

Market Intelligence

Insights from our strategy team

MARKET OUTLOOK | AS OF SEPTEMBER 30, 2017



Table of contents

A better way to invest – a three-pronged approach.....	2
Our seasoned asset management teams help inform our views.....	3
Global reach.....	4
Market drivers.....	5
Macro snapshot.....	6
Manulife Investments' outlook snapshot.....	7



Canadian equities..... 8

Improving economy might not benefit markets.....	9
Canadian economy growing at a healthy pace.....	10
Canadian consumers' debt burden likely to increase.....	11
Supply/demand differential will continue to be one of the main drivers of oil prices	12
Muted earnings growth will likely lead to weaker returns for the S&P/TSX.....	13



U.S. equities..... 14

Playing from a position of strength	15
U.S. economy continues to improve	16
Solid manufacturing activity likely to lead to strong earnings growth	17
Risk of U.S. recession remains low in the near term	18
Negative calendar year returns are rare outside of recessions....	19



International equities..... 20

Gaining traction	21
Manufacturing activity is in expansion in developed and emerging markets.....	22
Industrial production is supportive of higher earnings.....	23
Emerging market fundamentals appear to have bottomed.....	24
China's growth remains on solid footing	25



Fixed income..... 26

Flexibility is key in this current environment	27
Despite recently increasing, low yields remain for high quality sovereign bonds.....	28
The Fed is fully justified to continue tightening	29
Investment-grade corporates represent an attractive balance of risk and return	30
The Canadian dollar likely to remain range bound	31

Manulife Investments' sample strategy to consider	32
Access our Manulife Investments experts	33

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

Driven by three powerful advantages

Our seasoned asset management teams help inform our views



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 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 Investment Management:
Experts in alternative strategies

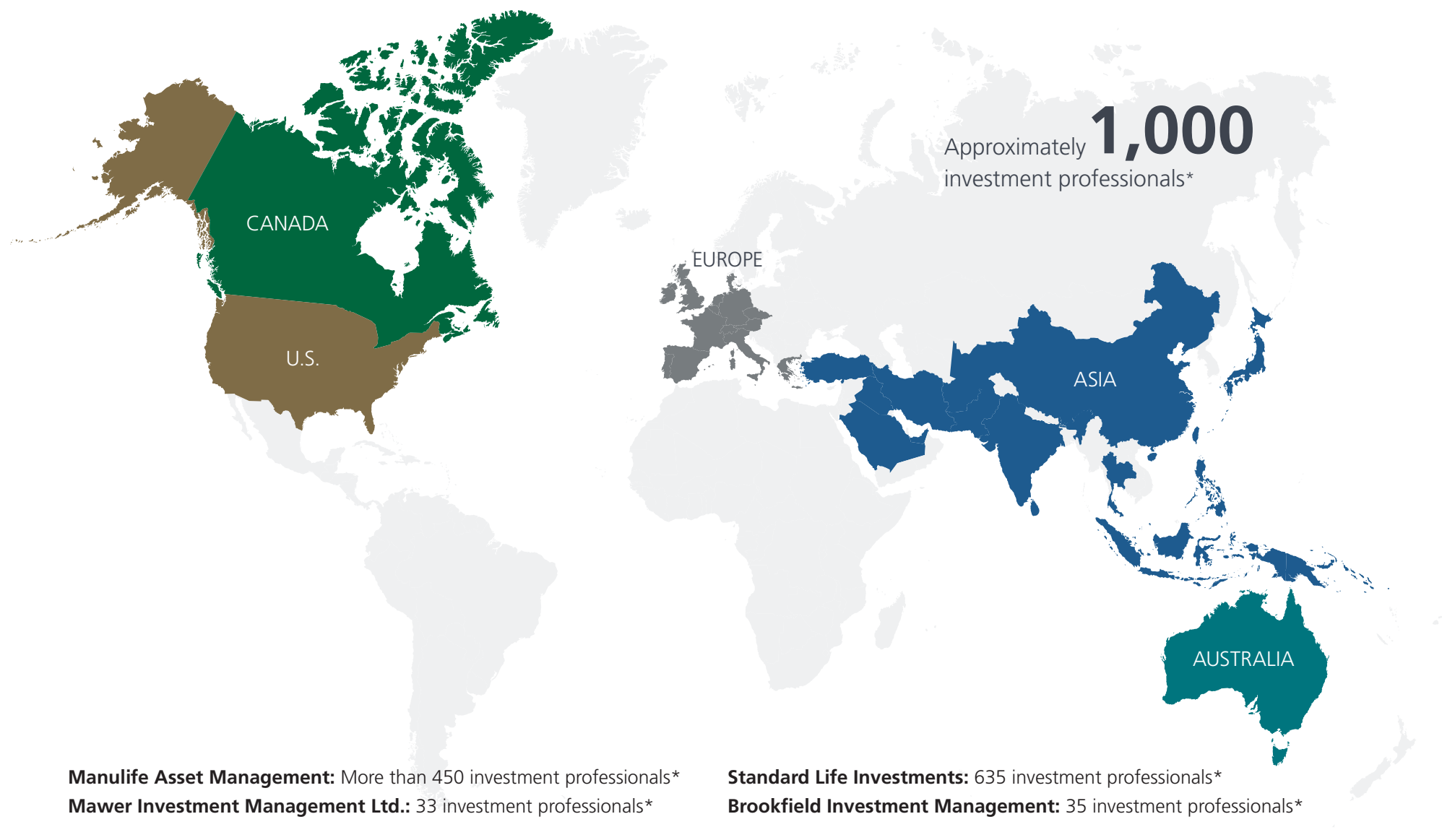
- Specialized investment manager, focused on listed Real Asset investment strategies within both equity and debt
- Investment philosophy driven by fundamental, bottom-up analysis combined with broad operational and market insights
- Part of Brookfield Asset Management, a global alternative asset manager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



Standard Life Investments: 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 June 30, 2017. Mawer Investment Management Ltd., Brookfield Investment Management and Standard Life Investments as of September 30, 2017.

Market drivers

CANADIAN EQUITIES

Oil prices advanced throughout the quarter by nearly twelve percent to US\$51.70 per barrel. A strong economy and a rebound in commodity prices helped S&P/TSX Composite earnings grow. Nine of ten sectors saw positive earnings growth in the third quarter, which helped the S&P/TSX Composite Index gain 2.9 percent.

U.S. EQUITIES

U.S. corporations are reporting better year-over-year sales and earnings results. An improving U.S. employment market implies wage growth into 2018. Higher wage growth coupled with low gasoline prices means U.S. consumption and the U.S. economy will remain on solid footing. As a result, prospects for equities should be good for the rest of the year.

INTERNATIONAL EQUITIES

In overseas markets, international equities rose 0.7 percent in Canadian dollar terms as measured by the MSCI EAFE Index. Brexit considerations aside, the European economic outlook has improved. Asia is showing improvement in its regional economies and stock markets – suggesting the growth we see is truly global in nature.

FIXED INCOME

The US Federal Reserve announced they will begin to reduce the \$4.5 trillion balance sheet starting in October. They are also expected to raise their benchmark rate another time by the end of the year. The Bank of Canada began tightening its interest rate policy to 1.0 per cent by announcing two rate increases of 25 basis points each in July and September. As a result, the Canadian dollar rallied nearly four per cent versus the U.S. dollar.

Macro snapshot

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



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

Manulife Investments' outlook snapshot



CANADIAN EQUITIES

Improving economy might not benefit markets

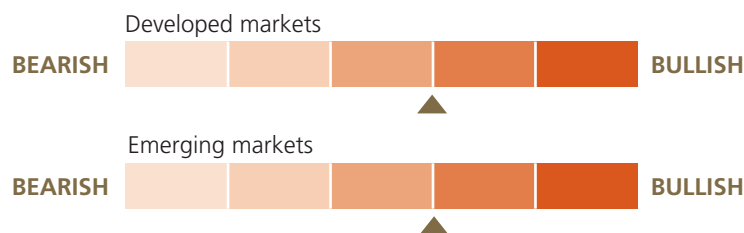
While the Canadian economy is doing well, the lack of upside to oil prices is dampening earnings expectations for Canadian equities. Areas more correlated with oil, such as energy and commodities, may have muted upside.



INTERNATIONAL EQUITIES

Gaining traction

International equities are showing attractive earnings growth rates with relatively attractive valuation. 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 upcoming transition of power in China ensures minimal economic risk in that area of the world.



U.S. EQUITIES

Playing from a position of strength

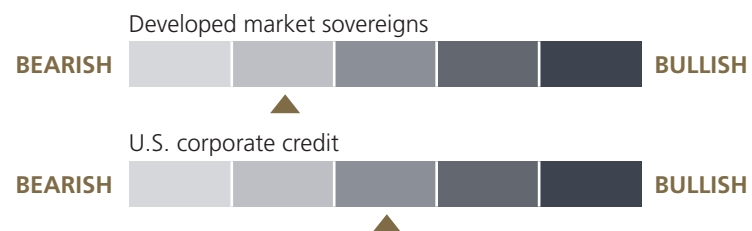
Against a backdrop of solid economic data including PMI, wage growth and employment gains and the potential for investor-friendly government policies, continued earnings growth is providing more reason to believe U.S. equities will keep climbing for the remainder of 2017 and into 2018.



