Manulife Investment Management

Investing **happily ever after? Refresh**

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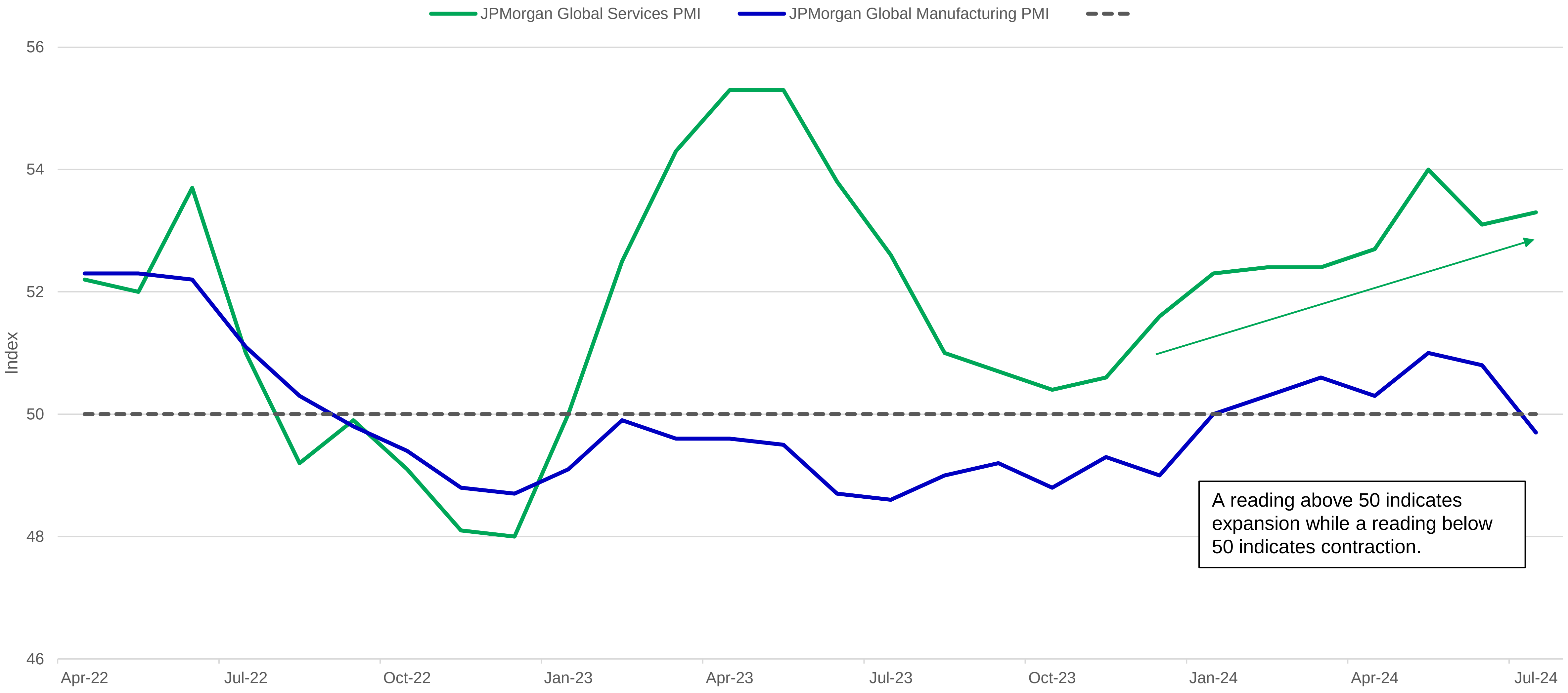
Economy–
Goldilocks and the three bears

The have and have not economy. Manufacturing continues to struggle, services resilient



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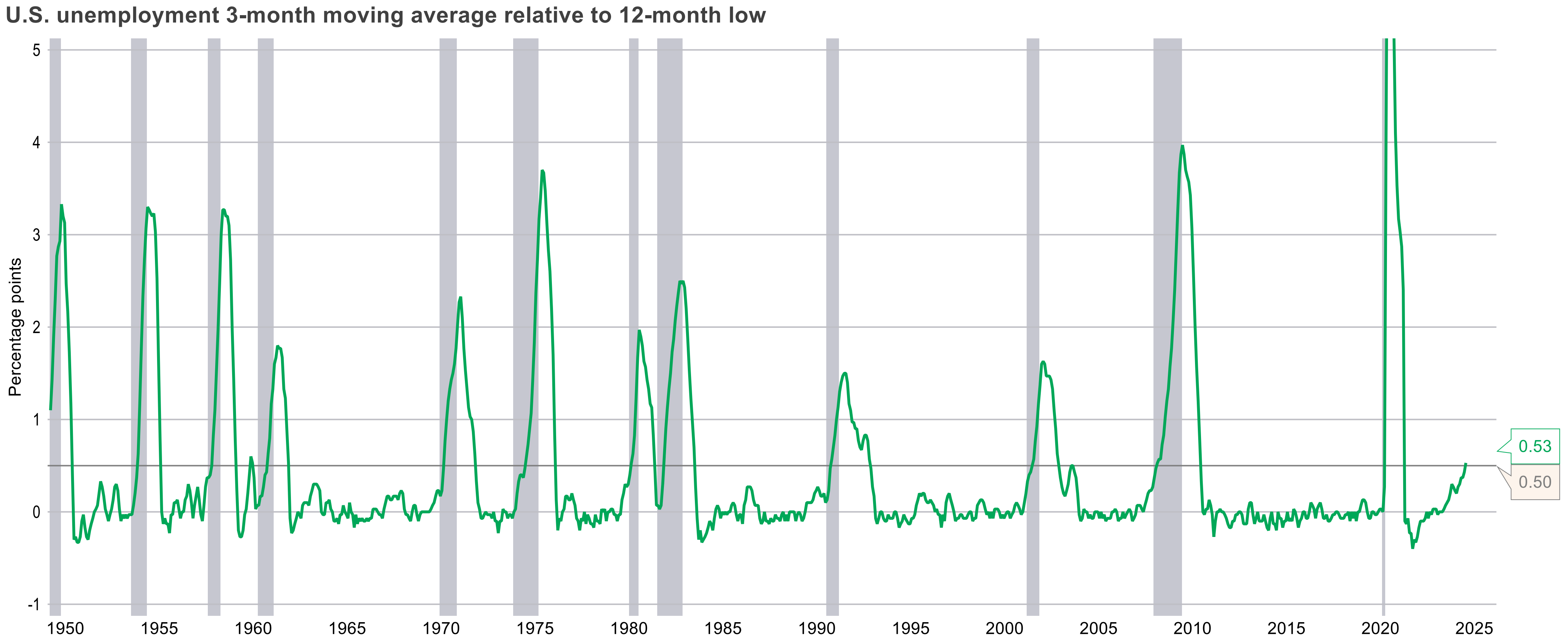
Source: Bloomberg, Manulife Investment Management, as of 8/24/2024. PMI refers to Purchasing Managers' Index.

