

# Market Intelligence

Insights from our strategy team

MARKET OUTLOOK | AS OF JUNE 30, 2017





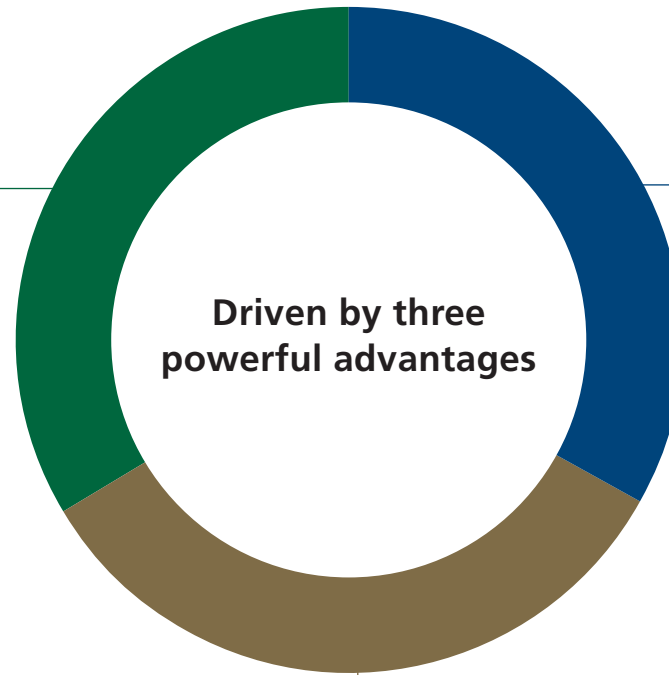
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# A better way to invest – a three-pronged approach

## RIGOROUS RISK MANAGEMENT

- With a view to investor-driven performance expectations
- Close monitoring of behavioural risk
- Deep analysis to identify the right risks with the goal of long-term stability
- Built on more than 130 years of Manulife's wealth and investment expertise



## EXPERIENCED SPECIALIZED TEAMS

- Harnessing strength and depth of expertise across multiple asset classes and geographies
- Tenacious approach to talent: if new capabilities are needed, conduct global searches to find the right team
- Access to differentiated philosophies, strategies and respected expertise
- Strategic sub-advisor partnerships

## GLOBAL MOMENTUM

- Asset managers and teams "on the ground" in international locations
- Network of investment offices in North America, Asia Pacific and Europe with capabilities across a full range of asset classes
- More than 1,000 investment professionals in approximately 20 countries and territories

# Our seasoned asset management teams help inform our views

## **Manulife Asset Management™**

### **BOUTIQUE INVESTMENT TEAMS. GLOBAL RESOURCES.**

- Boutique environment: specialized team manages its own investment process from research through portfolio construction
- Global footprint: entrepreneurial teams strengthened by global resources
- Extensive investment capabilities: diverse range of investment strategies across asset classes, regions and the risk spectrum

## **MAWER** Be Boring. Make Money.™

**Mawer Investment Management Ltd.:**  
**Independently owned Canadian investment manager that follows the mantra “Be Boring. Make Money.™”**

- Investment philosophy of buying wealth-creating companies, with excellent management teams, that are trading at a discount to their intrinsic value
- Prudent investment approach rooted in risk management that has delivered superior risk-adjusted long-term results
- The firm’s “boring” investment approach has helped investors safely and profitably navigate the investing landscape over many different economic cycles

## **Brookfield**

**Brookfield Investment Management:**  
**Experts in alternative strategies**

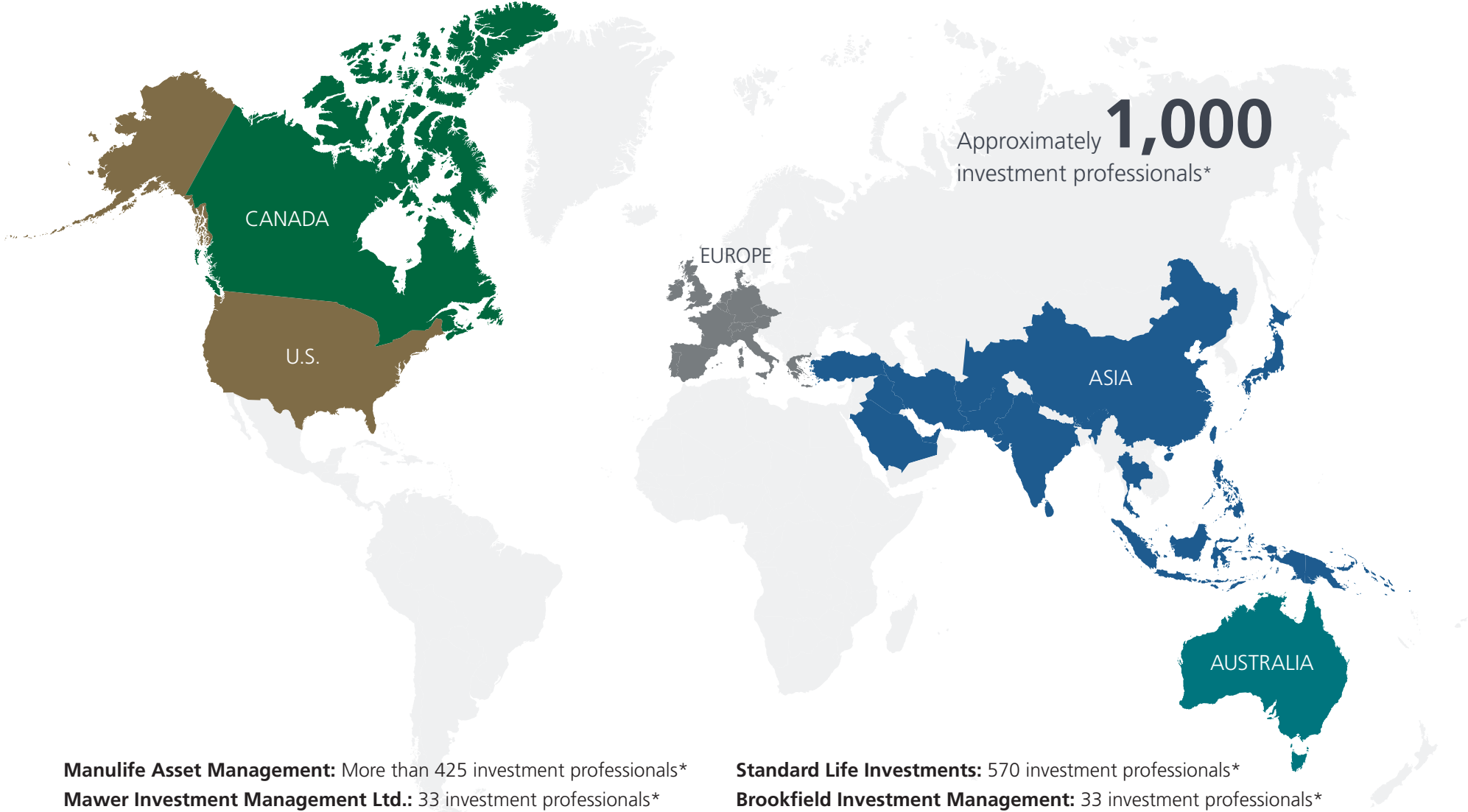
- Specialized investment manager, focused on listed Real Asset investment strategies within both equity and debt
- Investment philosophy driven by fundamental, bottom-up analysis combined with broad operational and market insights
- Part of Brookfield Asset Management, a global alternative asset manager with over 100 years of experience in the ownership and operation of Real Assets

## **Standard Life** **Investments**

**Standard Life Investments: Leading asset manager with an expanding global reach**

- Investment capabilities span equities, bonds, real estate, private equity, multi-asset solutions, and absolute return strategies
- Active portfolio managers that place a significant emphasis on rigorous research and a strong collaborative ethos
- Backed by a Focus on Change investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence

# Global reach



The diagram represents the geographic location of investment professionals. \*Number of investment professionals by sub-advisor: Manulife Asset Management as of March 31, 2017. Mawer Investment Management Ltd., Brookfield Investment Management and Standard Life Investments as of June 30, 2017.

# Market drivers

## CANADIAN EQUITIES

The S&P/TSX index ended the quarter in negative territory as its two main sectors were under pressure. Financials were hampered by concerns regarding the business operations of Canada's largest subprime lender Home Capital Group and its potential impact on Canadian banks. Meanwhile, the energy sector faced continued headwinds as oil prices (WTI) declined by nearly 9% to US\$46 per barrel.

## U.S. EQUITIES

Better year-over-year results on sales and earnings for U.S. corporations resulted in positive returns for the S&P 500. An improving employment market implies the likelihood of wage growth in the back half of 2017, and with that comes the expectation of higher interest rates.

## INTERNATIONAL EQUITIES

Overseas markets showed healthy gains with international equities in positive territory as measured by the MSCI EAFE Index. Brexit considerations aside, the European economic outlook has improved, akin to that of the United States. Asia is also showing improvement in its regional economies and stock markets – suggesting the growth we see is truly global in nature.

## FIXED INCOME

The U.S. Federal Reserve increased their overnight rate by another quarter point in June. Despite an increase in yields across the curve, from an income perspective, traditional fixed income continues to fall short of investors' needs, especially after factoring the impact of inflation and taxation.

# Macro snapshot

Manulife Investments believes that the global economy is well-positioned for synchronized growth.



The Markit PMI™ (Purchasing Managers' Index™) series are monthly economic surveys of carefully selected companies compiled by Markit. They provide advance insight into the private-sector economy by tracking variables such as output, new orders, employment and prices across key sectors. Economic analysts, business decision-makers, forecasters and policy-makers leverage the PMI surveys to better understand business conditions in any given economy. Central banks in many countries use the data to help make interest rate decisions, and analysts in the financial markets use PMI data to forecast official economic data.

Source: Markit and Manulife Investments as of June 30, 2017. Performance histories are not indicative of future results.



# Manulife Investments' outlook snapshot



## CANADIAN EQUITIES

### Improving economy might not benefit markets

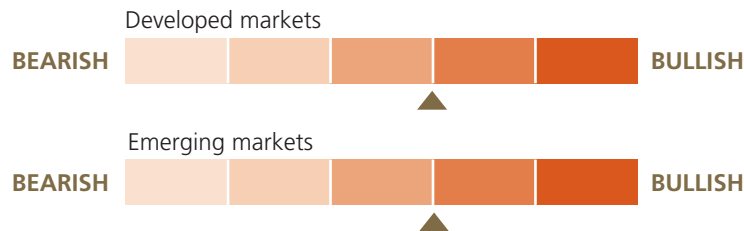
While the Canadian economy seems to be improving, downward pressure on oil prices is dampening earnings expectations for Canadian equities. Areas more correlated with oil, such as energy and commodities, may have muted upside.



