**2025 Q1 Macro and Markets Outlook**

Insights from our Capital Markets Strategy team

# *Chartbook*


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Manulife Investment Management

“If you make the mistake of looking back too much, you aren’t focused enough on the *road* in front of you.”

– Brad Paisley

# Capital Markets Strategy

The Capital Markets Strategy team has a range of responsibilities, from market and economic analysis to investor education. The team analyzes and interprets the economy and markets on behalf of Manulife Investment Management. They work with the portfolio management teams to provide clients and investment intermediaries with commentary on strategies and asset allocation weightings. Their expertise spans across multiple asset classes and geographic regions.

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Manulife Investment Management

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Kevin Headland

Macan Nia

# Economy

# Market risks

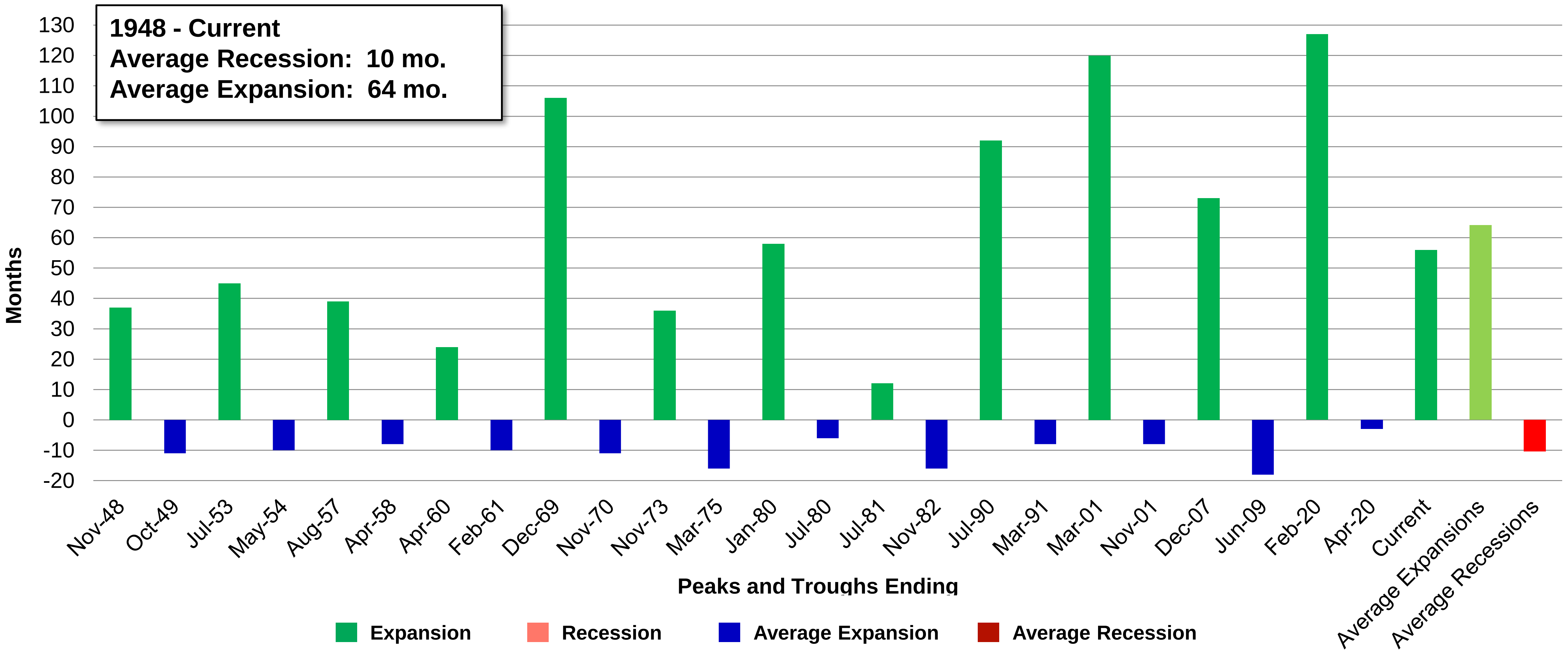
| Risk | From current level | Outlook |
|---|---|---|
| **Economy** | **Risk to the downside** | While the U.S. economy has remained resilient, many economies around the world, including Canada, Europe, and China are showing signs of weakness. Recession risks remain elevated. We expect to continue to see a resilient U.S. consumer, a relatively tight labour market, and stable corporate balance sheets. That said, a slowdown in the United States remains possible. |
| **Valuation** | **Neutral/Downside** | Equities seem priced for perfection, with markets expecting a soft landing and strong earnings growth. Investors also believe that we'll see a gradual decline in inflation, and that central banks will continue to lower interest rates. Any headline surprises that state otherwise may create potentially choppy markets in the near term. |
| **Earnings** | **Neutral** | Global earnings growth will likely to be low overall from an index-level perspective but could be choppy from an individual-company perspective. In our view, security selection remains critical, with a focus on topline revenue growth vs. cost cutting. |
| **Yields** | **Risk to the downside** | The BoC has begun its easing cycle with the U.S. Federal Reserve following suit in September. The BoC will likely continue their easing cycle while the Fed's actions will be very 'data dependent' . Yields across the curve may fall as the market prices in weaker economic growth and further central bank rate cuts in 2025. |
| **Credit** | **Risk to the downside** | While geopolitical risk and OPEC's production policy may affect supply, a slower global economy will likely put pressure on demand. The tug of war between supply and demand will likely create continued volatility in near-term price movements with no likely structural path to either direction, as we've seen in 2024. |
| **Oil prices** | **Neutral** | While geopolitical risk and OPEC production policy may impact supply, a slower global economy will likely put pressure on demand. There is a tug of war between supply and demand that will likely create continued volatility in near-term price movements with no likely structural path to either direction. Like 2024. |
| **Currency (CAD/USD)** | **Neutral** | We think the Canadian dollar is currently undervalued relative to current oil prices and the 2-year differential. However, we expect CAD/USD to remain in a tight trading range of US$0.70–74 over the next 12 months. We expect any change in CAD/USD in the near term to be driven by headlines relating to potential tariff policy from the United States. |



Source: Manulife Investment Management, Capital Markets Strategy. as of December 31, 2024

# We are in the late stages of this economic cycle

## U.S. economic expansions and contractions (1948 – current)



# Divergence within global manufacturing

| | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| JPMorgan Global PMI | 48.7 | 49.1 | 49.9 | 49.6 | 49.6 | 49.5 | 48.7 | 48.6 | 49.0 | 49.2 | 48.8 | 49.3 | 49.0 | 50.0 | 50.3 | 50.6 | 50.3 | 51.0 | 50.8 | 49.7 | 49.6 | 48.7 | 49.4 | 50.0 | 49.6 |
| United States | 46.2 | 46.9 | 47.3 | 49.2 | 50.2 | 48.4 | 46.3 | 49.0 | 47.9 | 49.8 | 50.0 | 49.4 | 47.9 | 50.7 | 52.2 | 51.9 | 50.0 | 51.3 | 51.6 | 49.6 | 47.9 | 47.3 | 48.5 | 49.7 | 49.4 |
| Canada | 49.2 | 51.0 | 52.4 | 48.6 | 50.2 | 49.0 | 48.8 | 49.6 | 48.0 | 47.5 | 48.6 | 47.7 | 45.4 | 48.3 | 49.7 | 49.8 | 49.4 | 49.3 | 49.3 | 47.8 | 49.5 | 50.4 | 51.1 | 52.0 | 52.2 |
| Mexico | 51.3 | 48.9 | 51.0 | 51.0 | 51.1 | 50.5 | 50.9 | 53.2 | 51.2 | 49.8 | 52.1 | 52.5 | 52.0 | 50.2 | 52.3 | 52.2 | 51.0 | 51.2 | 51.1 | 49.6 | 48.5 | 47.3 | 48.4 | 49.9 | 49.8 |
| U.K. | 45.3 | 47.0 | 49.3 | 47.9 | 47.8 | 47.1 | 46.5 | 45.3 | 43.0 | 44.3 | 44.8 | 47.2 | 46.2 | 47.0 | 47.5 | 50.3 | 49.1 | 51.2 | 50.9 | 52.1 | 52.5 | 51.5 | 49.9 | 48.0 | 47.0 |
| Eurozone | 47.8 | 48.8 | 48.5 | 47.3 | 45.8 | 44.8 | 43.4 | 42.7 | 43.5 | 43.4 | 43.1 | 44.2 | 44.4 | 46.6 | 46.5 | 46.1 | 45.7 | 47.3 | 45.8 | 45.8 | 45.8 | 45.0 | 46.0 | 45.2 | 45.1 |
| Germany | 47.1 | 47.3 | 46.3 | 44.7 | 44.5 | 43.2 | 40.6 | 38.8 | 39.1 | 39.6 | 40.8 | 42.6 | 43.3 | 45.5 | 42.5 | 41.9 | 42.5 | 45.4 | 43.5 | 43.2 | 42.4 | 40.6 | 43.0 | 43.0 | 42.5 |
| Holland | 48.6 | 49.6 | 48.7 | 46.4 | 44.9 | 44.2 | 43.8 | 45.3 | 45.9 | 43.6 | 43.8 | 44.9 | 44.8 | 48.9 | 49.3 | 49.7 | 51.3 | 52.5 | 50.7 | 49.2 | 47.7 | 48.2 | 47.0 | 46.6 | 48.6 |
| France | 49.2 | 50.5 | 47.4 | 47.3 | 45.6 | 45.7 | 46.0 | 45.1 | 46.0 | 44.2 | 42.8 | 42.9 | 42.1 | 43.1 | 47.1 | 46.2 | 45.3 | 46.4 | 45.4 | 44.0 | 43.9 | 44.6 | 44.5 | 43.1 | 41.9 |
| Italy | 48.5 | 50.4 | 52.0 | 51.1 | 46.8 | 45.9 | 43.8 | 44.5 | 45.4 | 46.8 | 44.9 | 44.4 | 45.3 | 48.5 | 48.7 | 50.4 | 47.3 | 45.6 | 45.7 | 47.4 | 49.4 | 48.3 | 46.9 | 44.5 | 46.2 |
| Spain | 46.4 | 48.4 | 50.7 | 51.3 | 49.0 | 48.4 | 48.0 | 47.8 | 46.5 | 47.7 | 45.1 | 46.3 | 46.2 | 49.2 | 51.5 | 51.4 | 52.2 | 54.0 | 52.3 | 51.0 | 50.5 | 53.0 | 54.5 | 53.1 | 53.3 |
| Ireland | 48.7 | 50.1 | 51.3 | 49.7 | 48.6 | 47.5 | 47.3 | 47.0 | 50.8 | 49.6 | 48.2 | 50.0 | 48.9 | 49.5 | 52.2 | 49.6 | 47.6 | 49.8 | 47.4 | 50.1 | 50.4 | 49.4 | 51.5 | 49.9 | 49.1 |
| Czech Republic | 42.6 | 44.6 | 44.3 | 44.3 | 42.8 | 42.8 | 40.8 | 41.4 | 42.9 | 41.7 | 42.0 | 43.2 | 41.8 | 43.0 | 44.3 | 46.2 | 44.7 | 46.1 | 45.3 | 43.8 | 46.7 | 46.0 | 47.2 | 46.0 | 44.8 |
| Poland | 45.6 | 47.5 | 48.5 | 48.3 | 46.6 | 47.0 | 45.1 | 43.5 | 43.1 | 43.9 | 44.5 | 48.7 | 47.4 | 47.1 | 47.9 | 48.0 | 45.9 | 45.0 | 45.0 | 47.3 | 47.8 | 48.6 | 49.2 | 48.9 | 48.2 |
| Greece | 47.2 | 49.2 | 51.7 | 52.8 | 52.4 | 51.5 | 51.8 | 53.5 | 52.9 | 50.3 | 50.8 | 50.9 | 51.3 | 54.7 | 55.7 | 56.9 | 55.2 | 54.9 | 54.0 | 53.2 | 52.9 | 50.3 | 51.2 | 50.9 | 53.2 |
| Australia | 50.2 | 50.0 | 50.5 | 49.1 | 48.0 | 48.4 | 48.2 | 49.6 | 49.6 | 48.7 | 48.2 | 47.7 | 47.6 | 50.1 | 47.8 | 47.3 | 49.6 | 49.7 | 47.2 | 47.5 | 48.5 | 46.7 | 47.3 | 49.4 | 47.8 |
| Japan | 48.9 | 48.9 | 47.7 | 49.2 | 49.5 | 50.6 | 49.8 | 49.6 | 49.6 | 48.5 | 48.7 | 48.3 | 47.7 | 48.0 | 47.2 | 48.2 | 49.6 | 50.4 | 50.0 | 49.1 | 49.8 | 49.7 | 49.2 | 49.0 | 49.6 |
| China (caixin) | 49.0 | 49.2 | 51.6 | 50.0 | 49.5 | 50.9 | 50.5 | 49.2 | 51.0 | 50.6 | 49.5 | 50.7 | 50.8 | 50.8 | 50.9 | 51.1 | 51.4 | 51.7 | 51.8 | 49.8 | 50.4 | 49.3 | 50.3 | 51.5 | 50.5 |
| South Korea | 48.2 | 48.5 | 48.5 | 47.6 | 48.1 | 48.4 | 47.8 | 49.4 | 48.9 | 49.9 | 49.8 | 50.0 | 49.9 | 51.2 | 50.7 | 49.8 | 49.4 | 51.6 | 52.0 | 51.4 | 51.9 | 48.3 | 48.3 | 50.6 | 49.0 |
| Taiwan | 44.6 | 44.3 | 49.0 | 48.6 | 47.1 | 44.3 | 44.8 | 44.1 | 44.3 | 46.4 | 47.6 | 48.3 | 47.1 | 48.8 | 48.6 | 49.3 | 50.2 | 50.9 | 53.2 | 52.9 | 51.5 | 50.8 | 50.2 | 51.5 | 52.7 |
| Vietnam | 46.4 | 47.4 | 51.2 | 47.7 | 46.7 | 45.3 | 46.2 | 48.7 | 50.5 | 49.7 | 49.6 | 47.3 | 48.9 | 50.3 | 50.4 | 49.9 | 50.3 | 50.3 | 54.7 | 54.7 | 52.4 | 47.3 | 51.2 | 50.8 | 49.8 |
| Indonesia | 50.9 | 51.3 | 51.2 | 51.9 | 52.7 | 50.3 | 52.5 | 53.3 | 53.9 | 52.3 | 51.5 | 51.7 | 52.2 | 52.9 | 52.7 | 54.2 | 52.9 | 52.1 | 50.7 | 49.3 | 48.9 | 49.2 | 49.2 | 49.6 | 51.2 |
| Malaysia | 47.8 | 46.5 | 48.4 | 48.8 | 48.8 | 47.8 | 47.7 | 47.8 | 47.8 | 46.8 | 46.8 | 47.9 | 47.9 | 49.0 | 49.5 | 48.4 | 49.0 | 50.2 | 49.9 | 49.7 | 49.7 | 49.5 | 49.5 | 49.2 | 48.6 |
| Singapore | 49.7 | 49.8 | 50.0 | 49.9 | 49.7 | 49.5 | 49.7 | 49.8 | 49.9 | 50.1 | 50.2 | 50.3 | 50.5 | 50.7 | 50.6 | 50.7 | 50.5 | 50.6 | 50.4 | 50.7 | 50.9 | 51.0 | 50.8 | 51.0 | 51.1 |
| India | 57.8 | 55.4 | 55.3 | 56.4 | 57.2 | 58.7 | 57.8 | 57.7 | 58.6 | 57.5 | 55.5 | 56.0 | 54.9 | 56.5 | 56.9 | 59.1 | 58.8 | 57.5 | 58.3 | 58.1 | 57.5 | 56.5 | 57.5 | 56.5 | 56.4 |
| Brazil | 44.2 | 47.5 | 49.2 | 47.0 | 44.3 | 47.1 | 46.6 | 47.8 | 50.1 | 49.0 | 48.6 | 49.4 | 48.4 | 52.8 | 54.1 | 53.6 | 55.9 | 52.1 | 52.5 | 54.0 | 50.4 | 53.2 | 52.9 | 52.3 | 50.4 |
| Turkey | 48.1 | 50.1 | 50.1 | 50.9 | 51.5 | 51.5 | 51.5 | 49.9 | 49.0 | 49.6 | 48.4 | 47.2 | 47.4 | 49.2 | 50.2 | 50.0 | 49.3 | 48.4 | 47.9 | 47.2 | 47.8 | 44.3 | 45.8 | 48.3 | 49.1 |
| South Africa | 50.2 | 48.7 | 50.5 | 49.7 | 49.6 | 47.9 | 48.7 | 48.2 | 51.0 | 49.9 | 48.9 | 50.0 | 49.0 | 49.2 | 50.8 | 48.4 | 50.3 | 50.4 | 49.2 | 49.3 | 50.5 | 51.0 | 50.6 | 50.9 | 49.9 |
| Saudi Arabia | 56.9 | 58.2 | 59.8 | 58.7 | 59.6 | 58.5 | 59.6 | 57.7 | 56.6 | 57.2 | 58.4 | 57.5 | 57.5 | 55.4 | 57.2 | 57.0 | 57.0 | 56.4 | 55.0 | 54.4 | 54.8 | 56.3 | 56.9 | 59.0 | 58.4 |
| Russia | 53.0 | 52.6 | 53.6 | 53.2 | 52.6 | 53.5 | 52.6 | 52.1 | 52.7 | 54.5 | 53.8 | 53.8 | 54.6 | 52.4 | 54.7 | 55.7 | 54.3 | 54.4 | 54.9 | 53.6 | 52.1 | 49.5 | 50.6 | 51.3 | 50.8 |

High
Neutral
Low

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Global services showing mixed messages

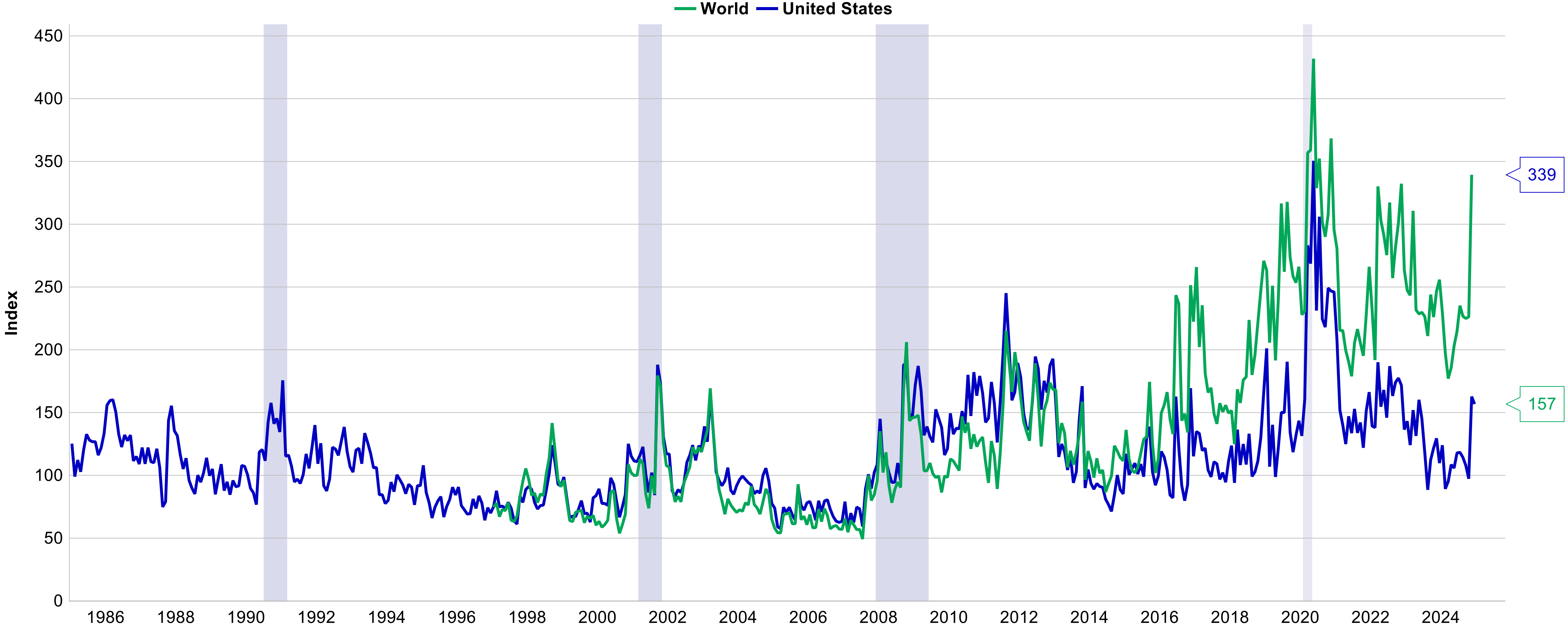
| | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-24 | Jul-24 | Aug-24 | Sep-24 | Oct-24 | Nov-24 | Dec-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| JPMorgan Global PMI | 48.0 | 50.0 | 52.5 | 54.3 | 55.3 | 55.3 | 53.8 | 52.6 | 51.0 | 50.7 | 50.4 | 50.6 | 51.6 | 52.3 | 52.4 | 52.4 | 52.7 | 54.0 | 53.1 | 53.3 | 53.8 | 52.9 | 53.1 | 53.1 | 53.8 |
| European Union | 49.8 | 50.8 | 52.7 | 55.0 | 56.2 | 55.1 | 52.0 | 50.9 | 47.9 | 48.7 | 47.8 | 48.7 | 48.8 | 48.4 | 50.2 | 51.5 | 53.3 | 53.2 | 52.8 | 51.9 | 52.9 | 51.4 | 51.6 | 49.5 | 51.6 |
| United States | 44.7 | 46.8 | 50.6 | 52.6 | 53.6 | 54.9 | 54.4 | 52.3 | 50.5 | 50.1 | 50.6 | 50.8 | 51.4 | 52.5 | 52.3 | 51.7 | 51.3 | 54.8 | 55.3 | 55.0 | 55.7 | 55.2 | 55.0 | 56.1 | 56.8 |
| Canada | 47.9 | 47.7 | 49.5 | 50.1 | 51.3 | 50.8 | 49.7 | 48.5 | 47.2 | 47.8 | 46.6 | 44.5 | 44.6 | 45.8 | 46.6 | 46.4 | 49.3 | 51.1 | 47.1 | 47.3 | 47.8 | 46.4 | 50.4 | 51.2 | 48.2 |
| China | 48.0 | 52.9 | 55.0 | 57.8 | 56.4 | 57.1 | 53.9 | 54.1 | 51.8 | 50.2 | 50.4 | 51.5 | 52.9 | 52.7 | 52.5 | 52.7 | 52.5 | 54.0 | 51.2 | 52.1 | 51.6 | 50.3 | 52.0 | 51.5 | 52.2 |
| Japan | 51.1 | 52.3 | 54.0 | 55.0 | 55.4 | 55.9 | 54.0 | 53.8 | 54.3 | 53.8 | 51.6 | 50.8 | 51.5 | 53.1 | 52.9 | 54.1 | 54.3 | 53.8 | 49.4 | 53.7 | 53.7 | 53.1 | 49.7 | 50.5 | 50.9 |
| Germany | 49.2 | 50.7 | 50.9 | 53.7 | 56.0 | 57.2 | 54.1 | 52.3 | 47.3 | 50.3 | 48.2 | 49.6 | 49.3 | 47.7 | 48.3 | 50.1 | 53.2 | 54.2 | 53.1 | 52.5 | 51.2 | 50.6 | 51.6 | 49.3 | 51.2 |
| France | 49.5 | 49.4 | 53.1 | 53.9 | 54.6 | 52.5 | 48.0 | 47.1 | 46.0 | 44.4 | 45.2 | 45.4 | 45.7 | 45.4 | 48.4 | 48.3 | 51.3 | 49.3 | 49.6 | 50.1 | 55.0 | 49.6 | 49.2 | 46.9 | 49.3 |
| UK | 49.9 | 48.7 | 53.5 | 52.9 | 55.9 | 55.2 | 53.7 | 51.5 | 49.5 | 49.3 | 49.5 | 50.9 | 53.4 | 54.3 | 53.8 | 53.1 | 55.0 | 52.9 | 52.1 | 52.5 | 53.7 | 52.4 | 52.0 | 50.8 | 51.1 |
| India | 58.5 | 57.2 | 59.4 | 57.8 | 62.0 | 61.2 | 58.5 | 62.3 | 60.1 | 61.0 | 58.4 | 56.9 | 59.0 | 61.8 | 60.6 | 61.2 | 60.8 | 60.2 | 60.5 | 60.3 | 60.9 | 57.7 | 58.5 | 58.4 | 59.3 |
| Brazil | 51.0 | 50.7 | 49.8 | 51.8 | 54.5 | 54.1 | 53.3 | 50.2 | 50.6 | 48.7 | 51.0 | 51.2 | 50.5 | 53.1 | 54.6 | 54.8 | 53.7 | 55.3 | 54.8 | 56.4 | 54.2 | 55.8 | 56.2 | 53.6 | 51.6 |
| Italy | 49.9 | 51.2 | 51.6 | 55.7 | 57.6 | 54.0 | 52.2 | 51.5 | 49.8 | 49.9 | 47.7 | 49.5 | 49.8 | 51.2 | 52.2 | 54.6 | 54.3 | 54.2 | 53.7 | 51.7 | 51.4 | 50.5 | 52.4 | 49.2 | 50.7 |
| Russia | 45.9 | 48.7 | 53.1 | 58.1 | 55.9 | 54.3 | 56.8 | 54.0 | 57.6 | 55.4 | 53.6 | 52.2 | 56.2 | 55.8 | 51.1 | 51.4 | 50.5 | 49.8 | 47.6 | 51.1 | 52.3 | 50.5 | 51.6 | 53.2 | 51.2 |
| Spain | 51.6 | 52.7 | 56.7 | 59.4 | 57.9 | 56.7 | 53.4 | 52.8 | 49.3 | 50.5 | 51.1 | 51.0 | 51.5 | 52.1 | 54.7 | 56.1 | 56.2 | 56.9 | 56.8 | 53.9 | 54.6 | 57.0 | 54.9 | 53.1 | 57.3 |
| Australia | 47.3 | 48.6 | 50.7 | 48.6 | 53.7 | 52.1 | 50.3 | 47.9 | 47.8 | 51.8 | 47.9 | 46.0 | 47.1 | 49.1 | 53.1 | 54.4 | 53.6 | 52.5 | 51.2 | 50.4 | 52.5 | 50.5 | 51.0 | 50.5 | 50.8 |

High
Neutral
Low

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024.

# An increase in global economic uncertainty leads to market volatility

## Economic Policy Uncertainty Index




Source: Macrobond, Economic Policy Uncertainty, Manulife Investment Management, as of 1/6/2025.

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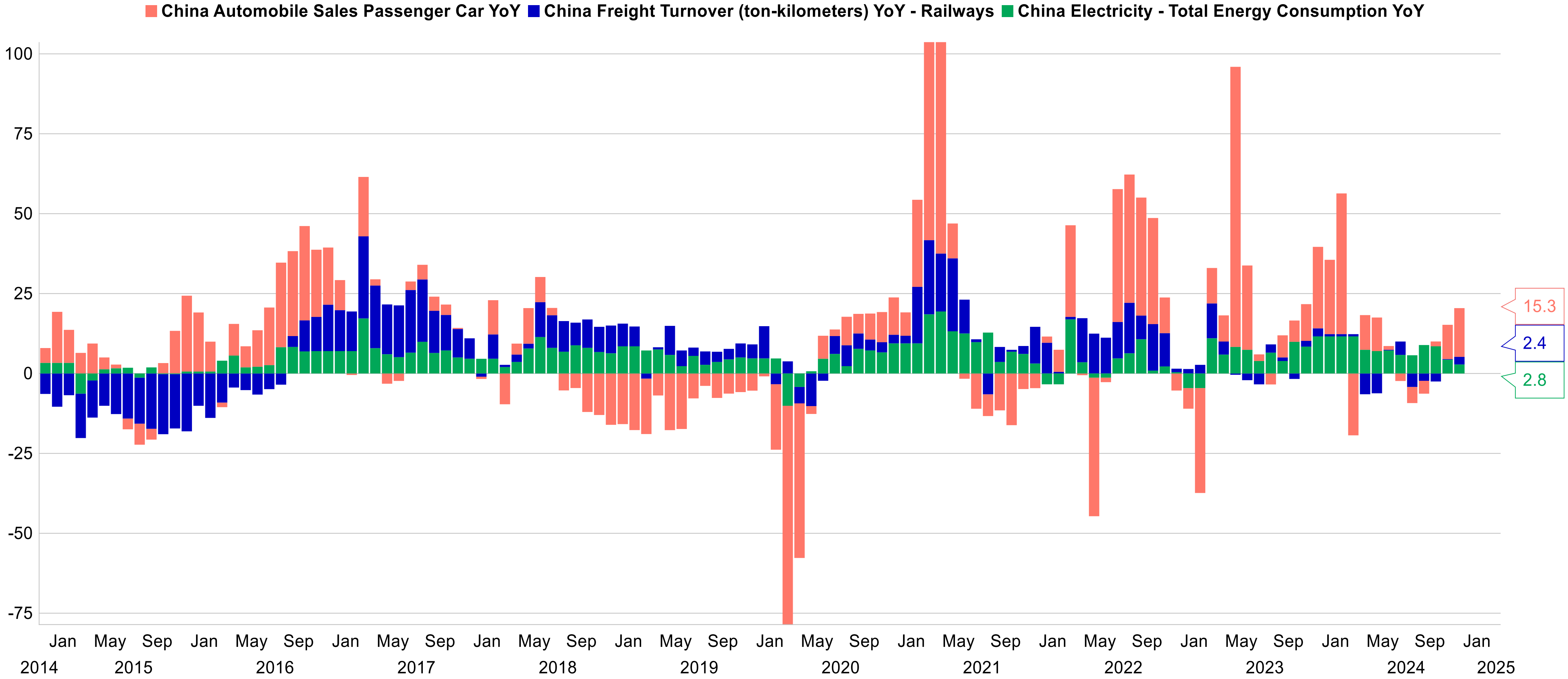
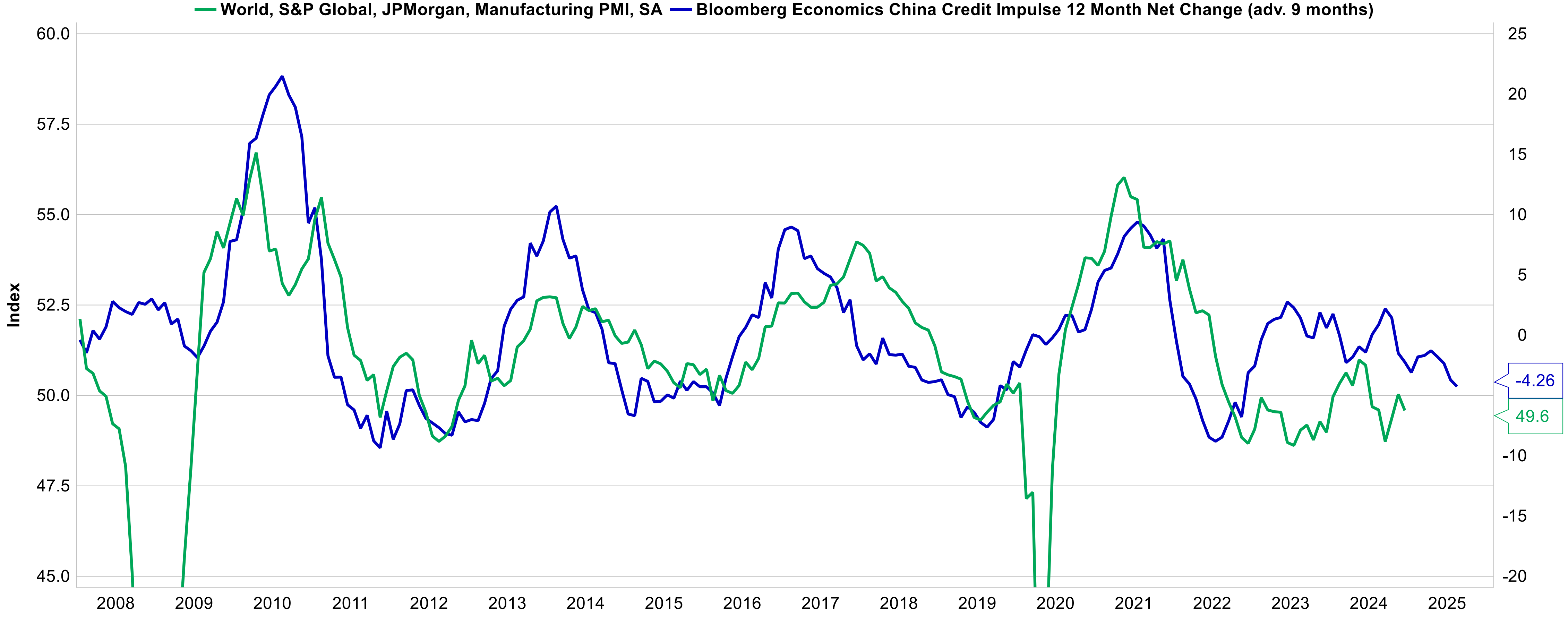
# Chinese economic data is improving




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 11/2024.