The Sahm Rule has been triggered



Source: Federal Reserve Bank of St. Louis, Macrobond, Manulife Investment Management, as of Tuesday, September 3, 2024. The grey areas represent recession.

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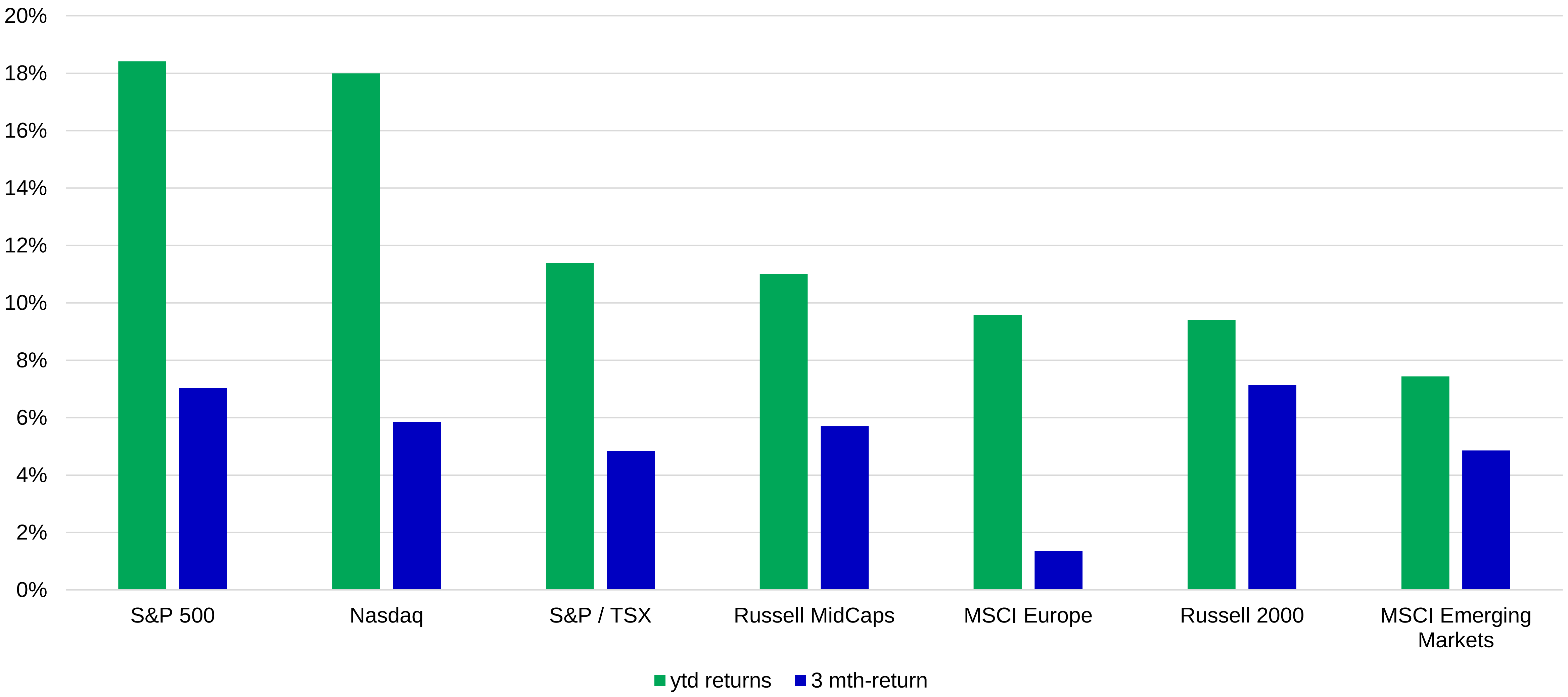
The Sahm Rule identifies signals related to the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.

Equities–
The ugly duckling

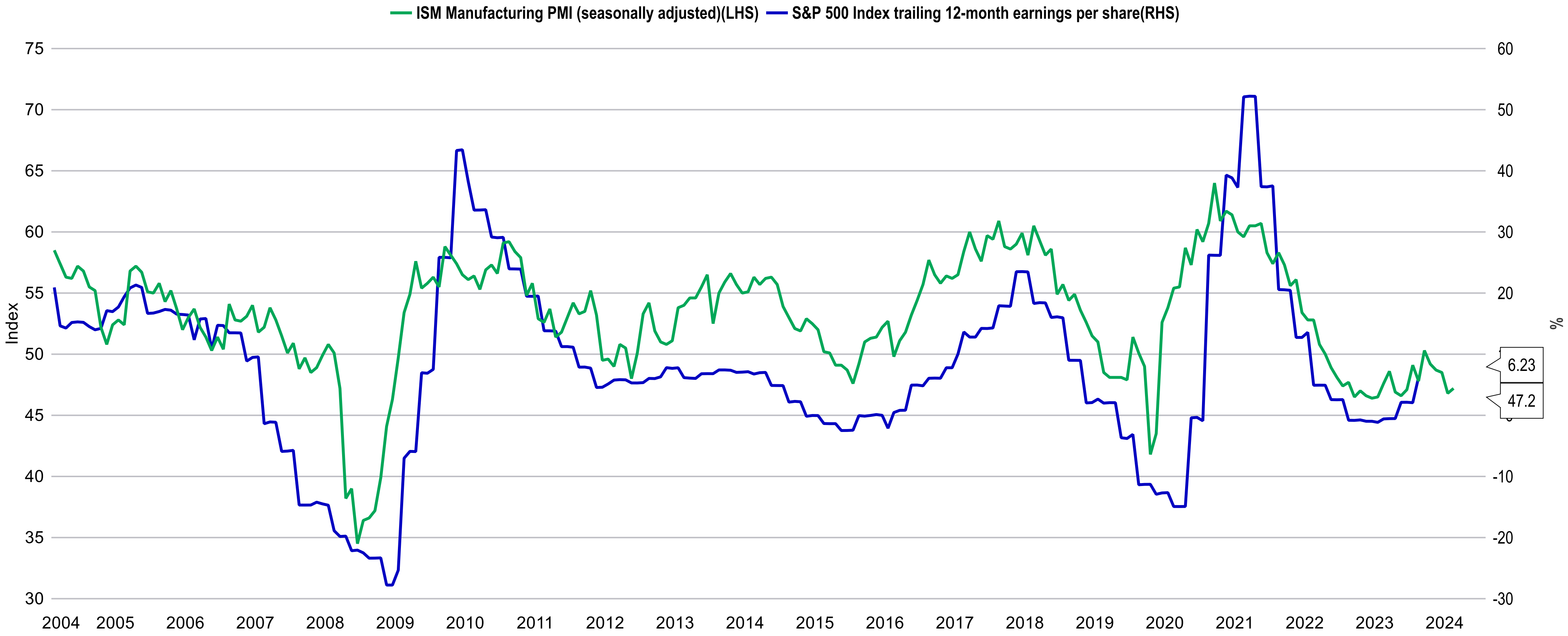
Equity Asset Class performance – ytd and 3-month returns



Source: Bloomberg, Manulife Investment Management, as of 8/31/2024.