## INTERNATIONAL EQUITIES

### Gaining traction

International equities are showing attractive earnings growth rates with relatively attractive valuation (more so in Asia than Europe). The two key areas of Europe and Asia are interrelated, as China is now Germany's largest trading partner. Overall political uncertainty in Europe has fallen and the transition of power in China later this year ensures minimal economic risk in that area of the world.



## U.S. EQUITIES

### Playing from a position of strength

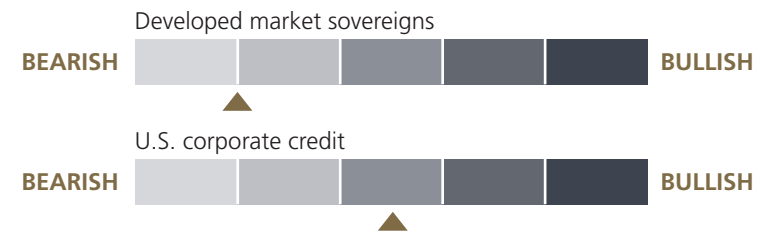
Against a backdrop of solid economic data including PMI, wage growth and employment gains and the potential for investor-friendly government policies, continued earnings growth is providing more reason to believe U.S. equities will keep climbing in 2017.



## FIXED INCOME

### Flexibility is key in rising rate environment

Global deflation risks creating a sell-off within traditional fixed income. An environment of higher inflation and higher interest rates highlights the need for agile portfolio management to help mitigate volatility and to seek out alternative sources of income.



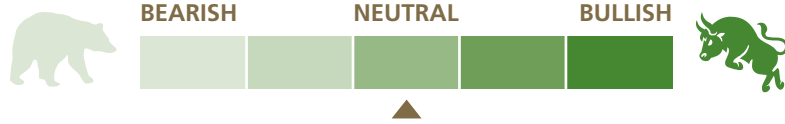
A bearish reading indicates the potential for an asset class to underperform its historical average on a risk-adjusted basis. A bullish reading indicates the potential for an asset class to outperform its historical average on a risk-adjusted basis. A neutral reading indicates the potential for performance in line with the asset class's historical averages.  
 Source: Manulife Investments as of June 30, 2017. The commentary on this page is that of Manulife Investments. Performance histories are not indicative of future results. For illustration purposes only.



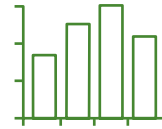
# CANADIAN EQUITIES

# Improving economy might not benefit markets

## CANADIAN EQUITIES



## KEY THEMES



### Canadian economy growing at a healthy pace

Canadian economy grew at 3.7% in Q1 2017, but it is more likely to maintain a comfortable 2% to 2.5% trend growth level, still delivering above potential for the next two years, and continuing to outpace many of its peers.



### Canadian consumers' debt burden likely to increase

Household debt-servicing capacity will become stretched even further as interest rates rise to more "normal" levels over the next few years.



### Supply/demand differential will continue to be one of the main drivers of oil prices

Despite the extensions of the production cap agreement by OPEC and some non-OPEC countries, the global oil market remains oversupplied due to increases in production elsewhere, notably the U.S.



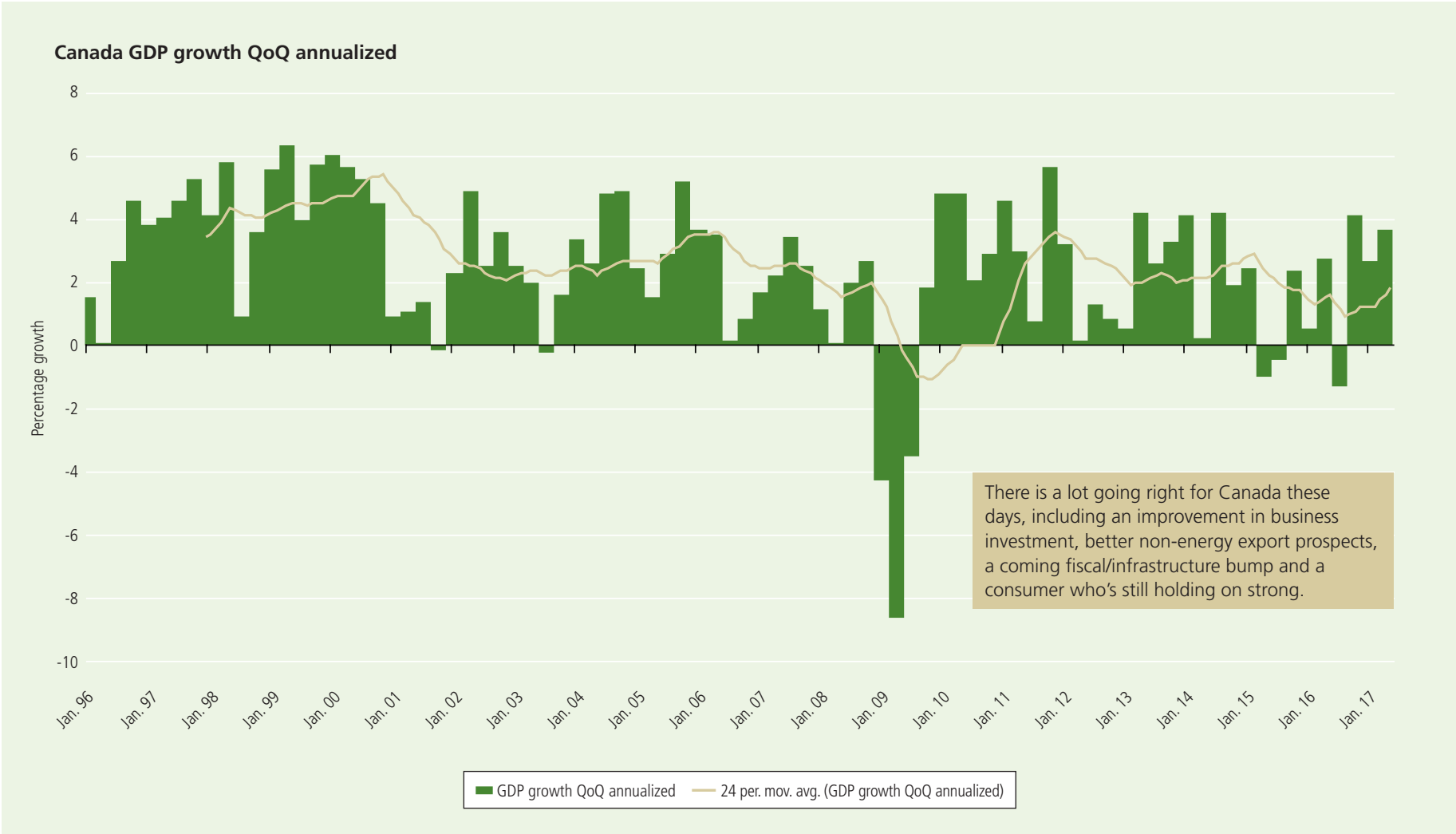
### Muted earnings growth will likely lead to weaker returns for the S&P/TSX

Even with better economic growth, oil prices below \$50 will provide a challenging environment for Canadian equity earnings through the end of the year.

For illustration purposes only. Source: Manulife Investments as of June 30, 2017. The commentary on this page is that of Manulife Investments. Performance histories are not indicative of future results. See pages 10-13 for complete information.

# Canadian economy growing at a healthy pace

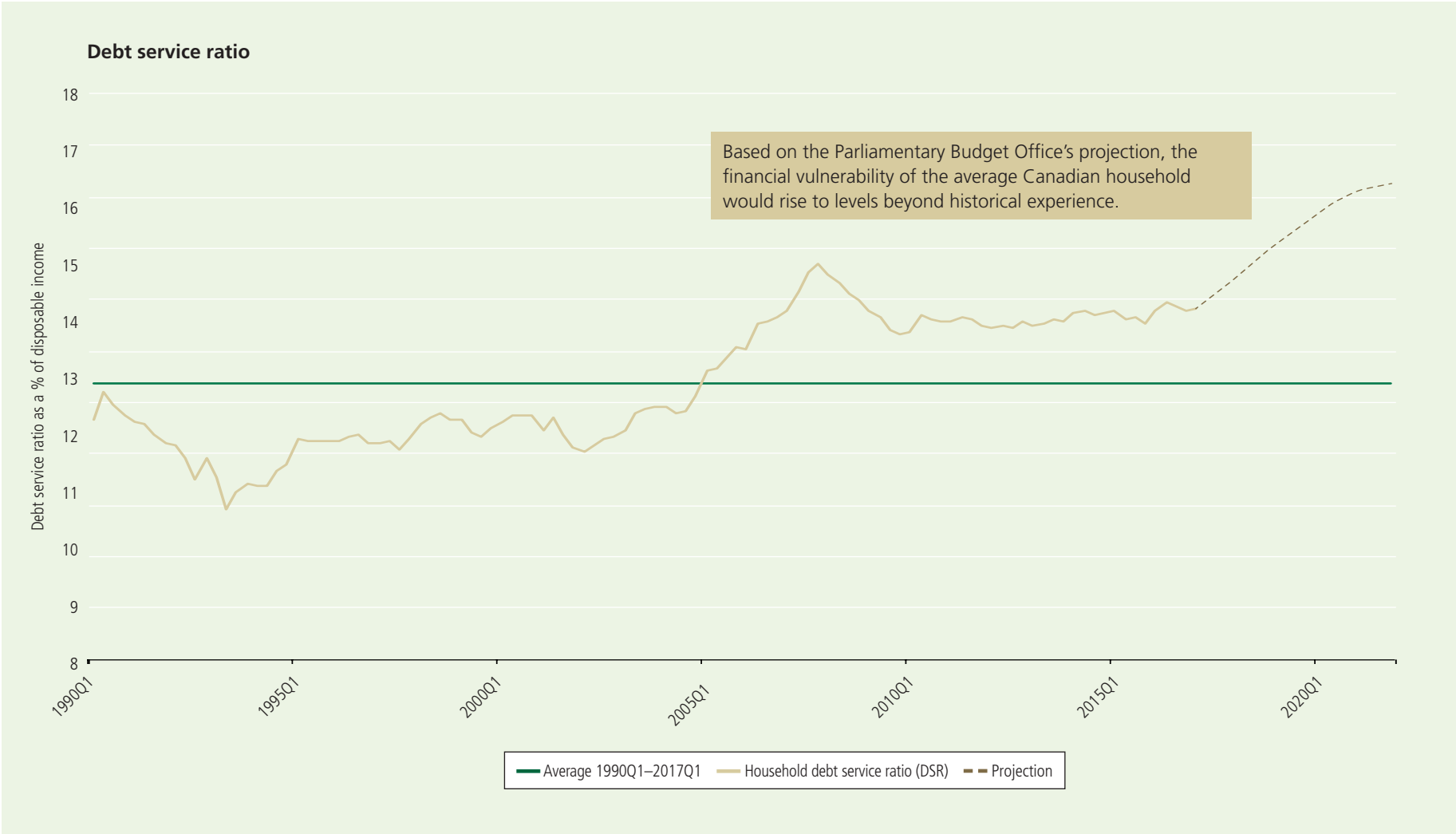
The Canadian economy grew at 3.7% in Q1 2017, but it is more likely to maintain a comfortable 2% to 2.5% trend growth level, still delivering above potential for the next two years, and continuing to outpace many of its peers.



