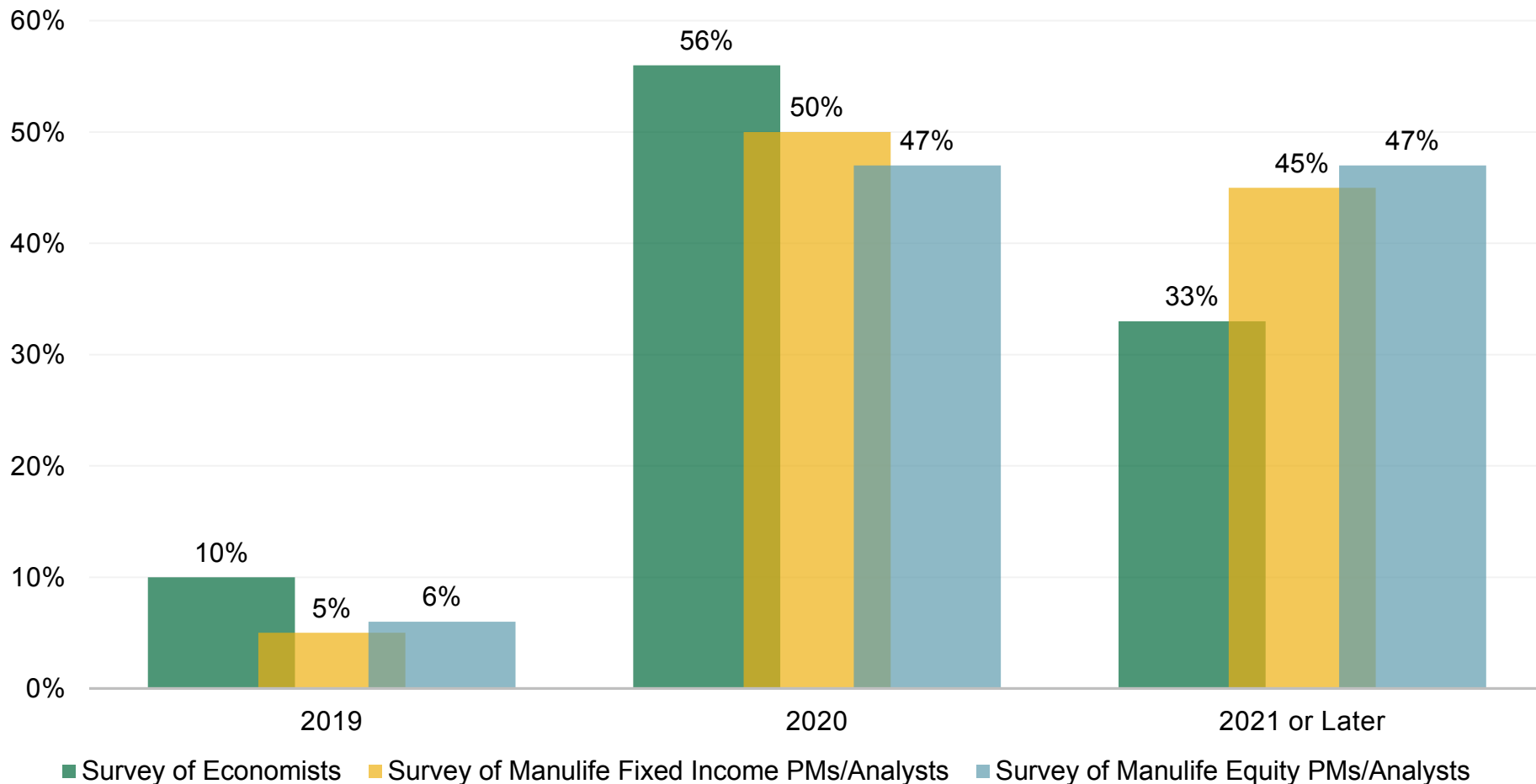
# CADUSD fair value at US\$0.72 (as at 4/1/2019)



Source: Manulife Investments, Bloomberg. As of March 27, 2019

# When Do You Think The Next Recession Will Begin?

Survey: “When will the next recession begin?”