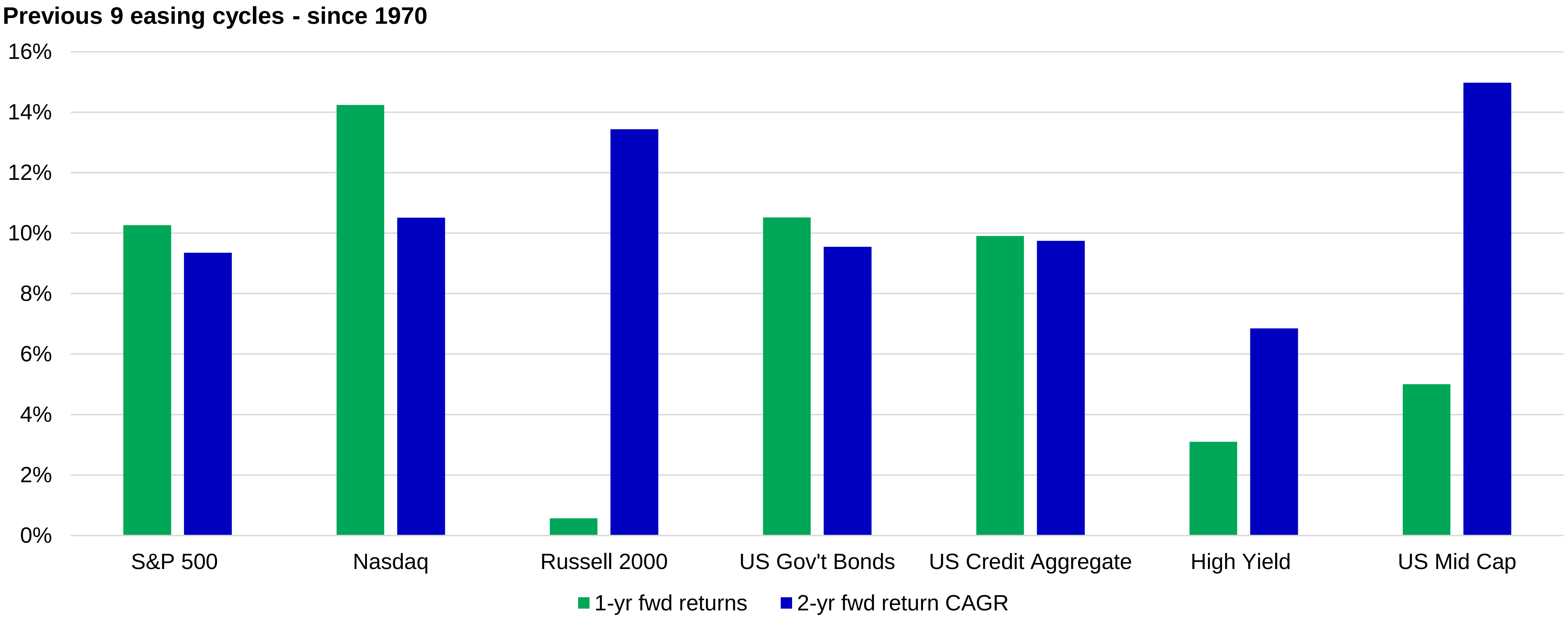
Earnings growth likely to be choppy and challenging

U.S. Manufacturing PMI vs. S&P 500 Index trailing 12-month YoY earnings growth (advanced by 6 months)



Source: Institute for Supply Management, Macrobond, Manulife Investment Management, as of Tuesday, September 3, 2024. PMI refers to Purchasing Managers' Index. A reading above 50 indicates expansion and vice versa.

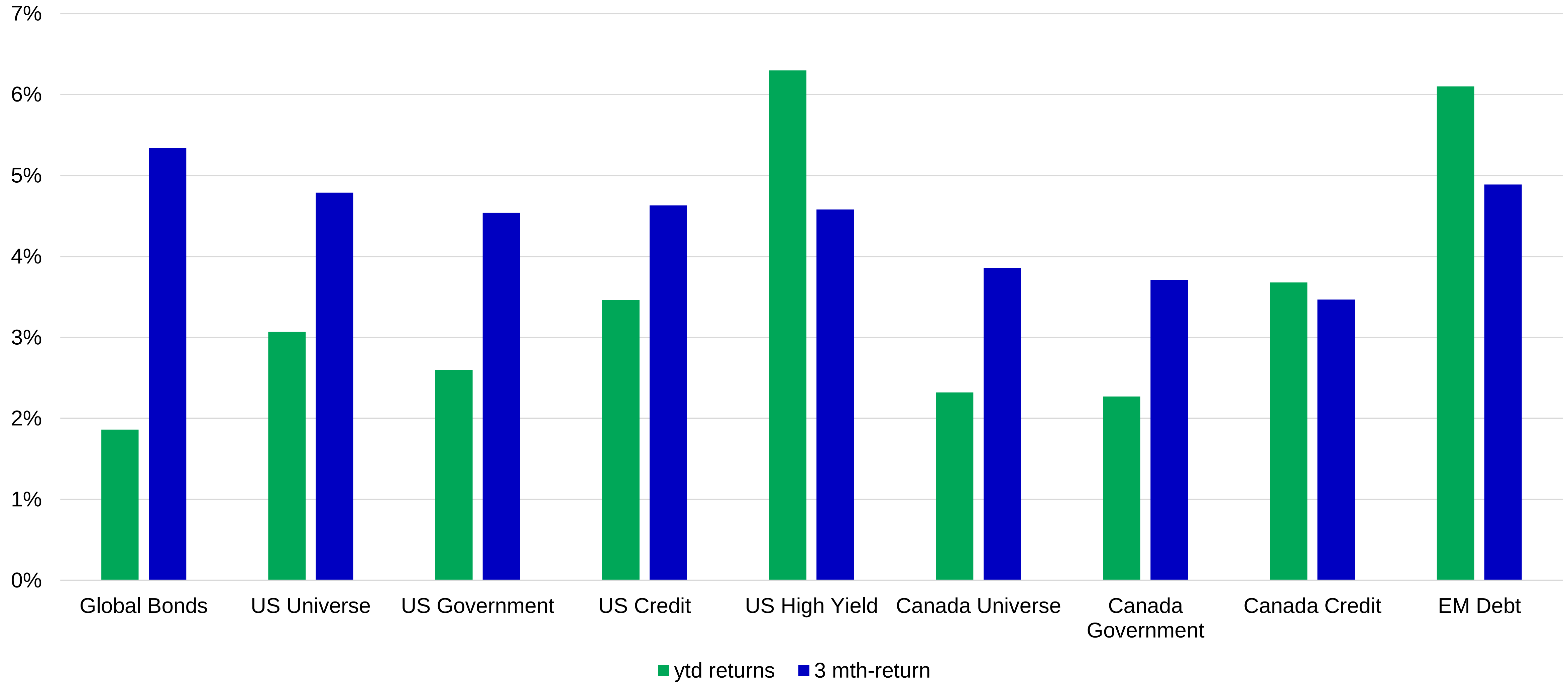
1-yr and 2-yr median CAGR forward returns once the Fed has started cutting rates