Source: Bloomberg and Manulife Investments as of May 31 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

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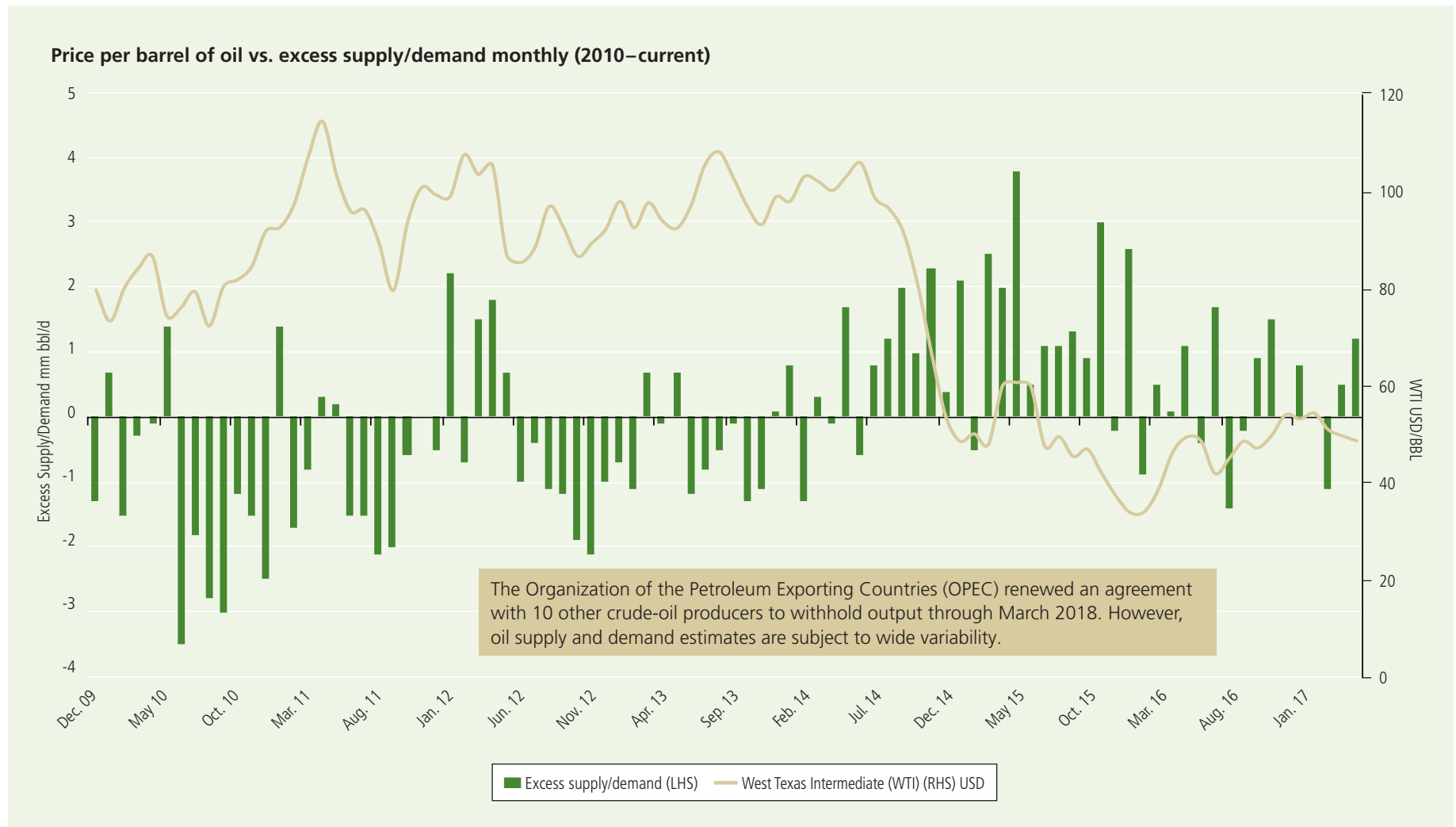
Household debt-servicing capacity will become stretched even further as interest rates rise to more "normal" levels over the next few years.



Source: Statistics Canada, Manulife Asset Management as of March 31, 2017

# Supply/demand differential will continue to be one of the main drivers of oil prices

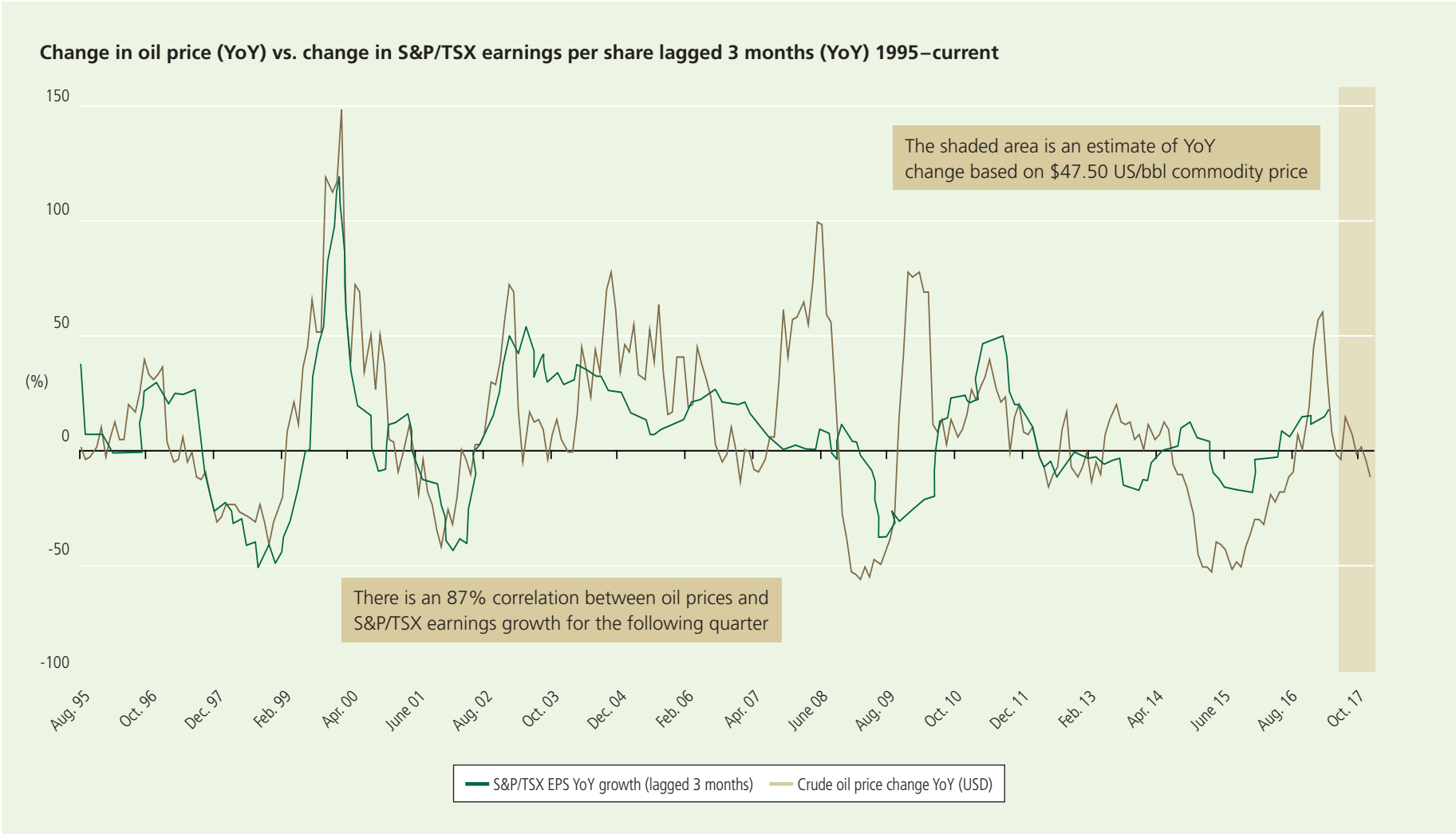
Despite the extensions of the production cap agreement by OPEC and some non-OPEC countries, the global oil market remains oversupplied due to increases in production elsewhere, notably the U.S.



Source: Bloomberg, Energy Intelligence Group Oil Product Demand Data, Manulife Investments as of May 31, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

# Muted earnings growth will likely lead to weaker returns for the S&P/TSX

Even with better economic growth, oil prices below \$50 will provide a challenging environment for Canadian equity earnings through the end of the year.



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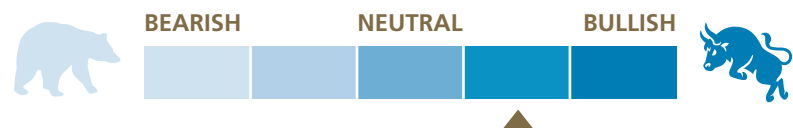
# U.S. EQUITIES





# Playing from a position of strength

## U.S. EQUITIES



## KEY THEMES

8 OUT OF 10

**U.S. economy continues to improve**

8 out of 10 leading economic indicators were positive in May.\*



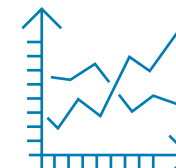
**Solid manufacturing activity likely to lead to strong earnings growth**

Positive manufacturing data should result in above-average earnings growth through the second half of 2017.



**Risk of U.S. recession remains low in the near term**

With the current unemployment rate at an 8-year low, it seems unlikely to cross its 12-quarter moving average in the near term, a key recession indicator.