# Could China help stimulate?

**An increase in Chinese stimulus could be positive for global manufacturing**




Source: Bloomberg, MacrobondS&P Global, Macrobond, Manulife Investment Management, as of 1/6/2025.

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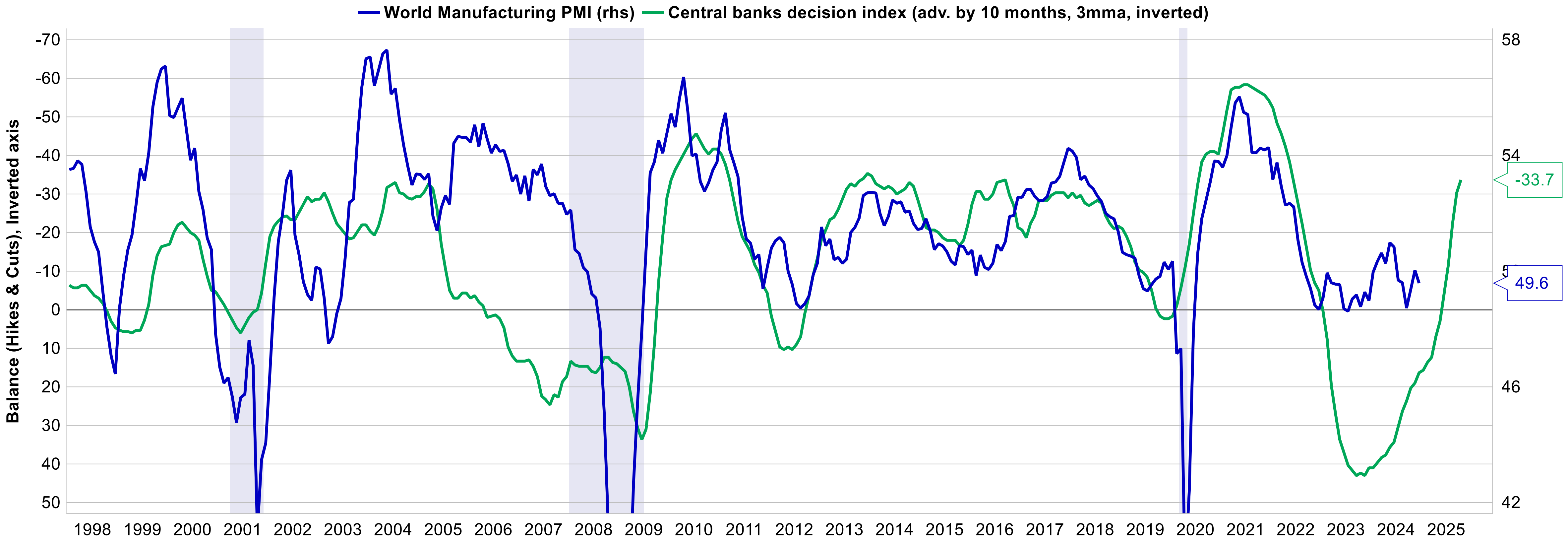
# Looser monetary policy may lead to manufacturing strength

### Changes in global central banks policy rates lead manufacturing activity

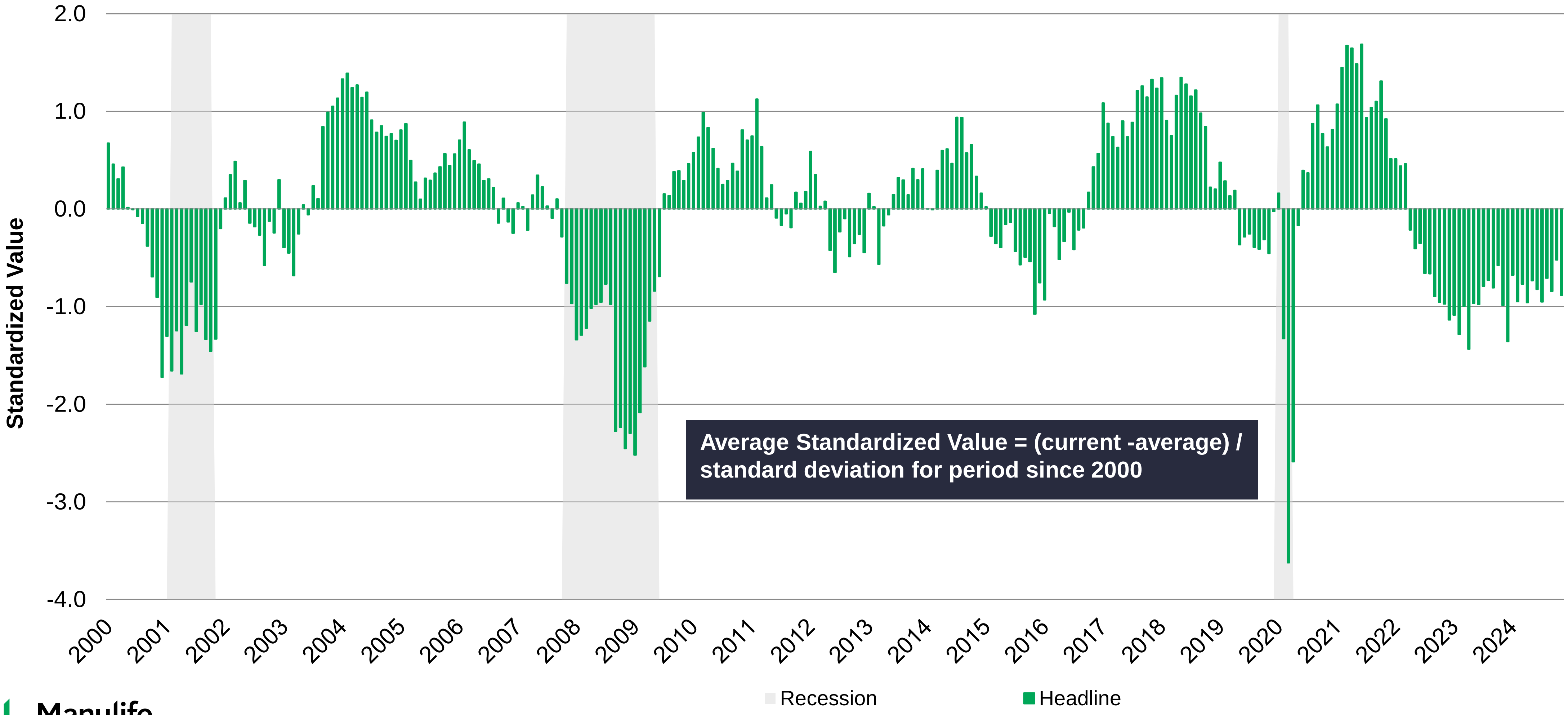
Last decision from 65 central banks: Hike (+1), Cut (-1)




Source: MacrobondBEA, BNA, BCRA, RBA, CBAR, BB, National Bank of Republic of Belarus, BCB, BNB, BoC, Central Bank of Chile, PBoC, Central Bank of Colombia, BCCR, CNB, Central Bank of Denmark (Danmarks Nationalbank), BCRD, BCE, CBE, NBE, ECB, BOG, Central Bank of Guatemala, HKMA, MNB, RBI, BI, Central Bank of Iraq, Bank of Israel, BOJ, NBK, CBK, Central Bank of Kuwait, BNM, BANXICO, Central Bank of Morocco (Bank Al-Maghrib), RBNZ, CBN, Bank of Norway (Norges Bank), CBO, SBP, BCP, BCRP, BSP, NBP, QCB, BNR, CBRF, SAMA, NBS, MAS, SARB, BOK, Riksbanken, SNB, Central Bank of Taiwan, BOT, TCMB, NBU, BoE, Fed, Central Bank of the Republic of Uzbekistan, BCV, State Bank of Vietnam, S&P Global, Macrobond, Manulife Investment Management, as of 1/6/2025.

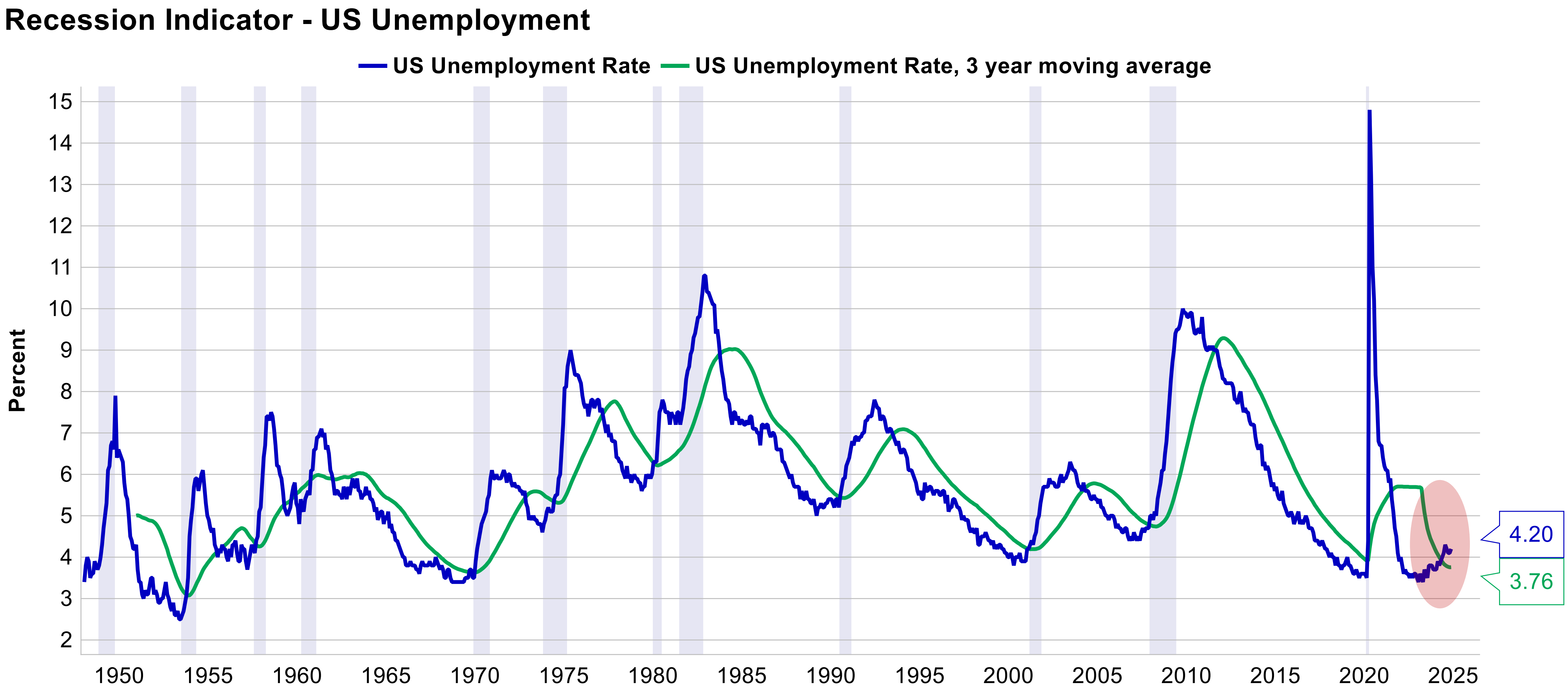
# U.S. Manufacturing continues to point to a likely recession

## U.S. manufacturing activity avg. standardized values: ISM (National, Chicago, Cincinnati) Fed manufacturing (Empire, Philadelphia, Richmond, Dallas) indices




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

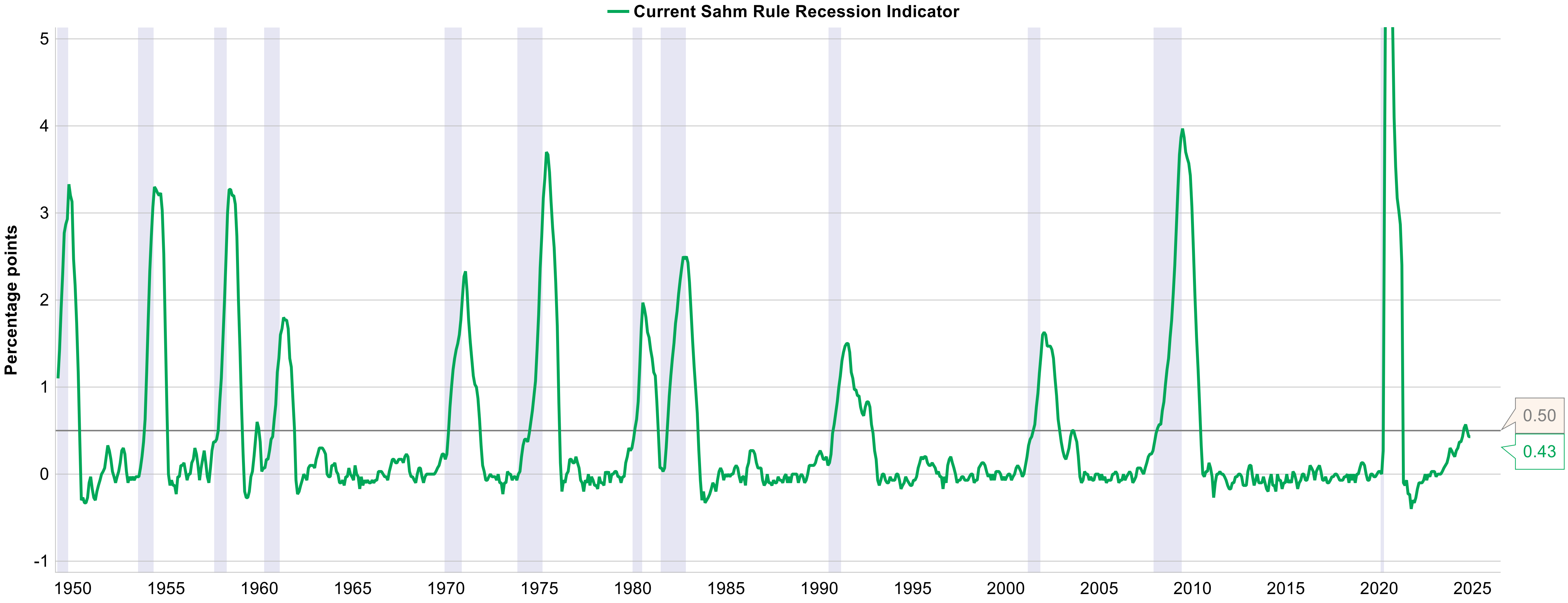
# U.S. unemployment has crossed a material level




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# The Sahm Rule has reverted back

## U.S. unemployment 3-month moving average relative to 12-month low




Source: Macrobond, St. Louis Fed, Manulife Investment Management, as of 1/7/2025.

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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.

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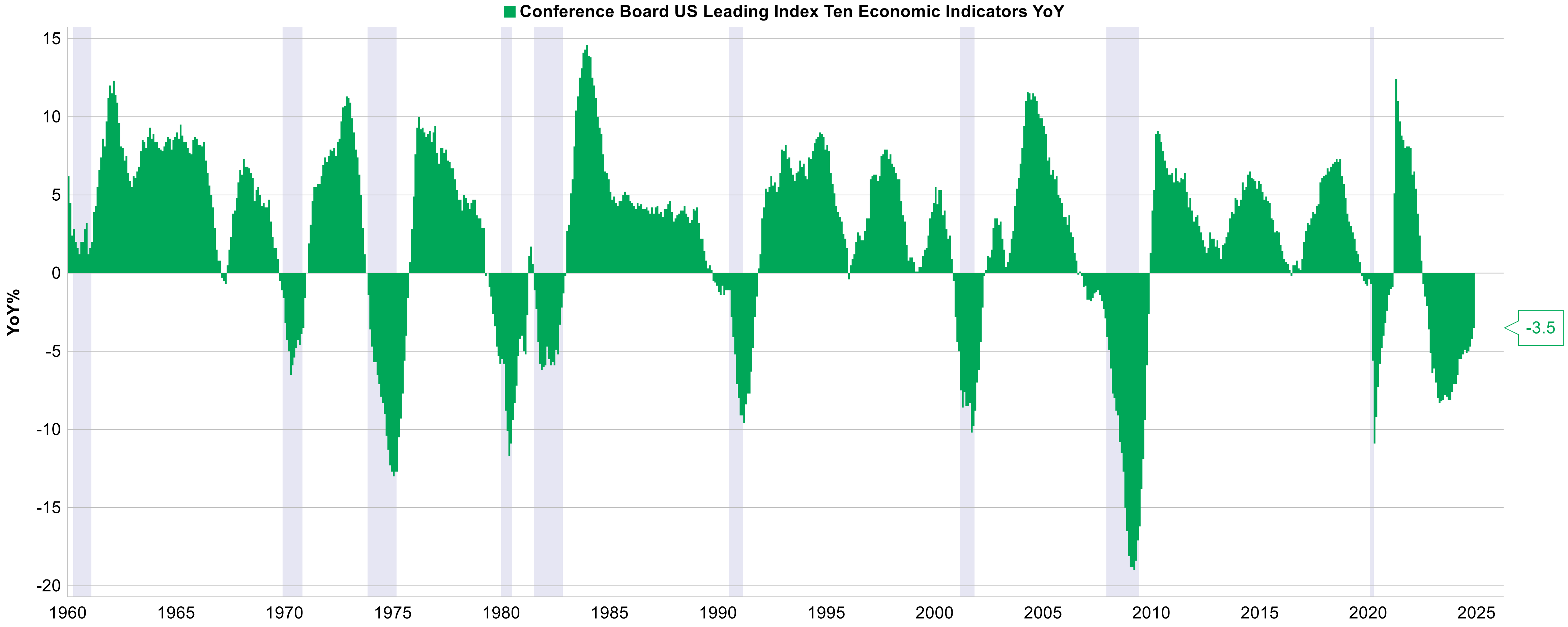
# Leading economic indicators improving but still negative

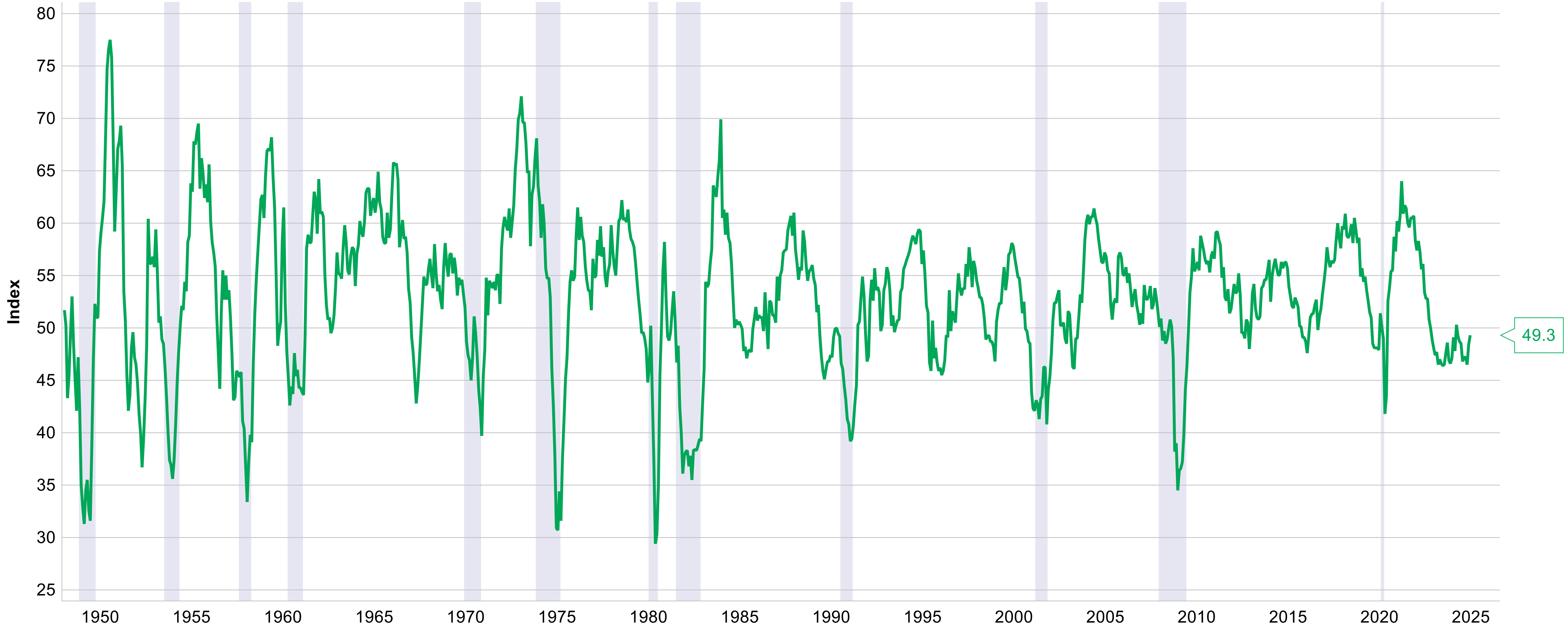
## Conference Board US Leading Economic Indicators (YoY%)




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# PMI rebounding but still points to economic weakness

## ISM Purchasing Managers' Index (PMI)

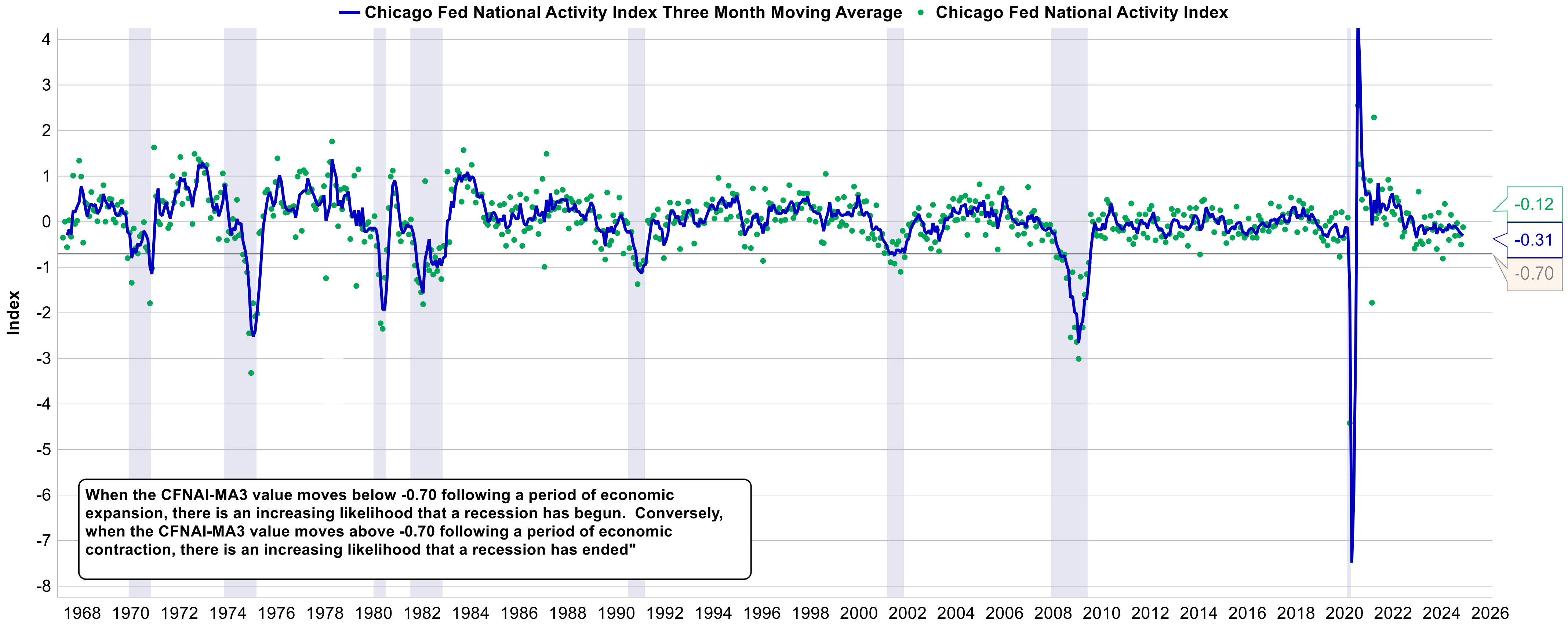



Source: Macrobond, ISM, Manulife Investment Management, as of 1/7/2025.

# A preferred Fed measure of the economy remains resilient

When the CFNAI 3mma value moves below **-0.70** following a period of economic expansion, there is an increasing likelihood that a recession has begun. Conversely, when the CFNAI 3mma value moves above **-0.70** following a period of economic contraction, there is an increasing likelihood that a recession has ended

**Chicago Fed National Activity Index (CFNAI)**

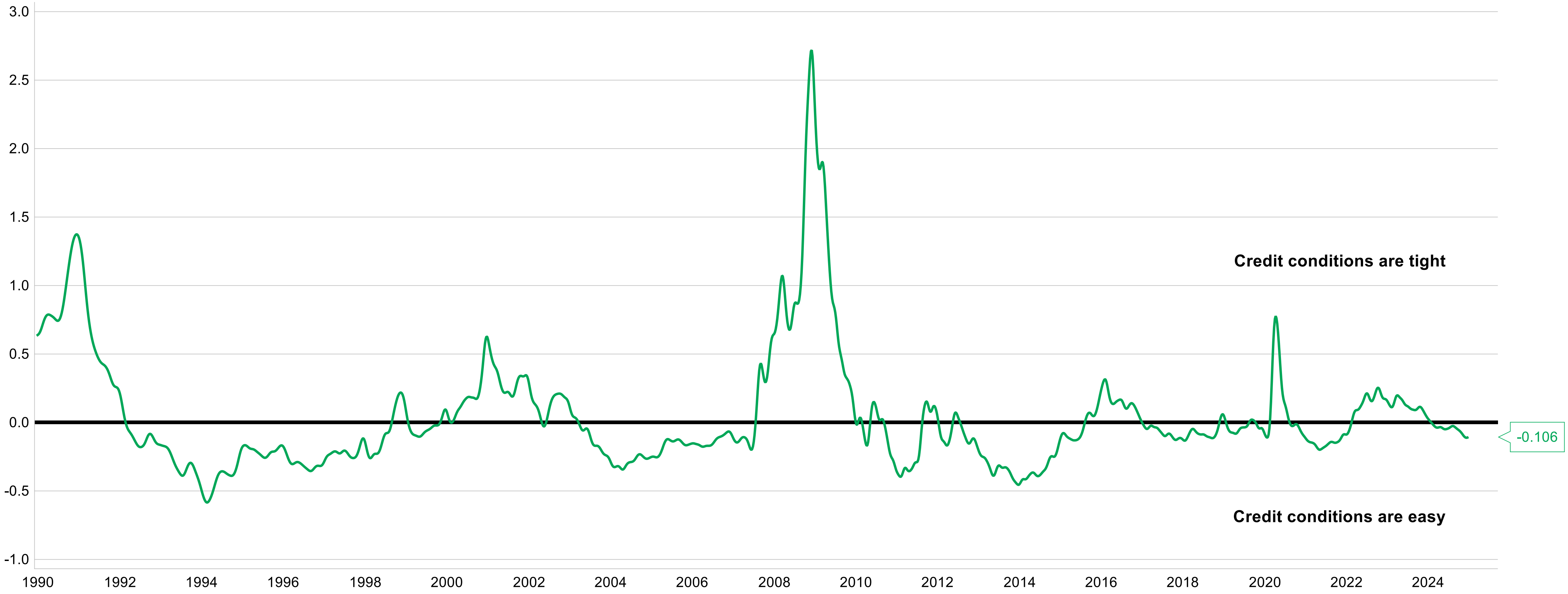



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Financial conditions remain loose despite Fed rate hikes

The Chicago Fed's provides a weekly measure on the U.S. financial conditions in money markets, debt, and equity markets within the traditional and shadow banking system. The credit sub-index measures household and non-financial business credit conditions.