FIXED INCOME

Flexibility is key in rising rate environment

Global deflation risks creating a sell-off within traditional fixed income. An environment of potentially 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.

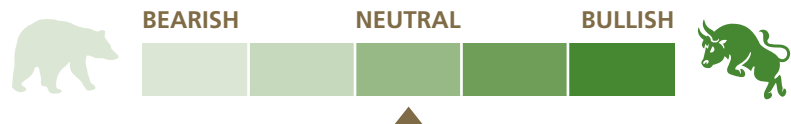
Source: Manulife Investments as of September 30, 2017. The commentary on this page is that of Manulife Investments. Performance histories are not indicative of future results. For illustration purposes only.



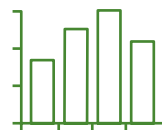
CANADIAN EQUITIES

Improving economy might not benefit markets

CANADIAN EQUITIES



KEY THEMES



Canadian economy growing at a healthy pace

Canadian growth is being primarily powered by the consumer, but the common concern is that high levels of debt and rising interest rates mean that engine may slow over the course of 2018.



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

The global oil supply/demand balance is improving. However, there is little indication of a catalyst that will drive oil prices materially higher in the near term.



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

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

Canadian economy growing at a healthy pace

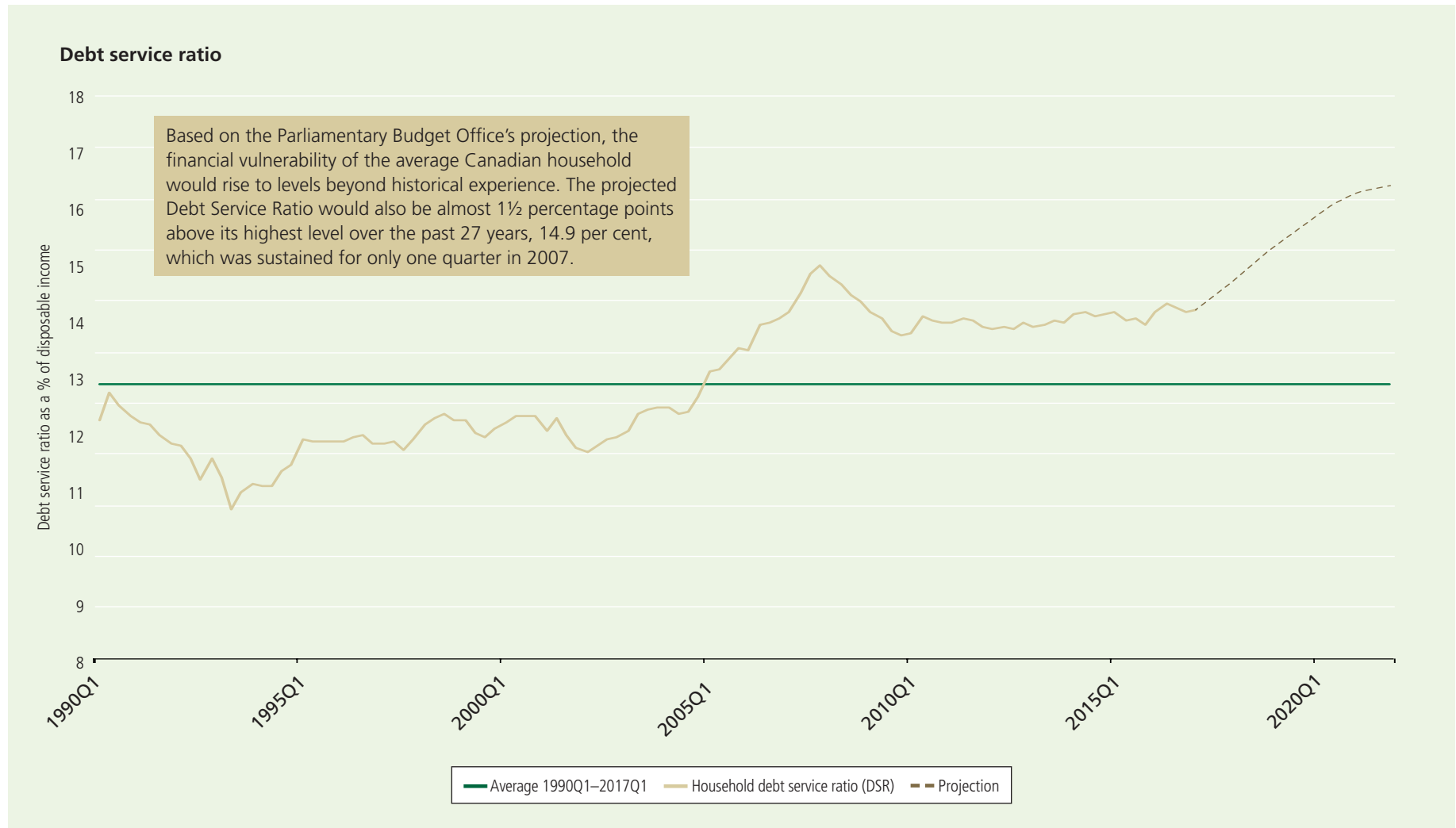
Canadian growth is being primarily powered by the consumer, but the common concern is that high levels of debt and rising interest rates mean that engine may slow over the course of 2018.



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

Canadian consumers' debt burden likely to increase

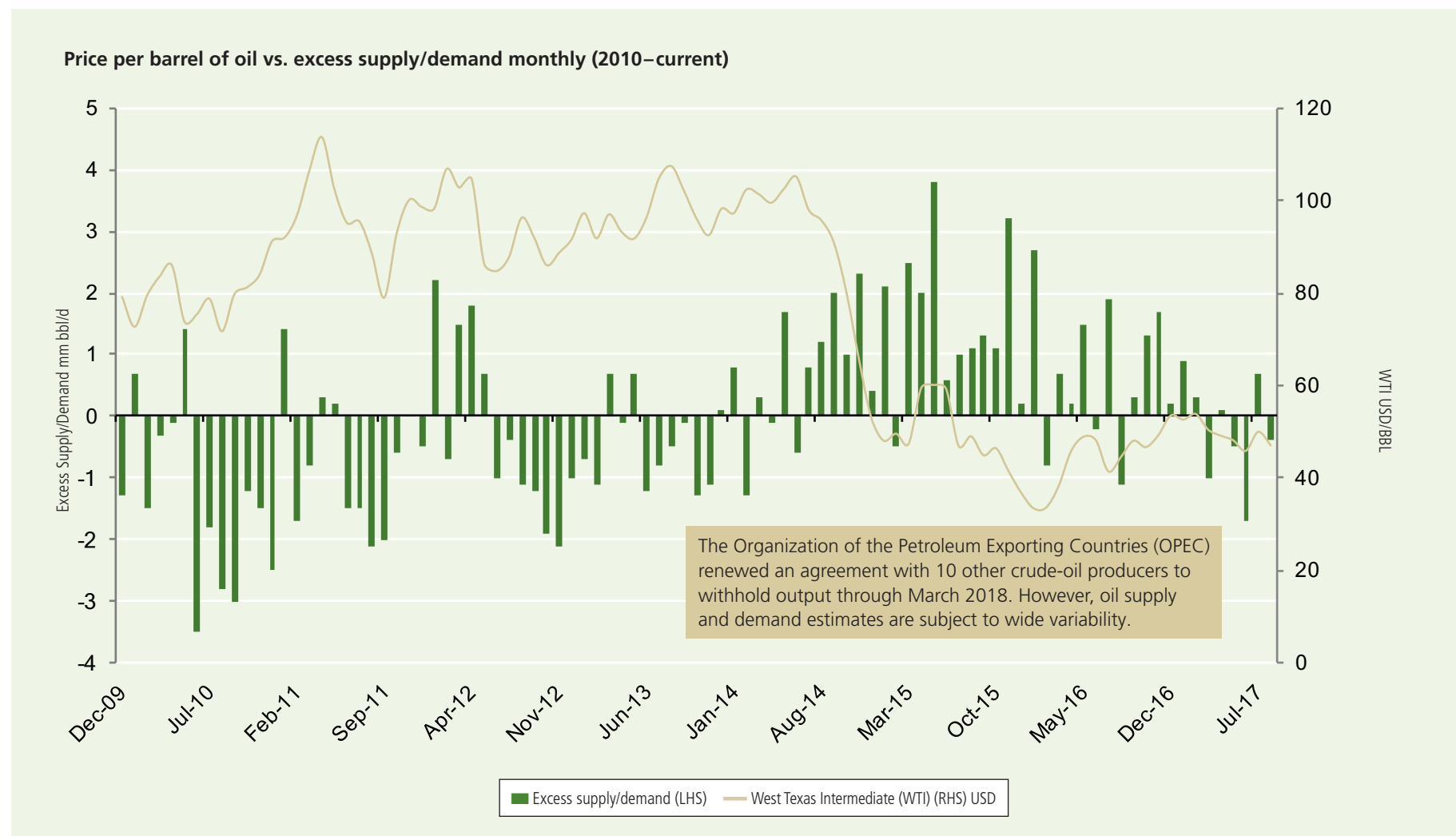
Household debt-servicing capacity will become stretched even further as interest rates rise to more “normal” levels over the next few years.