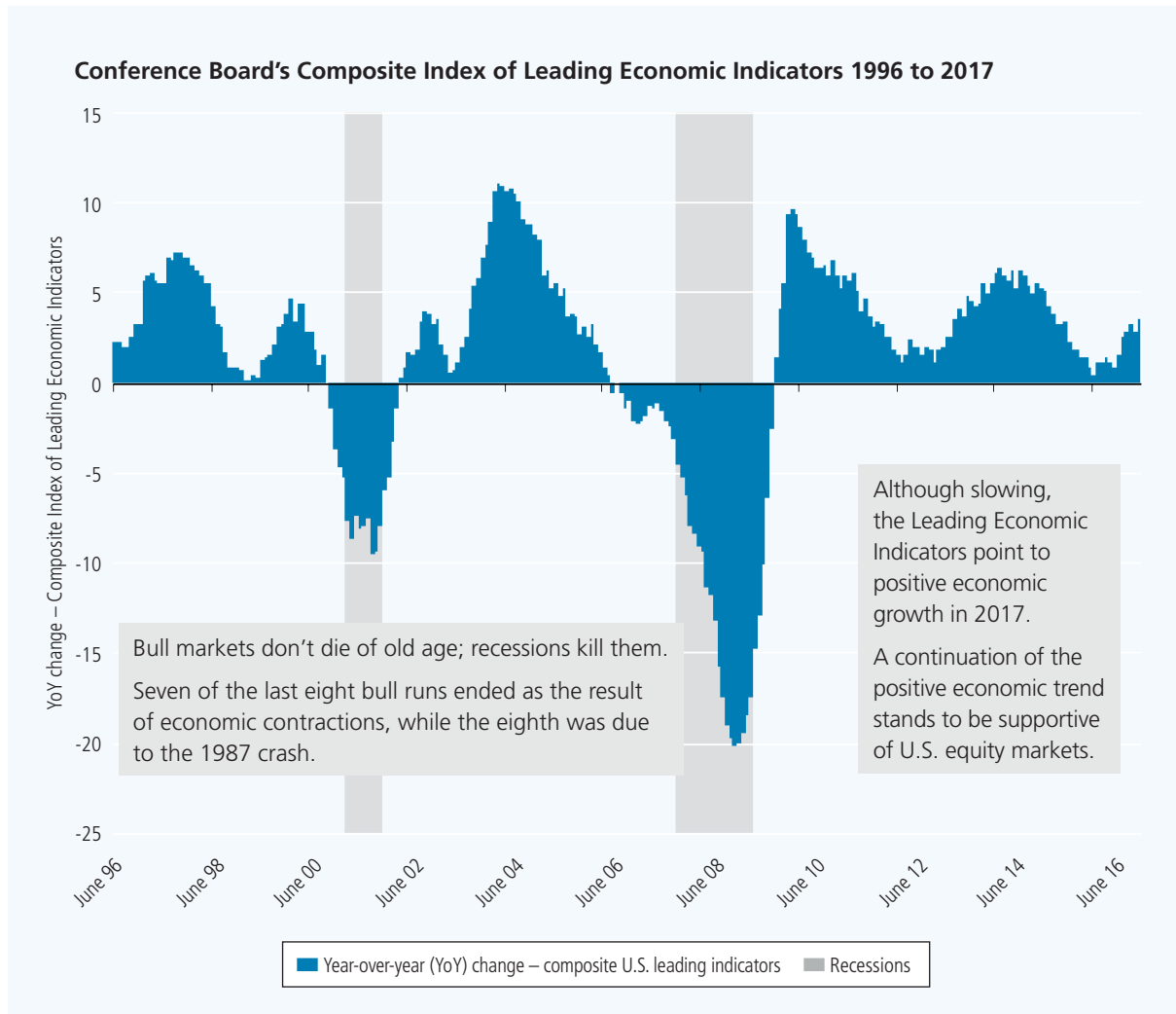
**Negative calendar year returns are rare outside of recessions**

Markets are positive 73% of the calendar years since 1946. Markets are up 85% of the time when the economy is not in recession.

Source: Manulife Investments as of June 30, 2017. The commentary is that of Manulife Investments. Performance histories are not indicative of future results. See pages 16–19 for complete information. For illustration purposes only.  
\*Source: The Conference Board as of May 31, 2017.

# U.S. economy continues to improve

8 out of 10 leading economic indicators were positive in May.



## The Conference Board's Composite Index of Leading Economic Indicators

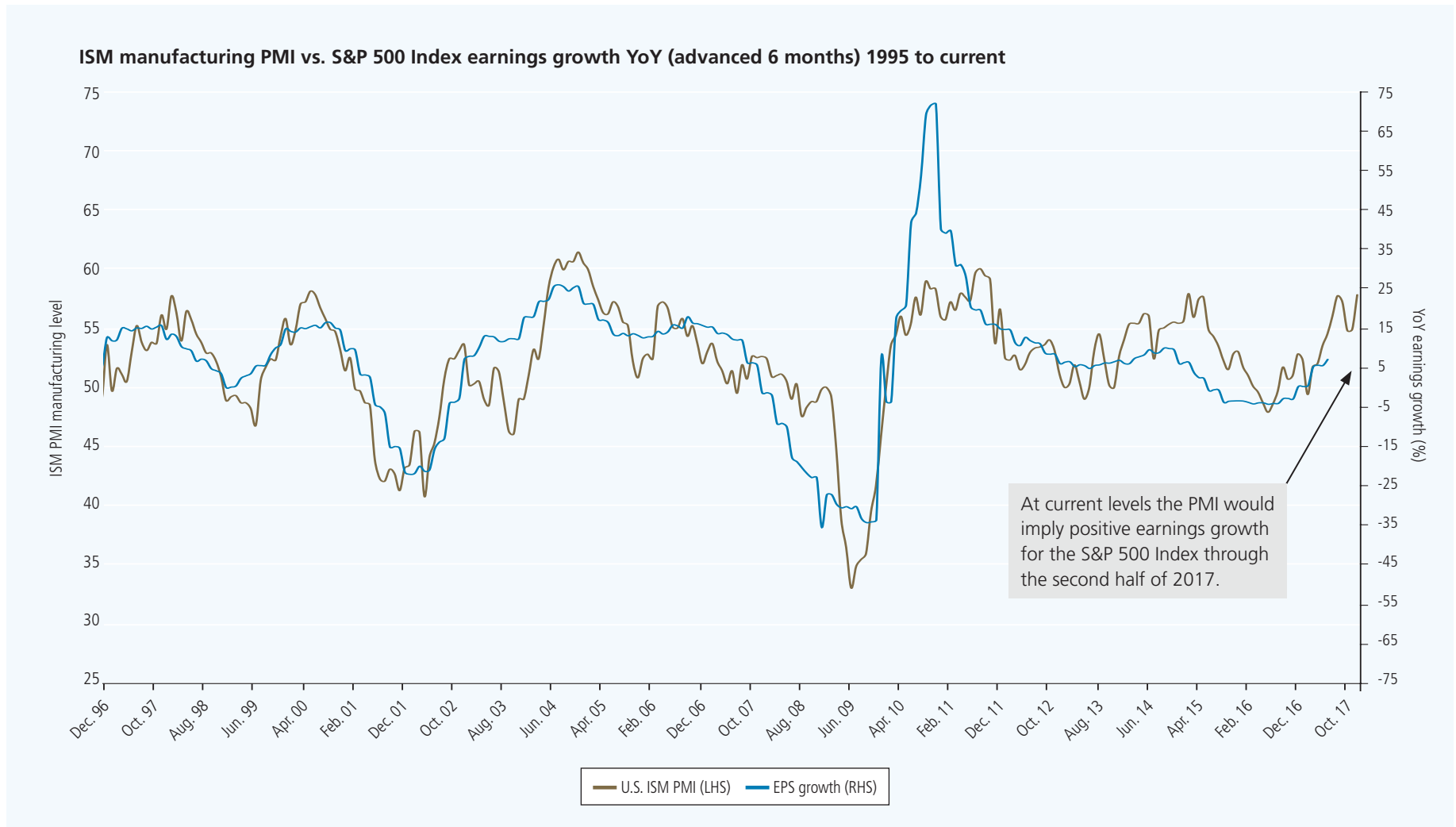
Average weekly initial claims for unemployment insurance	▲
Average weekly hours, manufacturing	■
Manufacturers' new orders, consumer goods and materials	▲
ISM® Index of New Orders	▲
Manufacturers' new orders, non-defense capital goods	▲
Building permits, new private housing units	▼
Stock prices, 500 common stocks	▲
Leading Credit Index™	▲
Interest rate spread, 10-year Treasury bonds less federal funds	▲
Average consumer expectations for business conditions	▲

- ▲ Indicates positive contributor
- Indicates no change
- ▼ Indicates negative contributor

Source: The Conference Board as of May 31, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