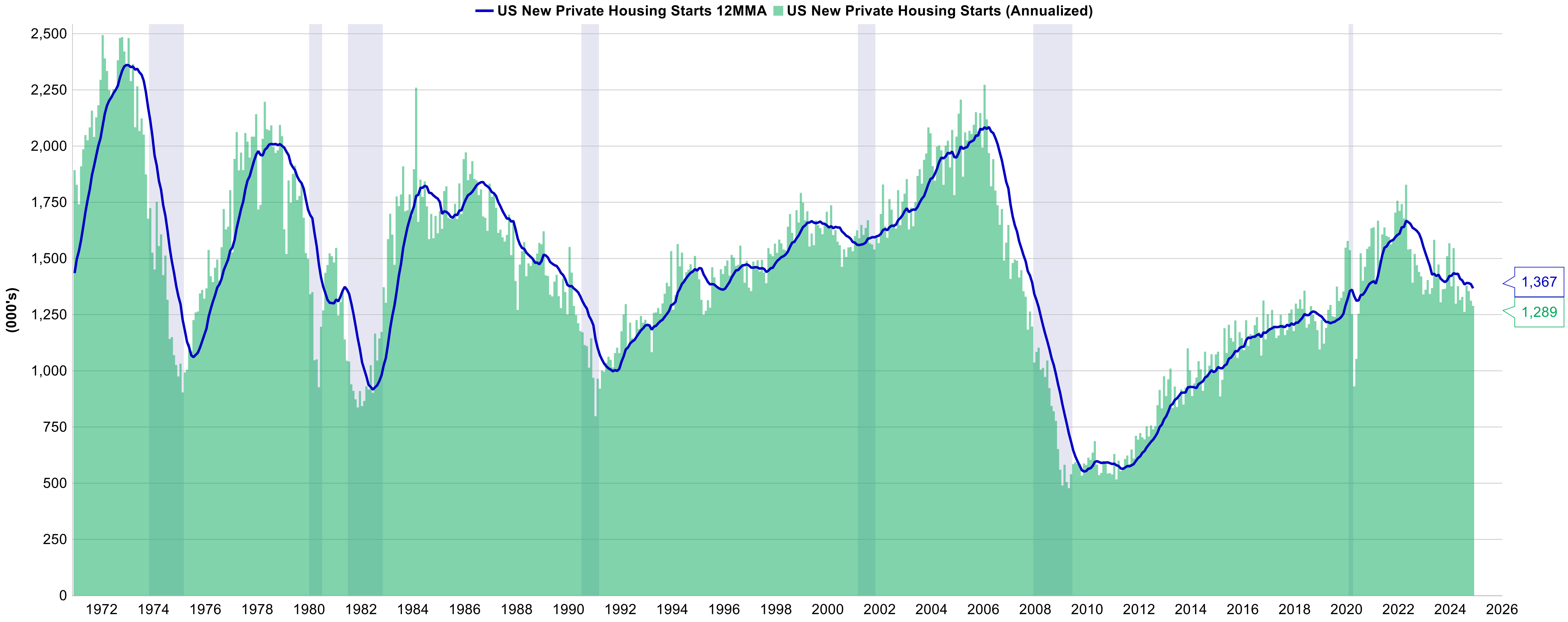
**Chicago Fed National Financial Conditions Credit Subindex**




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# U.S. housing is beginning to soften

## U.S. New Private Housing Starts vs. Recessions




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

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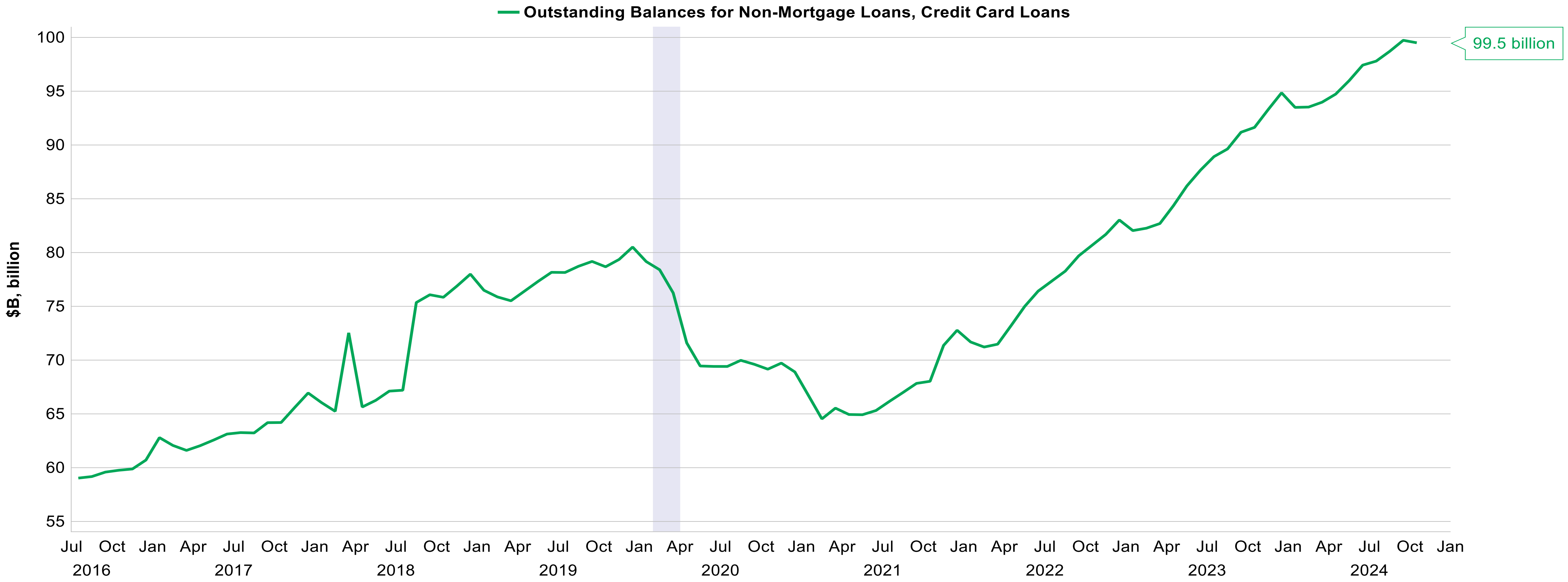
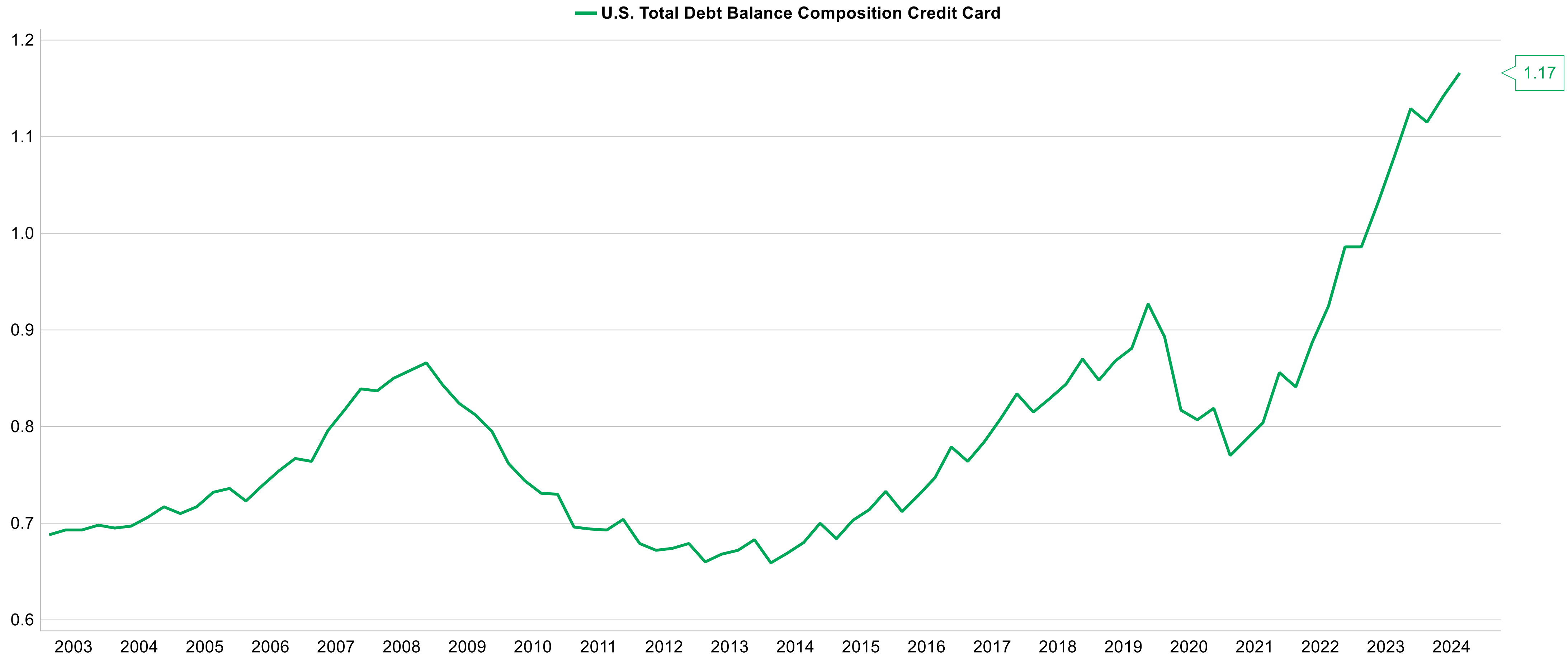
# Canadian credit card debt reaches record




Source: Macrobond, BoC, Manulife Investment Management, as of 1/7/2025.

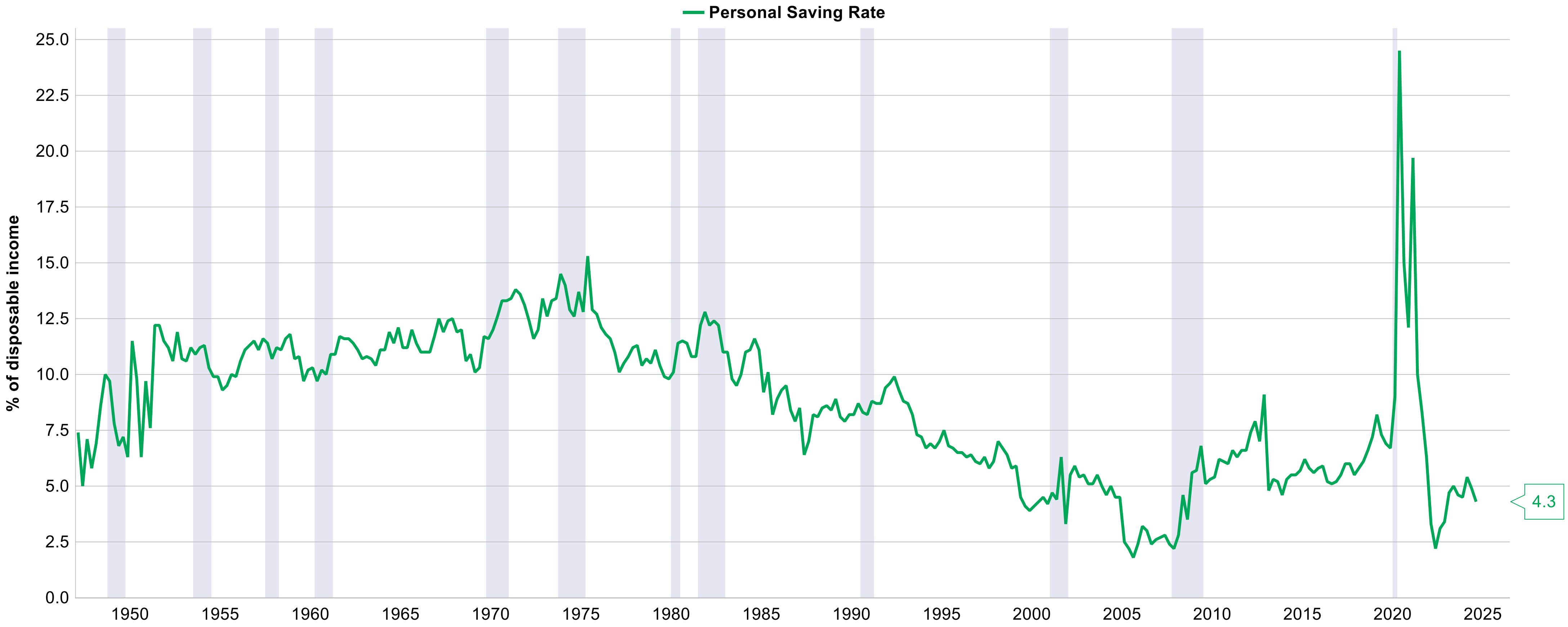
# And so has the U.S.




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# While savings rates remain below pre-pandemic levels

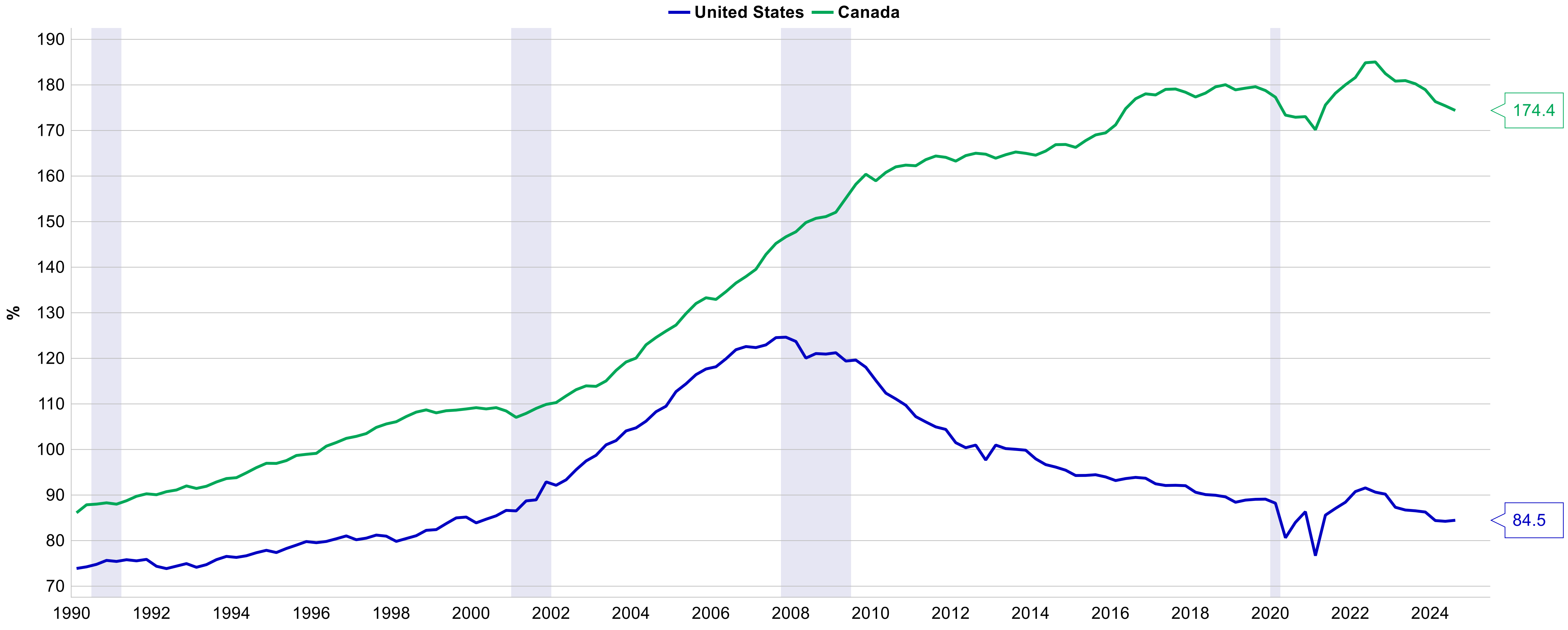
## Household personal savings rate (U.S.)




Source: Macrobond, BEA, Manulife Investment Management, as of 1/7/2025.

# Household indebtedness

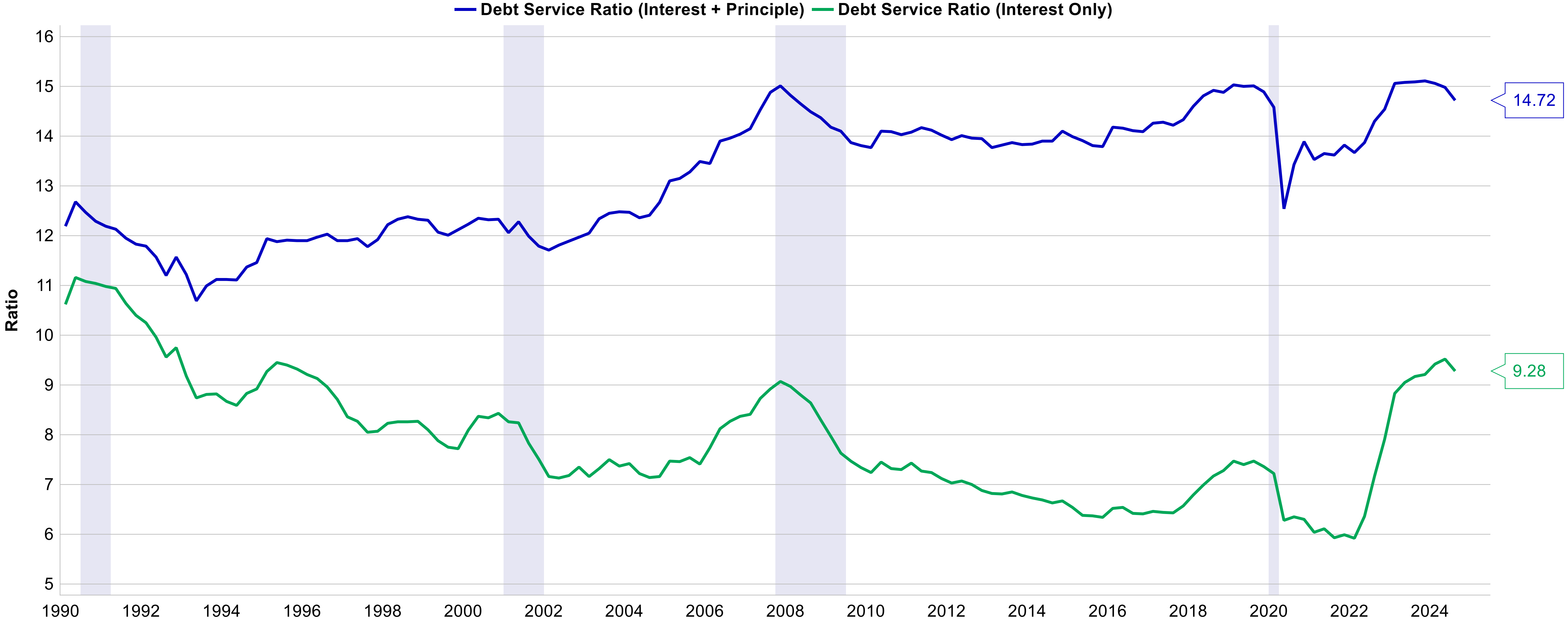
## Household Debt-to-Income Ratio




Source: Macrobond, StatCan, Fed, Manulife Investment Management, as of 1/7/2025.

# Canadian household indebtedness

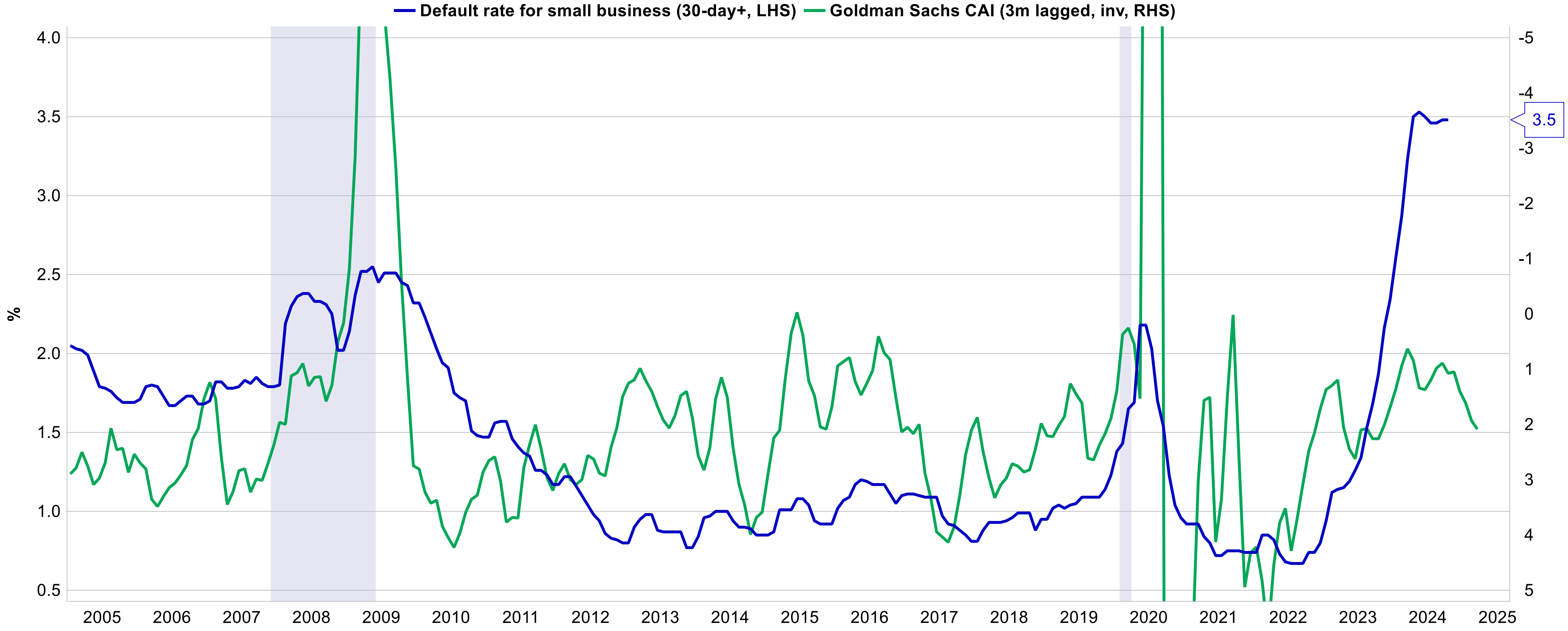
## Canada Debt Service Ratio




Source: Macrobond, StatCan, Manulife Investment Management, as of 1/7/2025.

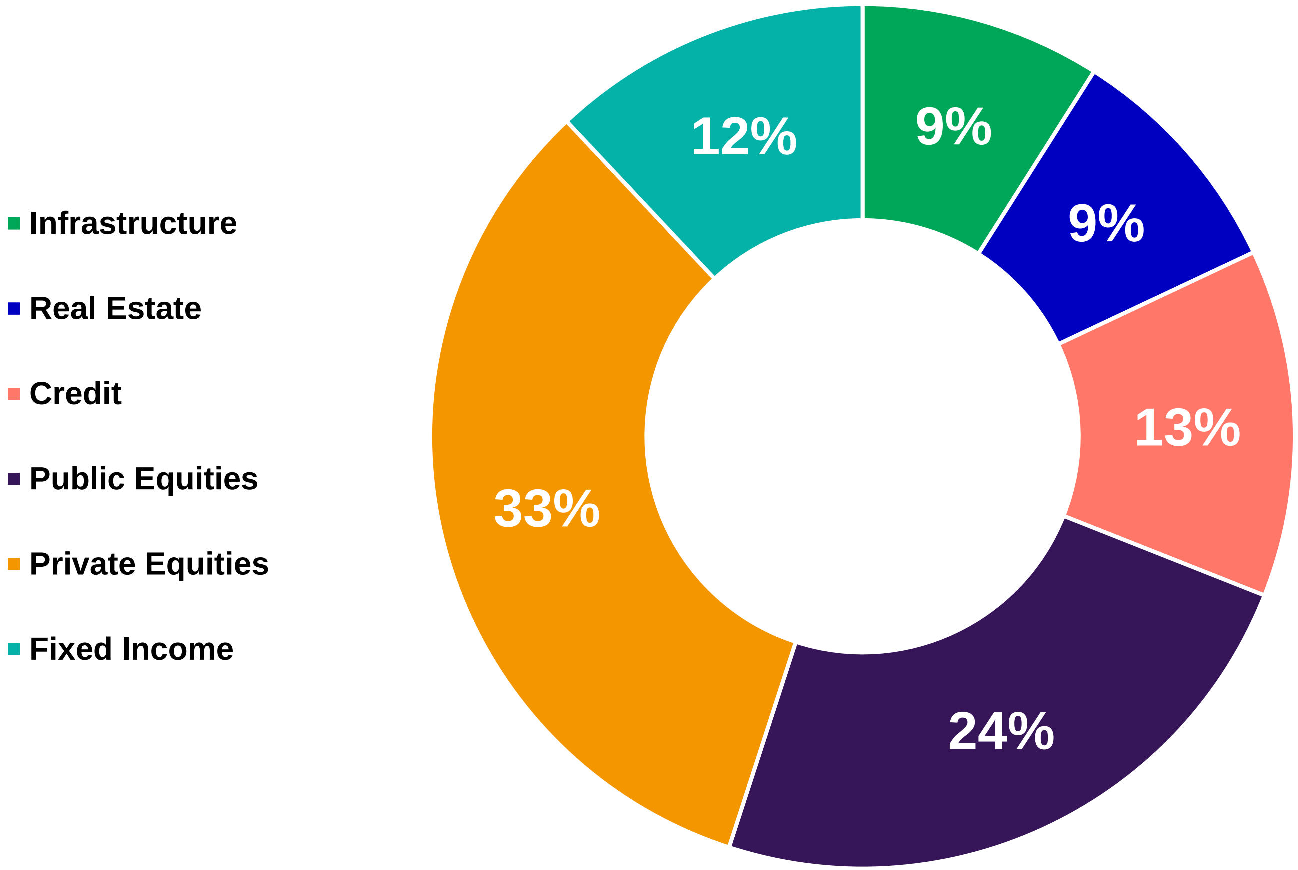
# Could Canadian small business defaults be a sign of things to come?

### Default rate for small businesses




Source: Bloomberg, MacrobondPayNet, BoC, Macrobond, Manulife Investment Management, as of 1/6/2025.

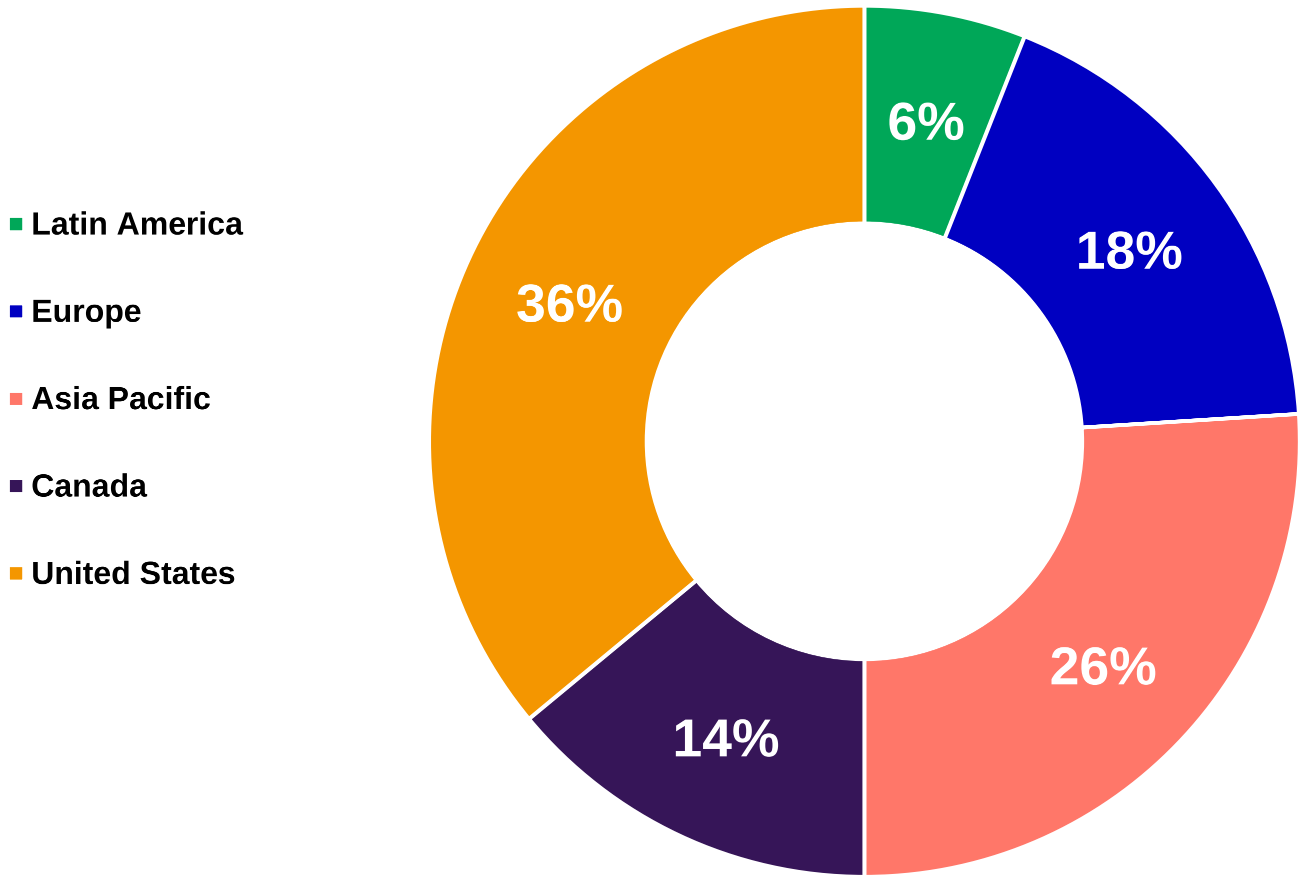
# Canada Pension Plan (CPP) Asset Class Composition




Source: CPP Annual Report 2023

For information and illustrative purpose only. The information and/or analysis contained may not necessarily reflect the views of Manulife Investment Management and should not be construed as a recommendation. Diversification or asset allocation does not guarantee a profit or protect against the risk of a loss in any market

# Canada Pension Plan (CPP) Geographic Composition




Source: CPP Annual Report 2023

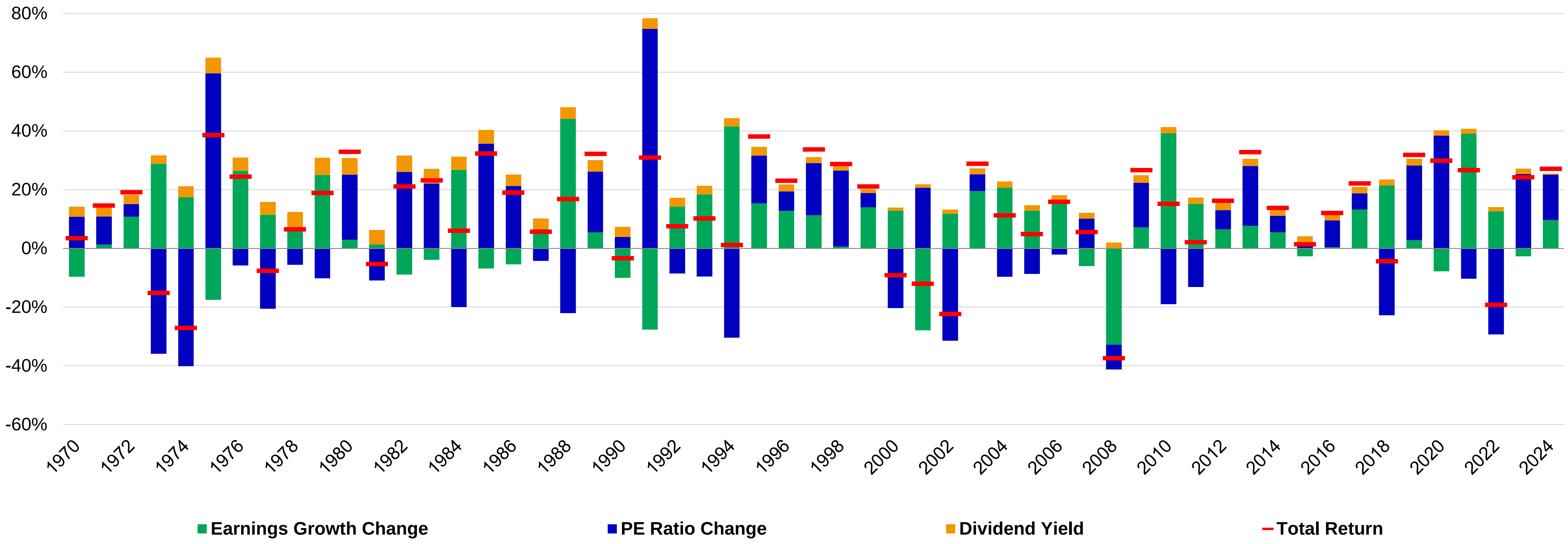
For information and illustrative purpose only. The information and/or analysis contained may not necessarily reflect the views of Manulife Investment Management and should not be construed as a recommendation. Diversification or asset allocation does not guarantee a profit or protect against the risk of a loss in any market

# Equities

# 2024 returns were a combination of earnings growth and PE expansion

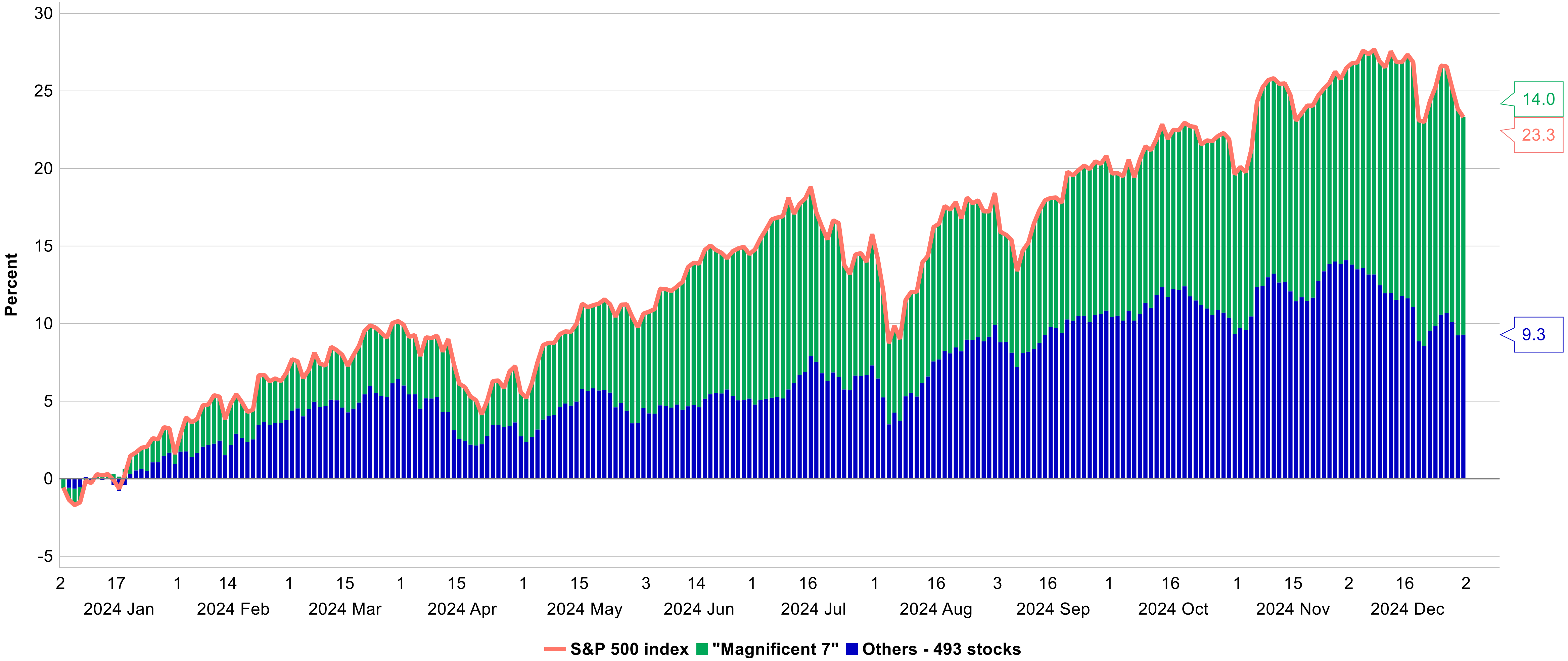
In any given year, the returns for the S&P 500 Index can be broken down by earnings growth, change in valuation and dividends. Year-by-year however, the composition of returns can vary widely. We note the best years tend to be driven by a valuation expansion while years driven by earnings tend to be more average.