Source: National Association of Business Economics, Manulife as of November 2018

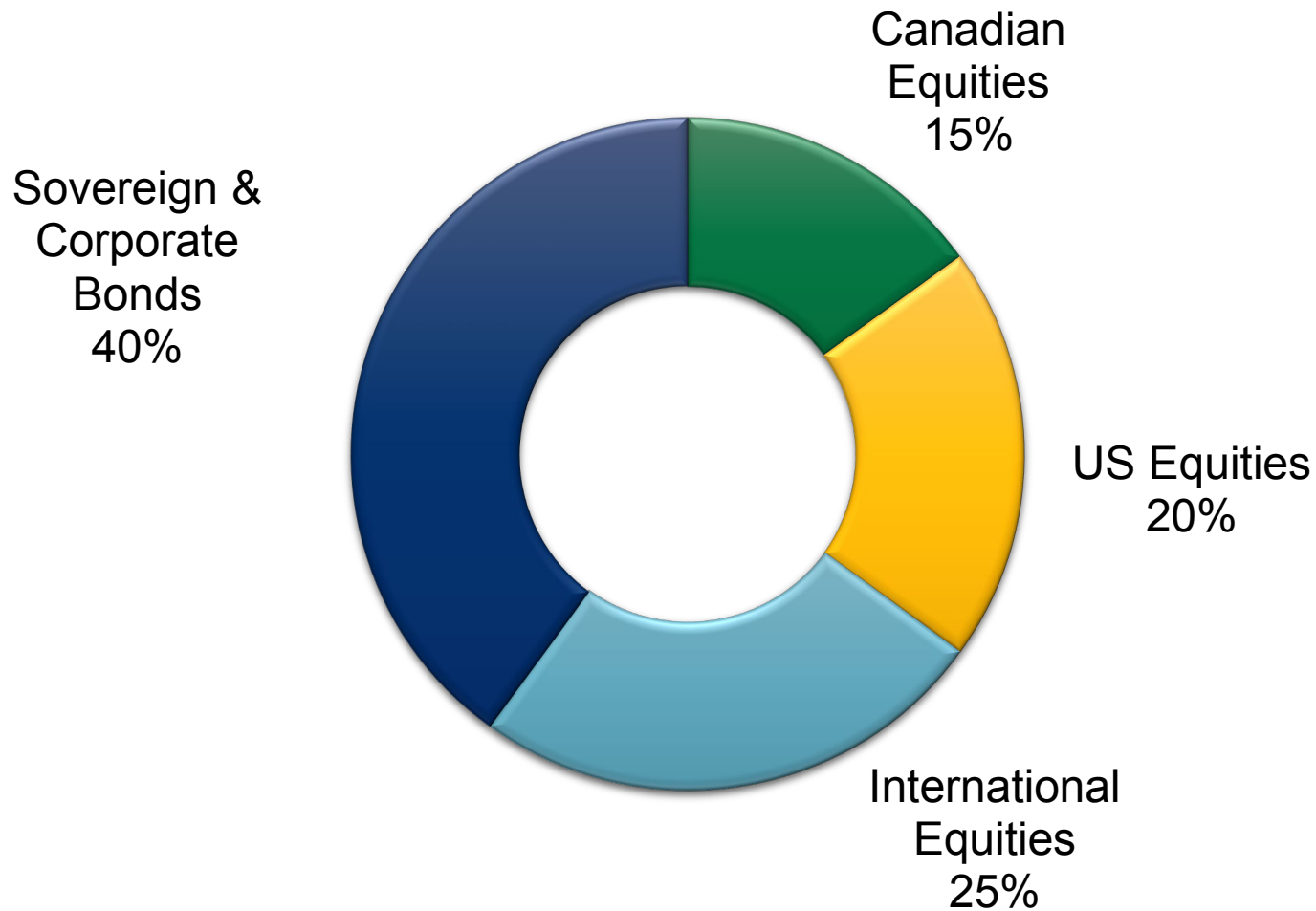
# Table of returns in recession, pre and post