# Solid manufacturing activity likely to lead to strong earnings growth

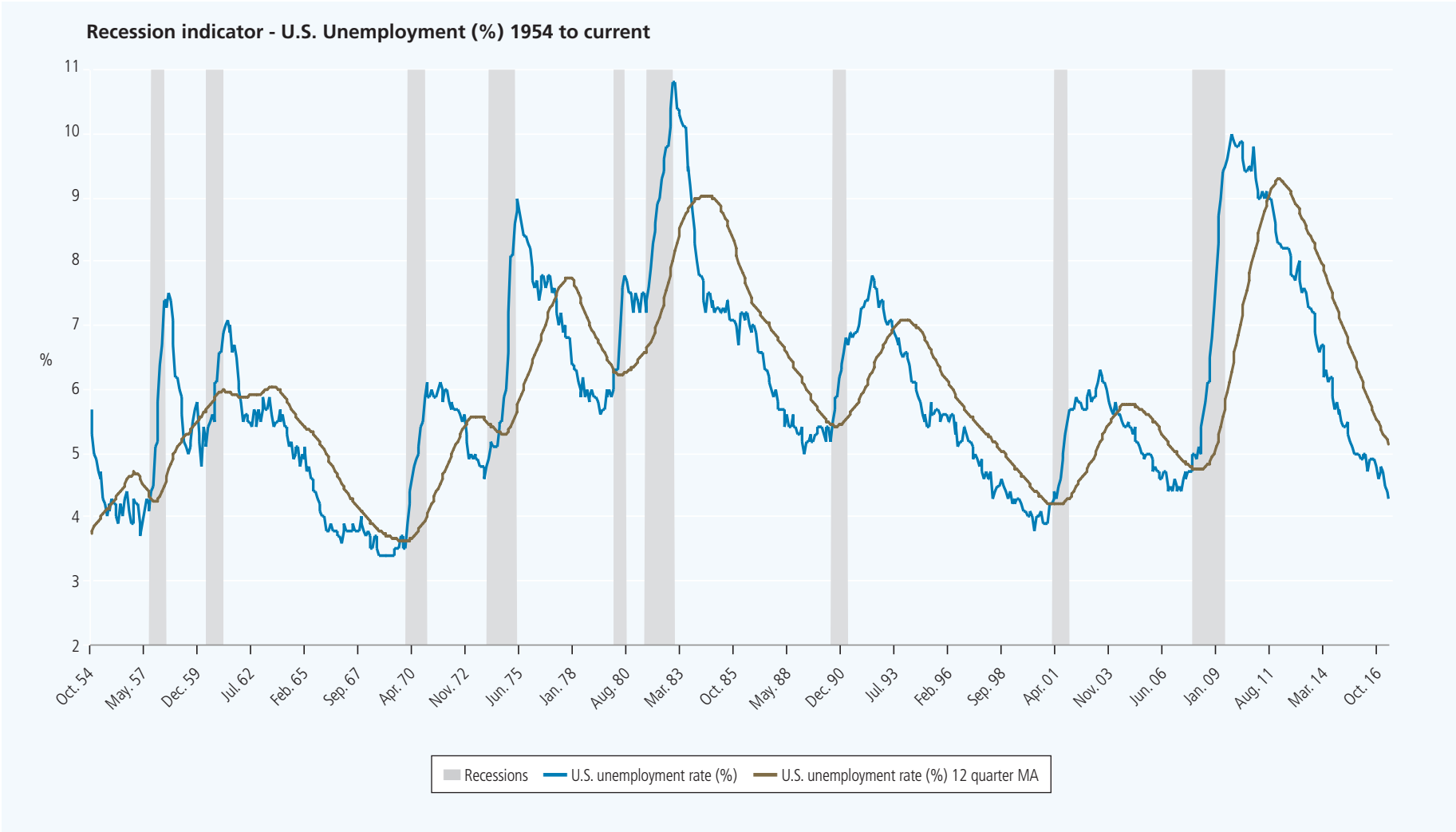
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Source: Manulife Investments and Bloomberg as of June 30, 2017. The commentary on these charts is that of Manulife Investments. Performance histories are not indicative of future results.

# Risk of U.S. recession remains low in the near term

With the current unemployment rate at an 8-year low, it seems unlikely to cross its 12-quarter moving average in the near term, a key recession indicator.



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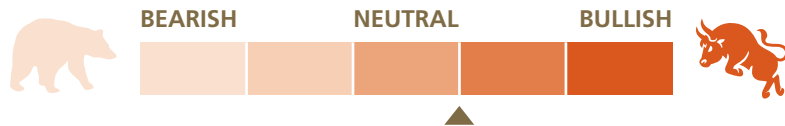
Source: Manulife Investments and Bloomberg as of December 31, 2016. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

# **INTERNATIONAL EQUITIES**

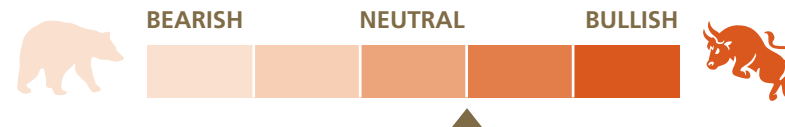


# Gaining traction

## DEVELOPED MARKETS



## EMERGING MARKETS



## KEY THEMES



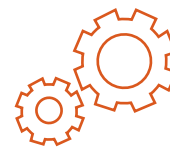
### Manufacturing activity is in expansion in developed and emerging markets

Manufacturing output in China, Europe, the UK and the U.S. is growing at a steady pace, boosting expectation for synchronized global economic growth.



### Industrial production is supportive of higher earnings

Increases in industrial production and improvements in overall economic health should lead to better earnings growth through the remainder of 2017.



### Emerging market fundamentals appear to have bottomed

Underlying data, including manufacturing surveys and earnings estimates, have improved.



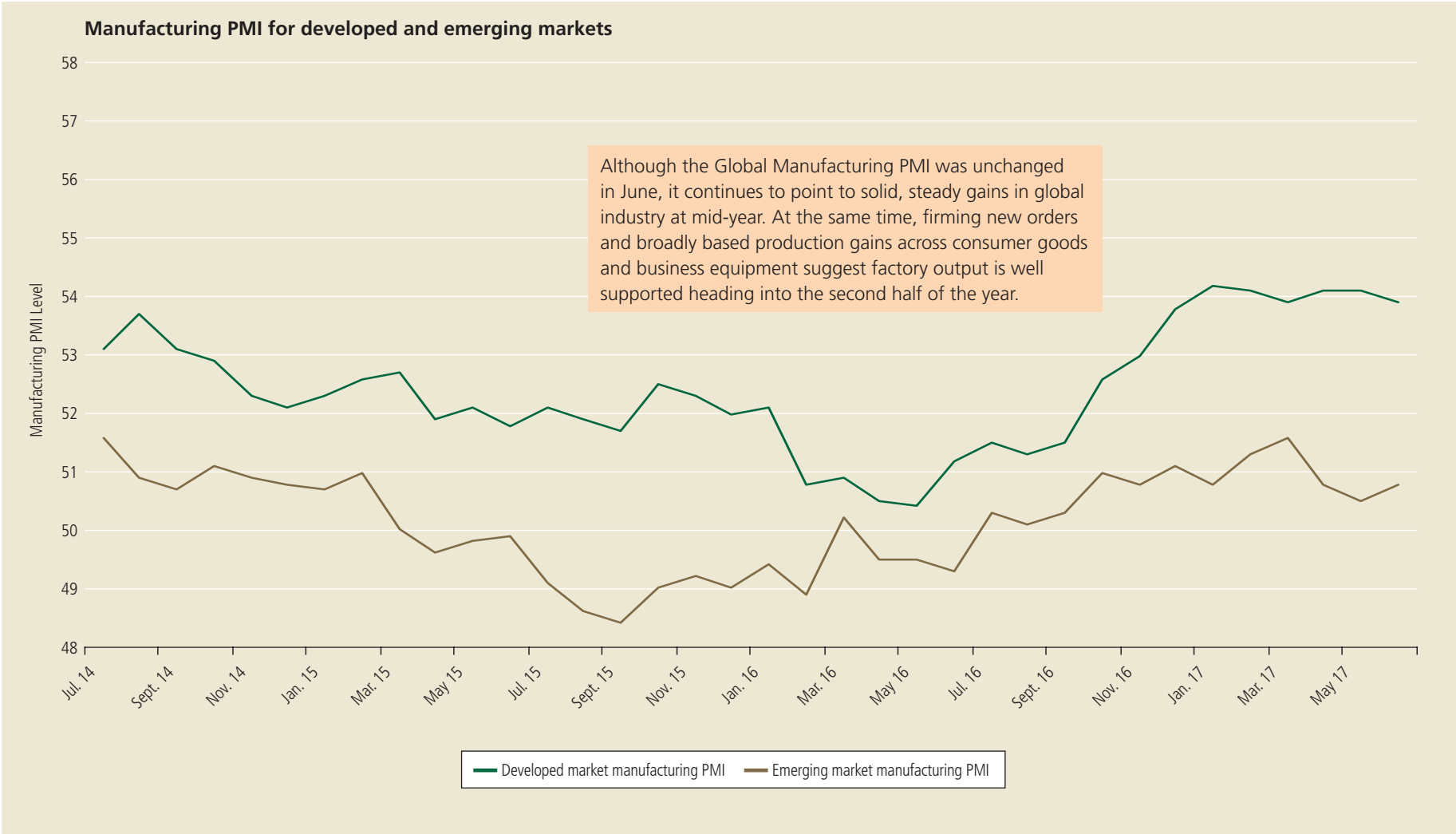
### China's growth is on solid footing

Recent economic improvements have provided an opportunity for mid- to long-term investors to potentially benefit from better fundamentals.

Sources: Manulife Investments, Bloomberg as of June 30, 2017. The commentary on this page is that of Manulife Investments. Performance histories are not indicative of future results. See pages 22–25 for complete information. For illustration purposes only.

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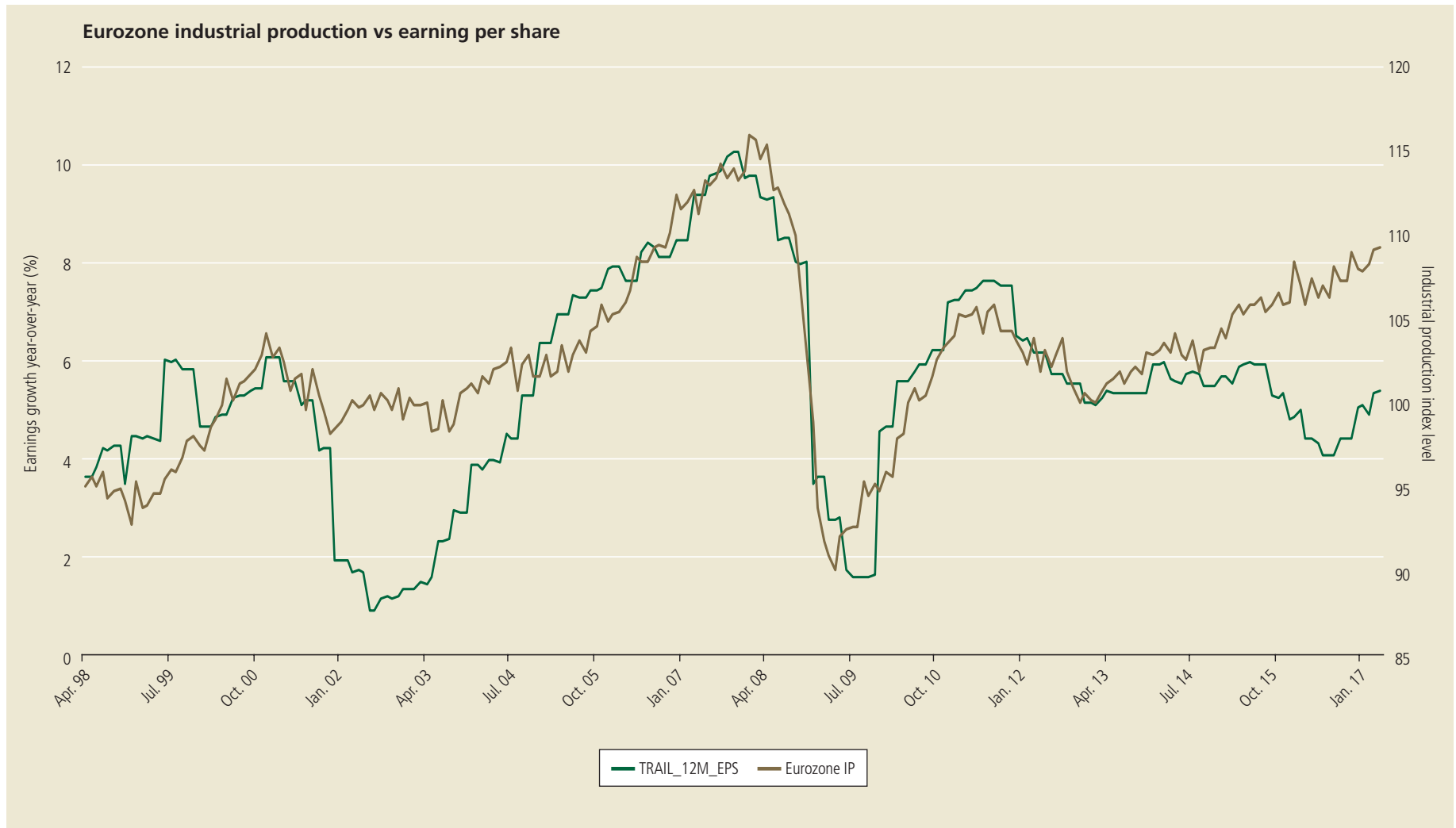