## Contribution to return by Earnings Growth, PE Ratio and Dividends (1970 – Current)



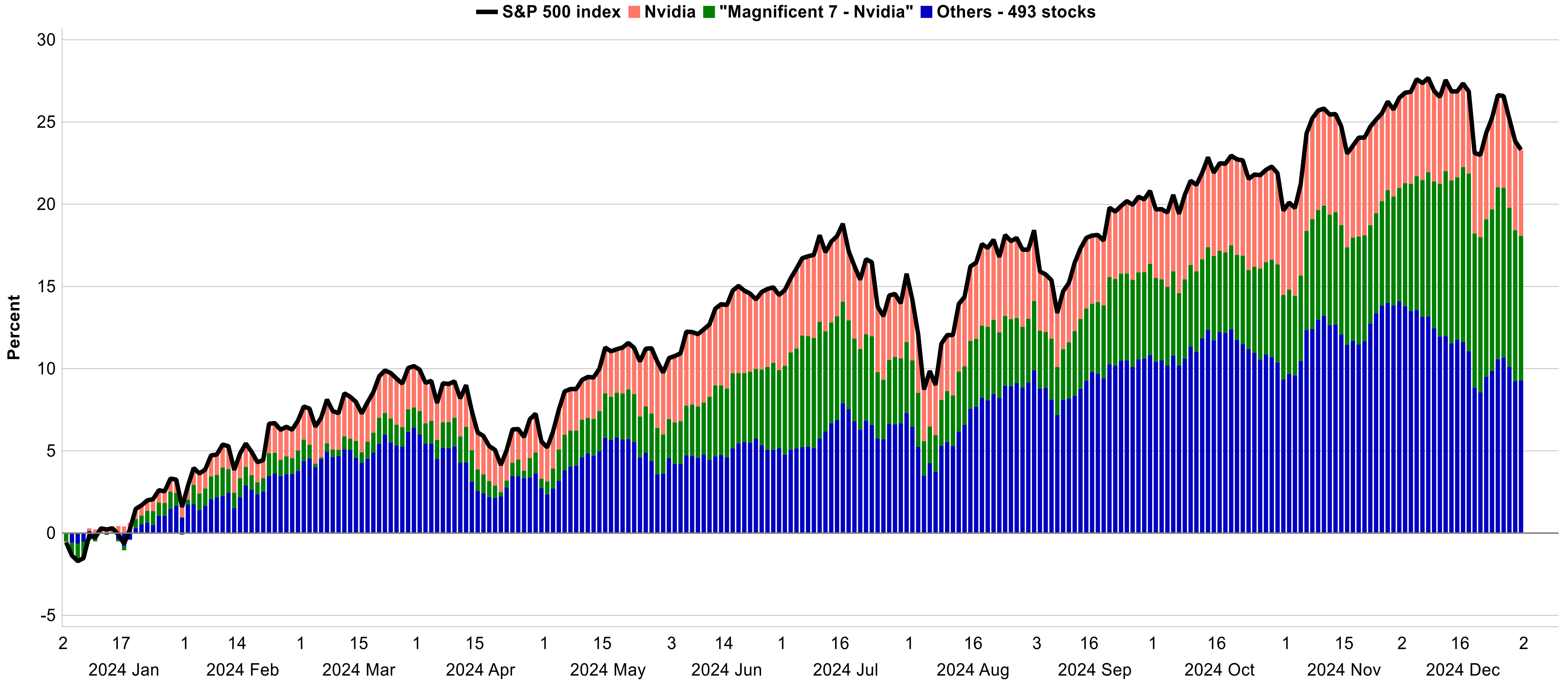

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# S&P 500 breadth improved in 2024, but largest companies still dominated



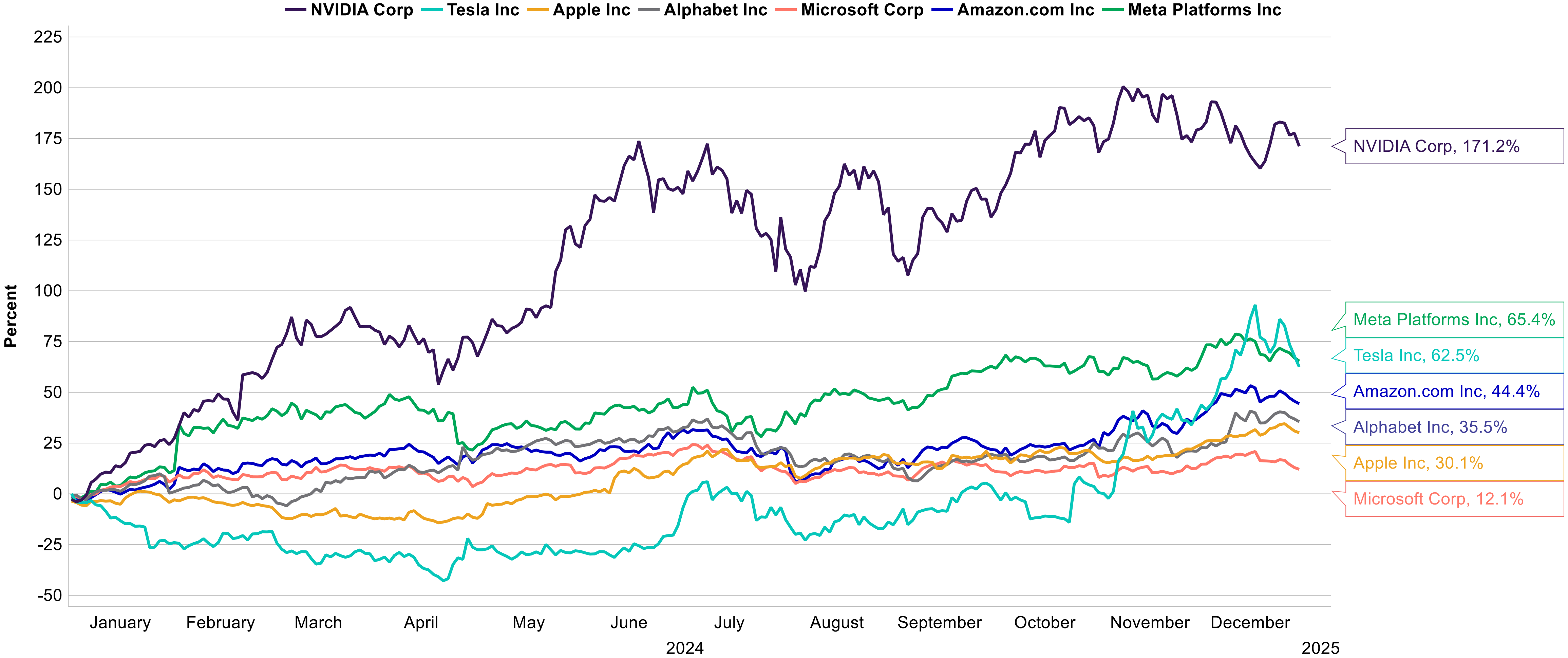

Source: Macrobond, S&P Global, Manulife Investment Management, as of 1/6/2025.

# Investors’ focus has been on a handful of stocks



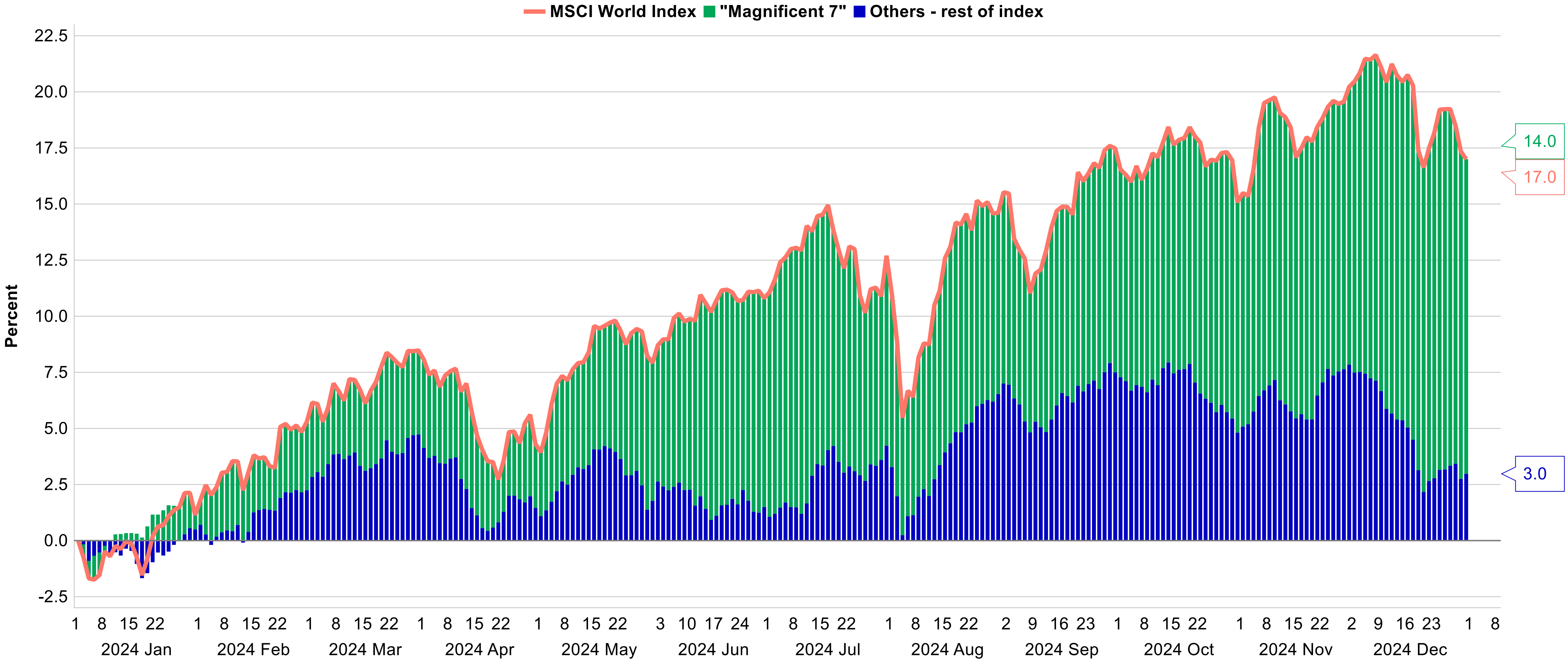

Source: Macrobond, S&P Global, Manulife Investment Management, as of 1/7/2025.

# It's Nvidia's world, we just live in it




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 12/31/2024.

# The “magnificent 7” is not just a U.S. equity phenomenon




Source: Macrobond, Bloomberg, S&P Global, Manulife Investment Management, as of 1/6/2025.

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Investment Management

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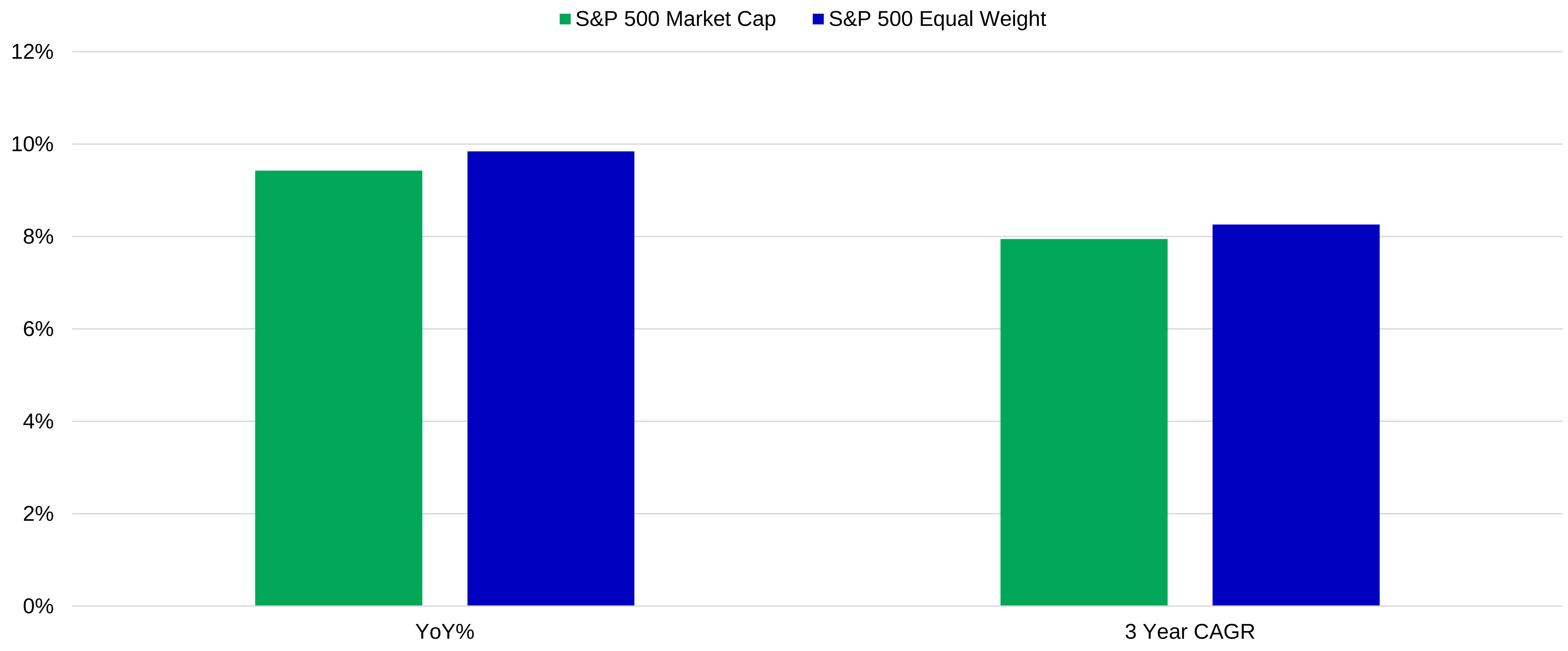
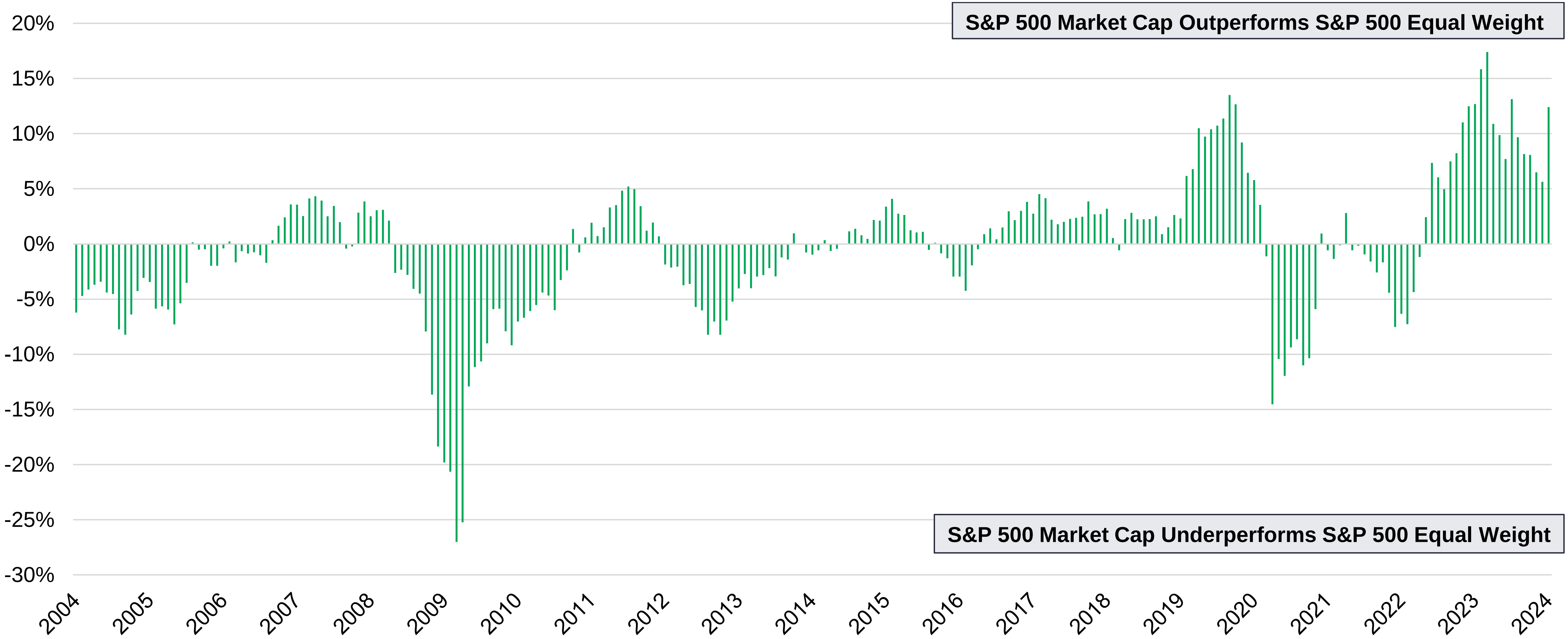
# Average Performance
# S&P 500 Market Cap Weighted Index vs. S&P 500 Equal Weight Index



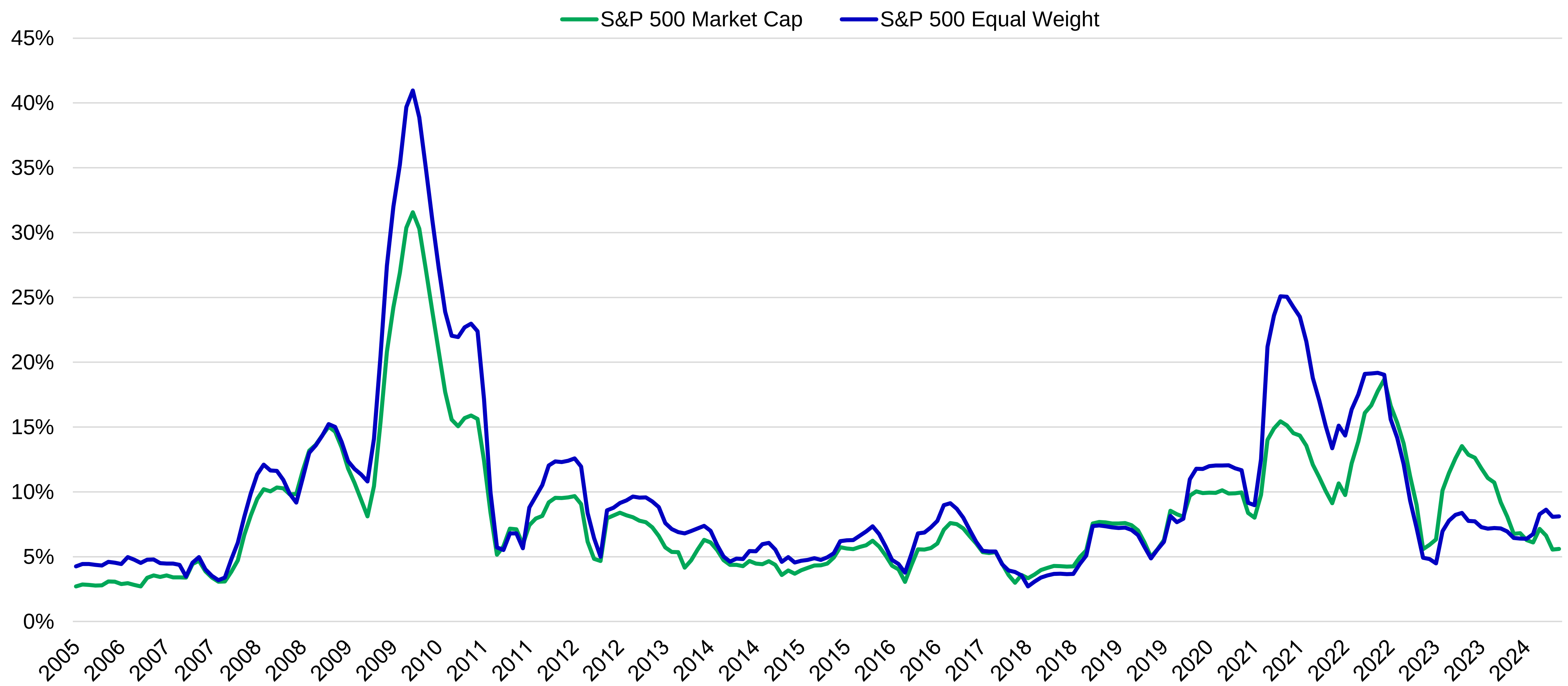

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Relative YoY performance of S&P 500 Market Cap Weighted Index vs. S&P 500 Equal Weight Index




Source: Bloomberg, Capital Markets Strategy, Manulife Investment Management, as of December 31, 2024. YoY refers to year over year.

# Volatility measured by 1-year standard deviation, YoY%

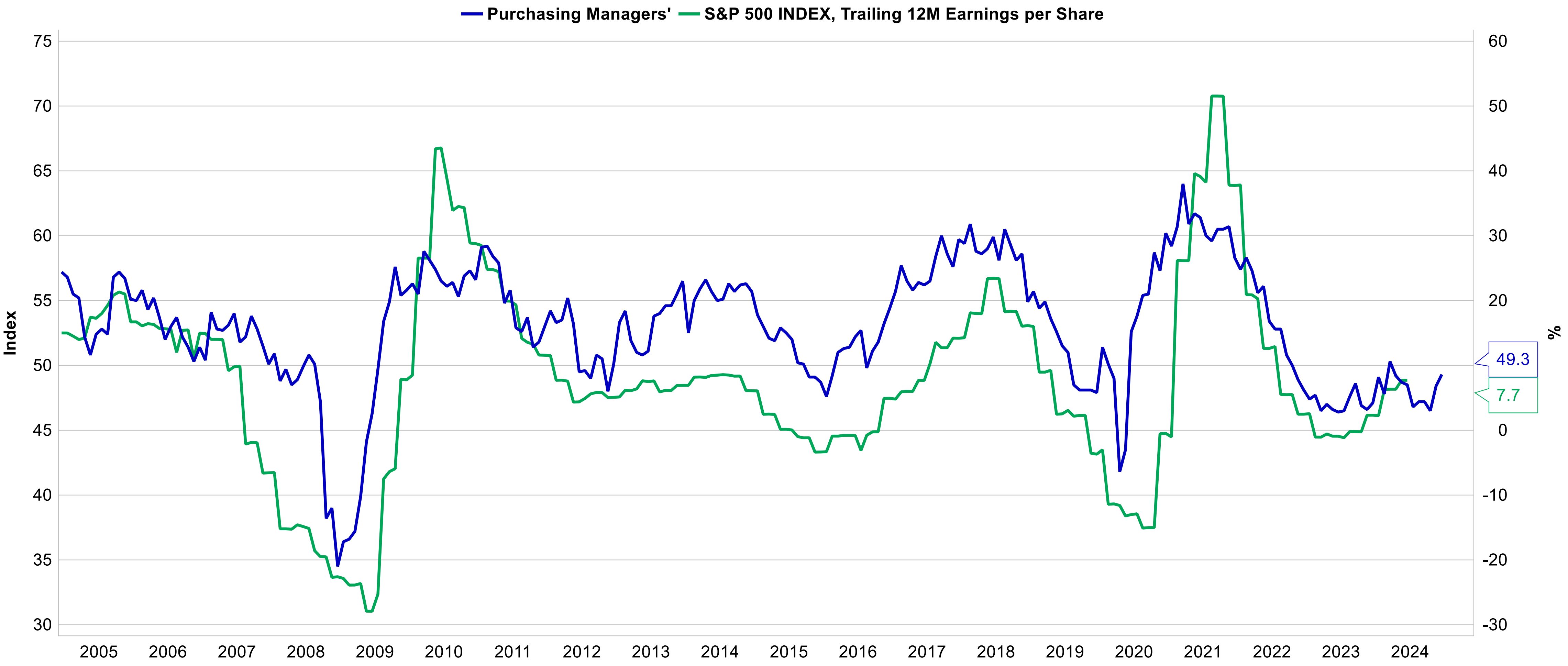





Source: Bloomberg, Capital Markets Strategy, Manulife Investment Management, as of December 31, 2024. YoY refers to year over year.

# Earnings growth may begin to improve but will be choppy

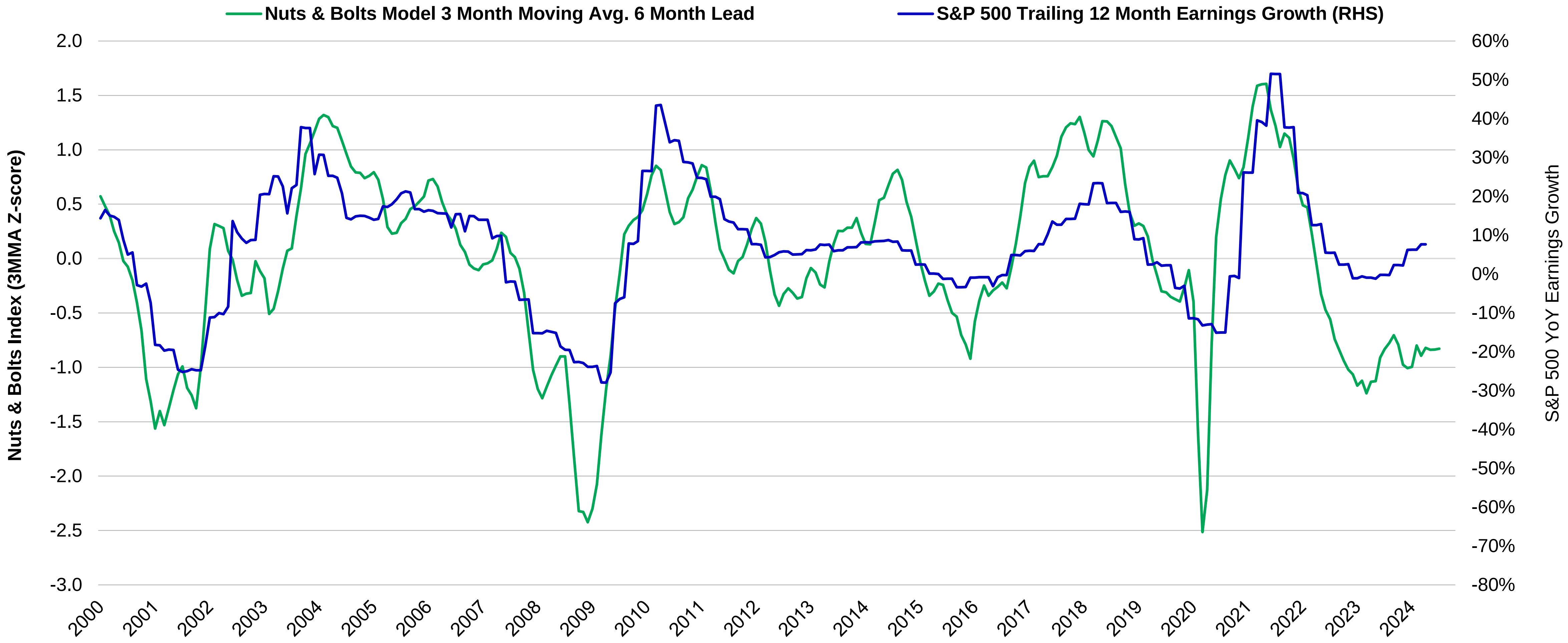
US Manufacturing PMI vs S&P 500 Trailing 12 months YoY earnings growth (advanced 6 months)




Source: Bloomberg, Macrobond, ISM, Manulife Investment Management, as of 1/7/2025.