	S&P 500	US Gov't	US Credit	US High Yield Bonds	CADUSD
R - 24 months**	8.3%	6.1%	3.2%	4.6%	0.8%
R - 12 months	5.5%	6.3%	2.6%	1.7%	1.2%
Recession Period	-7.7%	12.5%	11.0%	0.6%	-3.1%
Equity Peak to Trough	-36.4%	13.3%	6.9%	-16.7%	-6.4%
Trough + 1 Yr	44.1%	9.1%	17.1%	45.8%	7.6%
R + 12 months	7.9%	7.1%	9.2%	17.3%	0.8%
R + 24 months **	6.2%	8.5%	10.8%	17.9%	1.0%

\*\* CAGR (Compound Annual Growth Rate)

# Capital Markets & Strategy Model Asset Mix

---



Source: Manulife Investments. As of March 31, 2019



# How to Stay In Touch



## Market Intelligence

Client friendly quarterly market overview (PDF)



## Exclusive Monthly Email

Contact us to be added to the distribution list



## in\*vest\*ments : Unplugged

Podcast



## Quarterly Market Intelligence videos

# Important Information

---

## FOR ADVISOR USE ONLY

The information provided in this presentation is for advisor use only and is not intended for the general public.

Manulife Funds and Manulife Corporate Classes are managed by Manulife Mutual Funds

Manulife, Manulife Mutual Funds, the Manulife Mutual Funds For Your Future logo, the Block Design, the Four Cubes Design, and Strong Reliable Trustworthy Forward-thinking are trademarks of The Manufacturers Life Insurance Company and are used by it, and by its affiliates under license.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. The indicated rates of return are the historical annual compounded total returns including changes in share/unit value and reinvestment of all dividends/distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

Manulife and the block design are registered service marks and trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.

The views expressed are those of Manulife Investments as of March 2019, and are subject to change based on market and other conditions. Information about a portfolio's holdings, asset allocation, or country diversification is historical and is no indication of future portfolio composition, which will vary. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, financial or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife, Manulife Asset Management, nor any of its affiliates or representatives is providing tax, financial or legal advice. Past performance does not guarantee future results.

Manulife Asset Management is the asset management division of Manulife. Manulife Asset Management's diversified group of companies and affiliates provide comprehensive asset management solutions for institutional investors, investment funds and individuals in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as oil & gas, real estate, timber, farmland, as well as asset allocation strategies.

This presentation is furnished on a confidential basis exclusively to the intended recipient and is not for redistribution or public use. The data and information presented are for informational purposes only. The information contained herein should be treated in a confidential manner and may not be transmitted, reproduced or used in whole or in part for any other purpose, nor may it be disclosed or made available, directly or indirectly, in whole or in part, to any other person without the prior written consent of Manulife Investments. By accepting this material, the recipient agrees not to distribute or provide this information to any other person.

The distribution of the information contained in this presentation may be restricted by law and persons who access it are required to comply with any such restrictions. The contents of this presentation are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to any applicable laws or regulations. By accepting this material you confirm that you are aware of the laws in your own jurisdiction relating to the provision and sale of the funds, portfolios or other investments discussed in this presentation and you warrant and represent that you will not pass on or utilise the information contained in the presentation in a manner that could constitute a breach of such laws by any Manulife Financial entity or any other person. No Manulife Financial entity makes any representation that the contents of this presentation are appropriate for use in all locations, or that the transactions, securities, products, instruments or services discussed in this presentation are available or appropriate for sale or use in all jurisdictions or countries, or by all investors or counterparties. All recipients of this presentation are responsible for compliance with applicable laws and regulations.