Source: Statistics Canada, Manulife Asset Management as of June 20, 2017

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

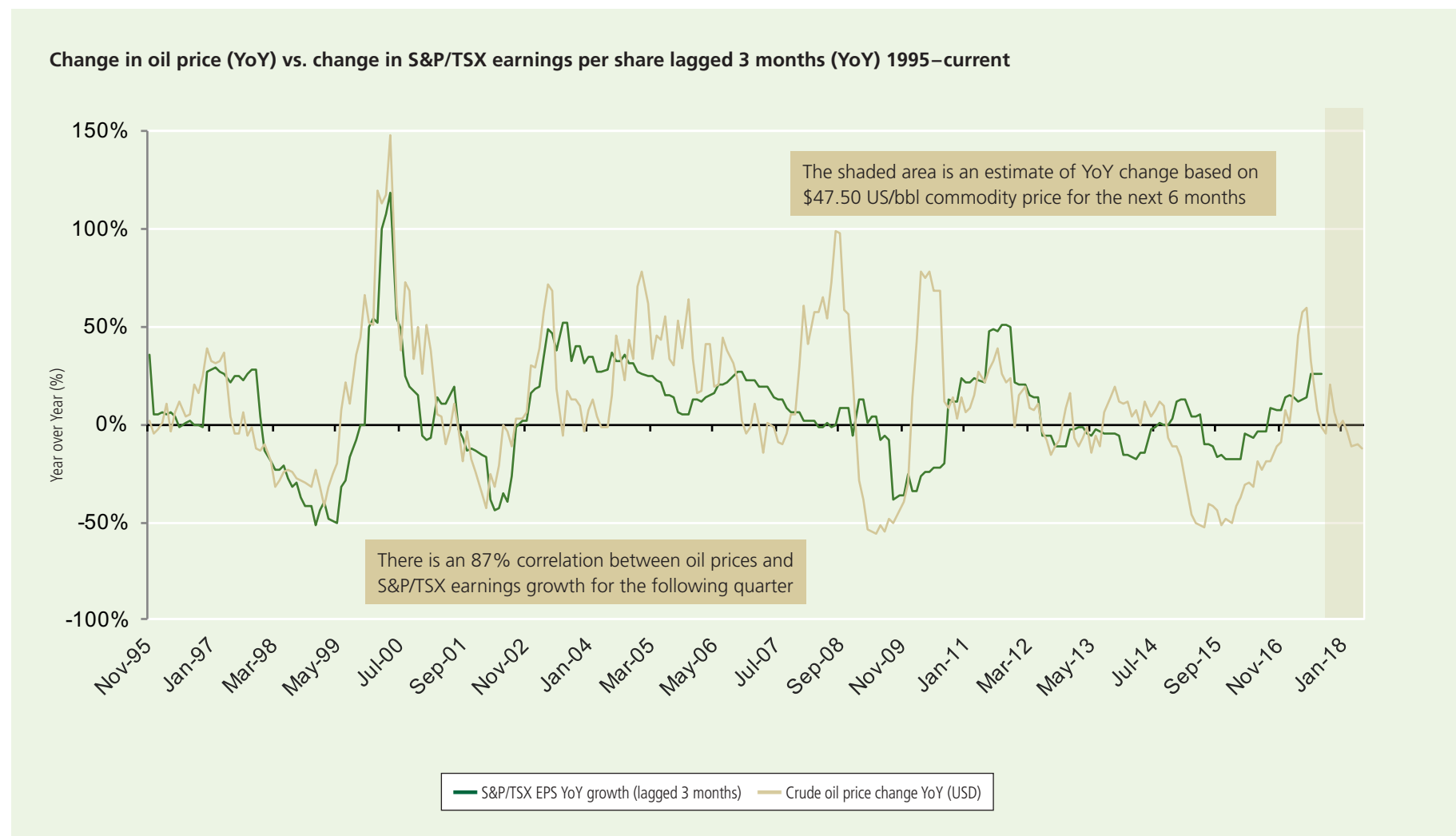
The global oil supply/demand balance is improving. However, there is little indication of a catalyst that will drive oil prices materially higher in the near term.



Source: Bloomberg, Energy Intelligence Group Oil Product Demand Data, Manulife Investments as of August 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 around \$50 will provide a challenging environment for Canadian equity earnings through the end of the year.



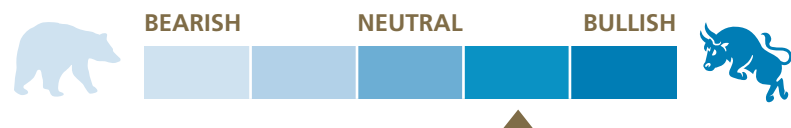
Source: Bloomberg and Manulife Investments, as at August 31, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

U.S. EQUITIES

The background is a solid blue rectangle. On the right side, there is a white line art illustration of a mountain range. The mountains are represented by several sharp, angular peaks and valleys, creating a stylized silhouette. The lines are thin and white, contrasting with the blue background.

Playing from a position of strength

U.S. EQUITIES



KEY THEMES

7 OUT OF 10

U.S. economy continues to improve

7 out of 10 leading economic indicators were positive in August.*



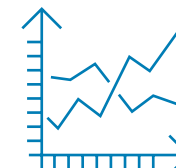
Solid manufacturing activity likely to lead to strong earnings growth

Positive manufacturing data should result in above-average earnings growth into the first quarter of 2018.



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.

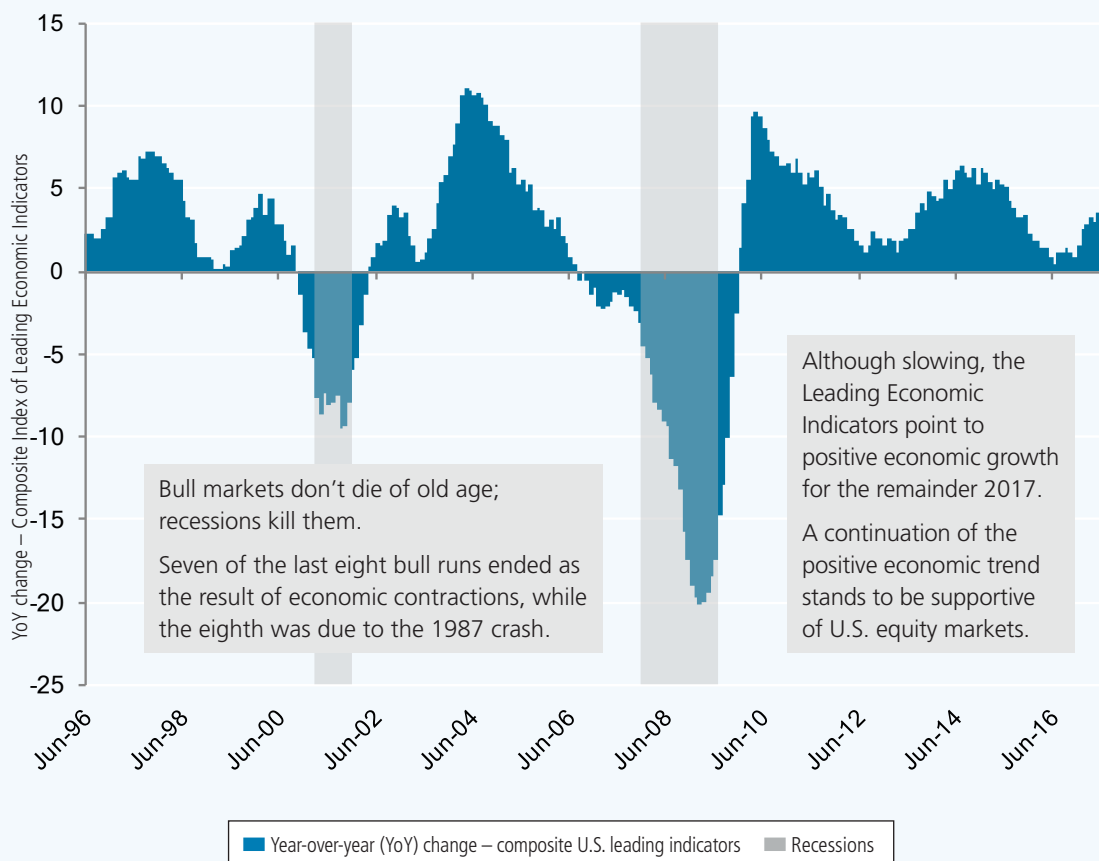
Source: Manulife Investments as of September 30, 2017. The commentary is that of Manulife Investments. Performance histories are not indicative of future results. See pages 16–19 for complete information. For illustration purposes only.

*Source: The Conference Board as of August 31, 2017.

U.S. economy continues to improve

7 out of 10 leading economic indicators were positive in August.

Conference Board's Composite Index of Leading Economic Indicators 1996 to 2017



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 August 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

Positive manufacturing data should result in above-average earnings growth into the first quarter of 2018.