Source: Bloomberg, Manulife Investment Management, as of February 29, 2024. U.S. High Yield does not include the ‘74, ’80, ‘81 and ’84 rate-cut cycles. U.S. Mid Cap and Russell 2000 doesn’t include the ’74 rate-cut cycle. CAGR refers to compound annual growth rate

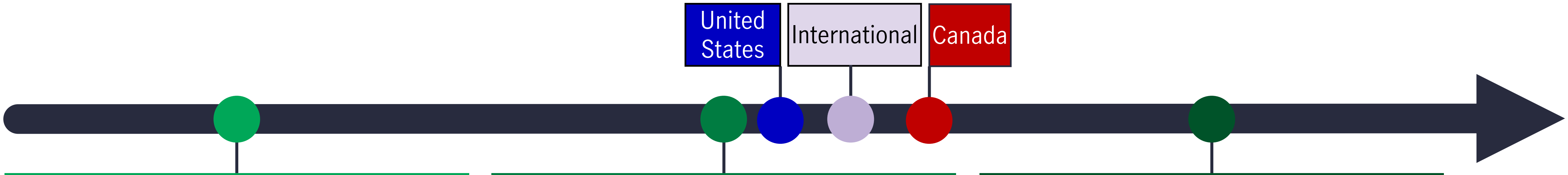
Fixed income–
the three little pigs

Fixed Income Asset Class performance – ytd and 3-month returns



Source: Bloomberg, Manulife Investment Management, as of 8/31/2024.

The three phases of fixed income



PHASE 1

The sweet spot

- Clip the coupon
- Take advantage of investment-grade yields that are higher than they have been in 15 years

PHASE 2

Duration is your friend

- Increase duration as economy weakens
- Government bond yields tend to fall as the economy weakens resulting in price appreciation

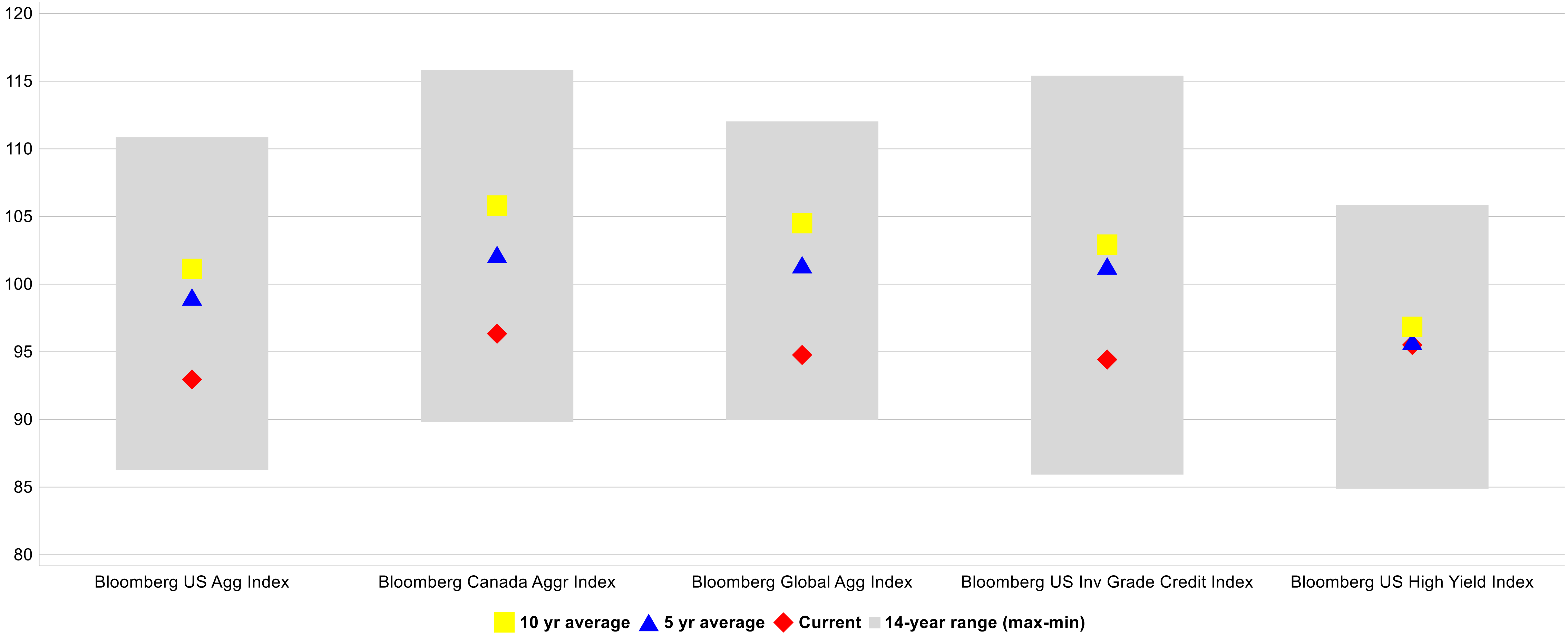
PHASE 3

Take on risk

- Look for opportunities in lower quality bonds that have sold off
- In weak economic environments, high-yield bond spreads widen providing opportunities to find dislocations between price and risk

Bond prices remain below their historical averages

Average Price (last 14 years to remove skew from Financial Crisis)