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# Industrial production is supportive of higher earnings

Increases in industrial production and improvements in overall economic health should lead to better earnings growth through the remainder of 2017.



Source: Manulife Investments, BNP Paribas and Bloomberg as of April 30, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

# Emerging market fundamentals appear to have bottomed

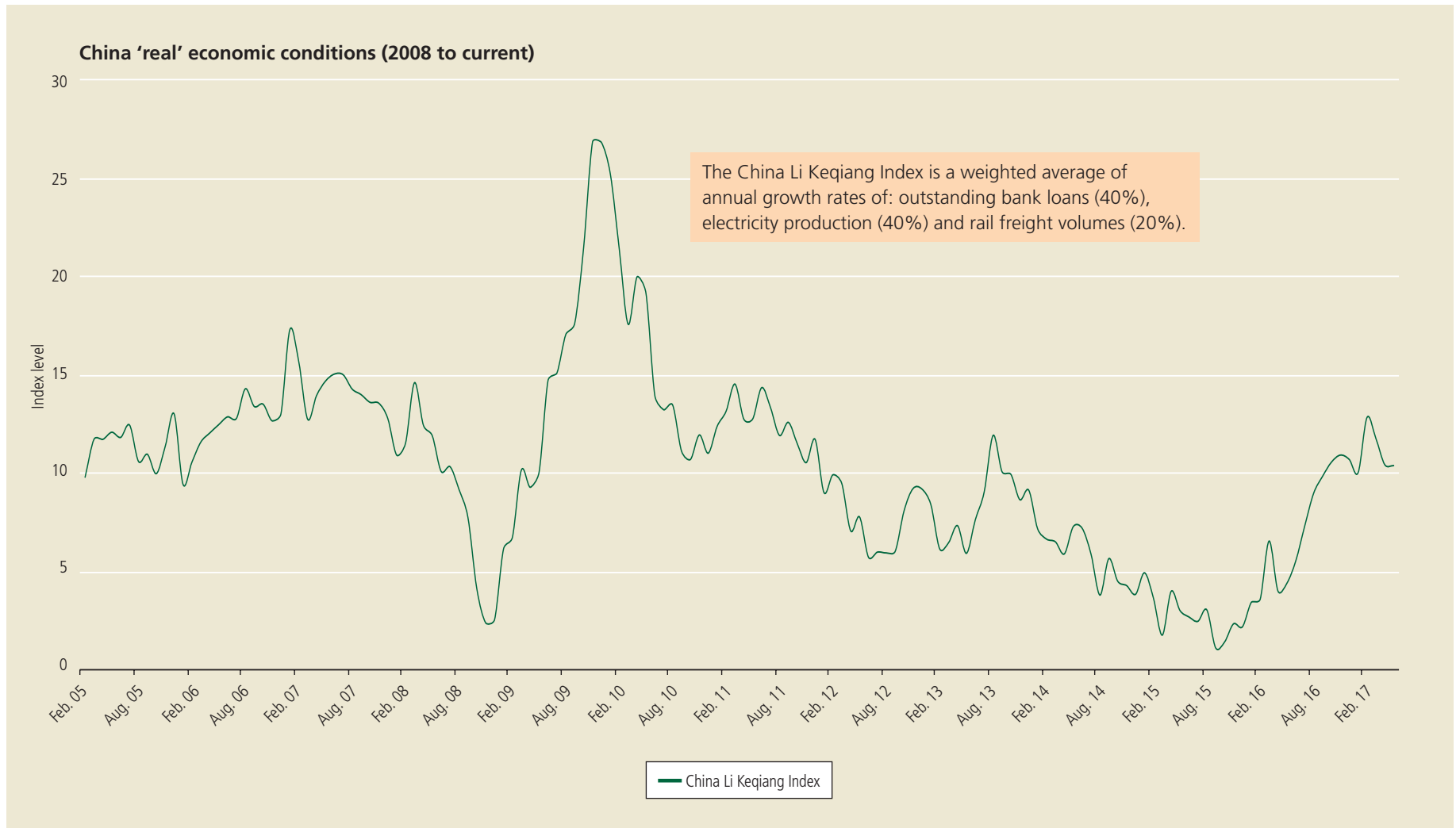
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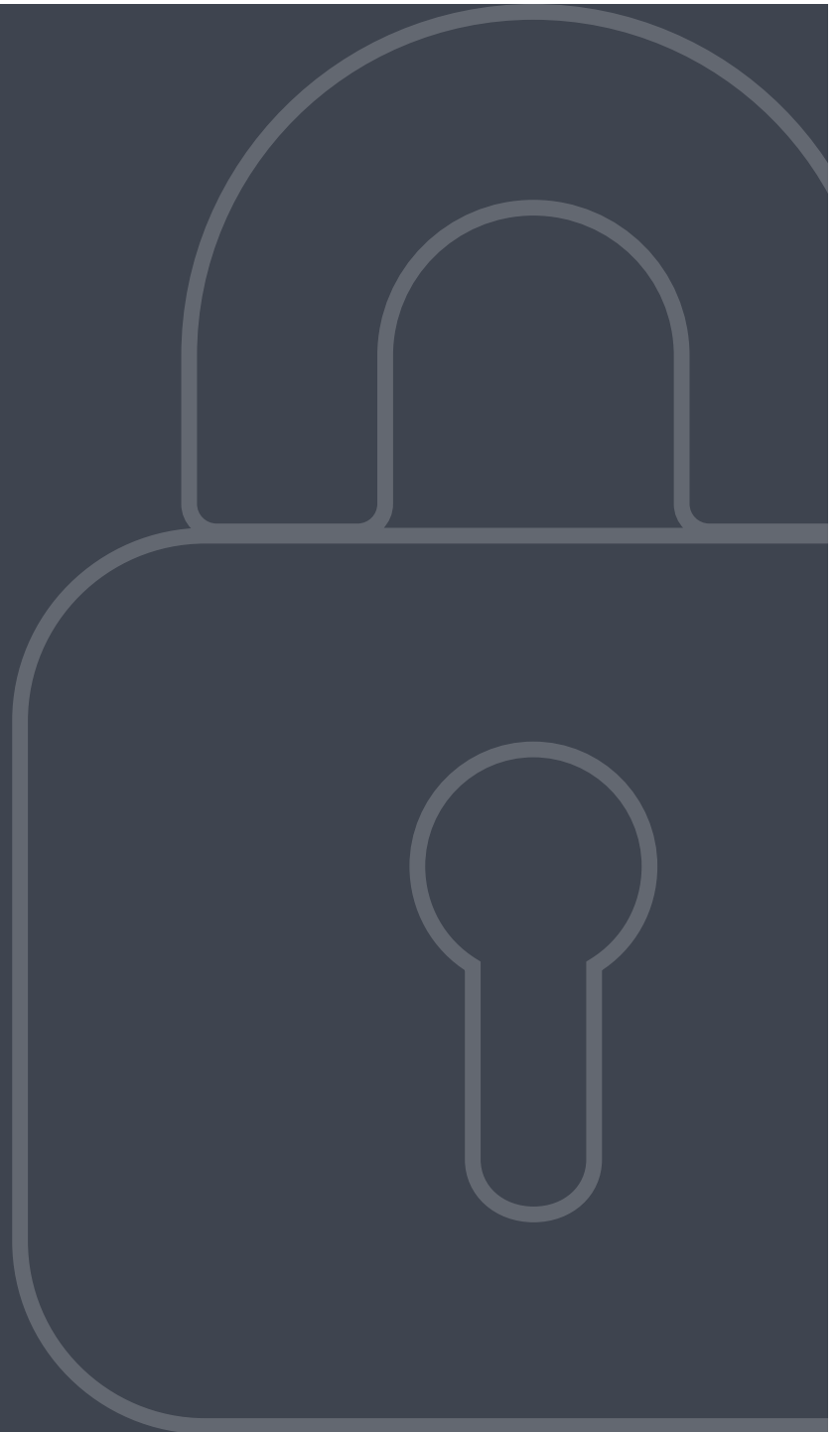
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**FIXED INCOME**

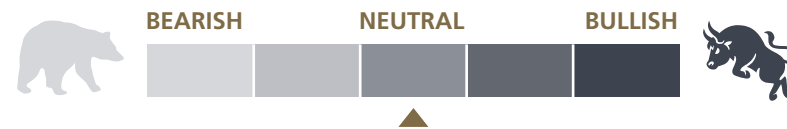


# Flexibility is key in rising rate environment

## DEVELOPED MARKET SOVEREIGNS



## U.S. CORPORATE CREDIT

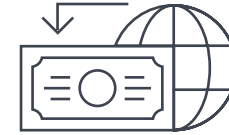


## KEY THEMES



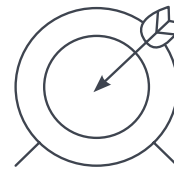
### Despite recently increasing, low yields remain for high quality sovereign bonds

Current yields may not be attractive to income-seeking investors.