ISM manufacturing PMI vs. S&P 500 Index earnings growth YoY (advanced 6 months) 1995 to current

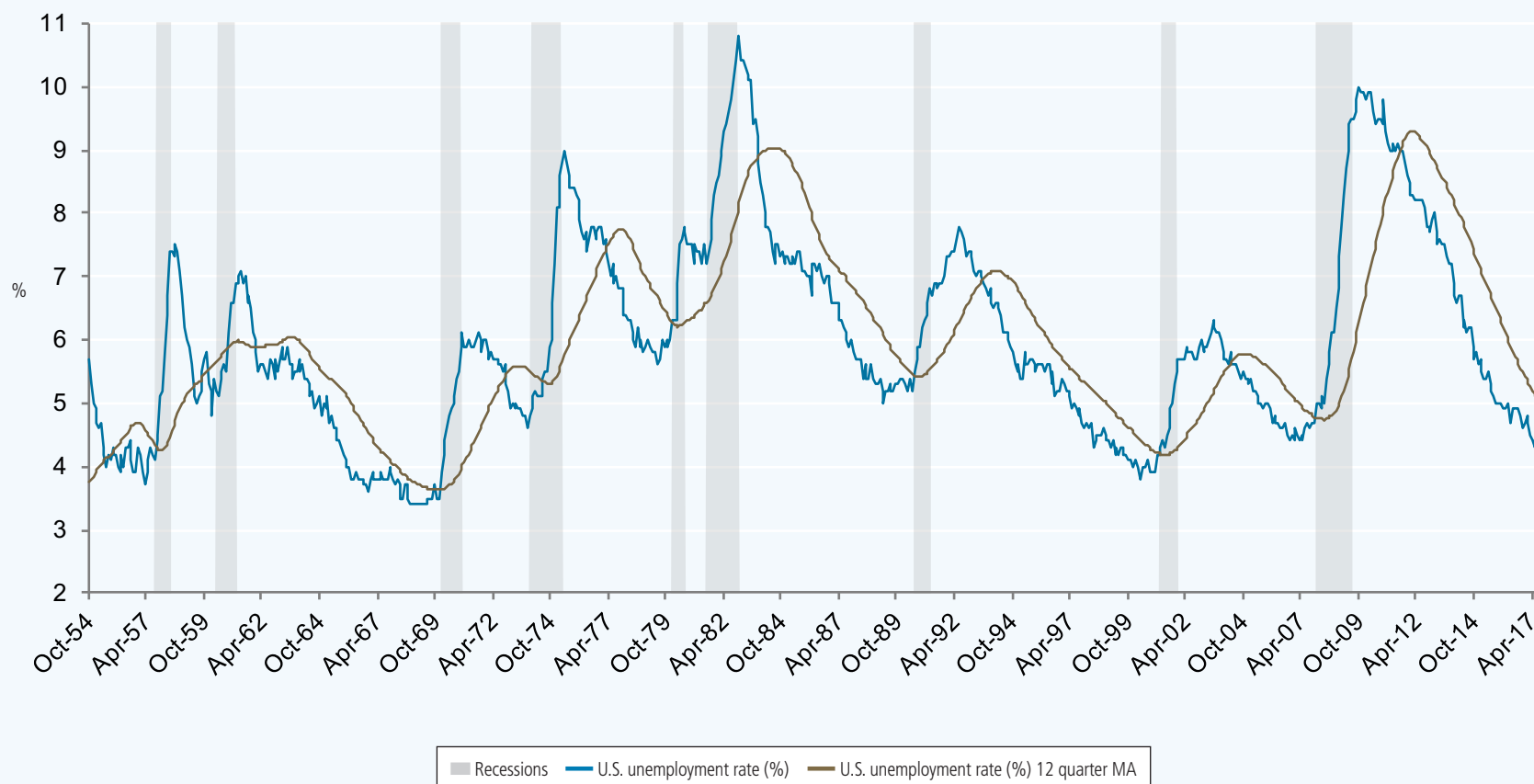


Source: Manulife Investments and Bloomberg as of August 31, 2017. The commentary on these charts is that of Manulife Investments. Performance histories are not indicative of future results.

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.

Recession indicator - U.S. Unemployment (%) 1954 to current

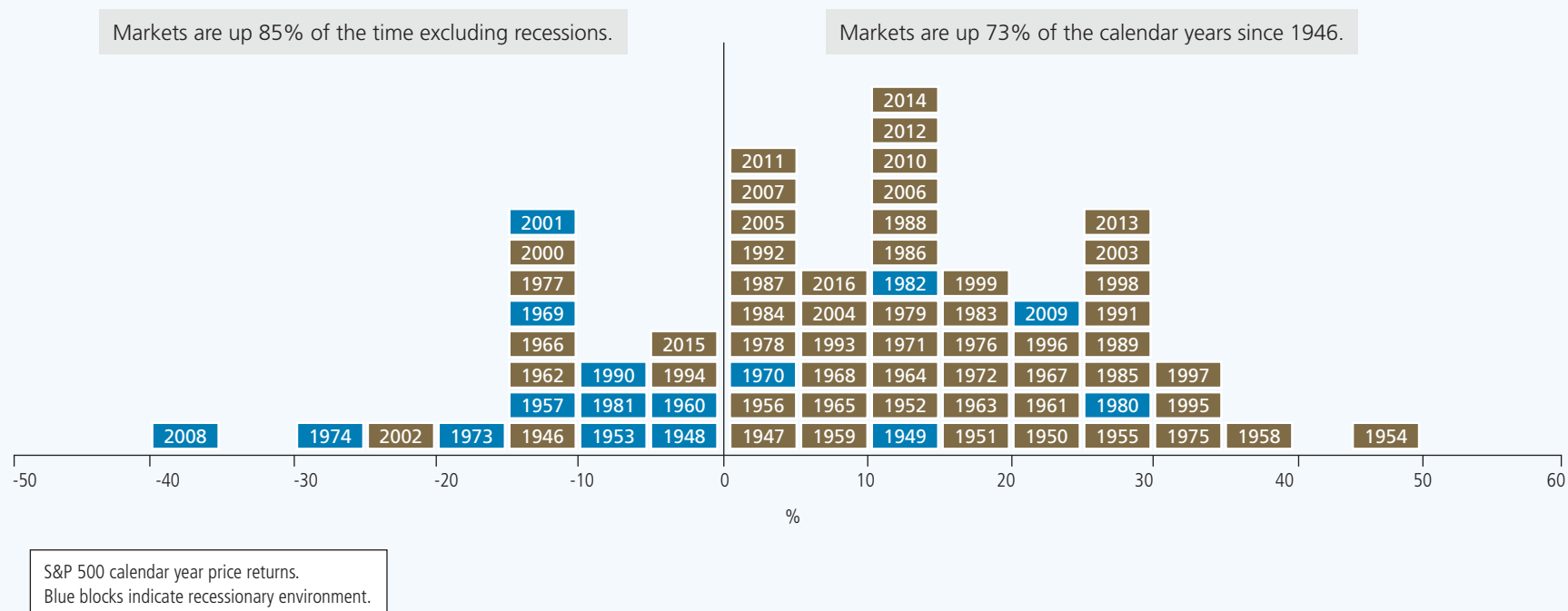


Source: Manulife Investments and Bloomberg as of August 31, 2017. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

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.

U.S. stock market calendar year price returns



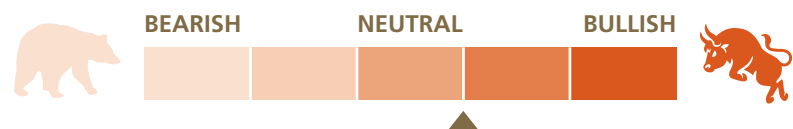
Source: Manulife Investments and Bloomberg as of December 31, 2016. The commentary on this chart is that of Manulife Investments. Performance histories are not indicative of future results.

INTERNATIONAL EQUITIES

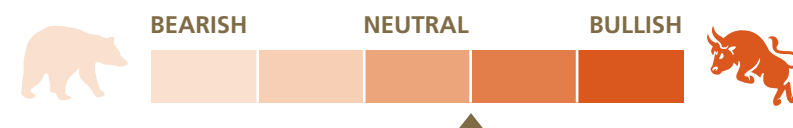


Gaining traction

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, further supporting 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 into 2018.



Emerging market fundamentals appear to have bottomed

Underlying data, including manufacturing surveys and earnings estimates, continues to improve.