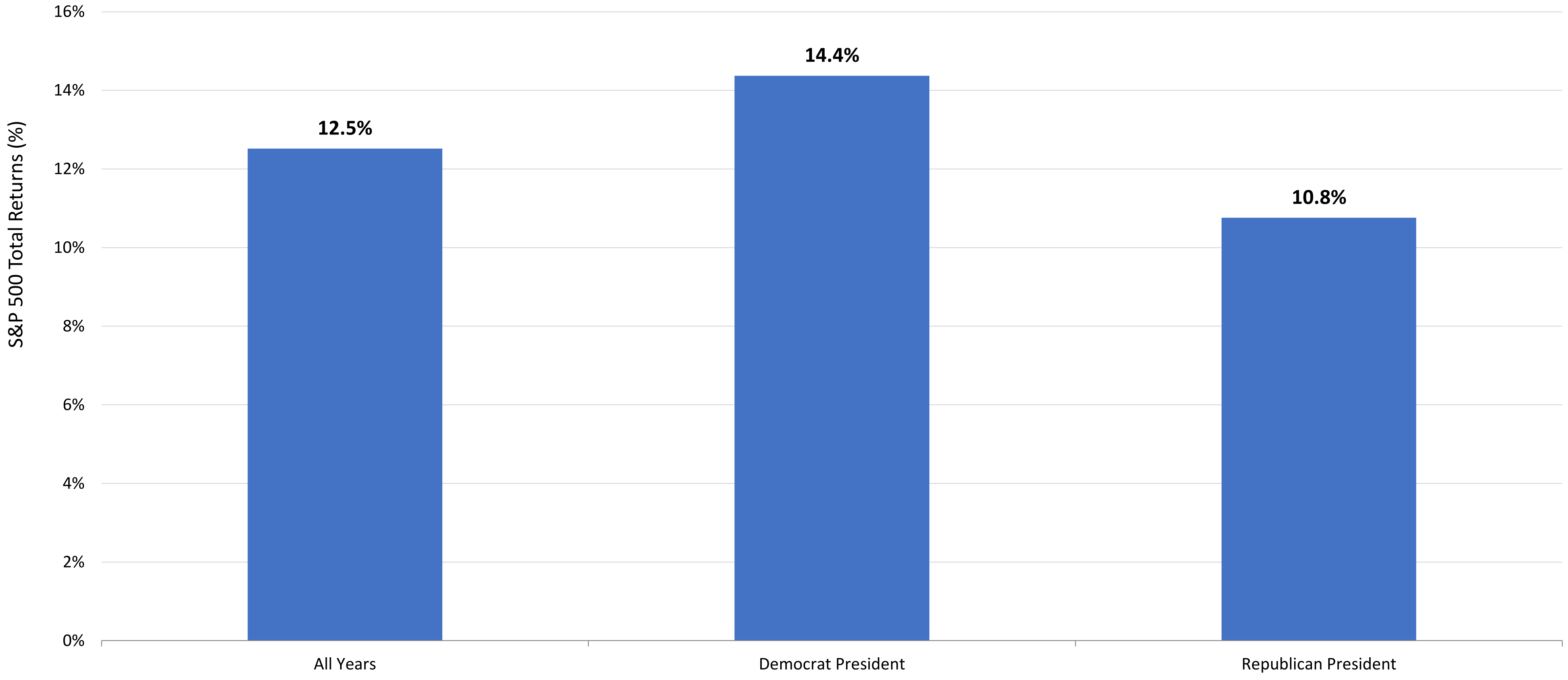


Source: Bloomberg, Macrobond, Manulife Investment Management, as of 9/3/2024.

Market Volatility – Hansel and Gretel

The election doesn't typically impact the markets

Average S&P 500 Total Returns during Democratic vs. Republican President



OPTION 3

Five investing **mistakes to avoid**

Investing behaviors that decrease your odds of financial security

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Capital Market Strategy

There are two key ingredients to successful investing: The ability to measure probabilities properly and being able to control your emotions effectively. Here's the tricky bit about investing—oftentimes, the probabilities are in your favour when your emotions are running high.

This guide highlights Investing Behaviours that increase your odds of financial security in the hope that you're more likely to avoid investing pitfalls if you're aware of them.

Hubris

The personality quality of extreme or excessive pride or overconfidence in one’s ability

Various equity indexes: annual returns by calendar year

2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 ytd
56.7%	15.9%	9.1%	45.0%	38.7%	-1.6%	35.2%	43.6%	55.0%	6.7%	43.4%	18.3%
38.3%	13.4%	5.7%	19.5%	28.2%	-3.9%	34.5%	25.1%	27.2%	-0.3%	28.2%	18.1%
37.0%	11.4%	5.5%	17.5%	21.8%	-4.7%	28.9%	22.5%	26.9%	-3.7%	24.2%	14.5%
29.6%	9.0%	0.1%	9.5%	19.1%	-6.2%	23.7%	18.4%	22.4%	-8.7%	15.1%	13.8%
19.4%	7.4%	-0.7%	8.2%	19.4%	-11.6%	23.1%	16.3%	21.7%	-9.4%	15.0%	12.8%
16.4%	7.1%	-3.3%	8.1%	15.6%	-12.1%	22.2%	16.0%	21.4%	-11.9%	13.1%	8.6%
10.3%	4.1%	-5.7%	7.5%	13.5%	-12.2%	21.8%	5.4%	13.7%	-16.8%	12.7%	6.9%
9.6%	3.5%	-10.4%	5.0%	13.1%	-13.1%	19.1%	2.2%	8.8%	-19.4%	10.9%	4.4%
7.2%	2.2%	-11.1%	2.9%	12.5%	-13.2%	18.4%	-5.4%	8.4%	-21.5%	8.1%	3.5%
4.4%	-1.4%	-11.3%	0.4%	11.4%	-16.1%	18.3%	-8.2%	4.9%	-21.6%	3.6%	1.5%
0.7%	-7.3%	-14.6%	-0.5%	7.3%	-16.4%	18.2%	-8.7%	-3.6%	-24.4%	2.5%	1.0%
-28.3%	-45.9%	-30.5%	-1.9%	6.0%	-24.8%	15.4%	-20.5%	-6.4%	-33.1%	-10.7%	-3.2%

S&P 500	Nasdaq	Russell 2000
S&P TSX	MSCI Europe	MSCI EAFE
MSCI Asia x Japan	Oil Commodity	Gold Commodity
Nikkei	FTSE Global Developed REIT	S&P Global Infrastructure

Hubris or overconfidence bias in investing is an emotional bias where an investor overestimates their skill. It often leads to poor investment decisions at the expense of long-term returns.

Why do investors tend to become overconfident? Historically, markets have trended higher in the long run. For example, the S&P 500 Index (a broad measure of U.S. blue chip stocks) has been positive nearly 90% of the time on a rolling 5-year basis over the past 50 years. Bull markets do a wonderful job of 'pumping up' our egos, making us believe that our investment acumen is superior.