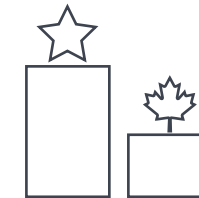
### The Fed is fully justified to continue tightening

Trend of higher inflation coupled with a solid employment market is likely to lead to increased interest rates



### U.S. high yield bonds may remain an attractive source of income

Higher interest rates are expected amid prospects for firmer global economic conditions, a rise in inflation expectations, and possibly even a more active Fed. Near-term volatility should be expected.

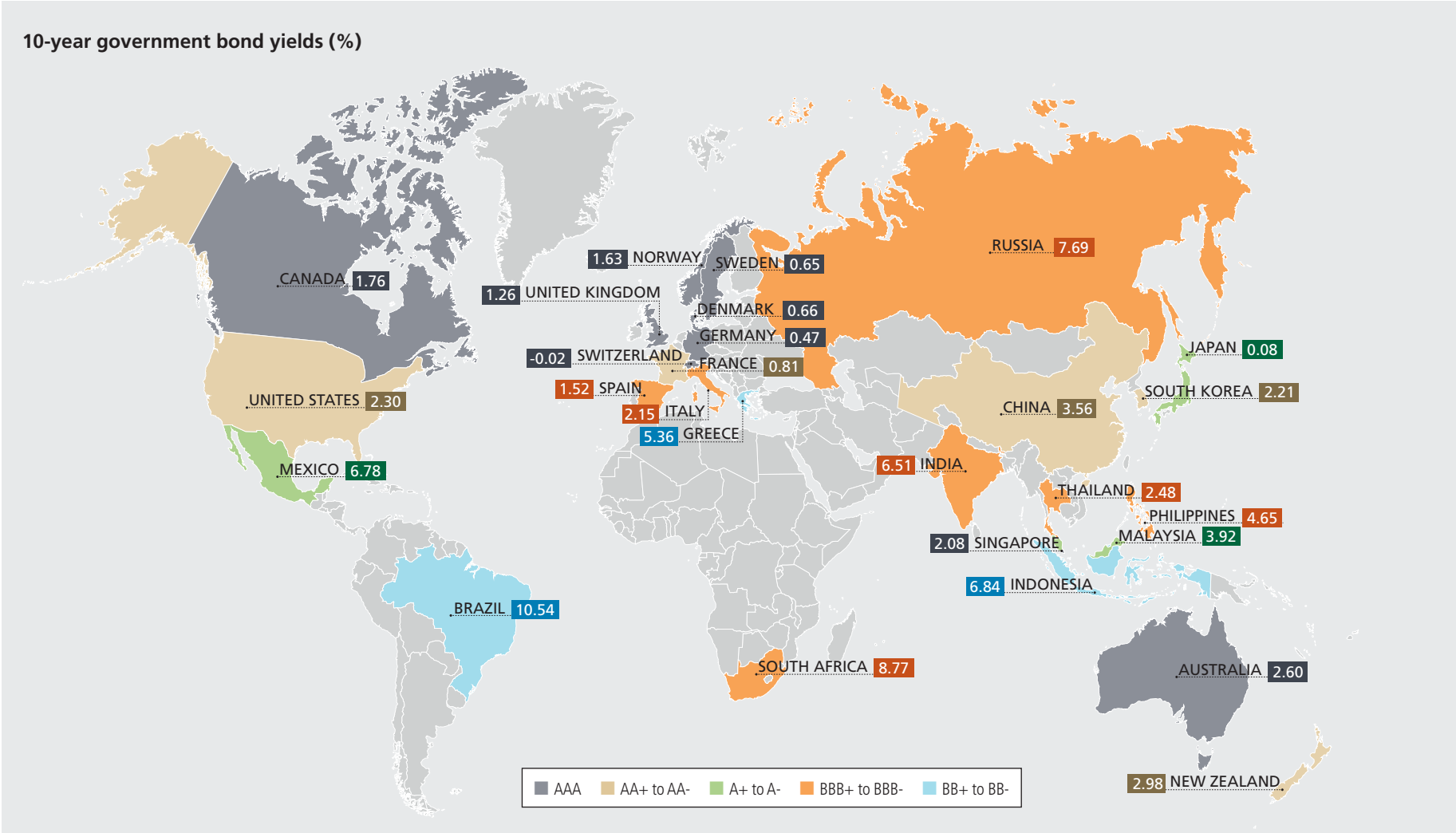


### The Canadian dollar is likely to be range bound

The two forces impacting the loonie, oil prices and the difference in Canadian and U.S. 2 year bond yields, have begun to converge.

# Despite recently increasing, low yields remain for high quality sovereign bonds

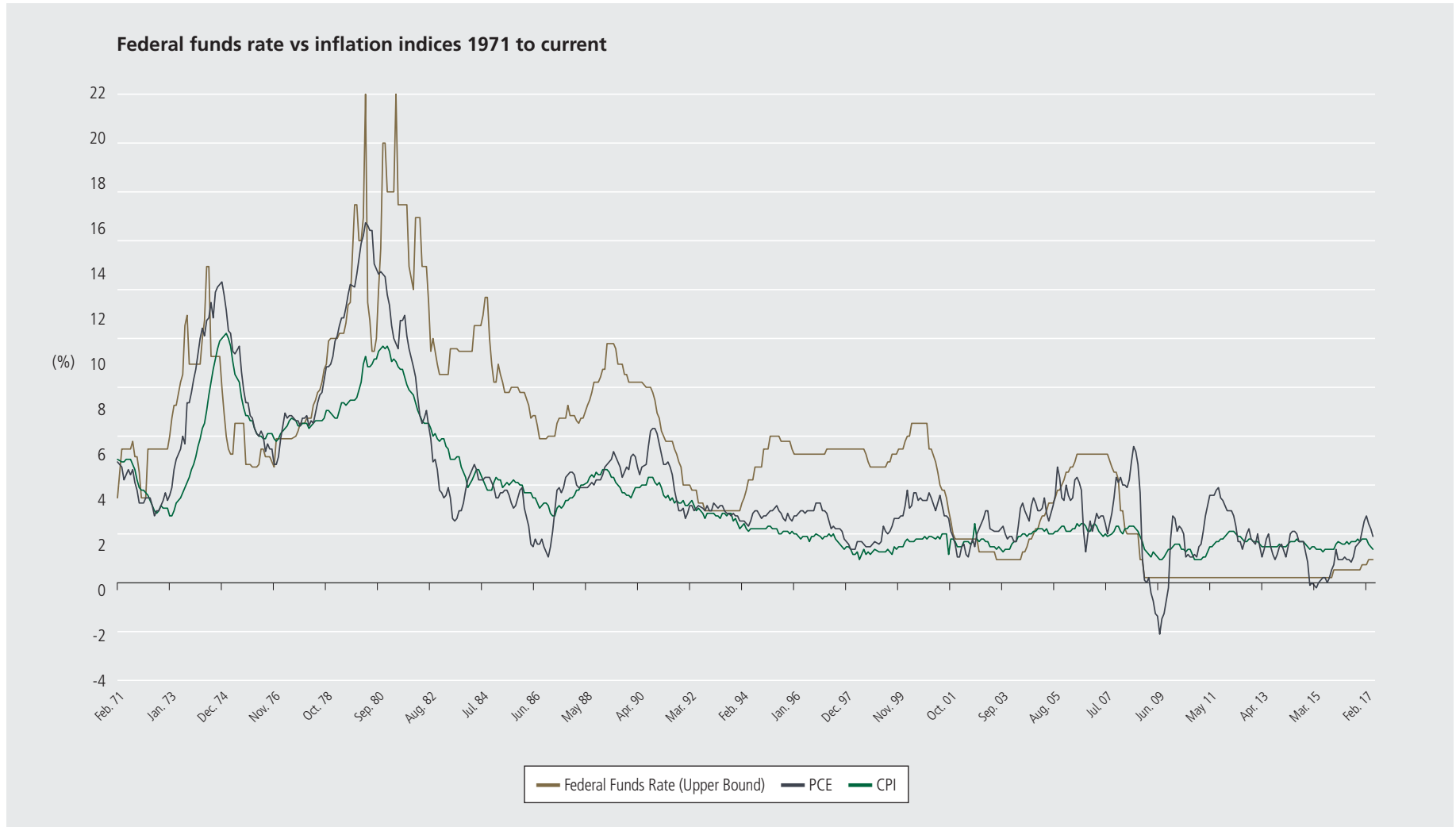
Current yields may not be attractive to income-seeking investors.



Source: Bloomberg as of June 30, 2017. Ratings are from Standard & Poor's, 2016, and are subject to change. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. The commentary on this page is that of Manulife Investments. Performance histories are not indicative of future results.

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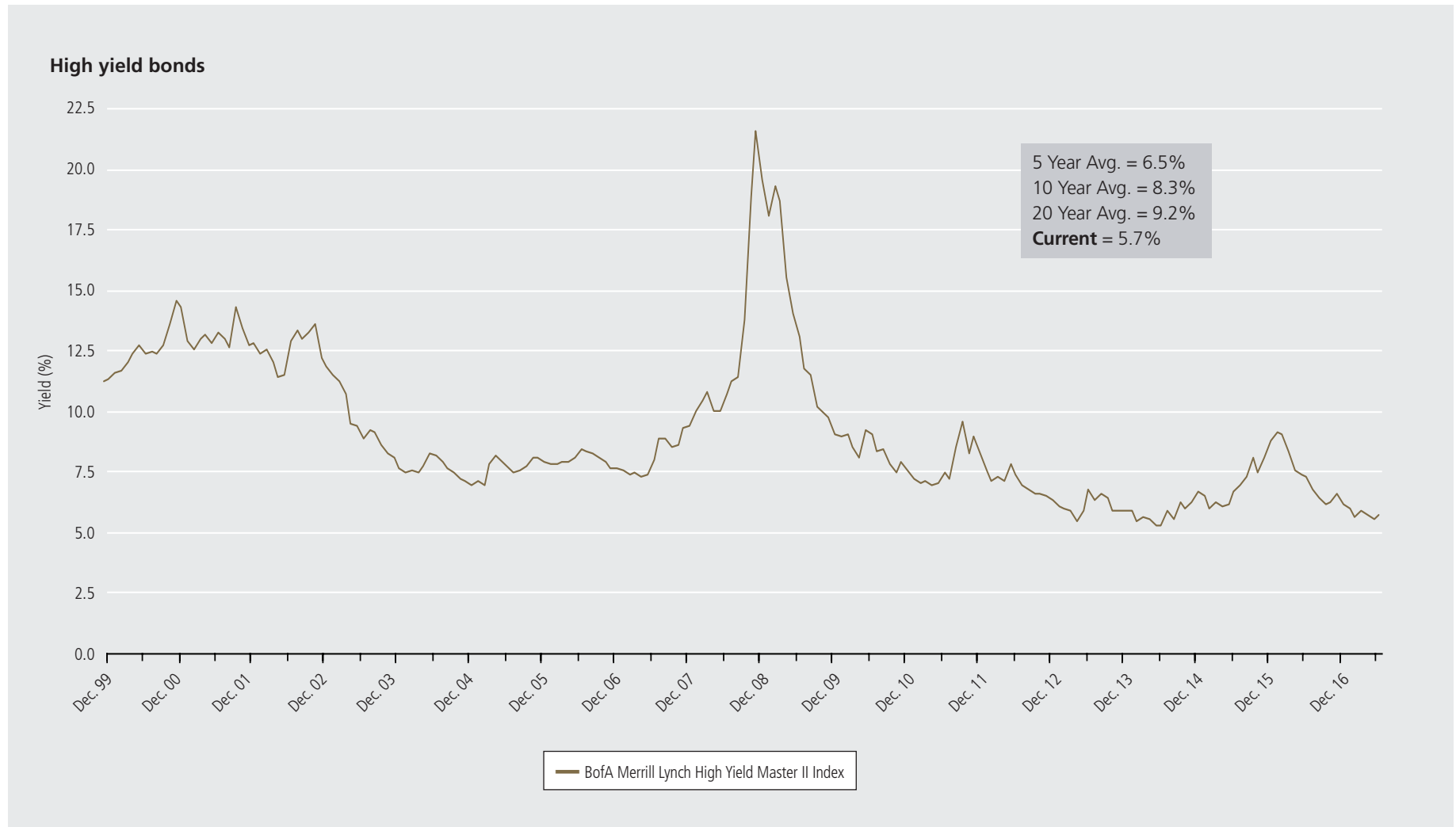
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# U.S. high yield bonds may remain an attractive source of income