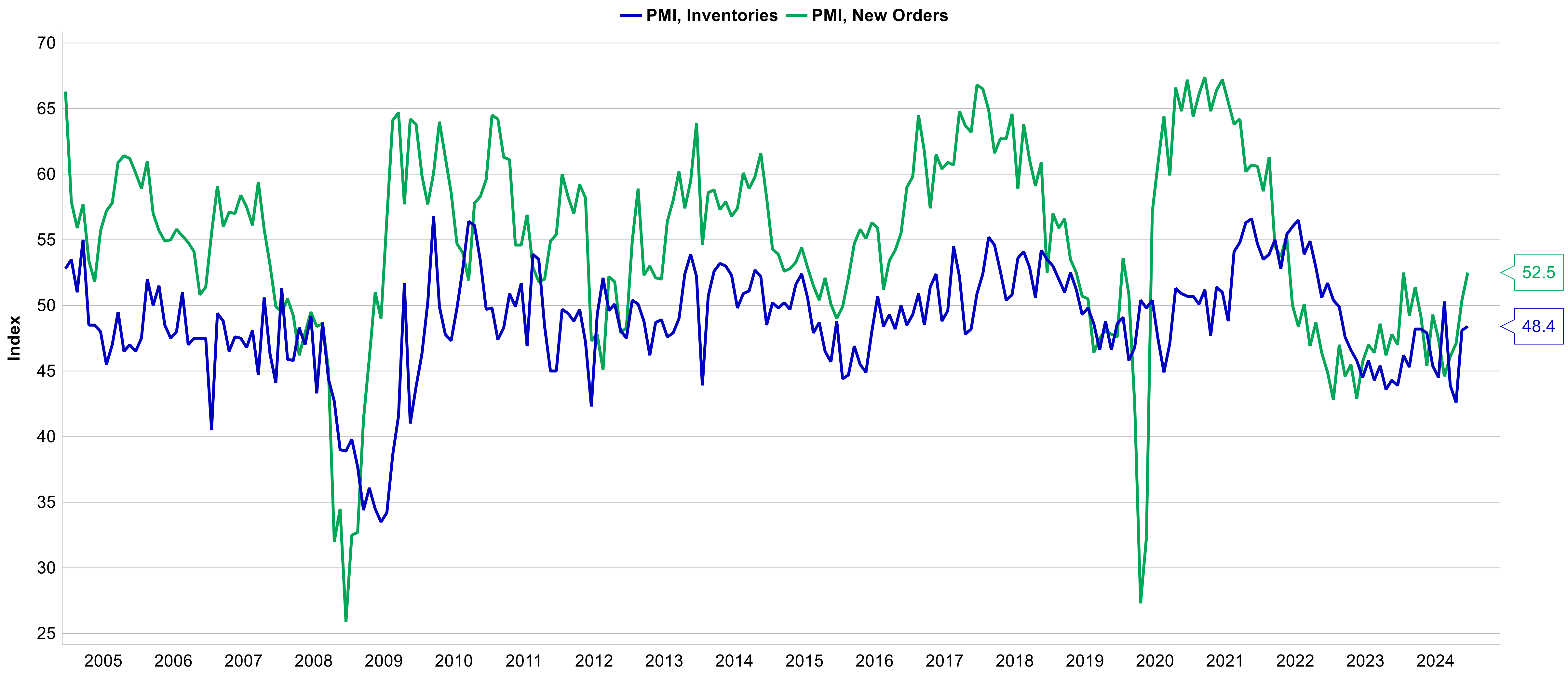
# Manufacturing pointing to mixed earnings environment

## Nuts & Bolts Index vs. S&P 500 Trailing 12-Month Earnings Growth




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024. The Nuts & Bolts Model is a propriety model that tries to forecast S&P 500 Index earnings growth (four months out) by comparing its relationship to the three-month moving average of the average z-score of the regional U.S. Federal Reserve regions.

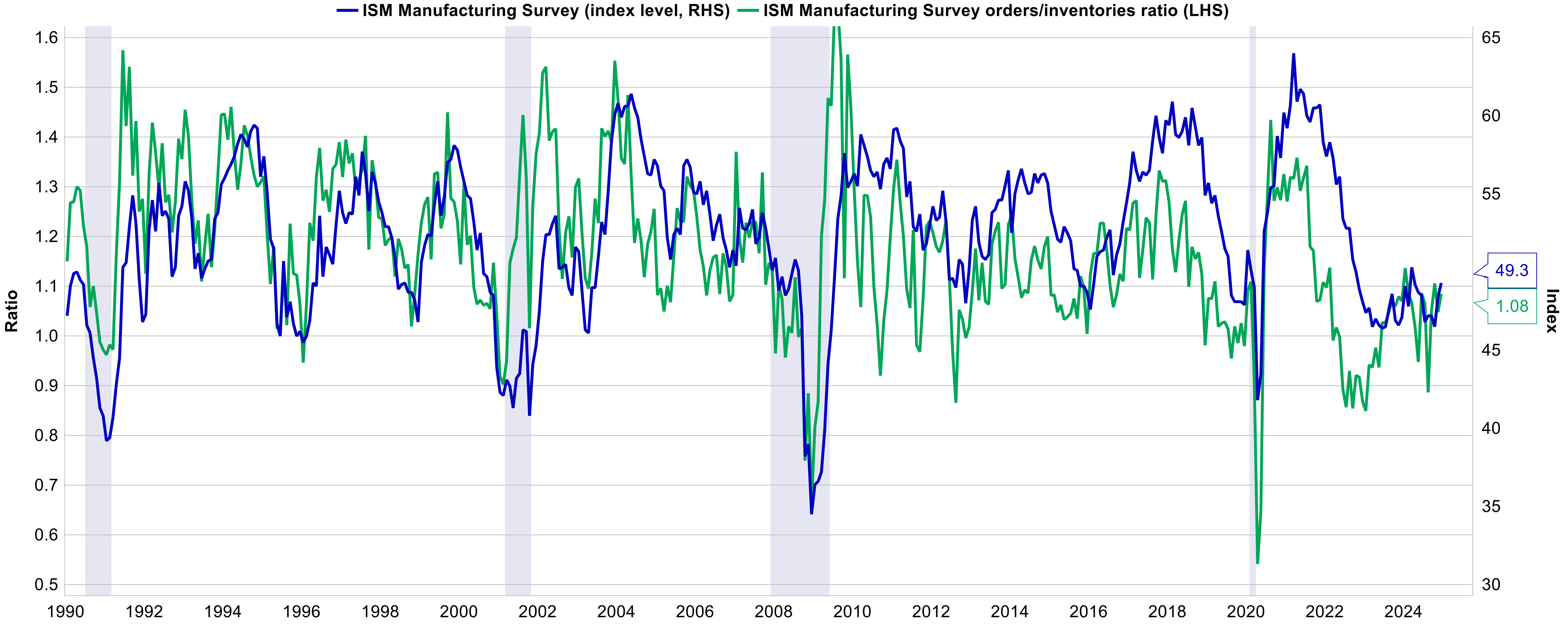
# New orders improving while inventories are weaker




Source: Macrobond, ISM, Manulife Investment Management, as of 1/7/2025.

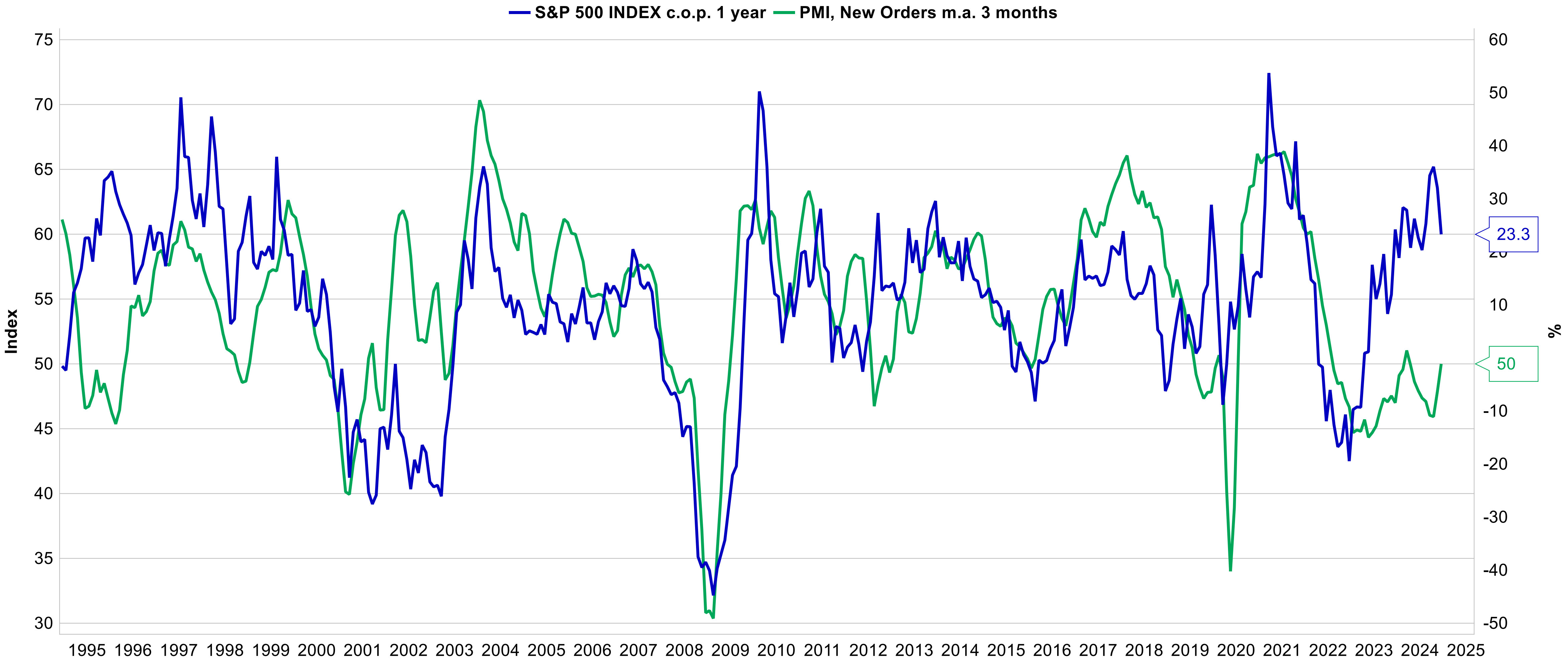
# Manufacturing has improved from trough but remains below 50

## ISM Manufacturing Survey vs. orders/inventories ratio




Source: Macrobond, ISM, Fed, BEA, Manulife Investment Management, as of 1/7/2025.

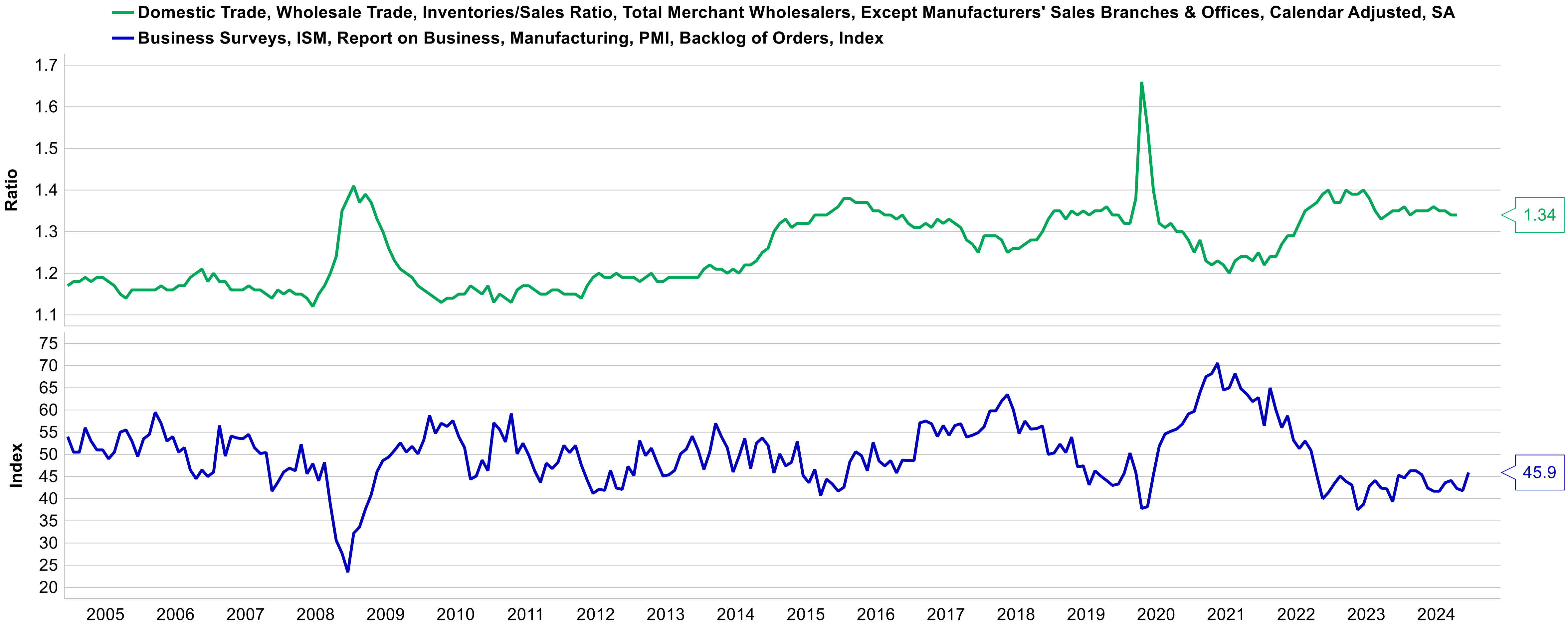
# S&P 500 and Manufacturing New Orders moving in opposite directions




Source: Macrobond, Bloomberg, ISM, Manulife Investment Management, as of 1/7/2025.

# The backlog of new orders and inventories have stabilized

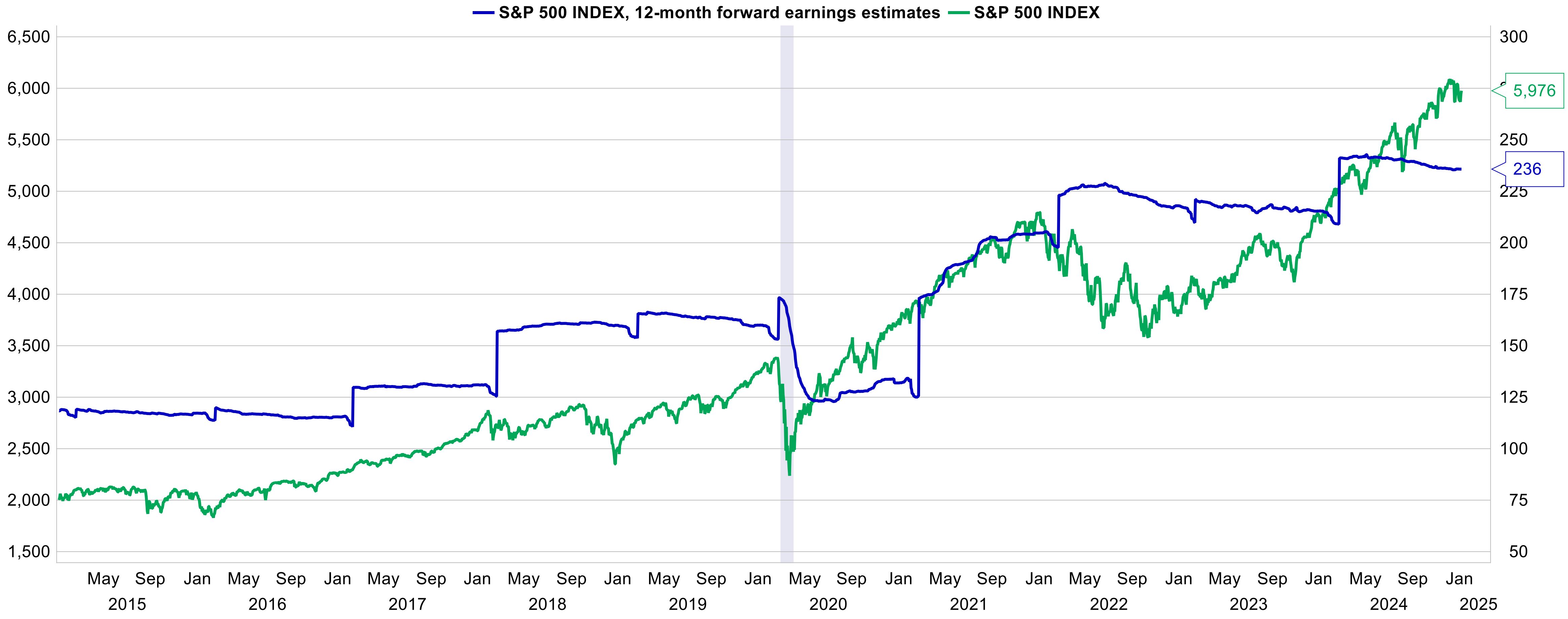
## United States




Source: Macrobond, USCB, ISM, Manulife Investment Management, as of 1/7/2025.

# Weaker earnings could lead to fall in S&P 500

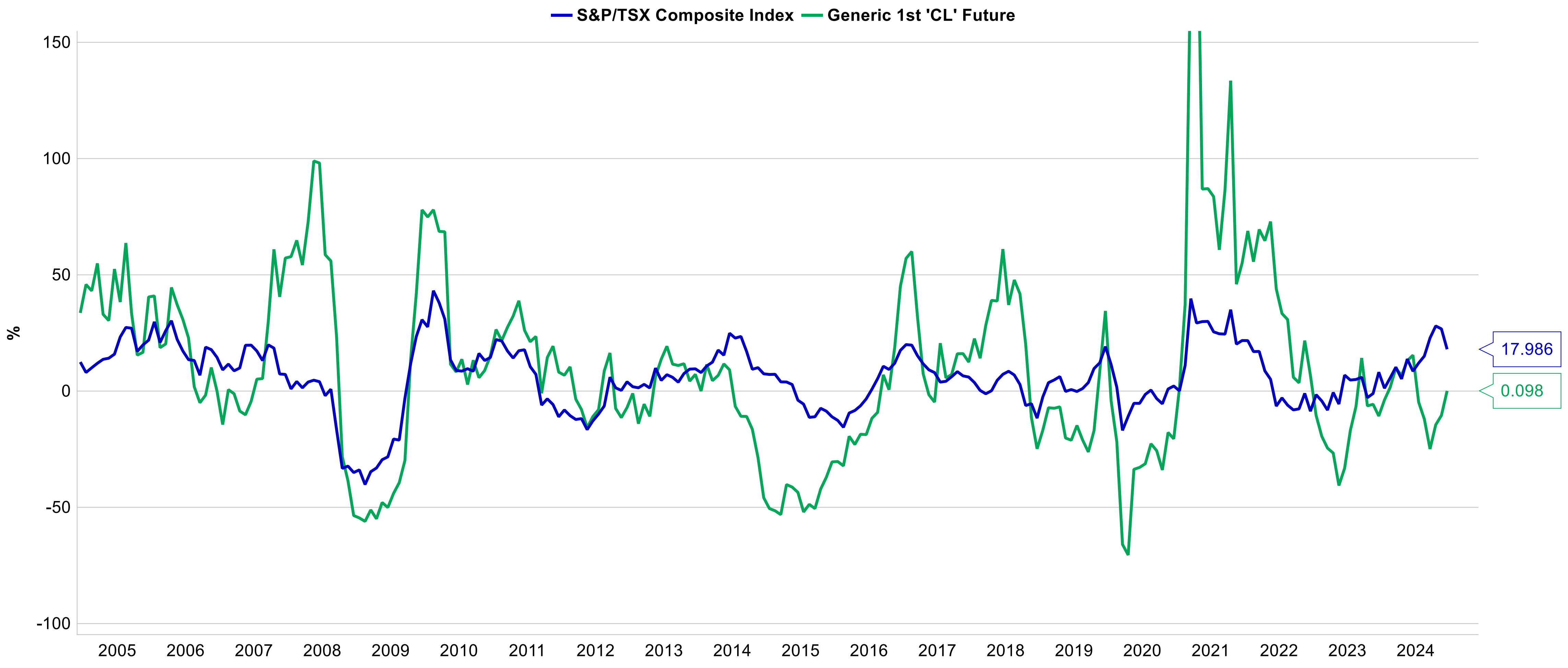
**S&P 500 Index vs 12-month forward estimated EPS**




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Increase in oil prices is supportive for the S&P/TSX in the near term

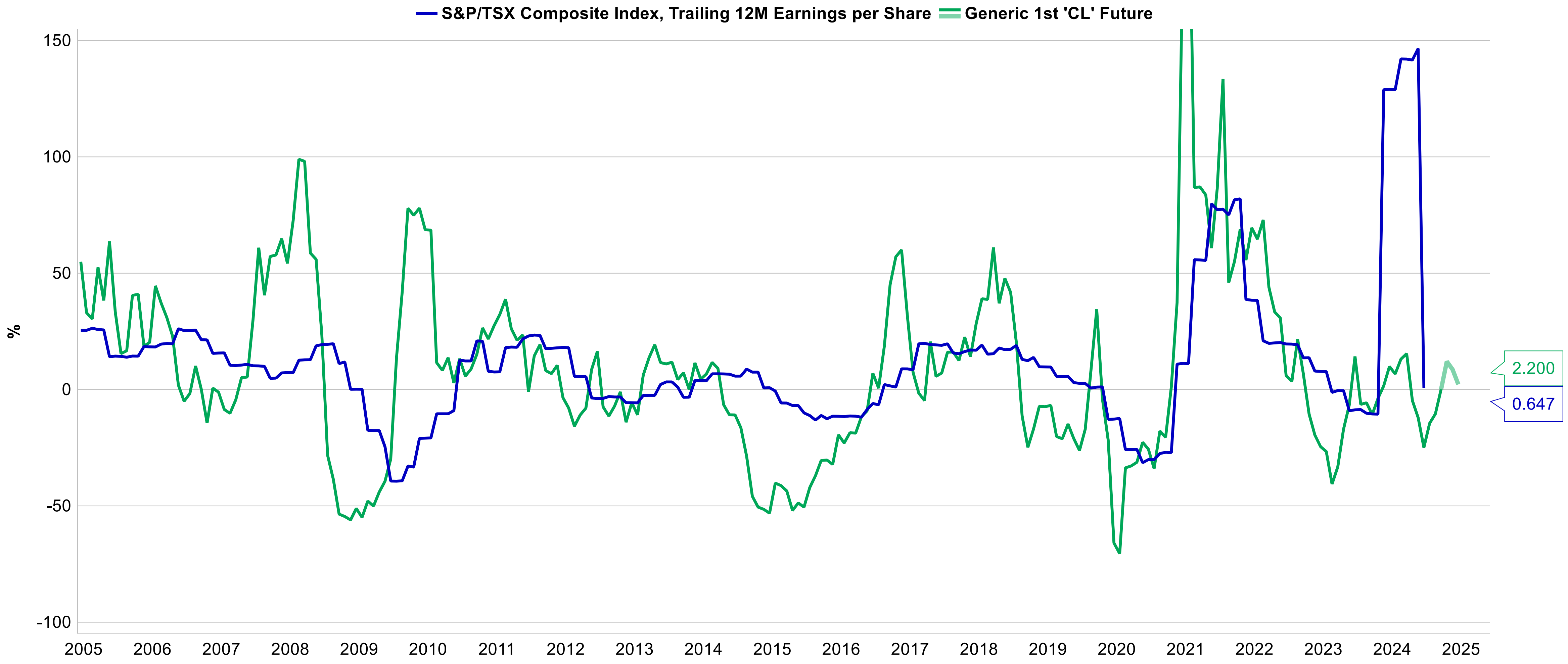
## YoY Change in WTI (USD) vs. change in S&P/TSX




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

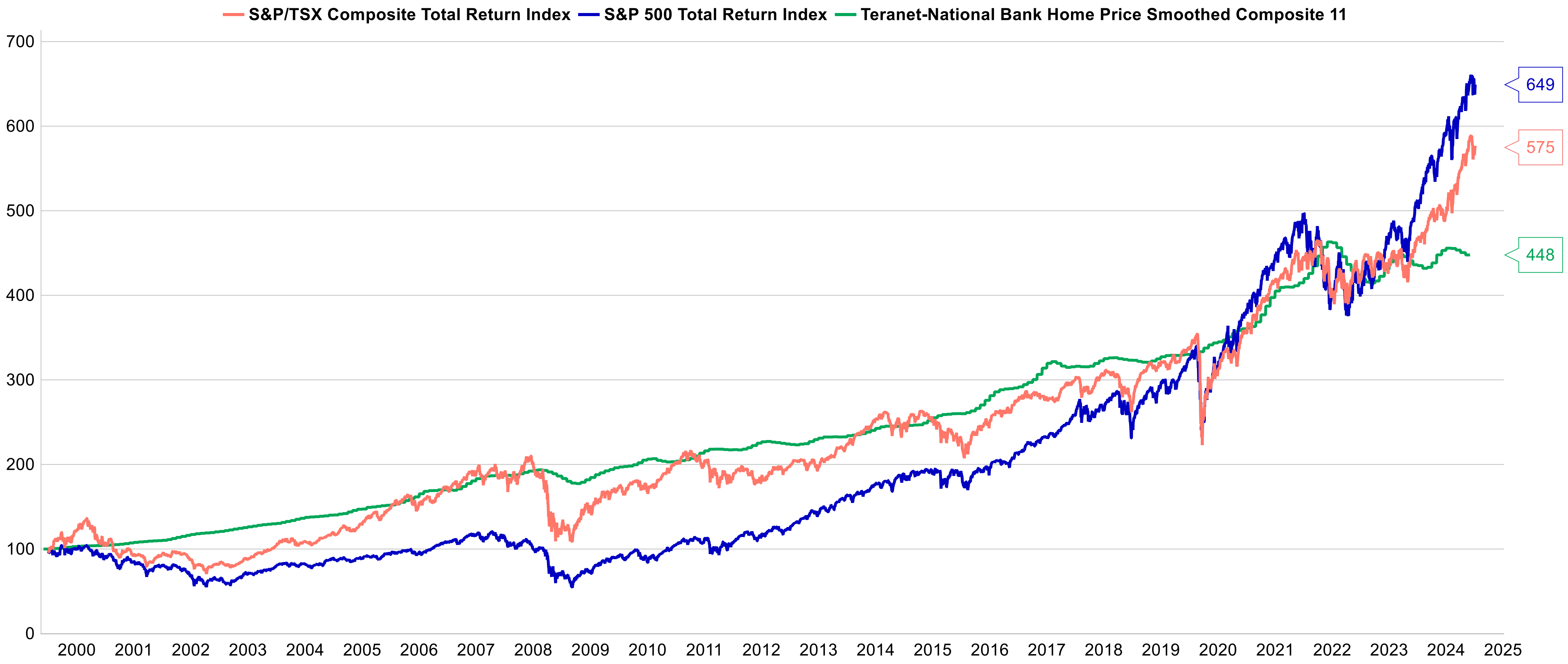
# Earnings are likely to be choppy for the S&P/TSX

## Forecast for WTI is $80/bbl




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

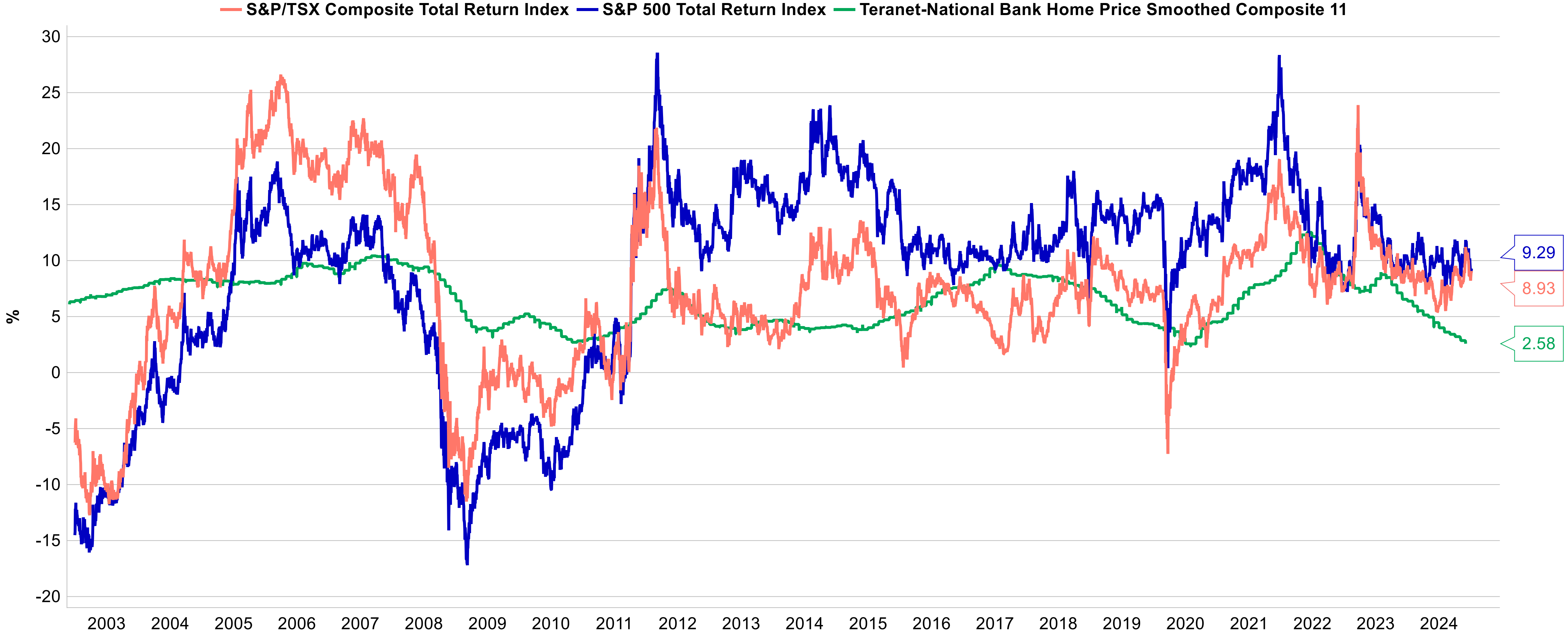
# Housing and equity markets have both historically added value