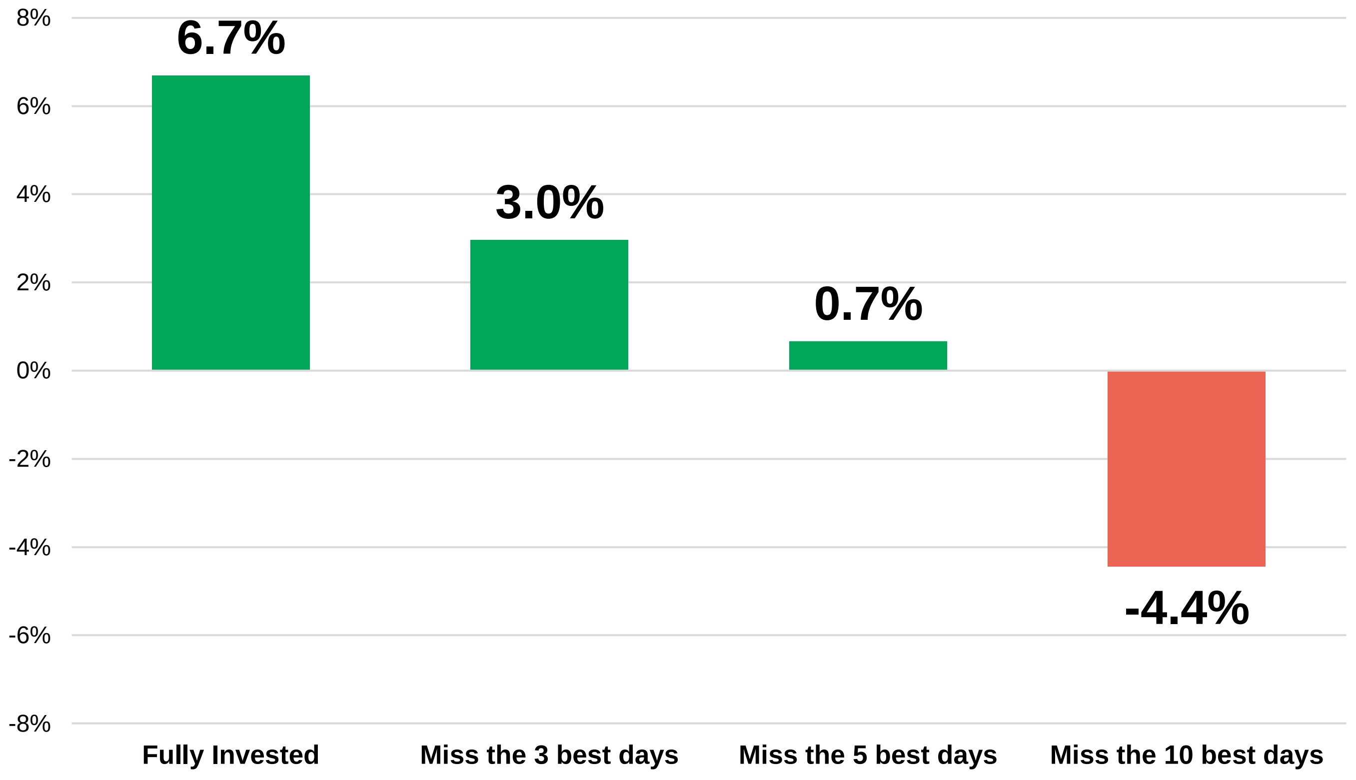
The table highlights global equity returns over the past decade and shows that rarely do yesterday's champions become tomorrow's winners. If an investor identified the right equities one year, it would become increasingly difficult to select the 'winner' consistently in the following years. Ultimately, this table illustrates the importance of diversification.

When it comes to investing and improving returns, it could be useful to remember the saying, "don't confuse brains with bull market."

Impatience

The personality quality of having the tendency to be highly irritable or easily frustrated when faced with delays.

2023 Canada Bond Index
Fully invested vs. missing the best days



Source: Bloomberg, Manulife Investment Management, Capital Market Strategy. As of December 31, 2023
Index is FTSE Canada Universe Bond Index

Patience is a virtue when it comes to investing

In an ideal world, investment returns would be equally distributed throughout the year; however, this is very rarely the case.

For evidence, look no further than returns for Canadian bonds in 2023. An investor who was fully invested in Canadian bonds throughout the year would have earned 6.7% by year end; but returns for the asset class were flat until end October—an entire year of return was realized in two months.

Crucially, it's important to be fully invested since missing the best days can hurt your returns. In 2023, if you missed the 5 best days — to put that into context there are roughly 250 trading days in a year — your calendar-year return would have fell from 6.7% to 0.7%!

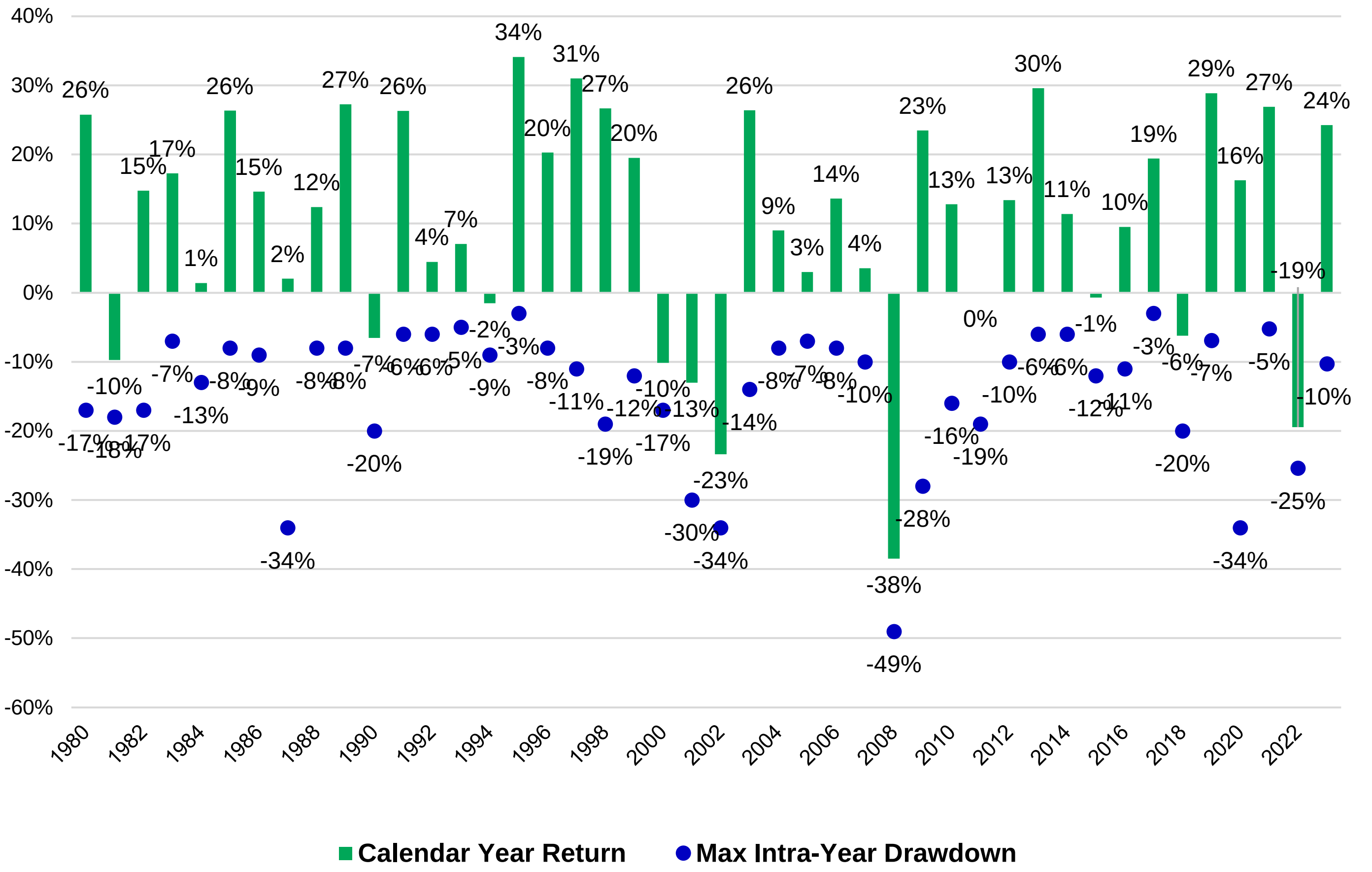
Investors who suggest that your returns would be higher if you missed the worst days fail to understand that the best and worst trading days are typically lumped together (i.e., they tend to occur in quick succession). You would have to have the foresight to 'get in' and 'get out' with precision, which is an impossible task.