Higher interest rates are expected amid prospects for firmer global economic conditions, a rise in inflation expectations, and possibly even a more active Fed. Near-term volatility should be expected; however, yield remains attractive relative to other fixed income products.

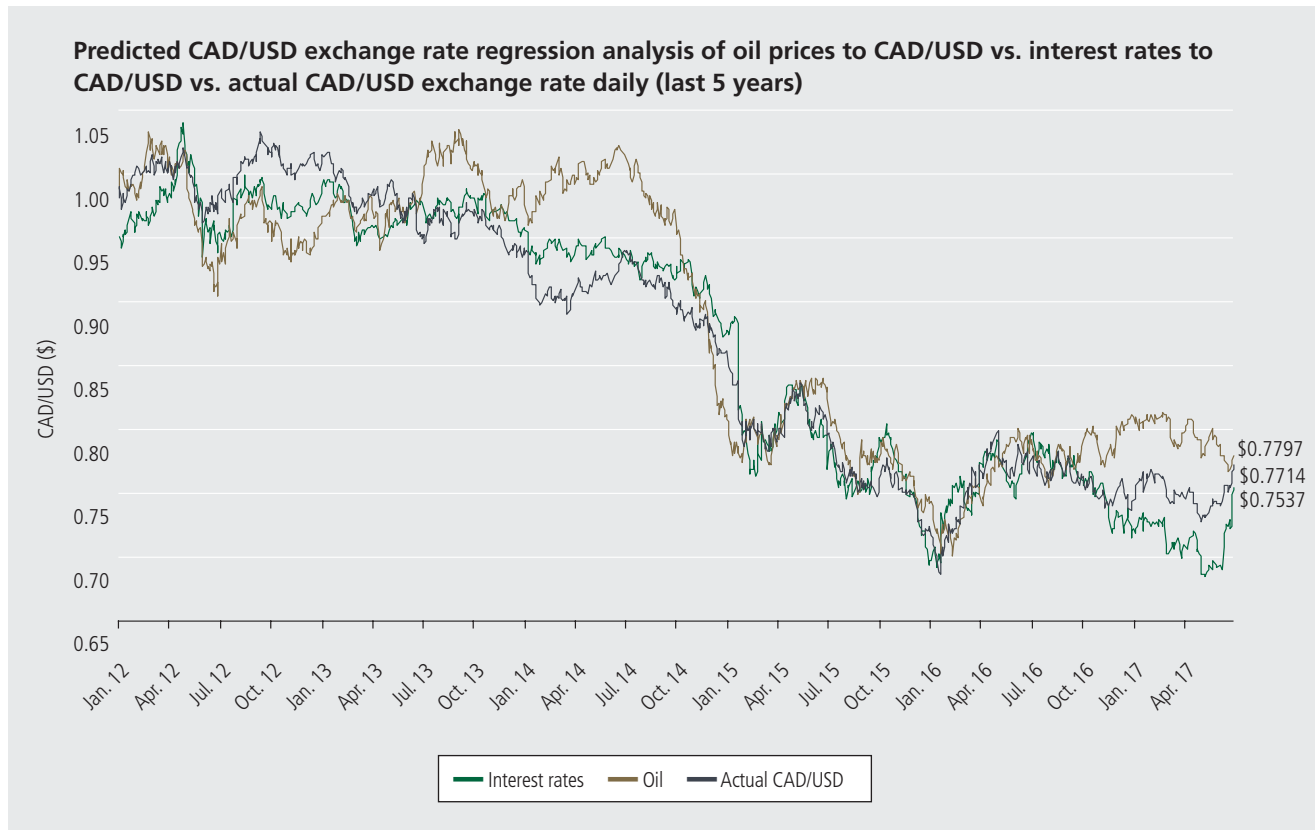


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The two forces impacting the loonie – oil prices and the difference in Canadian and U.S. 2 year bond yields – have begun to converge.

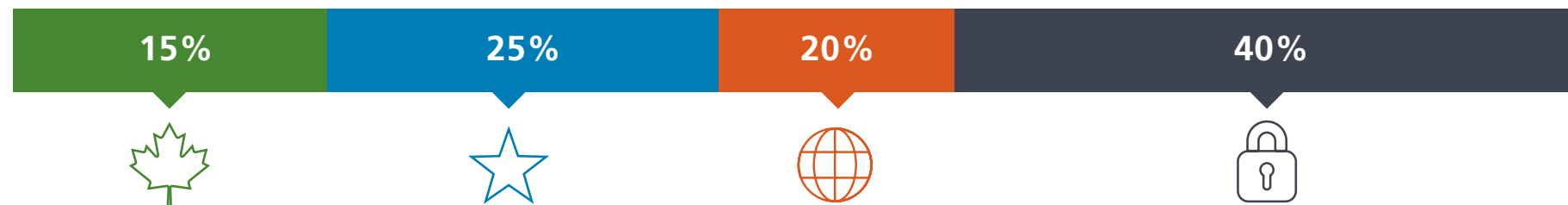


“The Canadian dollar is likely to remain range bound relative to the U.S. dollar over the near term.”

– Daniel S. Janis III,  
Senior Managing Director  
and Lead Portfolio Manager,  
Manulife Asset Management (U.S.) LLC

Source: Bloomberg and Manulife Investments as of June 30, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

# Manulife Investments' sample strategy to consider



## CANADIAN EQUITIES

- Consider diversifying business risks, not just sectors.
- Favour a neutral position on Canadian equities.

## U.S. EQUITIES

- Look to add to U.S. equities on any weakness in the markets.
- Potential to have an overweight to U.S. equities in a global portfolio.
- Favour high-quality, large-cap, dividend-paying companies.
- Consider favouring strategies with a measure of downside protection.

## INTERNATIONAL EQUITIES

- Consider less constrained strategies that can seek out opportunities wherever they may present themselves.
- Be wary of using monetary policy as an indicator of market performance.
- Not all emerging markets are created equal; consider taking advantage of Asia ex-Japan valuations for potential growth.

## FIXED INCOME

- Favour flexible strategies that can seize opportunities wherever they may be.
- Consider adding high yield to take advantage of relatively attractive yields for income purposes.
- Be mindful of the potential currency impact on global allocations.

Source: Manulife Investments as of June 30, 2017. For illustration purposes only. The information in this document does not replace or supersede KYC (know your client) suitability, needs analysis or any other regulatory requirements. Performance histories are not indicative of future results.

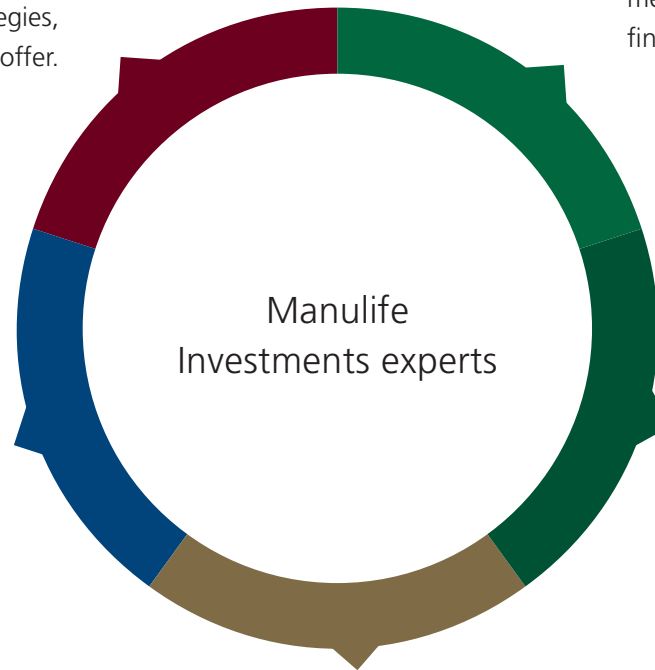
# Access our Manulife Investments experts

## **IT STARTS WITH OUR INVESTMENT SALES TEAM**

Among Canada's most reputable sales forces, over 80 professionals strong. Your contact in the centre of the wheel to connect you with the strategies, services and experts that Manulife has to offer.

## **PRIVATE COMPANY ADVISORY**

Creating shareholder value for business owners by advising on mergers, acquisitions and corporate finance transactions.



## **CAPITAL MARKETS AND STRATEGY**

Market and economic analysis leading to guidance and commentary on strategies, asset allocation weightings and specific portfolio recommendations with the goal of helping advisors manage their clients' portfolio objectives, regardless of the market environment.

## **PORTFOLIO MANAGERS**

Access to the professionals managing the money, to gain from their market insight and further understand portfolio construction and resulting positioning.

## **TAX, RETIREMENT AND ESTATE PLANNING SPECIALISTS**

A team of legal, accounting and industry-leading experts focused on identifying advisor opportunities within changing regulatory market environments.



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