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

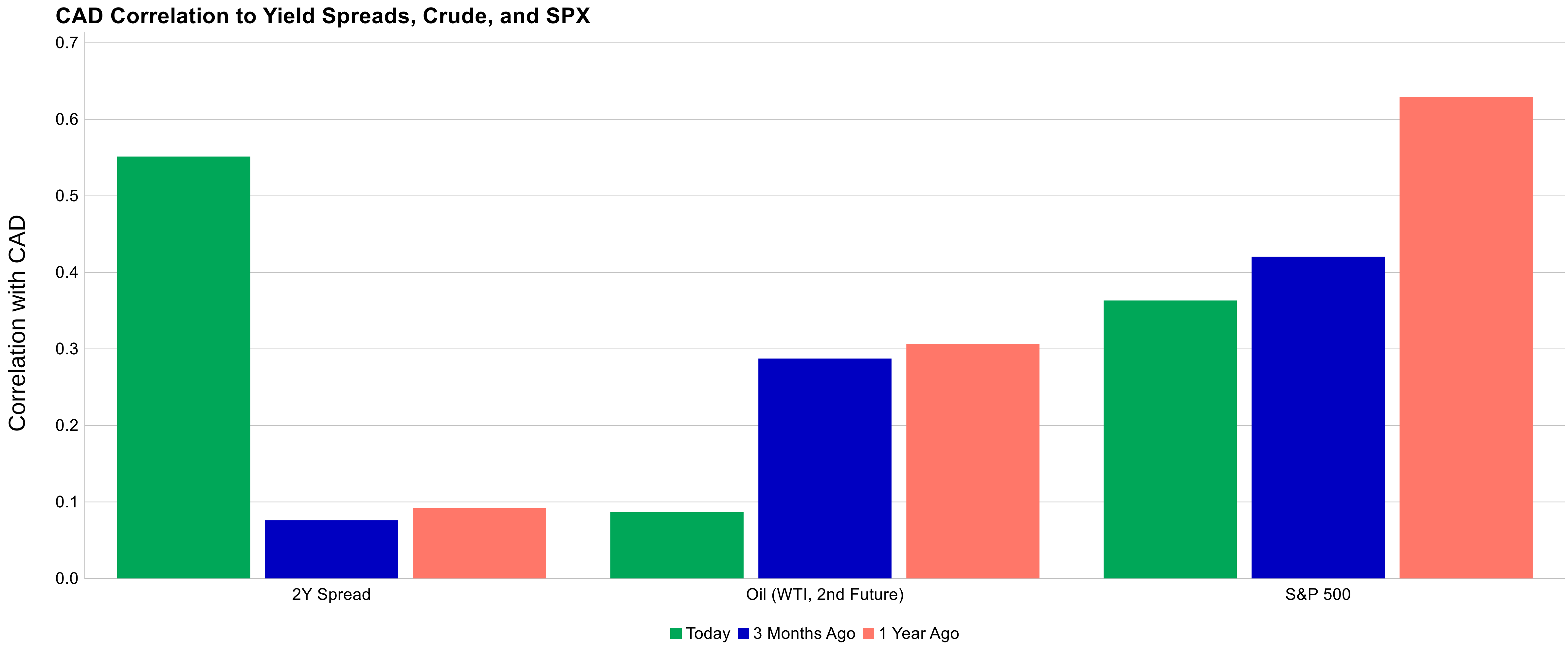
# Equities tend to outperform Canadian home prices but are more volatile

Annualized 3-year rolling returns



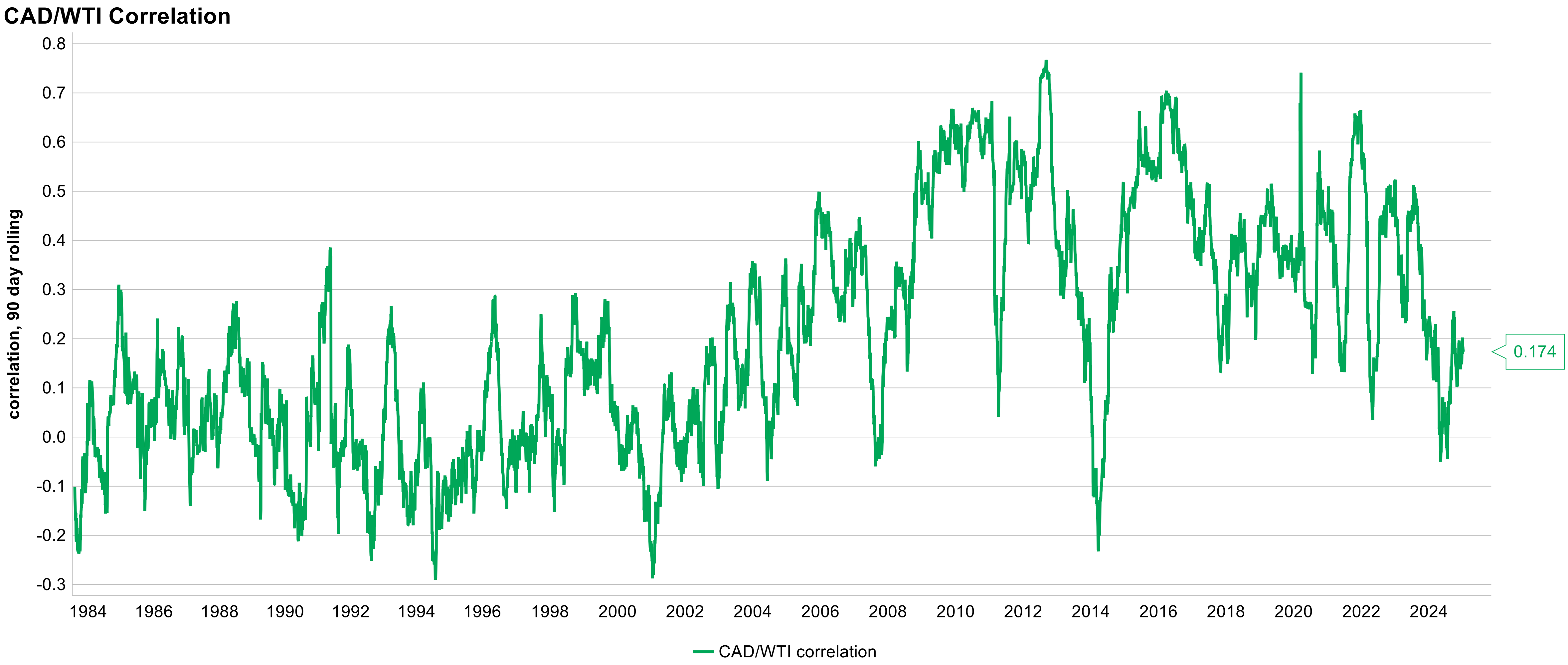

Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# CAD correlation to yield spreads, crude and S&P 500



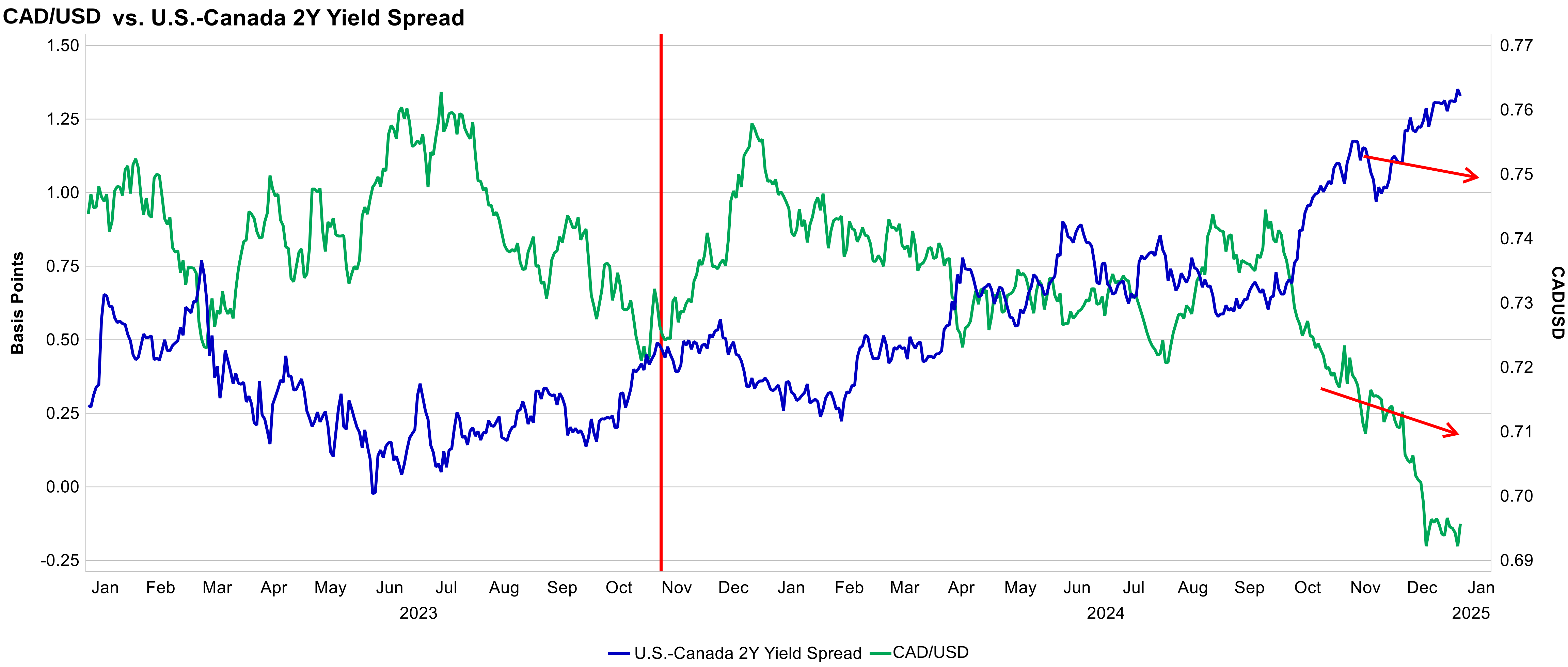

Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Canadian dollar correlation to oil prices hasn't been as strong recently




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

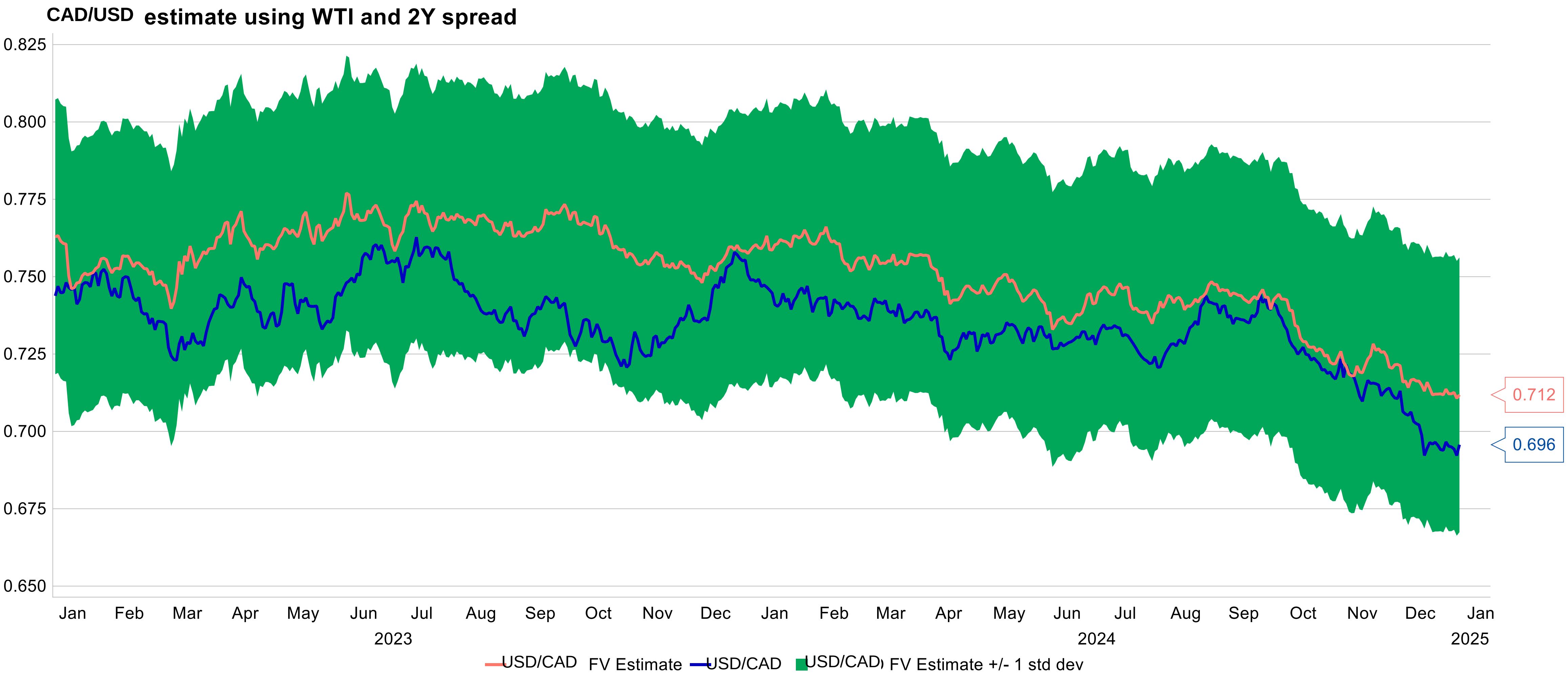
# Flattening 2-yr differential has put upside pressure on CAD/USD




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

Manulife Investment Management

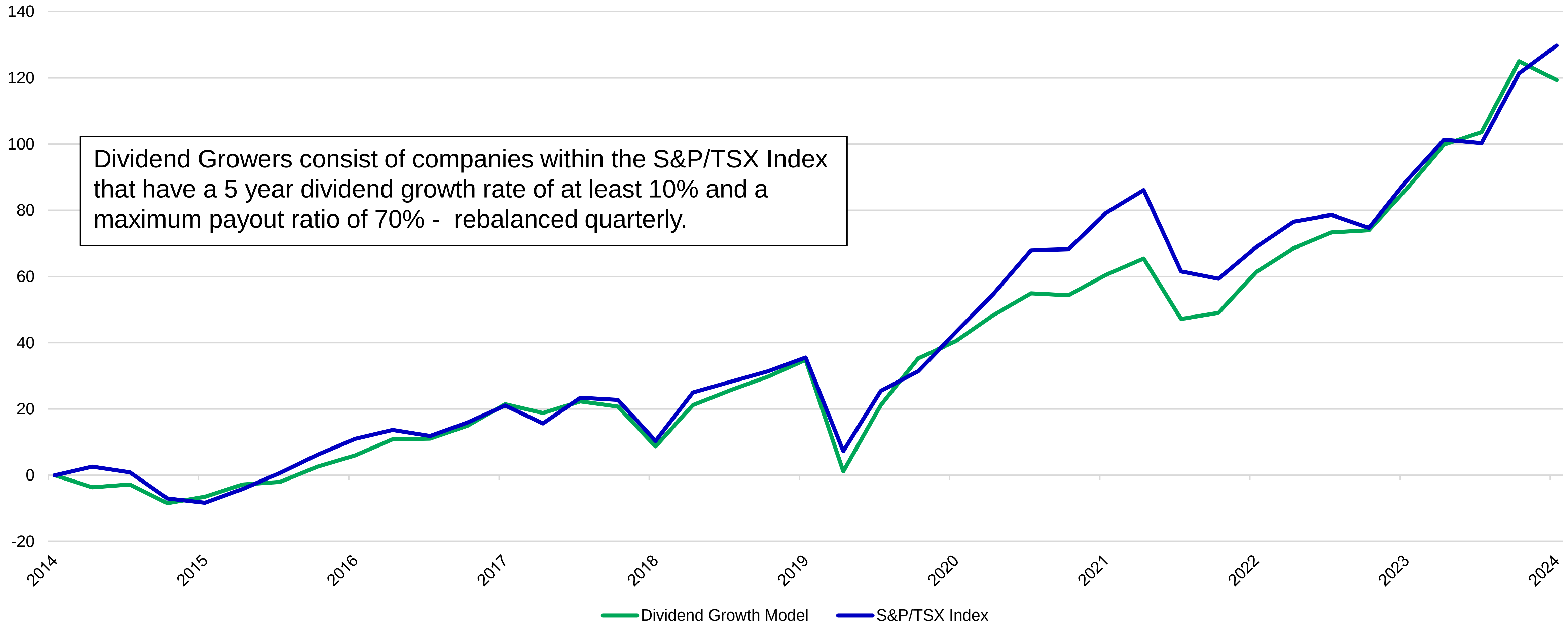
# Loonie is trading near fair value




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

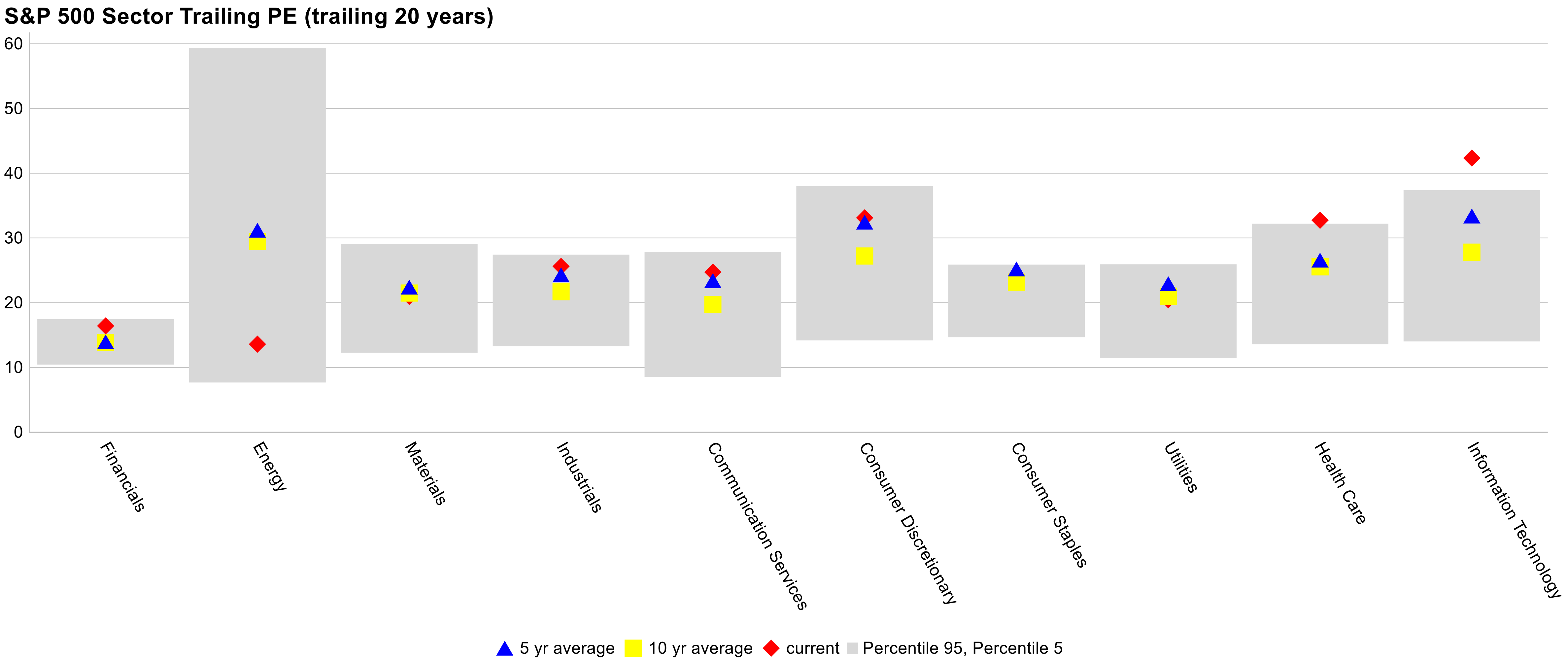
# Dividend growers historically have outperformed the S&P/TSX Index except recently

## Capital Markets Strategy Dividend Growth Model vs. S&P/TSX Composite Index Cumulative Return (Last 10 years)



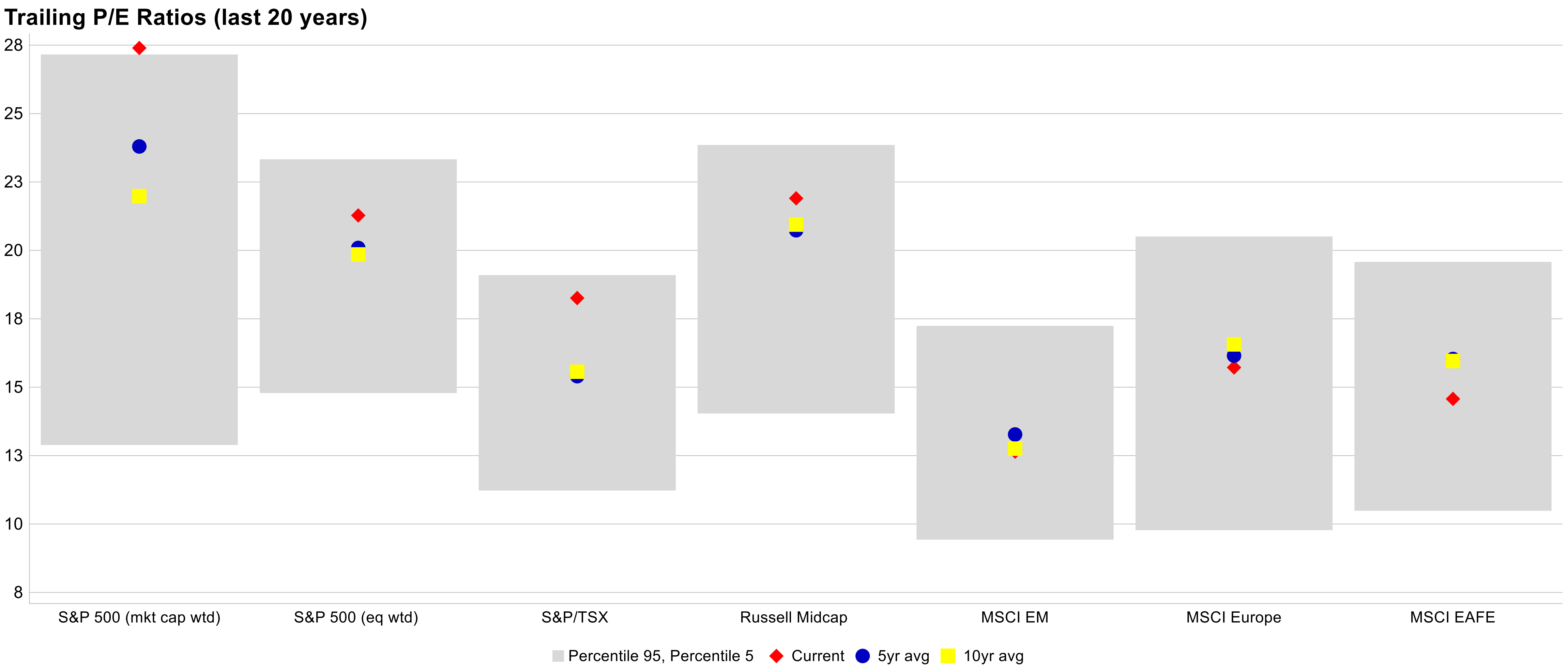

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Valuation varies materially across sectors



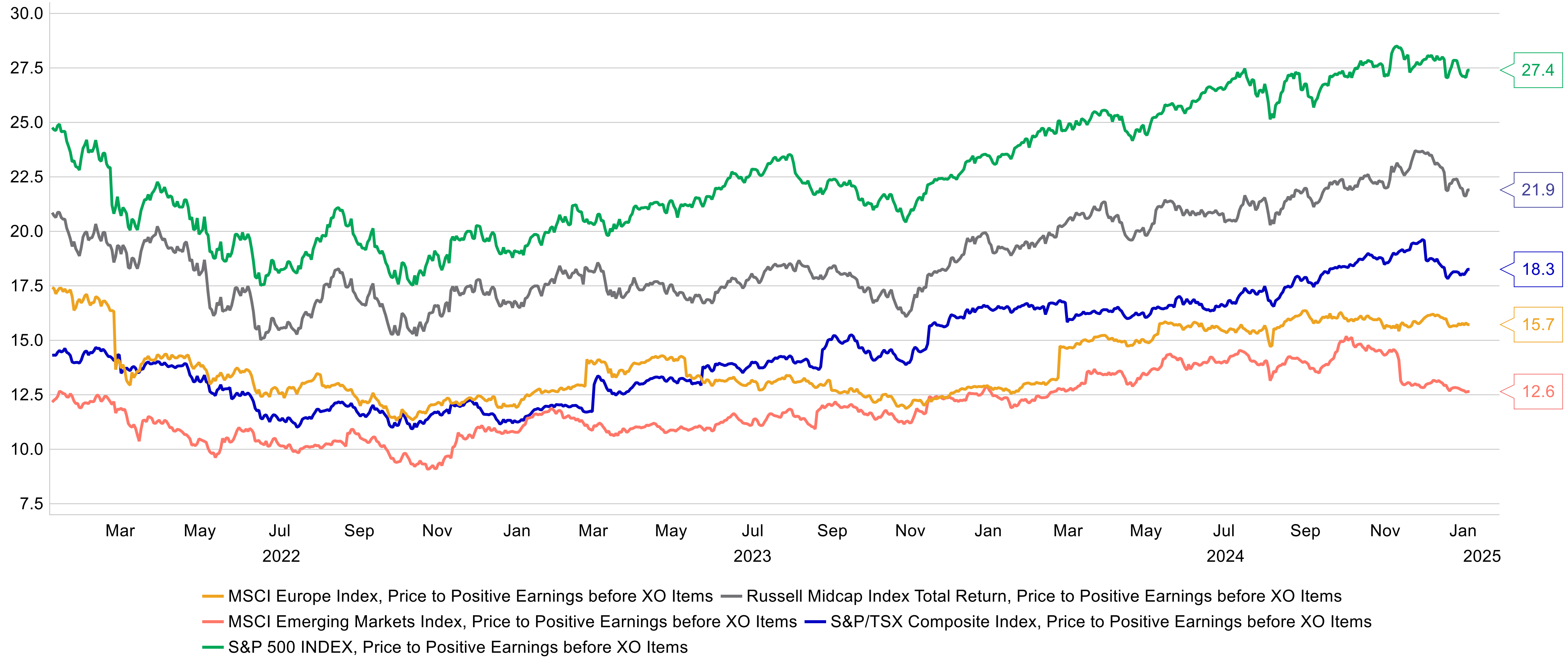

Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Valuations are fair to full across the globe




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

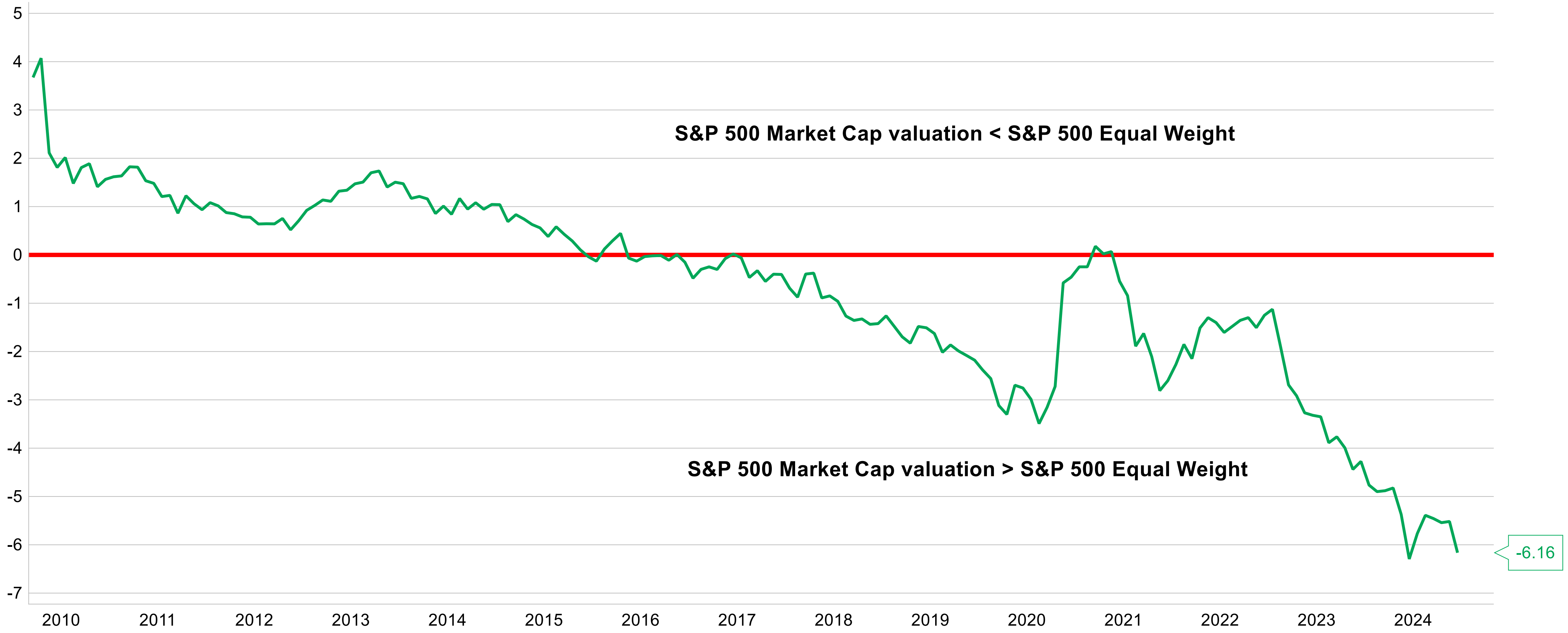
# Markets are trading above historical averages




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Valuation supports active management

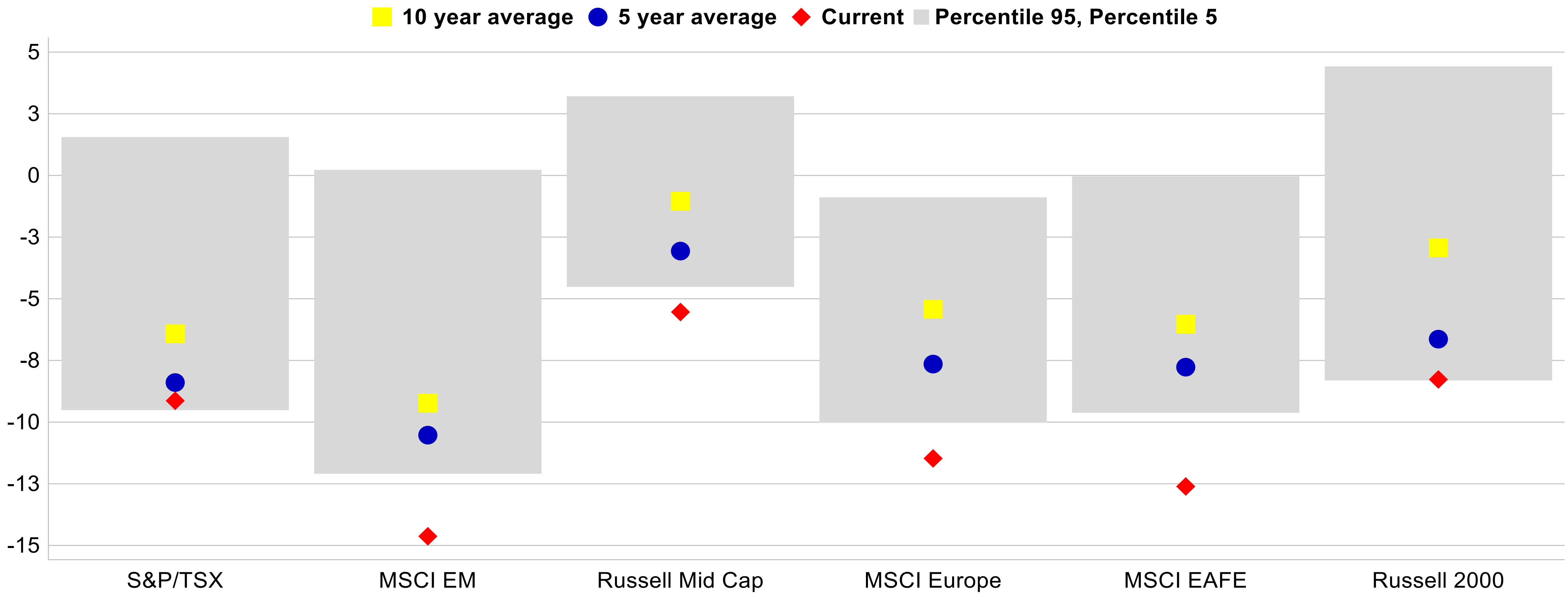
Relative valuation : S&P 500 market cap weight PE vs S&P 500 equal weight PE




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Relative valuations do not necessarily reflect the near-term investment opportunity

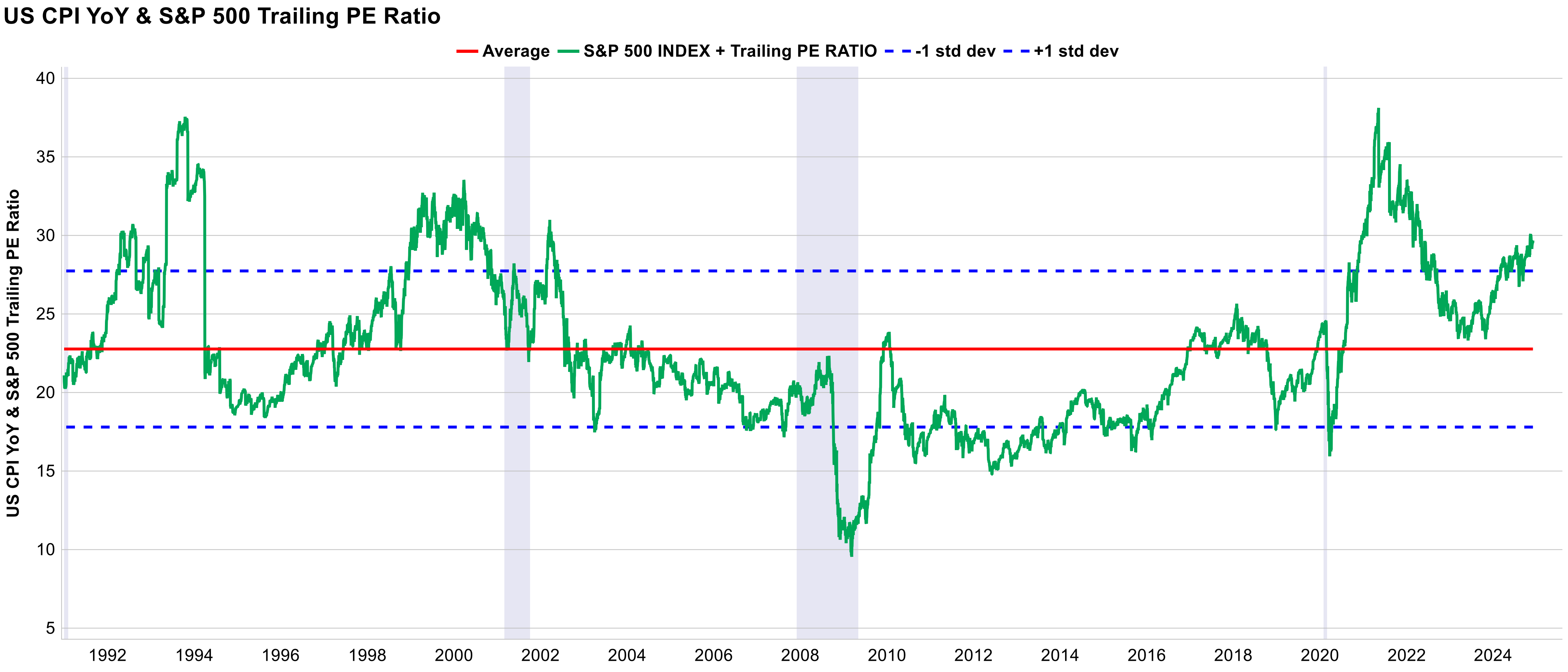
## Relative value of global indices to the S&P 500 trailing 12-month P/E ratios (adjusted for + earnings) (last 20 years)




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# U.S. equity valuations relative to inflation are just above fair value territory

The Rule of 20 states that the stock market is valued when the sum of the average price-earnings ratio and the rate of inflation is equal to 20.