Anxiety

The feeling of worry, nervousness or unease typically about an uncertain outcome

Corrections are normal

S&P 500 Index: calendar year and maximum intra-year returns



Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy. As of December 31, 2023

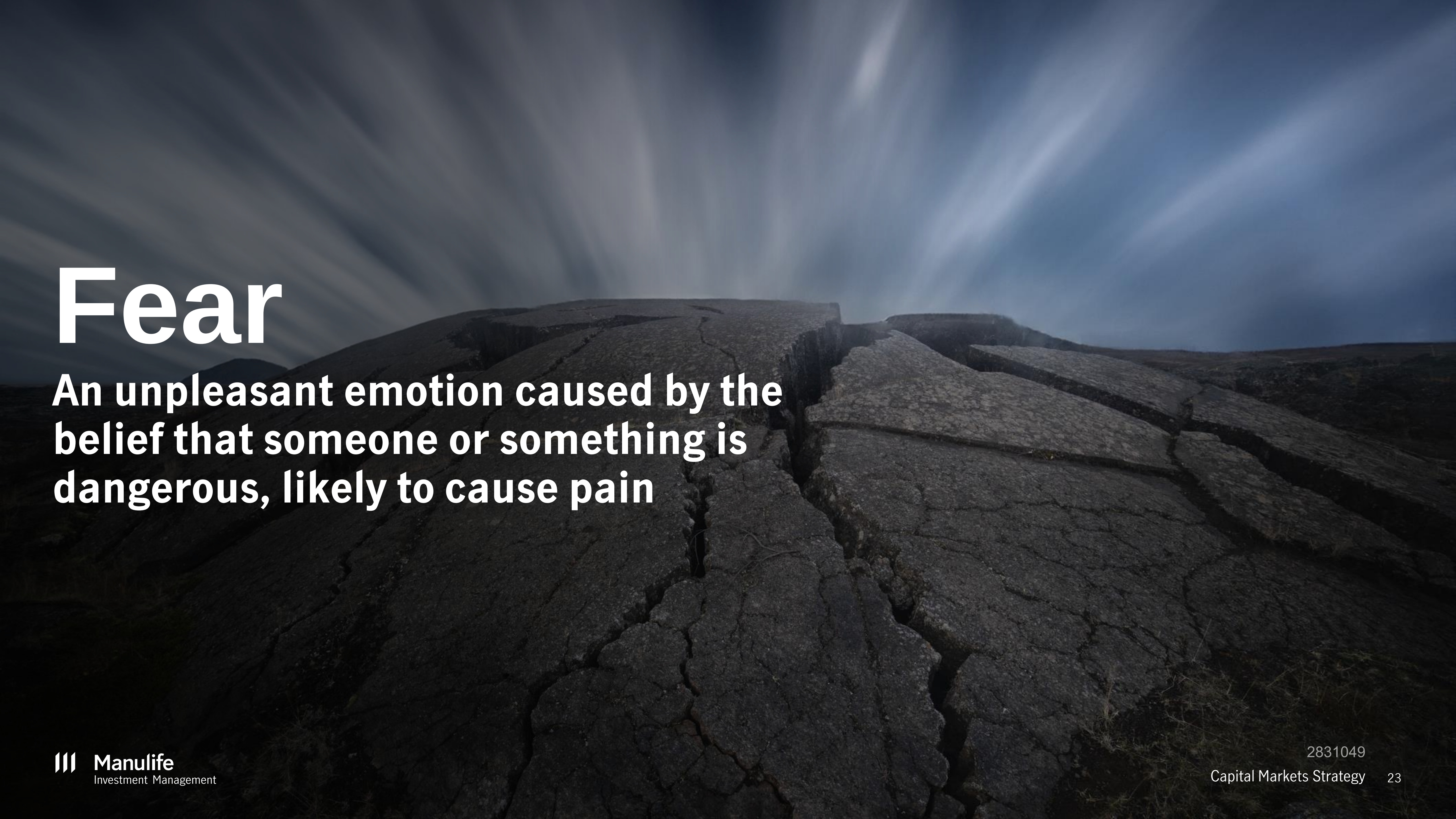
“The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly 50 years in this business, I don’t know anybody who has done it successfully and consistently. I don’t even know anybody who knows anybody who has.” -- Jack Bogle

Stock market corrections are both very common and very difficult to predict. Since 1980, the S&P 500 Index has fallen an average of ~14% in any given calendar year but is positive 78% of the time for the full year, with an average return of ~10%.

Investing is a probability-based decision, and the historical evidence suggests that the odds of success are in an investor’s favour when allocating capital to stocks when they have entered a correction.

But when the correction occurs, investors are often paralyzed by emotion—particularly fear—and tend not to take advantage of opportunities that emerge

When you’re in the middle of the storm, it’s hard to see that sunny days are ahead!



Fear

An unpleasant emotion caused by the belief that someone or something is dangerous, likely to cause pain