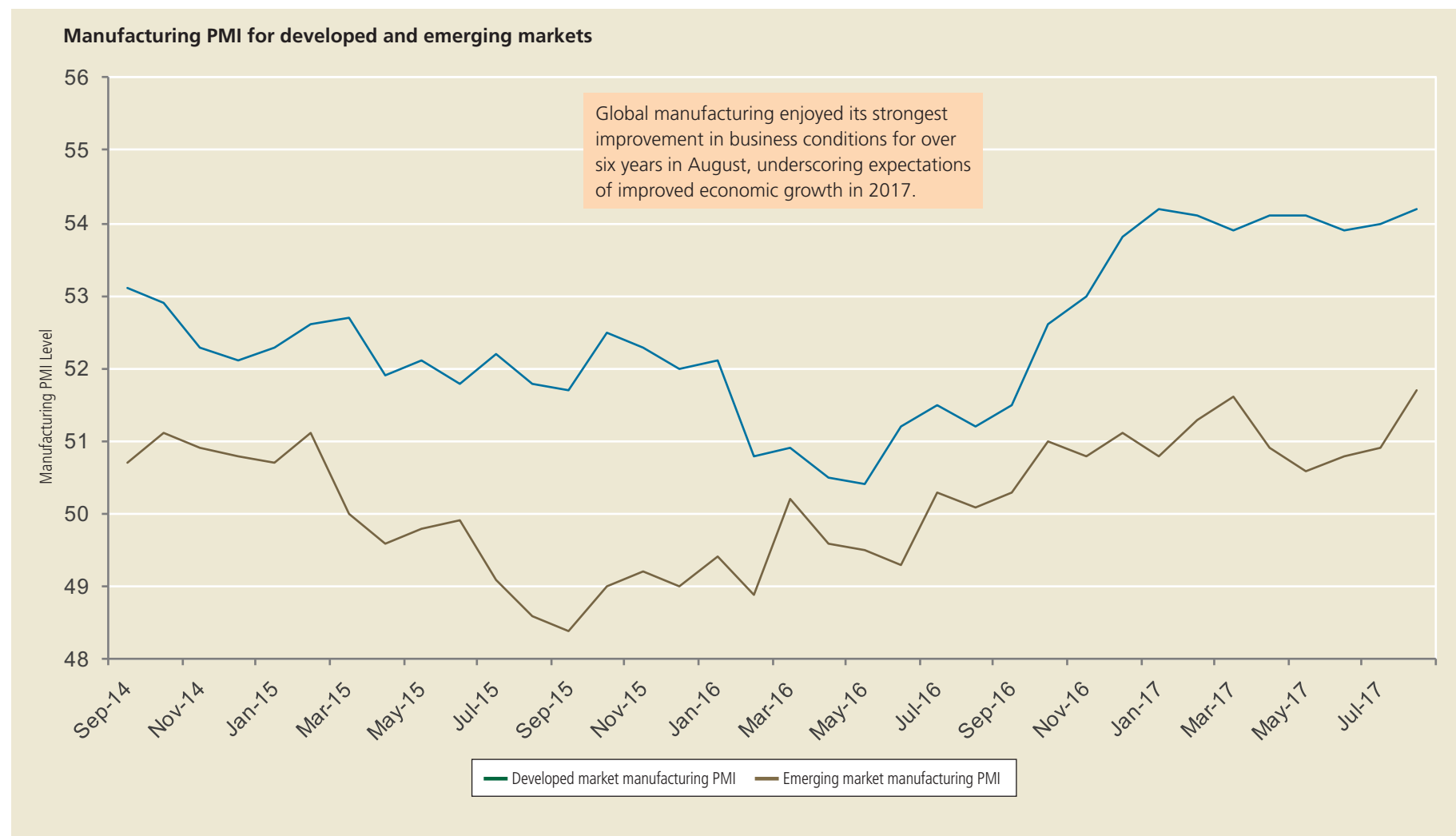
China's growth is on solid footing

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 September 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.

Manufacturing activity is in expansion in developed and emerging markets

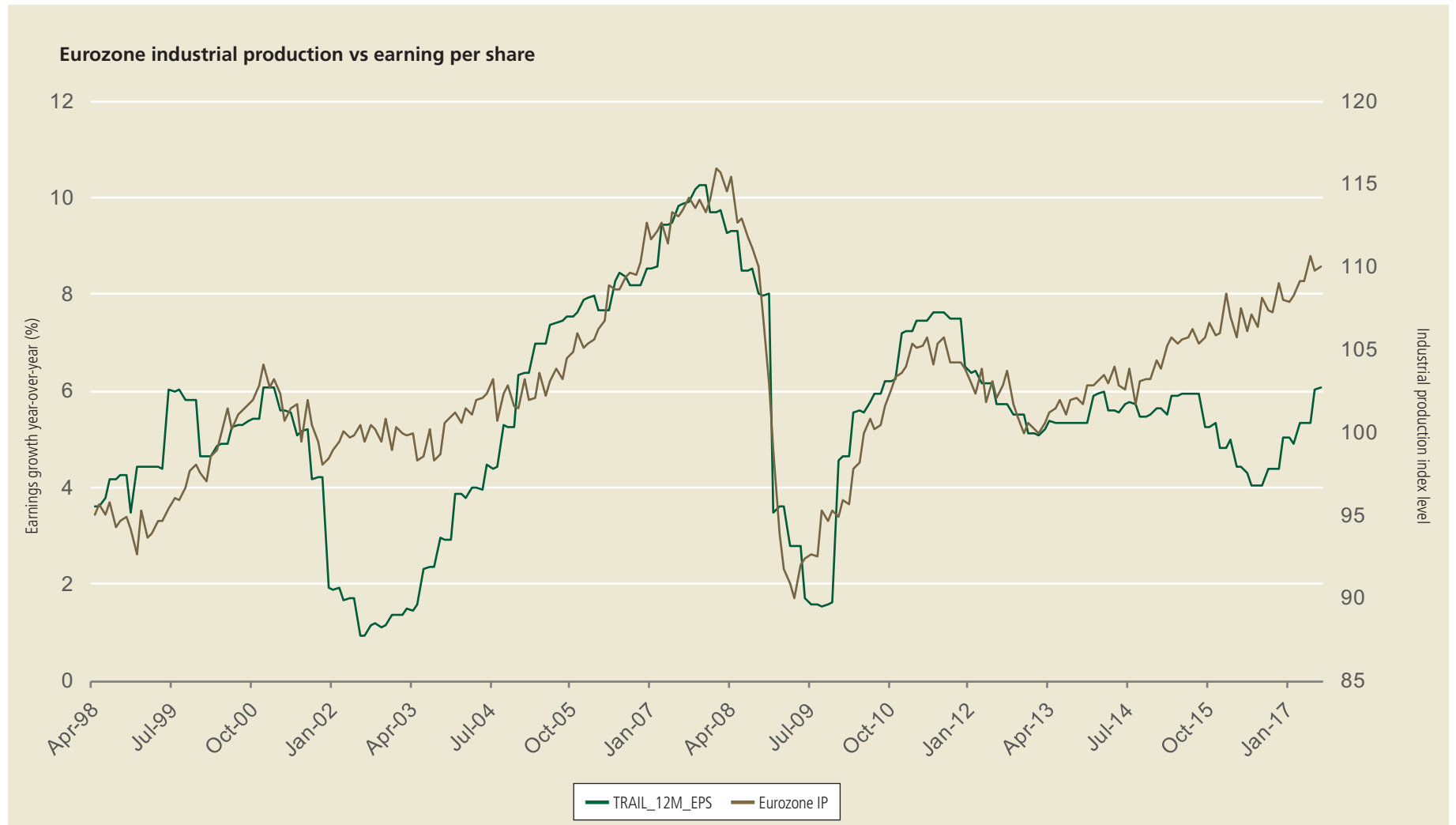
Manufacturing output in China, Europe, the UK and the U.S. is growing at a steady pace, further supporting synchronized global economic growth.



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

Industrial production is supportive of higher earnings

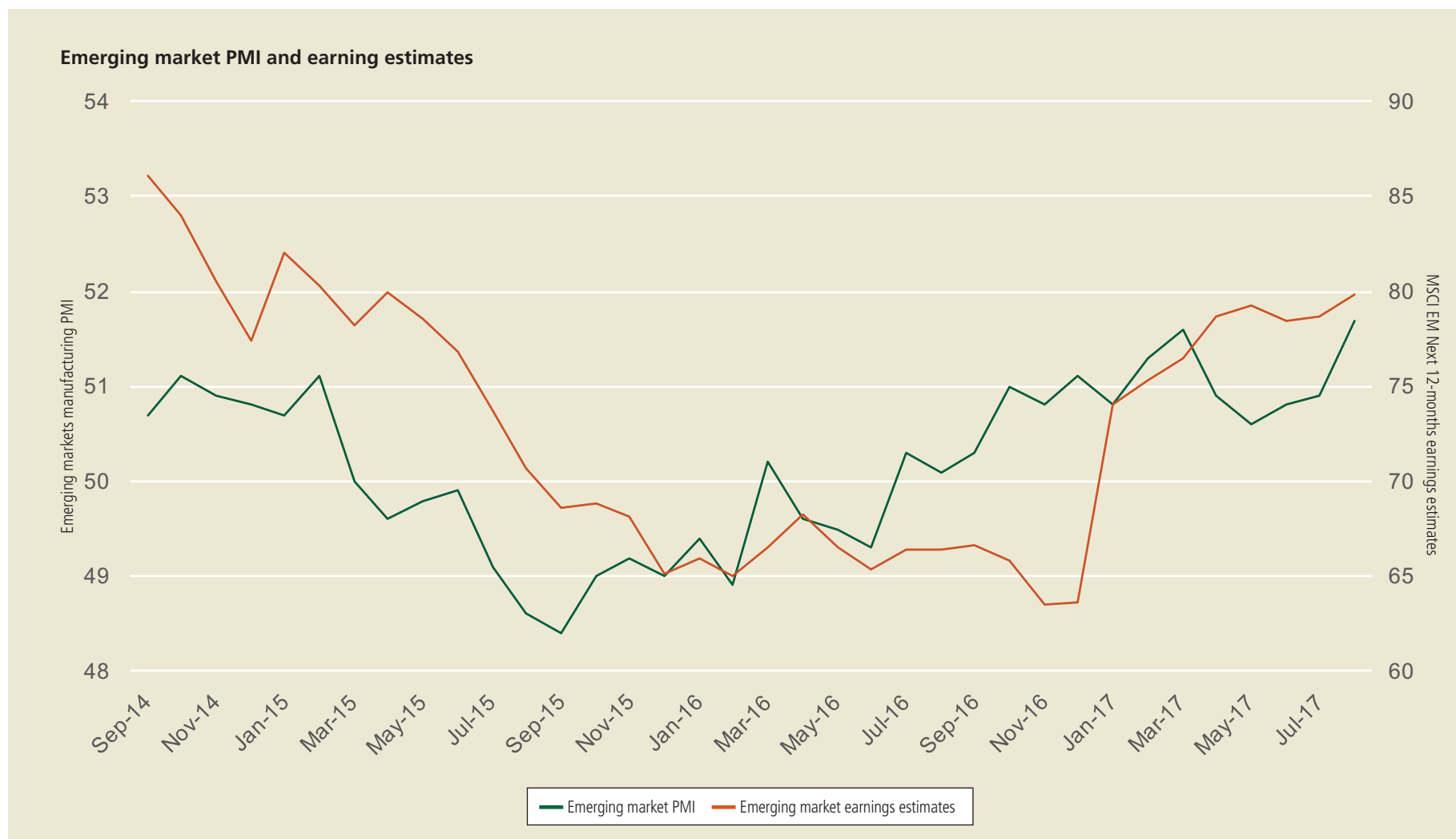
Increases in industrial production and improvements in overall economic health should lead to better earnings growth into 2018.