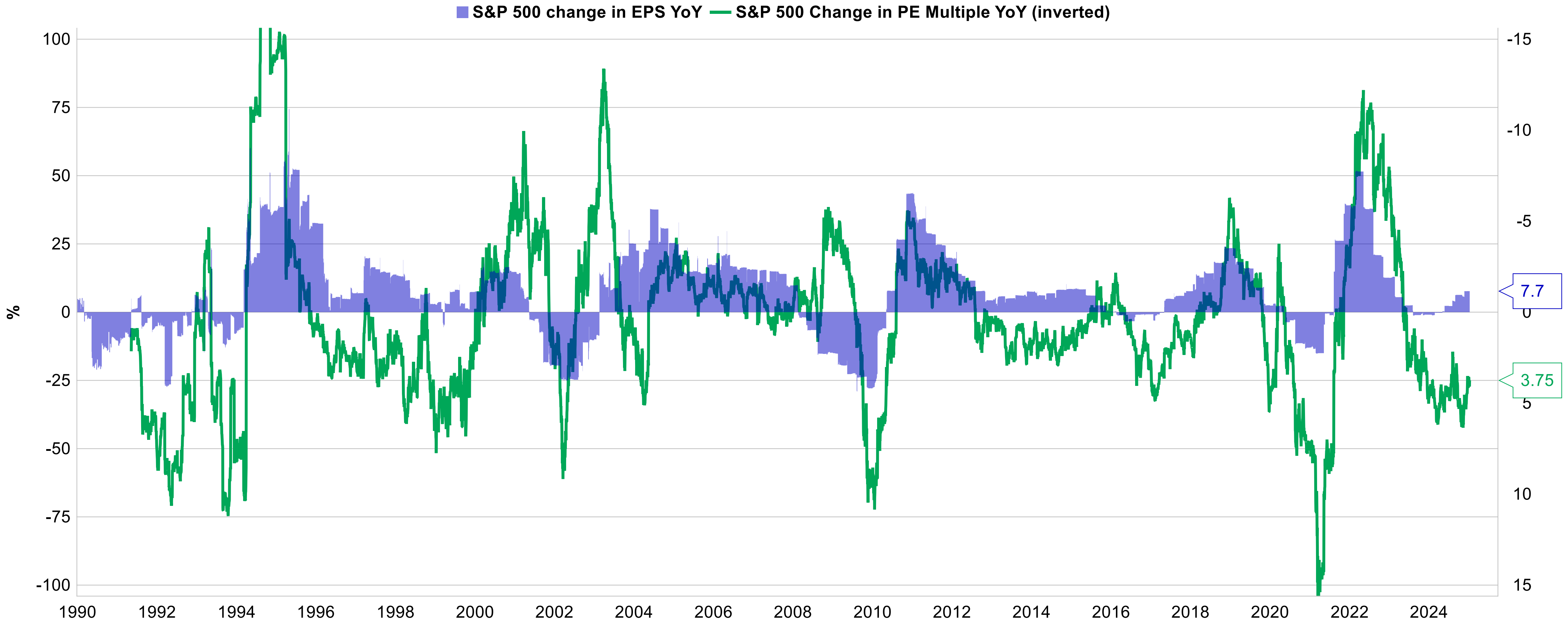



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Slight multiple contraction is possible in a flat earnings environment

During periods when earnings growth is between 0% and 10% on a year-over-year basis (as we believe it will be over the next 12 months), the average PE contraction is 1 multiple point, and the average 12-month returns for the S&P 500 Index is 12.0%.

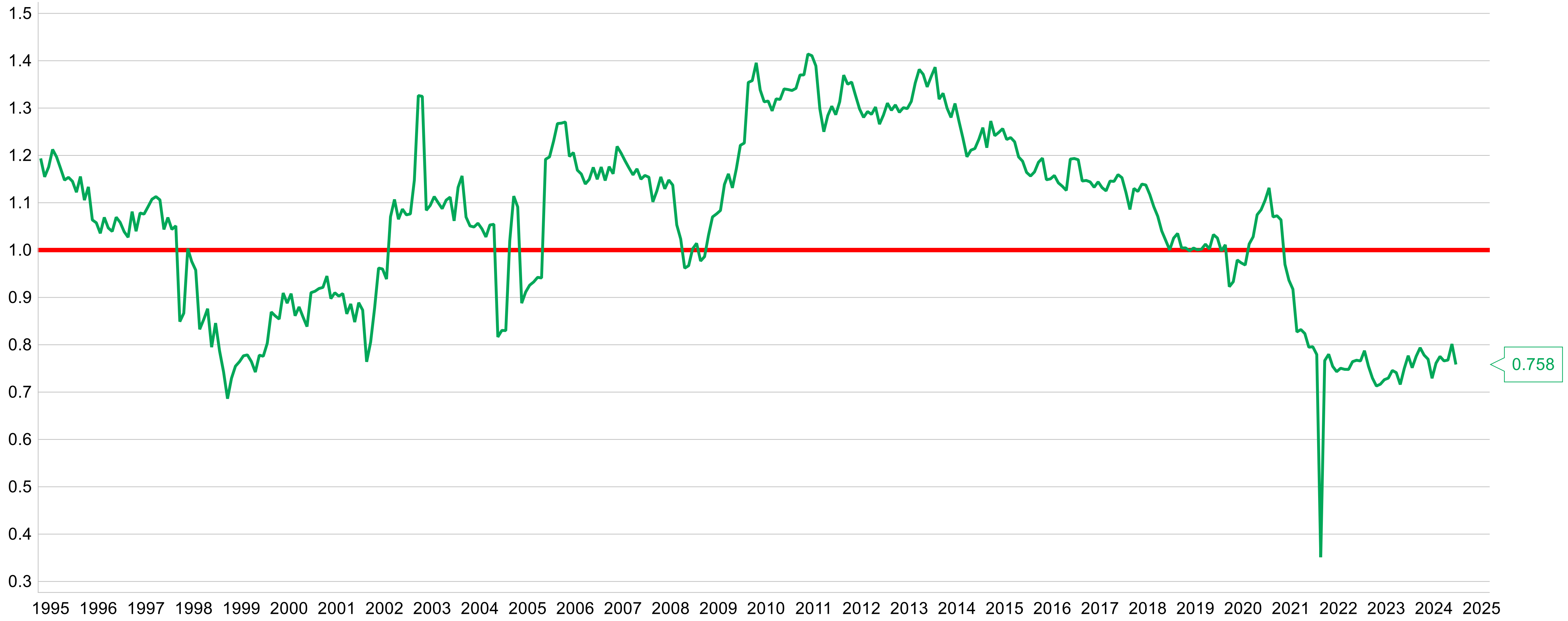
**S&P 500 EPS vs. change in PE multiple YoY**




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

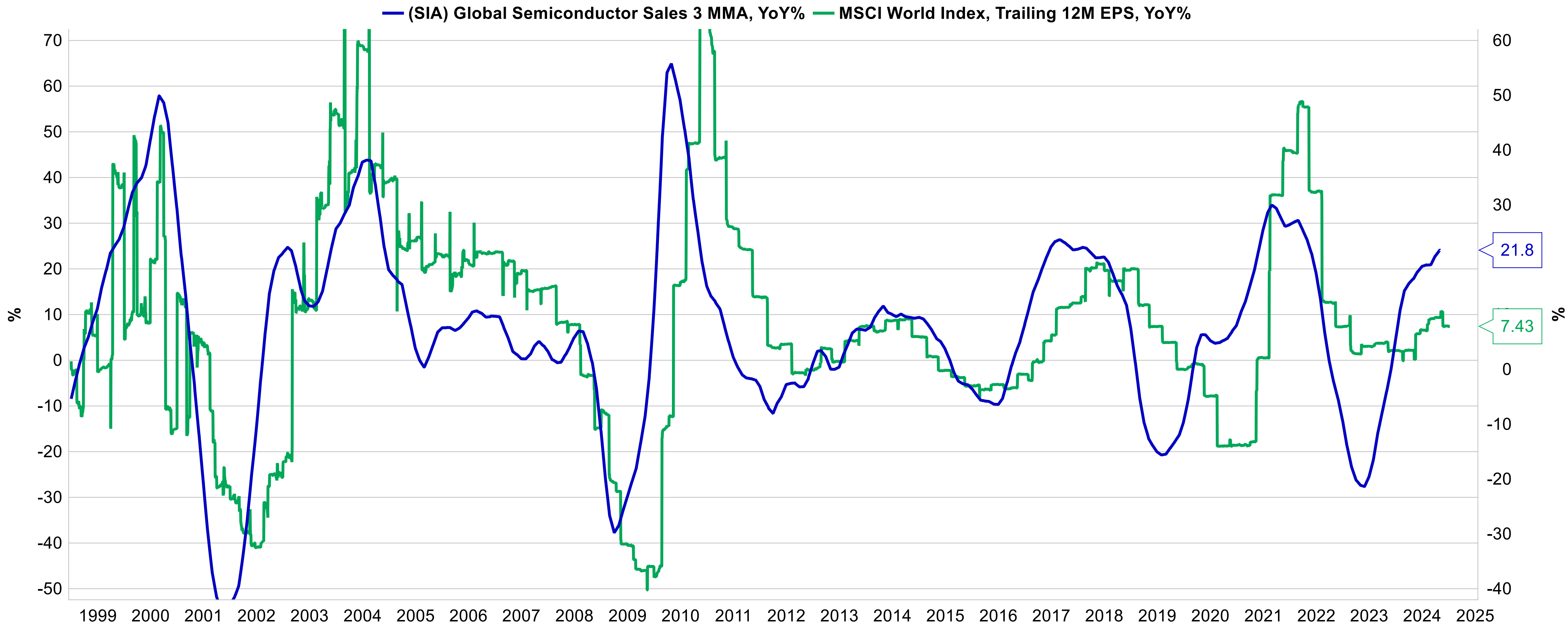
# U.S. Mid caps offer some valuation diversification

**S&P Midcap 400 Index PE relative to S&P 500 PE**




Source: Bloomberg, Macrobond, Manulife Investment Management, as of 1/6/2025.

# Semiconductor sales may lead to better MSCI World earnings

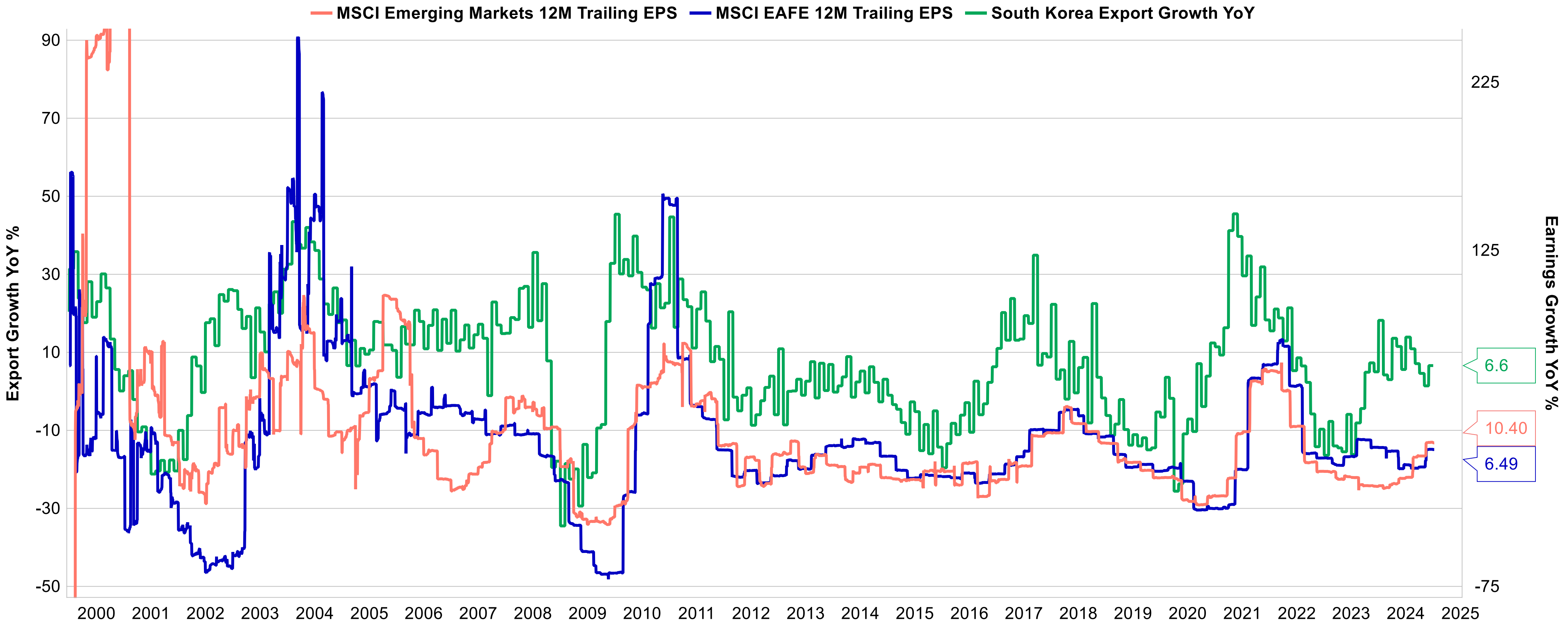



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# South Korean export growth indicates a recovering earnings growth environment

South Korean export growth has historically led earnings growth for the developed and emerging markets. The improvements in South Korean exports may signal a bottoming in earnings growth weakness.

### South Korean Exports YoY vs. MSCI EM and MS EAFE 12M Trailing Earnings



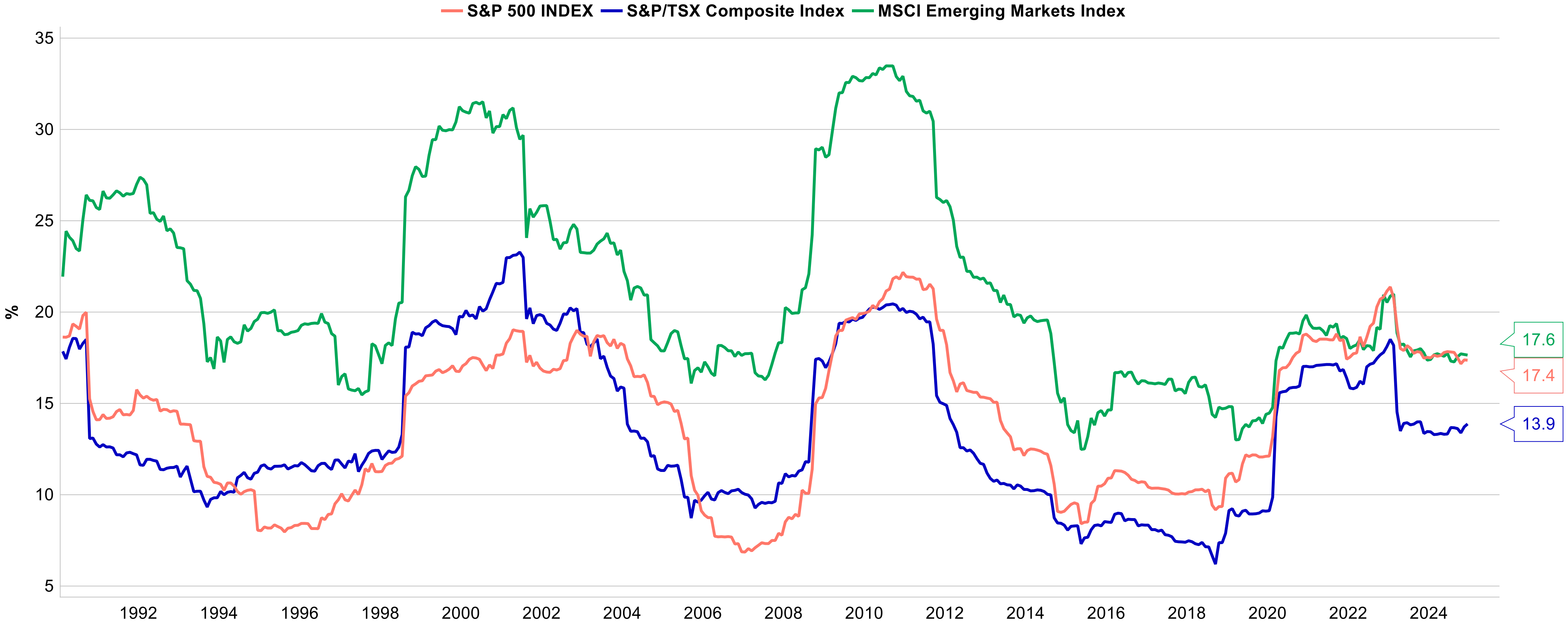

Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

Manulife Investment Management

# Emerging Market volatility similar to North America

Historically, emerging market equities have exhibited higher volatility (measured as 3-year annualized standard deviation of returns) than U.S. or Canadian equities. However, what we have noticed over the last couple of years is that overall volatility has been more like the S&P 500 and S&P/TSX Indices.

**Annualized Three-year Rolling Standard Deviation**

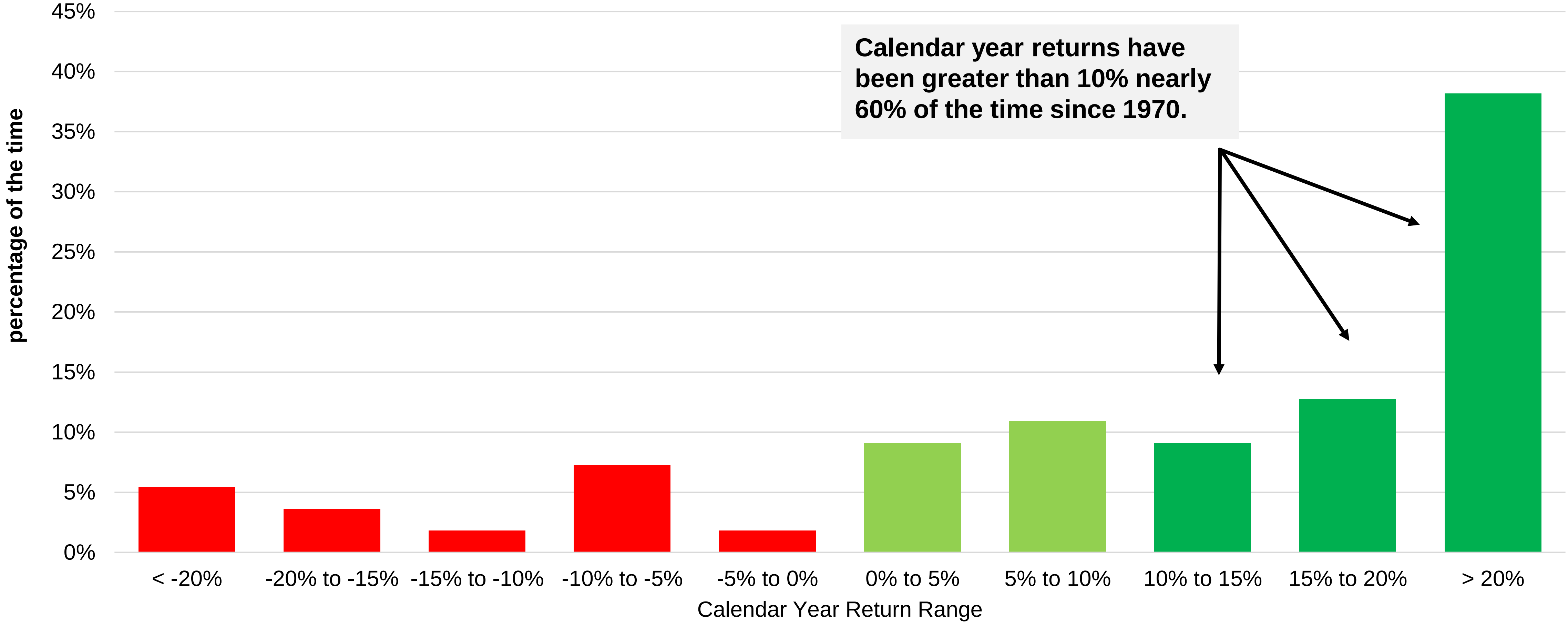



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# The market tends to produce above average returns

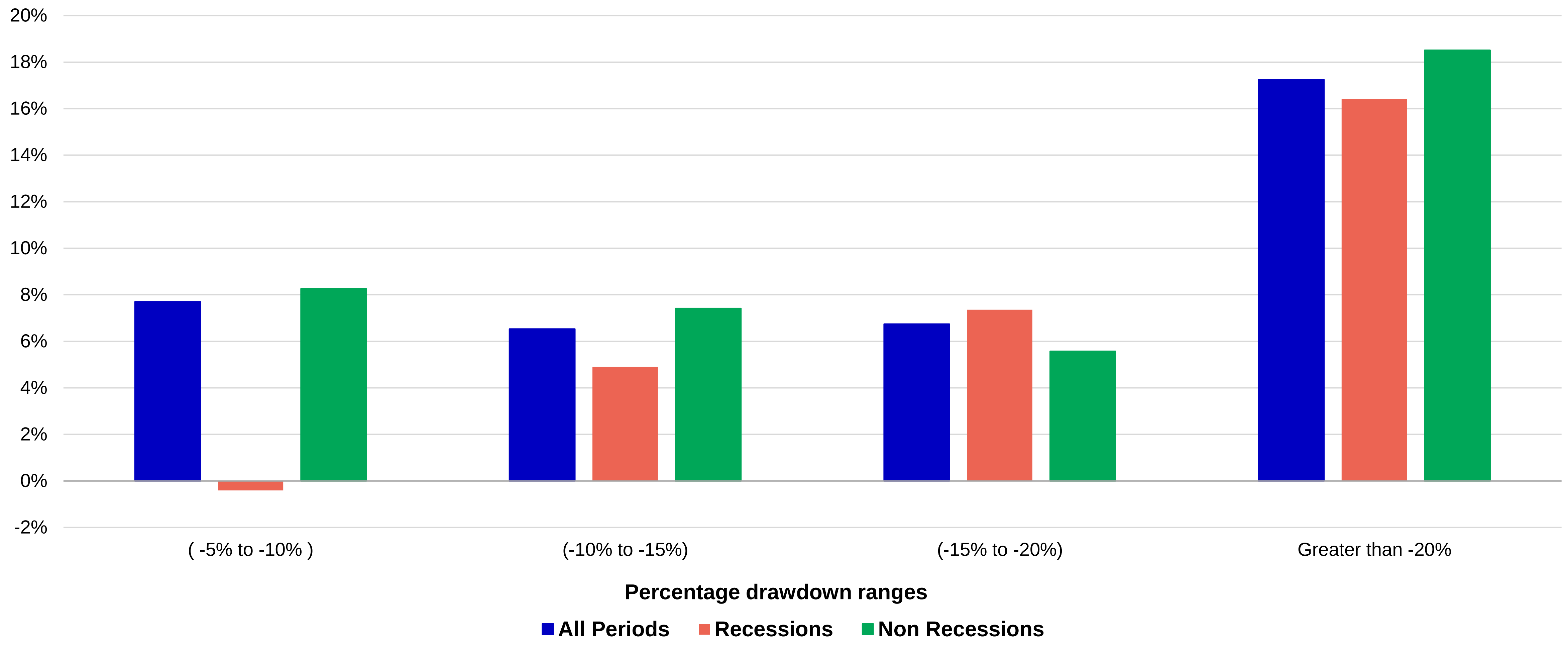
**S&P 500 Index - Frequency of Calendar Year Price Returns**

**1970 - 2024**



# Investors are rewarded by buying when the market sells off

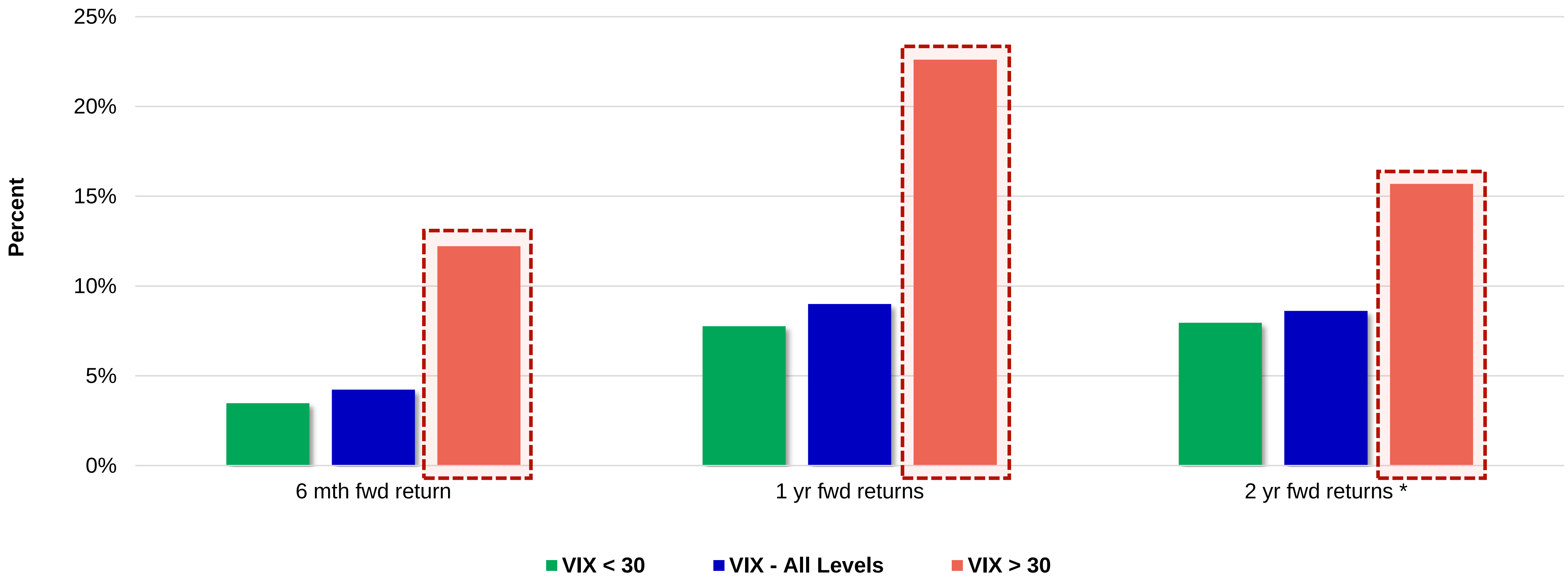
## S&P 500 Price Index 1-year forward returns after selloffs from 52-week peak (1970 - current)




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

# When others are fearful…what should you do?

## S&P 500 Index – 6 months, 1 year and 2 years (CAGR) forward returns (1990 – Current)

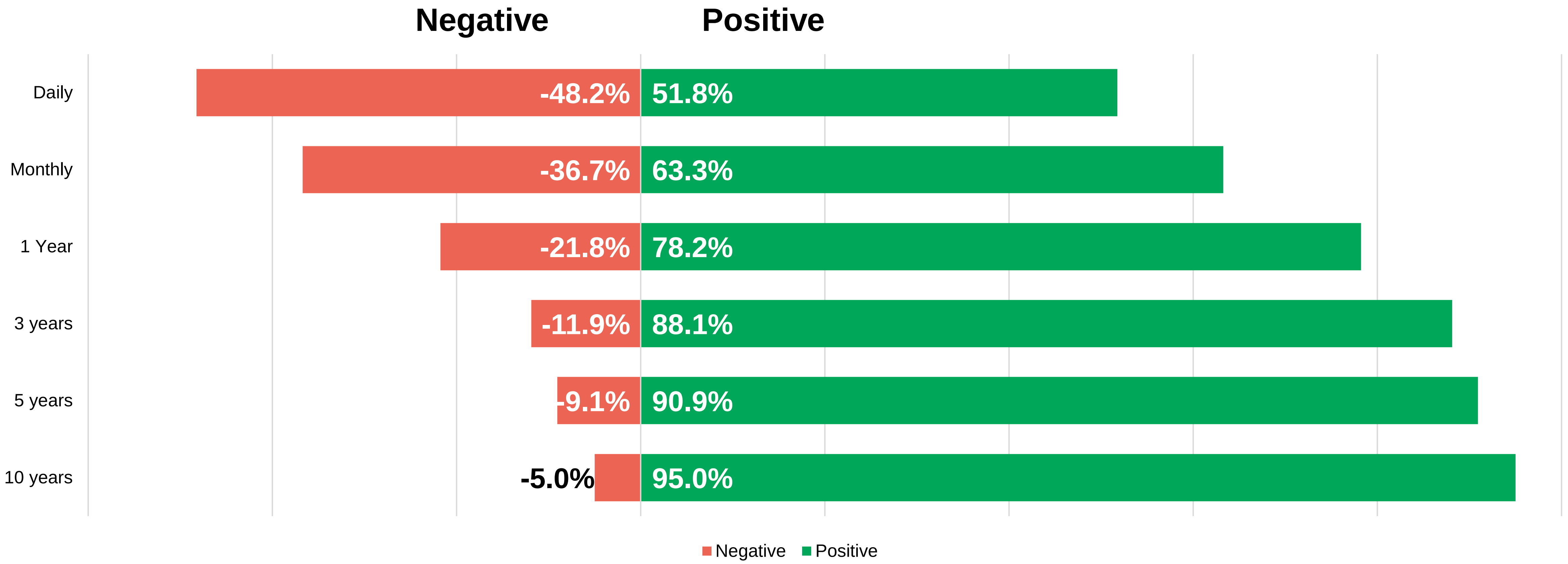



Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2023

# Markets are positive more often than negative

Although it comes down to a coin flip daily, over the long term, the S&P 500 generates positive returns more often than negative ones. When it comes to investing in equities, it is more about time in the market than timing the market.