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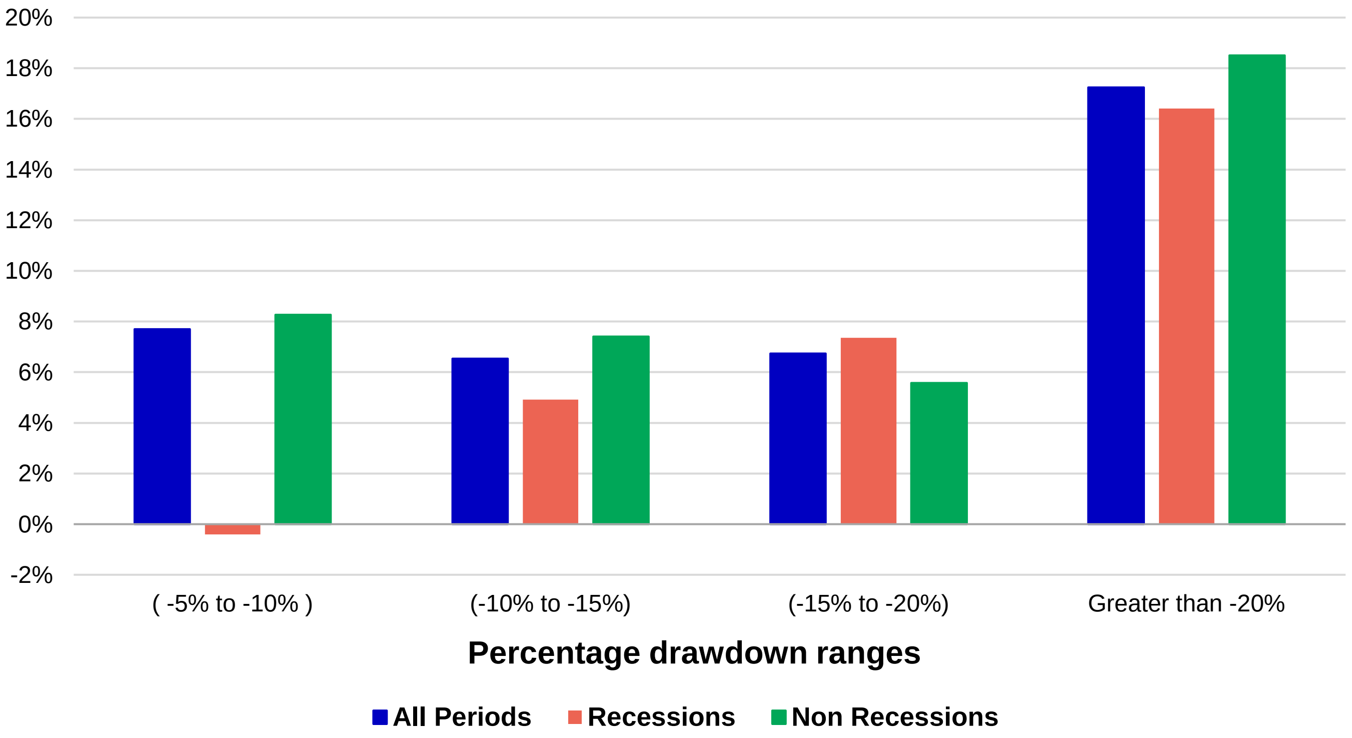
Investors are rewarded by buying when the market sells off

S&P 500 Price Index 1-year forward returns after sell-offs from 52-week peak



Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy. Data as of 1970. As of December 31, 2023

'Be fearful when others are greedy and greedy when others are fearful' ~ Warren Buffett

Market corrections are normal and so is market volatility. In fact, on average, the broad U.S. stock market measured by the S&P 500 Index experiences a couple of 5% pullbacks in any given year, a 10% correction every couple of years, and a 20% bear market every 4 years or so.

So—if market corrections and market volatility are indeed normal, then the question that investors need to ask themselves isn't "when?" but "why?". Once we're able to answer the "why?", then we can move on to the "what?", as in "what do we do now?".

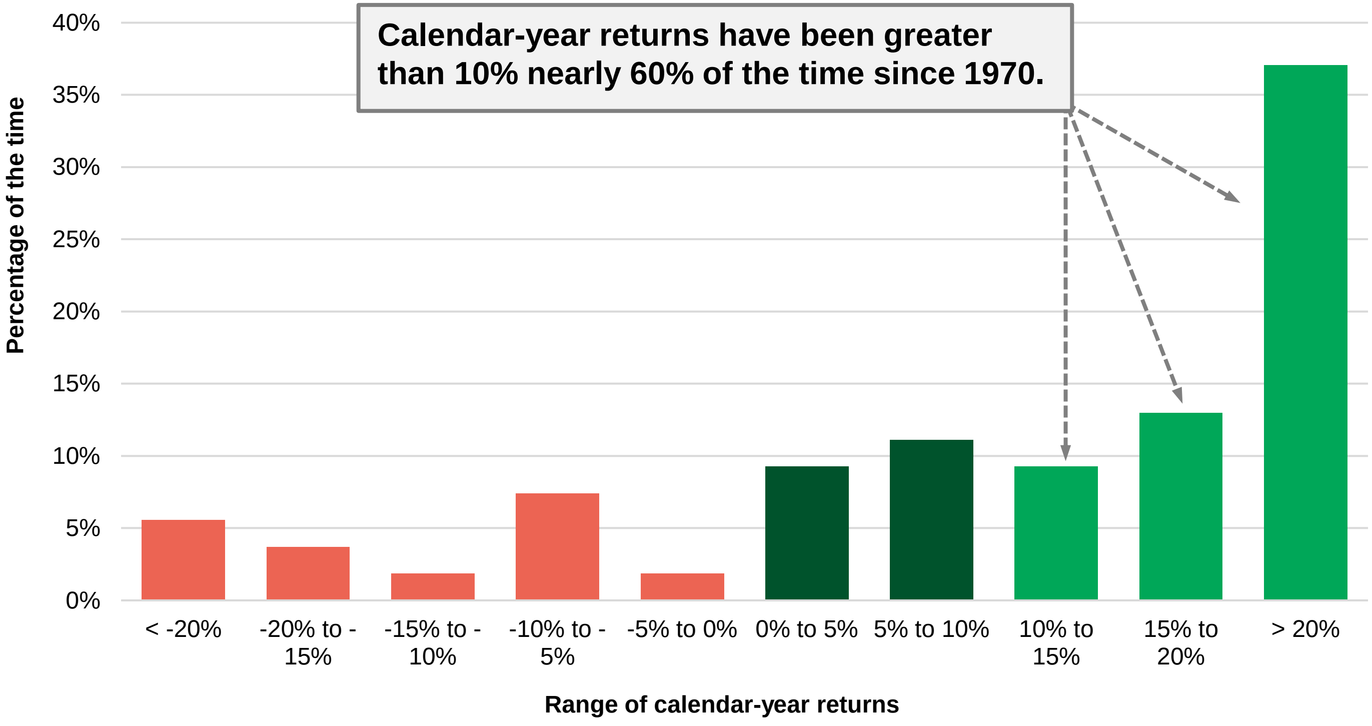
Simplistically, for sell-offs less than 15%, if the 'why' is due to the likelihood of a recession, investors would be well served to take a cautious approach. That being said, if the magnitude of the sell-off is greater than 15%, history suggests investors could consider 'closing their eyes and buy' because the 'why' isn't as important because the sell-off has provided a material buffer of safety regardless of the economic outlook.

Cynicism

The behavior characterized by a general distrust of the motives of others or things

The market tends to produce above-average returns

Evaluating S&P 500 Index calendar-year price returns



Investors are often **cynical** when it comes to their view of market returns. They tend to believe that negative returns are more likely and that outsized returns are few and far between. This cynicism is unfounded.

In reality, over the past 55 years, the broad U.S. stock market as measured by the S&P 500 Index has been negative approximately 20% of the time.

The U.S. stock market has posted *substantial* positive calendar-year returns since 1970 nearly 80% of the time.

During this period, the S&P 500 Index returned greater than 10% nearly 60% of the time. And of thse, over a third of calendar-year return has been greater than 20%.

Steer clear of cynicism and negativity as an investor—it's a wonderful way to erode your return.

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Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy. As of December 31, 2023

Investing is like soap… the more you touch it, the smaller it gets…

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