Source: Manulife Investments, BNP Paribas and Bloomberg as of July 31, 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

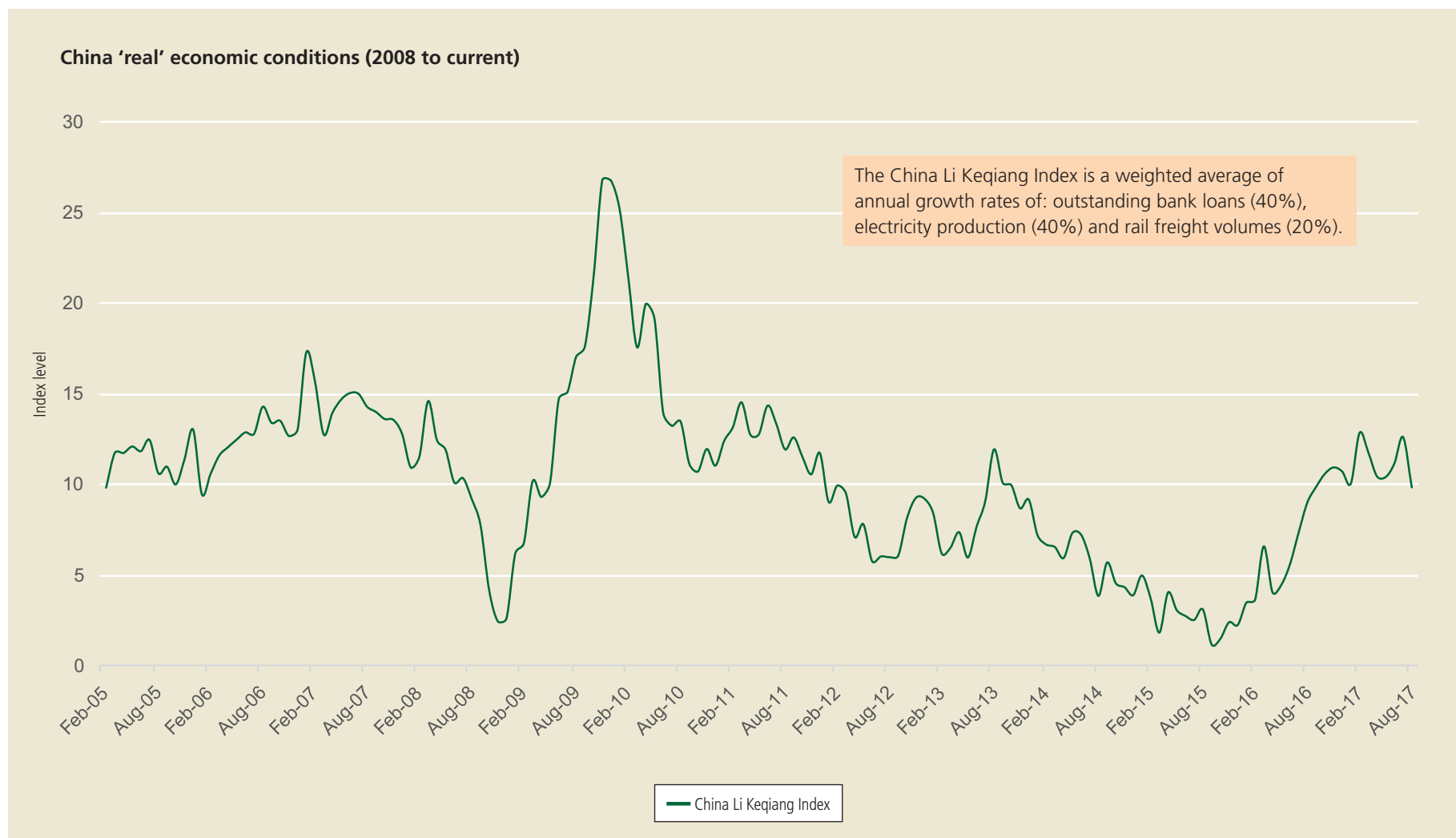
Underlying data, including manufacturing surveys and earnings estimates, continues to improve.



Source: Manulife Investments and Bloomberg as of August 31, 2017. The commentary on these charts is that of Manulife Investments. Performance histories are not indicative of future results.

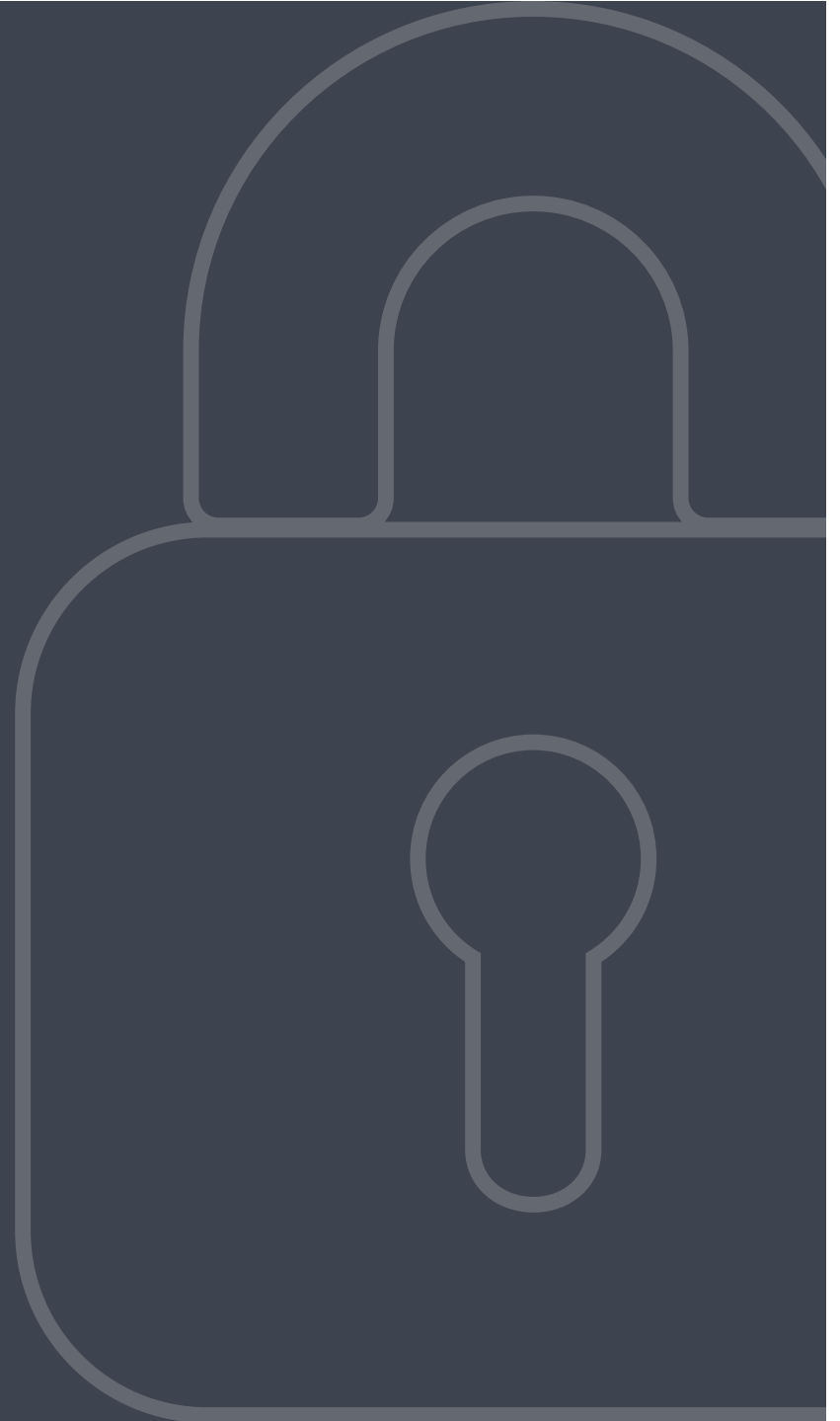
China's growth remains on solid footing

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



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

FIXED INCOME



Flexibility is key in rising rate environment

DEVELOPED MARKET SOVEREIGNS



U.S. CORPORATE CREDIT



KEY THEMES



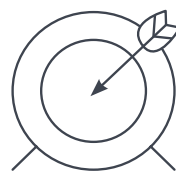
Despite recently increasing, low yields remain for high quality sovereign bonds

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



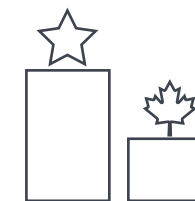
The Fed is fully justified to continue tightening

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



Investment-grade corporates represent an attractive balance of risk and return

Bonds play an important role in overall portfolios by serving as a stabilizing force during volatile time. U.S. investment-grade corporates offer a compelling mix of yield and diversification potential.

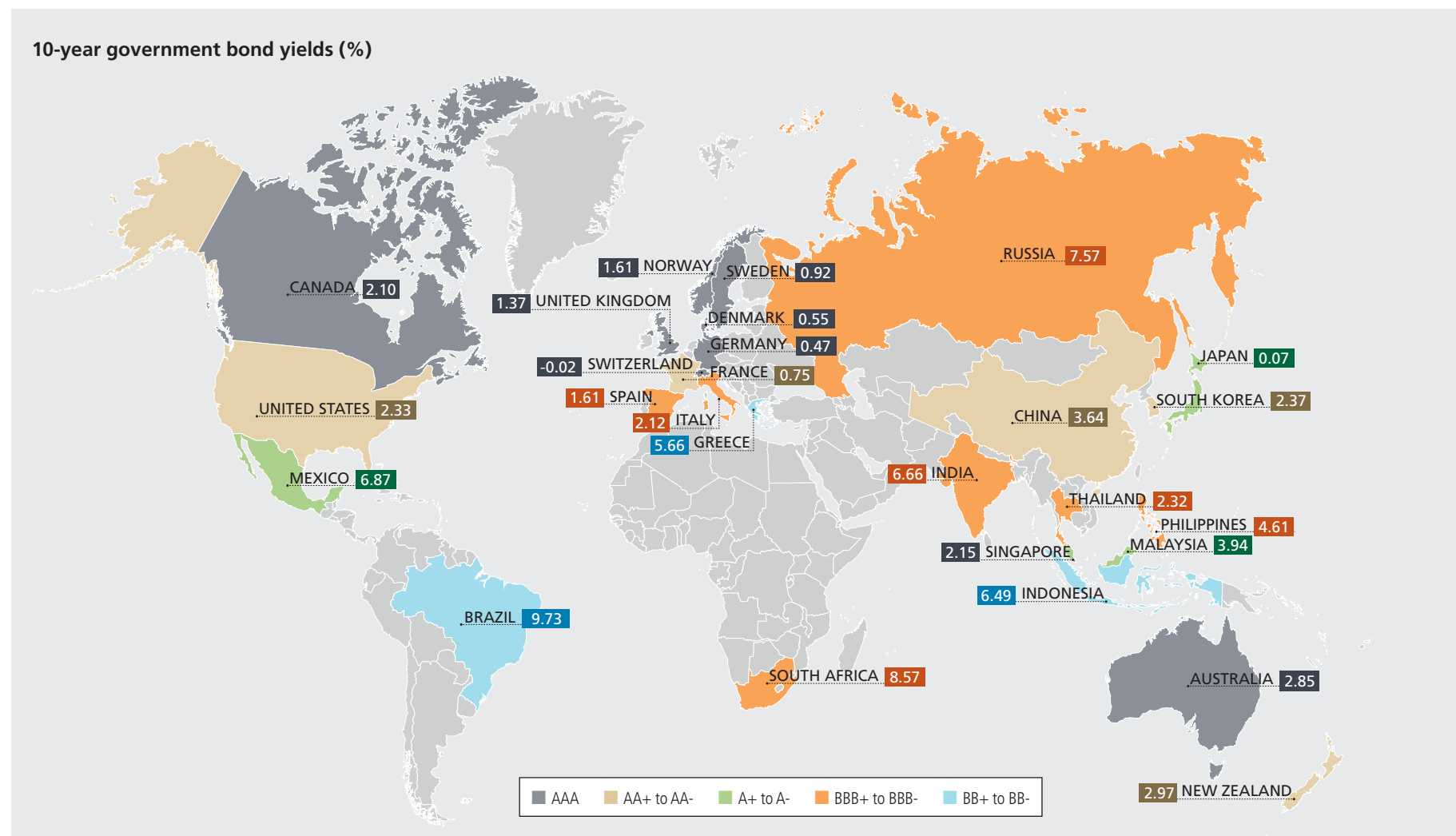


The Canadian dollar is likely to be range bound

The two forces impacting the loonie, oil prices and the difference in Canadian and U.S. 2 year bond yields, have pushed the Canadian dollar higher.

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

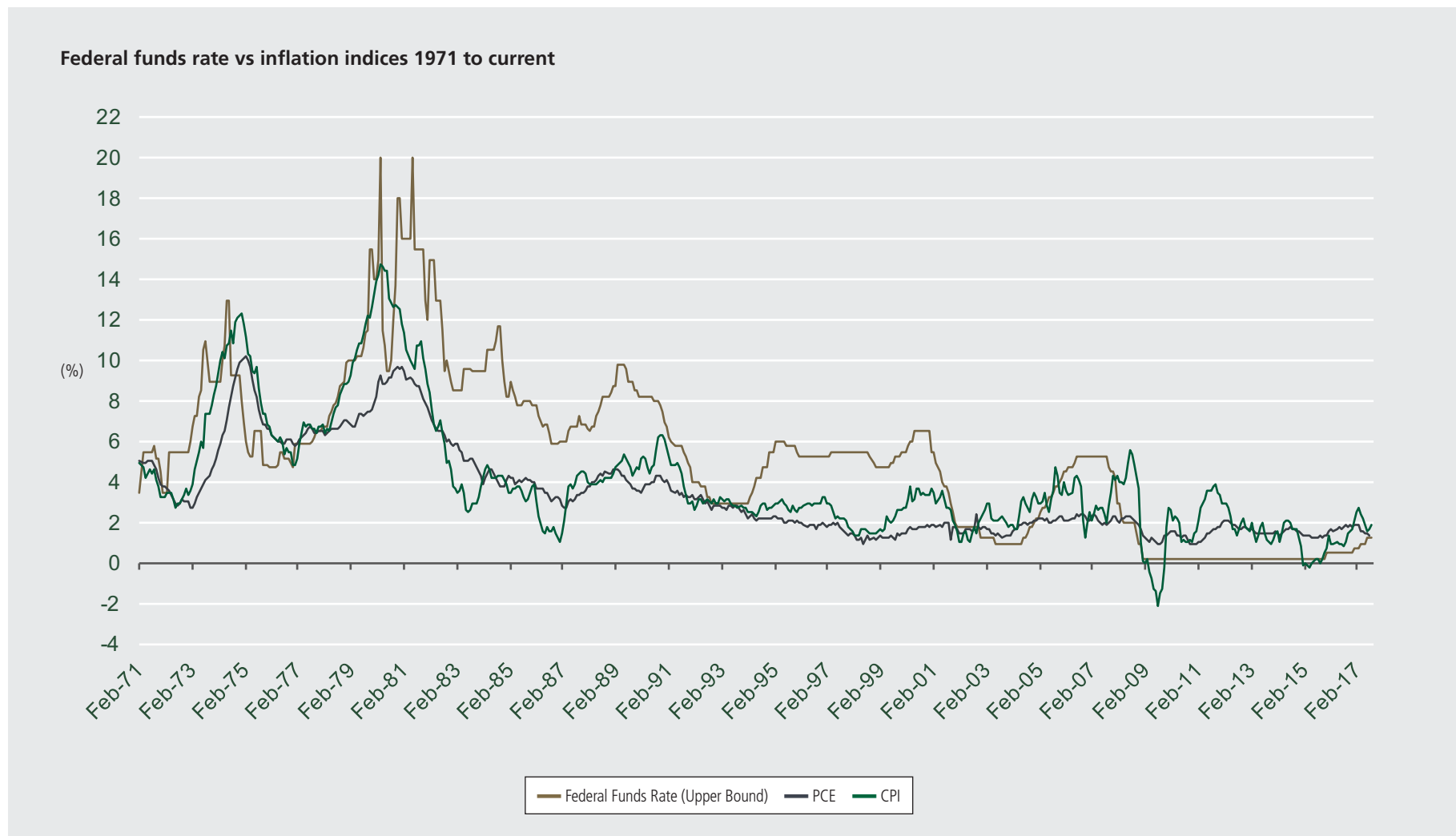
Current yields may not be attractive to income-seeking investors.



Source: Bloomberg as of September 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.

The Fed is fully justified to continue tightening

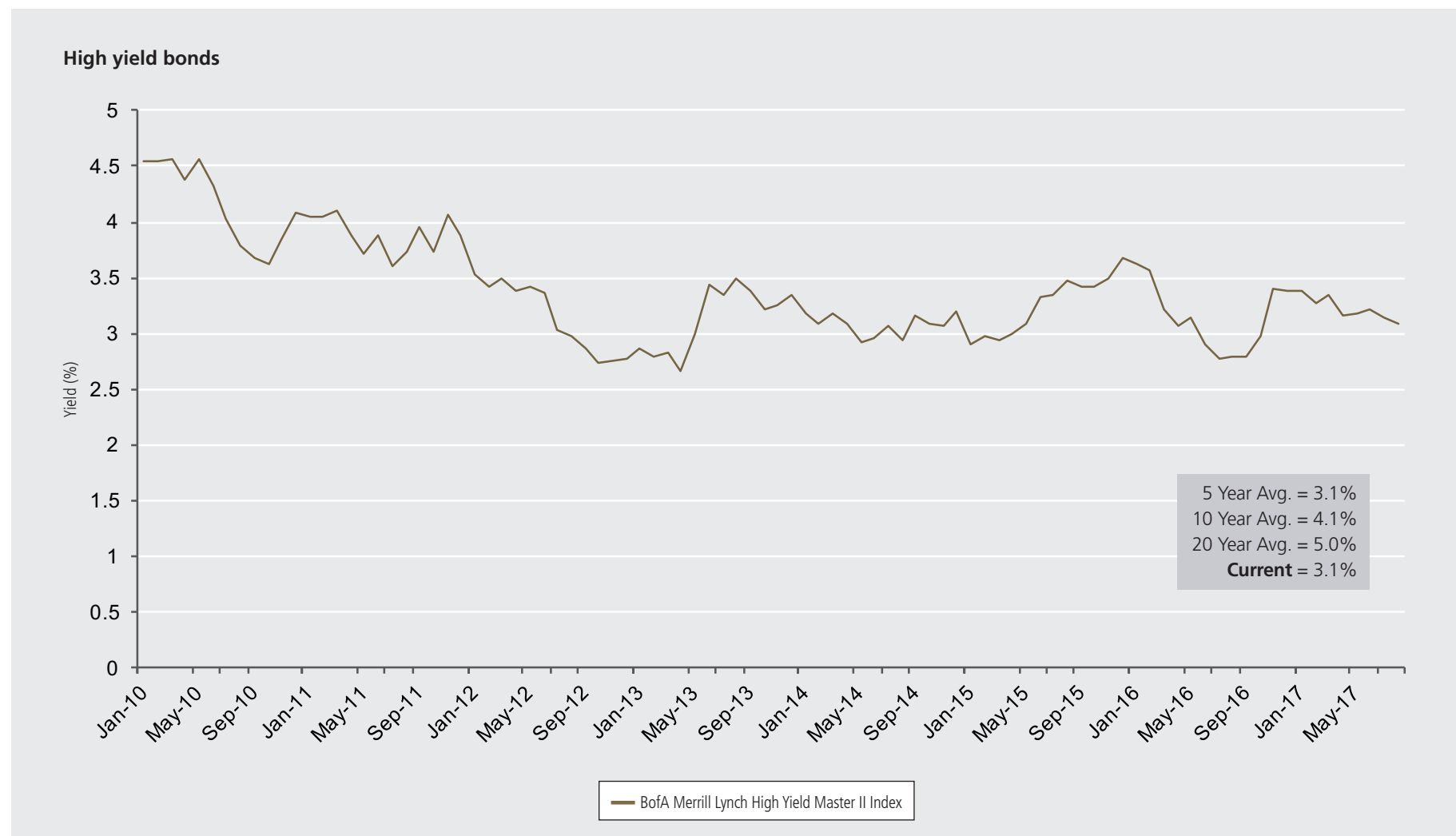
Trend of higher inflation coupled with a solid employment market is likely to lead to increased interest rates.



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

Investment-grade corporates represent an attractive balance of risk and return

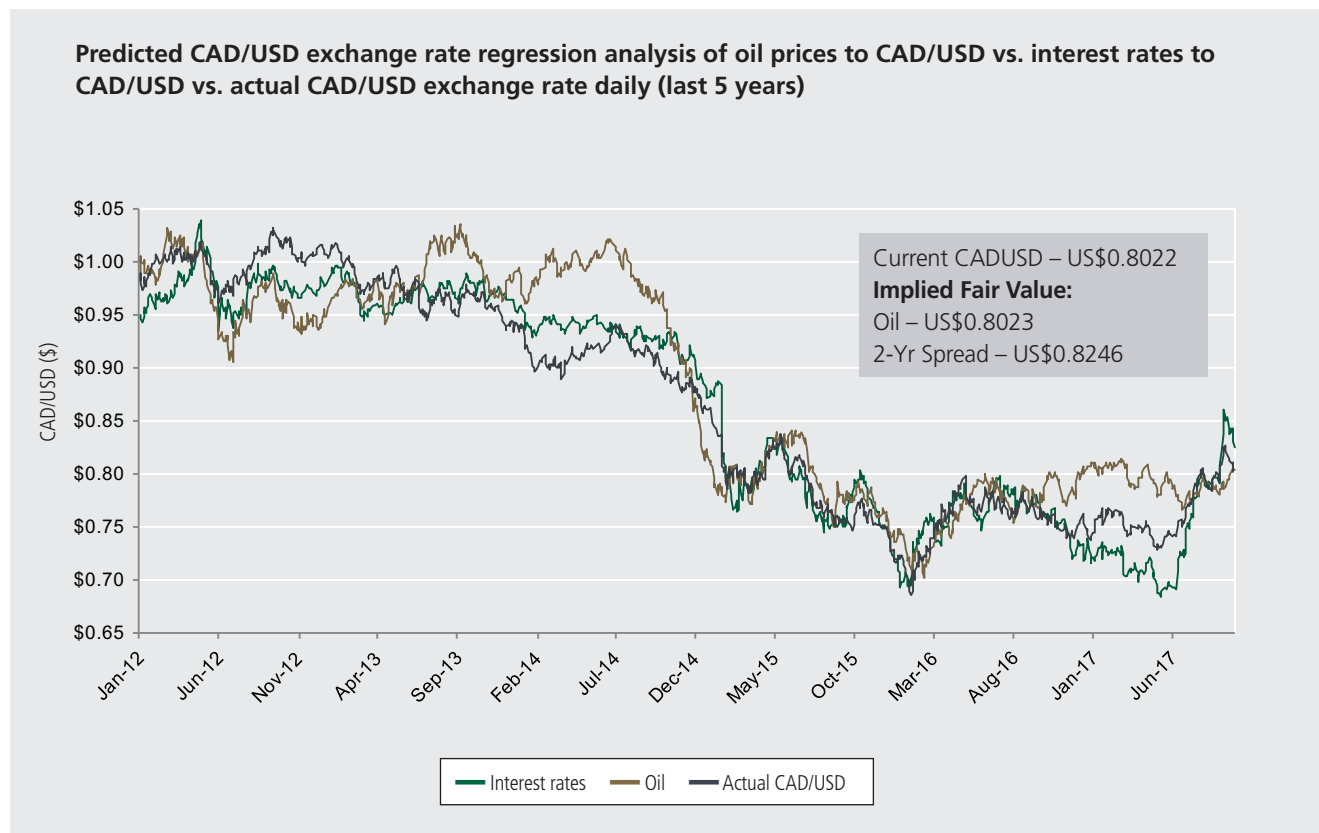
Bonds play an important role in overall portfolios by serving as a stabilizing force during volatile time. U.S. investment-grade corporates offer a compelling mix of yield and diversification potential.



Source: Bloomberg and Manulife Investments as of August 31, 2017. The commentary on these charts is that of Manulife Investments. Performance histories are not indicative of future results.

The Canadian dollar is likely to remain range bound

The two forces impacting the loonie – oil prices and the difference in Canadian and U.S. 2 year bond yields, have pushed the Canadian dollar higher.



“

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 September 28, 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



Source: Manulife Investments as of September 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.



FOR ADVISORS USE ONLY

The opinions expressed are those of the contributors as of September 30, 2017, and are subject to change. No forecasts are guaranteed. This commentary is provided for informational purposes only and is not an endorsement of any security, mutual fund, sector or index. Manulife Asset Management and its affiliates, employees and clients may hold or trade the securities mentioned in this commentary. Past performance is not indicative of future results. Asset manager views are compiled throughout the preceding calendar quarter via in-person discussions, reviewed research and on-site visits. These inputs are complemented by third-party research collected during the calendar quarter. Our views reflect Manulife Investments' proprietary weighting of these inputs. These forward-looking statements are subject to various risks and uncertainties, including capital markets and economic factors, which could cause actual financial performance and expectations to differ materially from the anticipated performance or other expectations expressed. Economic factors include, but are not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events. Readers are cautioned not to place undue reliance on these forward-looking statements. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith but without legal responsibility. Manulife Investments has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise, except as required by securities legislation. Certain research and information, including any opinions, are based upon various sources believed to be reliable, but cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice. This commentary reflects the views of Manulife Investments, a Division of Manulife Asset Management Limited. These views are subject to change as market and other conditions warrant. 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. Stocks and bonds can decline due to adverse issuer, market, regulatory, or economic developments; foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability; value stocks may decline in price; growth stocks may be more susceptible to earnings disappointments; the securities of small companies are subject to higher volatility than those of larger, more established companies; and high-yield bonds are subject to additional risks, such as increased risk of default. Fixed income investments are subject to interest-rate and credit risk; their value will normally decline as interest rates rise or if a creditor is unable or unwilling to make principal or interest payments. Hedging and other strategic transactions may increase volatility and result in losses if not successful. Currency transactions are affected by fluctuations in exchange rates. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the fund facts and the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Manulife, Manulife Investments, the Block Design, the Four Cube 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.