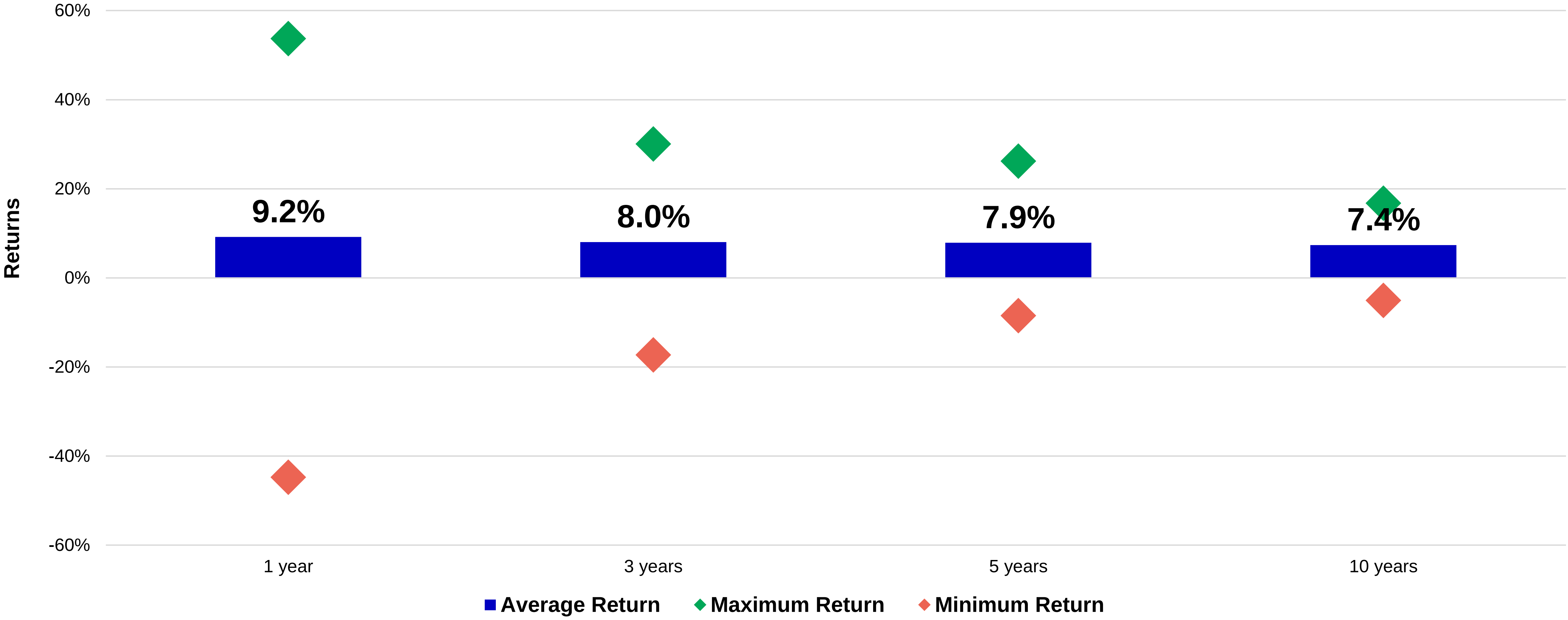
**S&P 500 Returns***
**last 50 years**



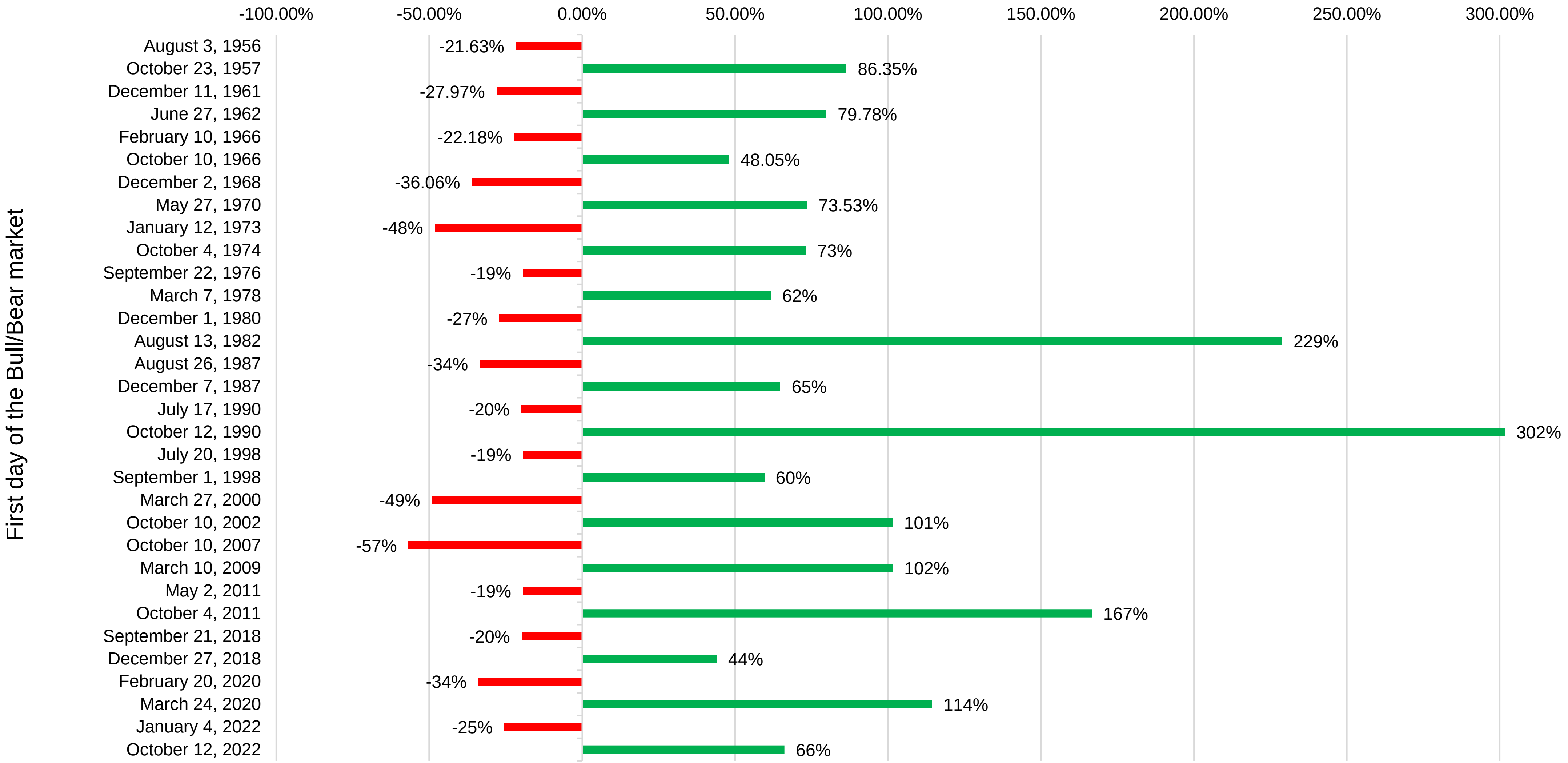

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024
*Price index before 1988. Total return index after due to availability of data.

# Longer time frame leads to less variability in returns

## S&P 500 Index – 6 months, 1 year, and 2 years (CAGR) forward returns (since 1950)



# S&P 500 Index Price Returns Bull and Bear Markets (1956 – current)

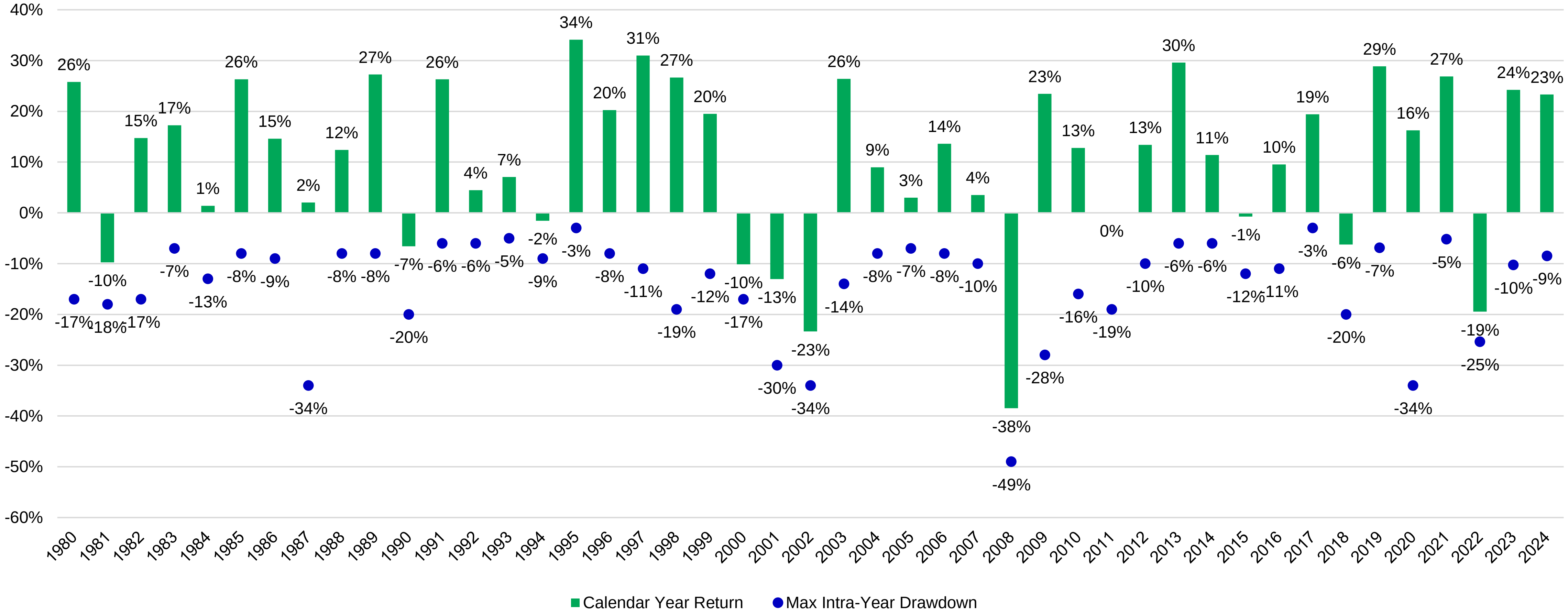



Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Corrections are normal

Stock market corrections are very common and very difficult to predict. Since 1980, the S&P 500 index has fallen an average of ~14.0% in any given calendar year but is positive 75% of the time with an average return of ~10.0%.

## S&P 500 Index - Calendar Year and Max Intra - Year Returns (1980 - current)




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Table of returns in recession, pre and post since 1970

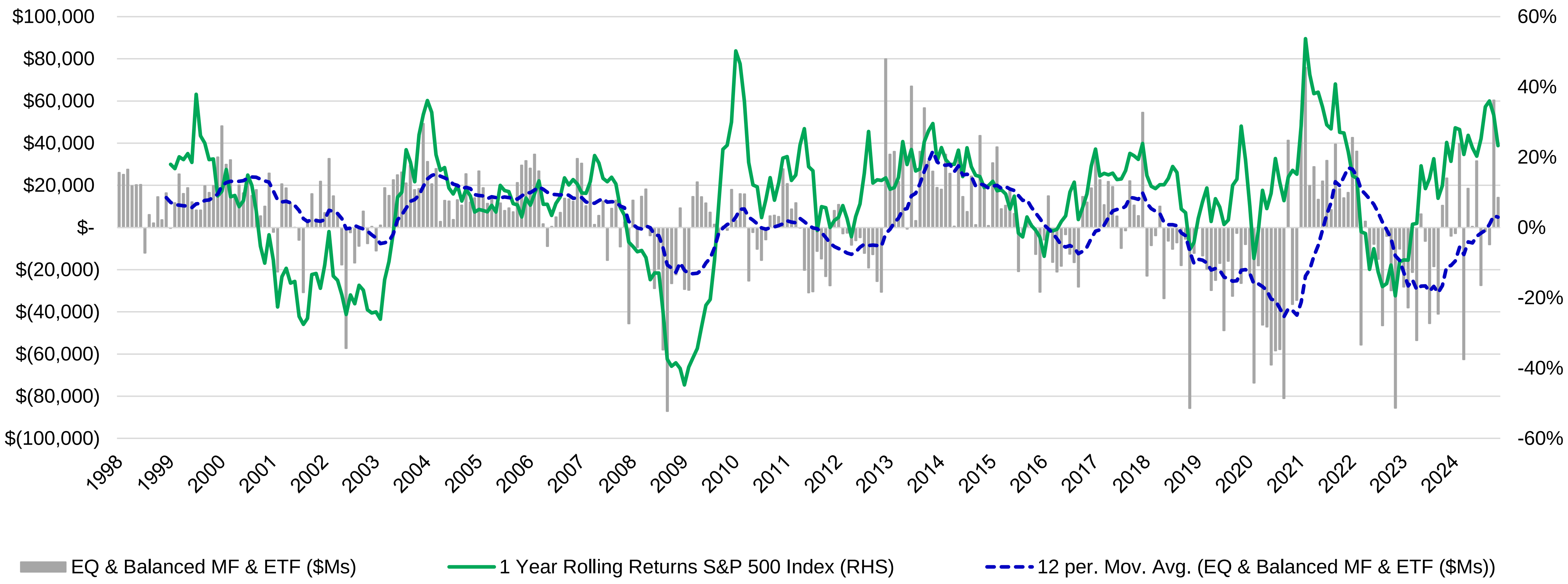
| | S&P 500 | US Gov't Bonds | US IG Bonds | US High Yield Bonds* | CADUSD |
|---|---|---|---|---|---|
| Recession - 24 months** | 8.3% | 6.1% | 3.2% | 4.6% | 0.8% |
| Recession - 12 months | 5.5% | 6.3% | 2.6% | 1.7% | 1.2% |
| Recession Period | -7.7% | 12.5% | 11.0% | 0.6% | -3.1% |
| Equity Peak 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% |
| Recession + 12 months | 8.8% | 6.9% | 9.0% | 17.3% | 0.5% |
| Recession + 24 months ** | 6.2% | 8.5% | 10.8% | 17.9% | 1.0% |

US Government Bonds - Bloomberg US Treasury Index, US IG Bonds - Bloomberg US Corporate Bond Index, US High Yield Bonds - Bloomberg US Corporate High Yield Bond Index

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

# Retail investors are following same old habits, buying after the rally

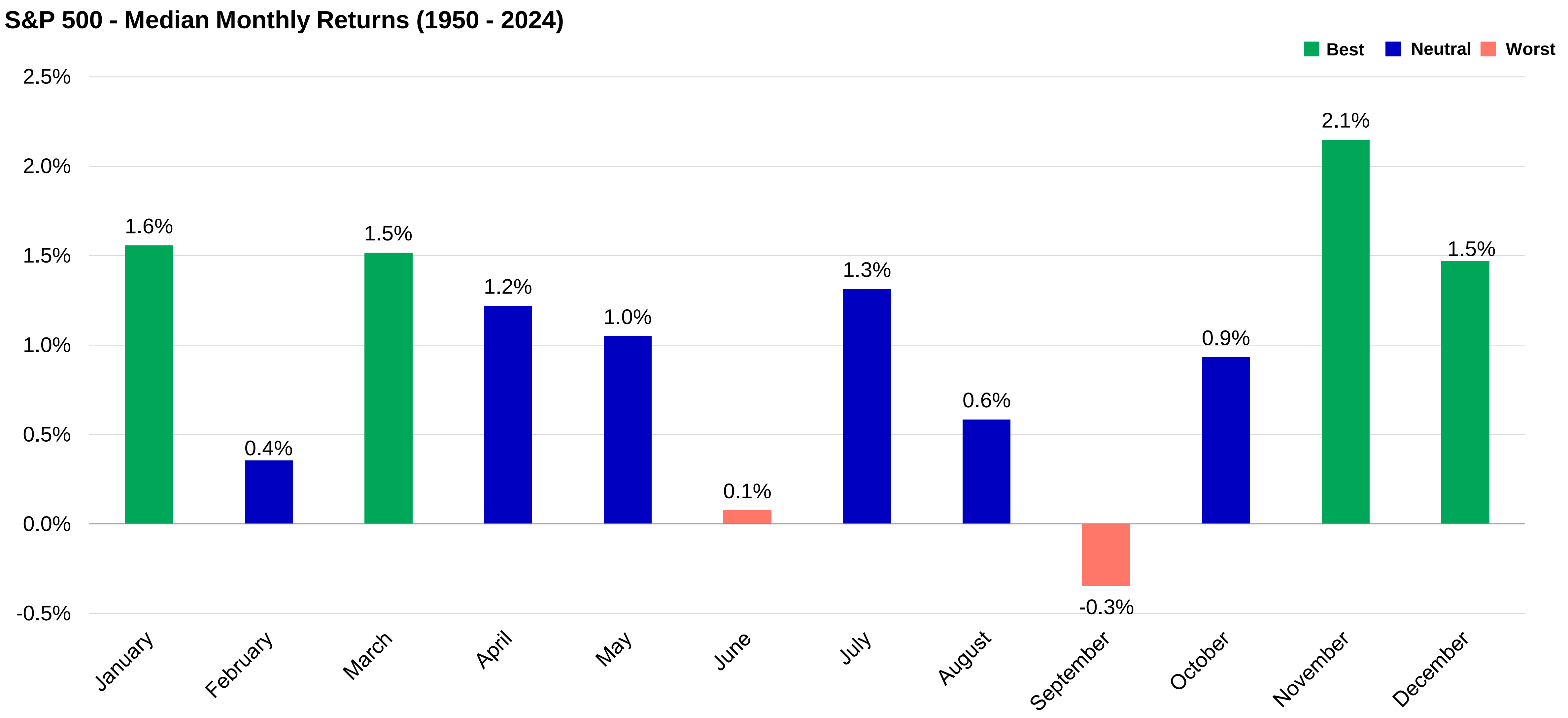
## Net Mutual Fund and ETF Flows vs 1-Year S&P 500 Return




Manulife Investment Management

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

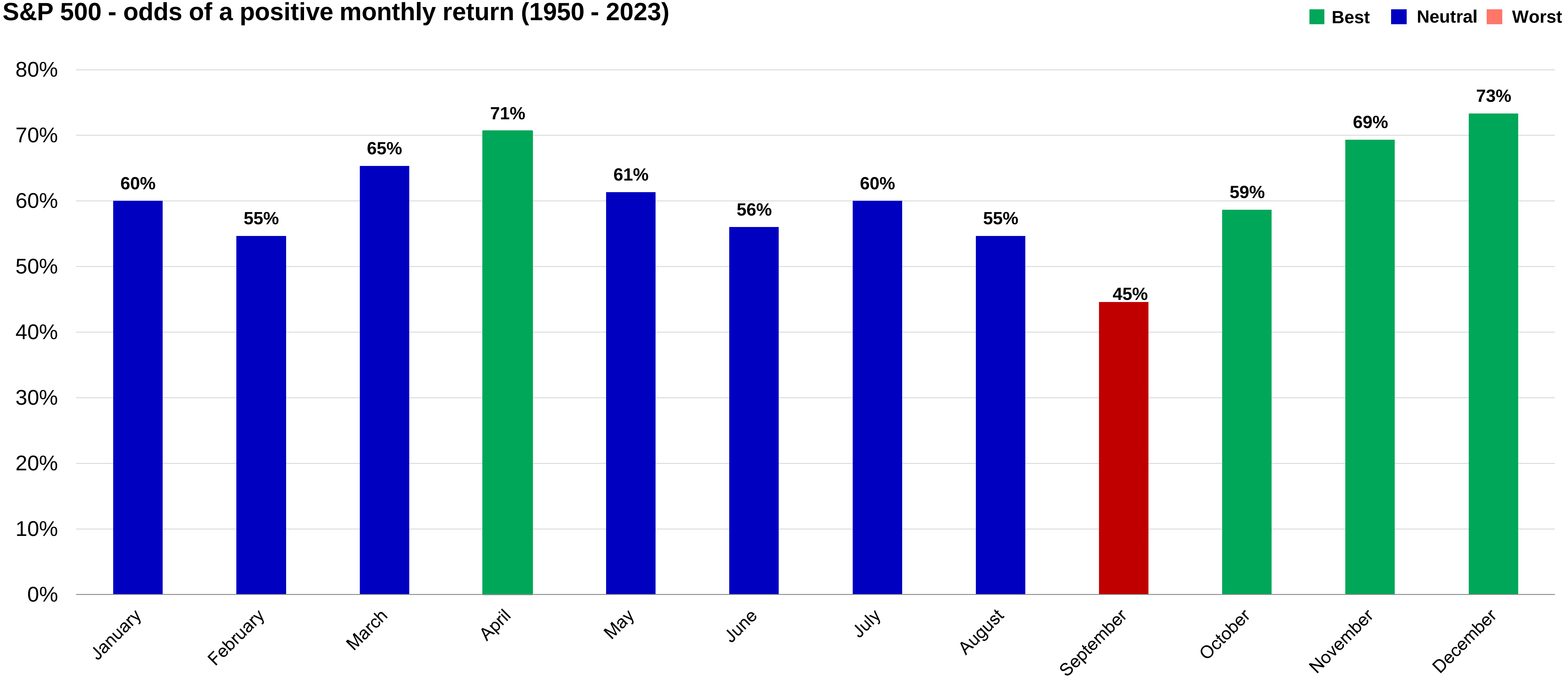
# We are in a historically positive period for S&P 500 returns




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# We are in a historically positive period for S&P 500 returns

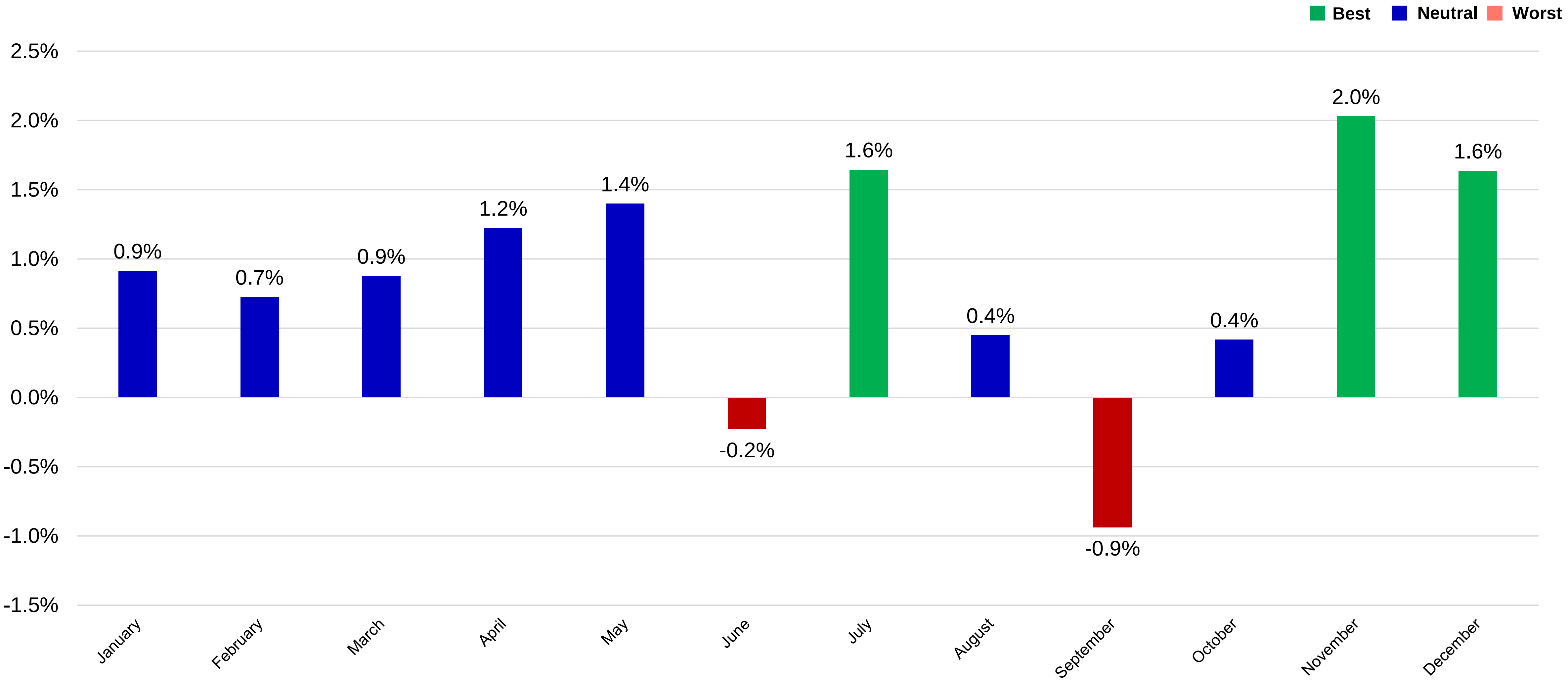
## S&P 500 - odds of a positive monthly return (1950 - 2023)




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# We are in a historically positive period for S&P/TSX returns

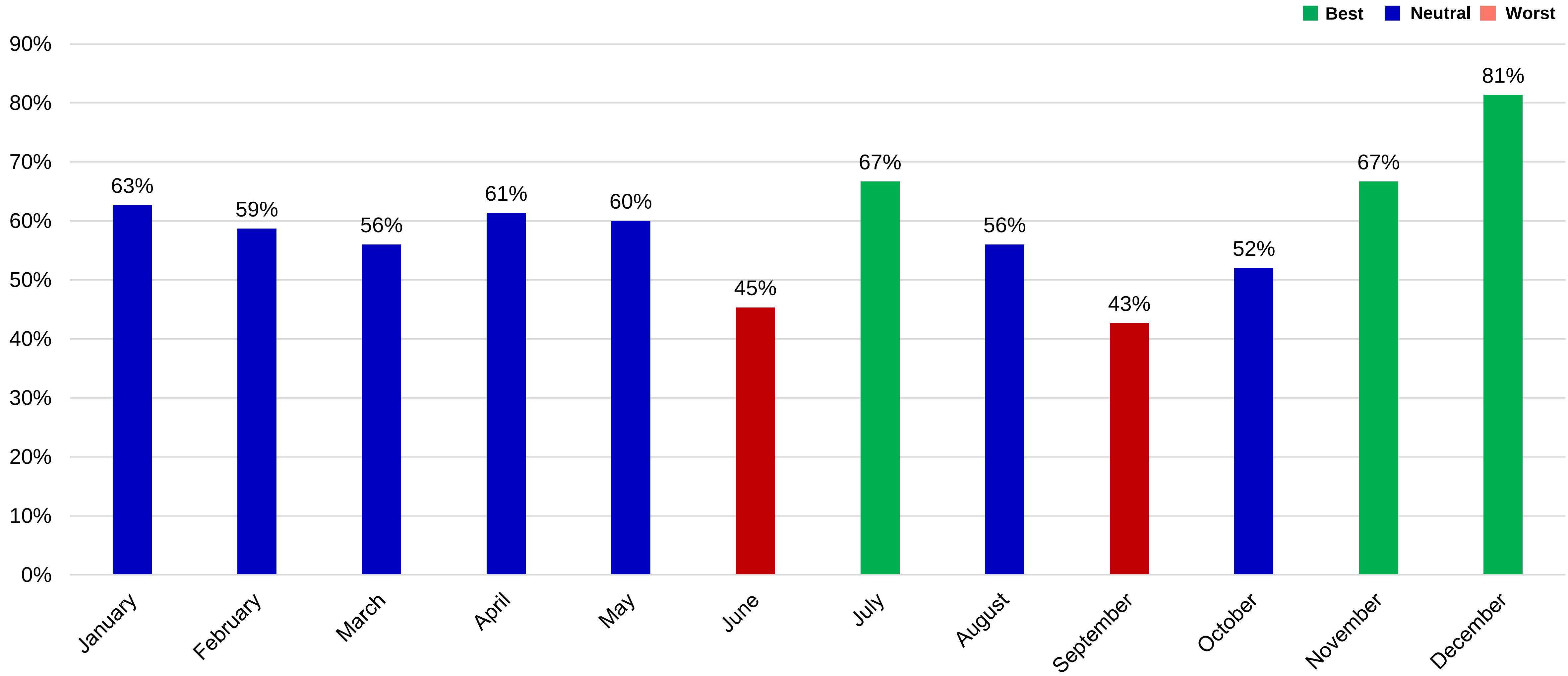
## S&P/TSX - Median Monthly Returns (1950 - 2024)




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# We are in a historically positive period for S&P/TSX returns

## S&P/TSX - odds of a positive monthly return (1950 - 2024)




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Various equity indices annual returns by calendar year

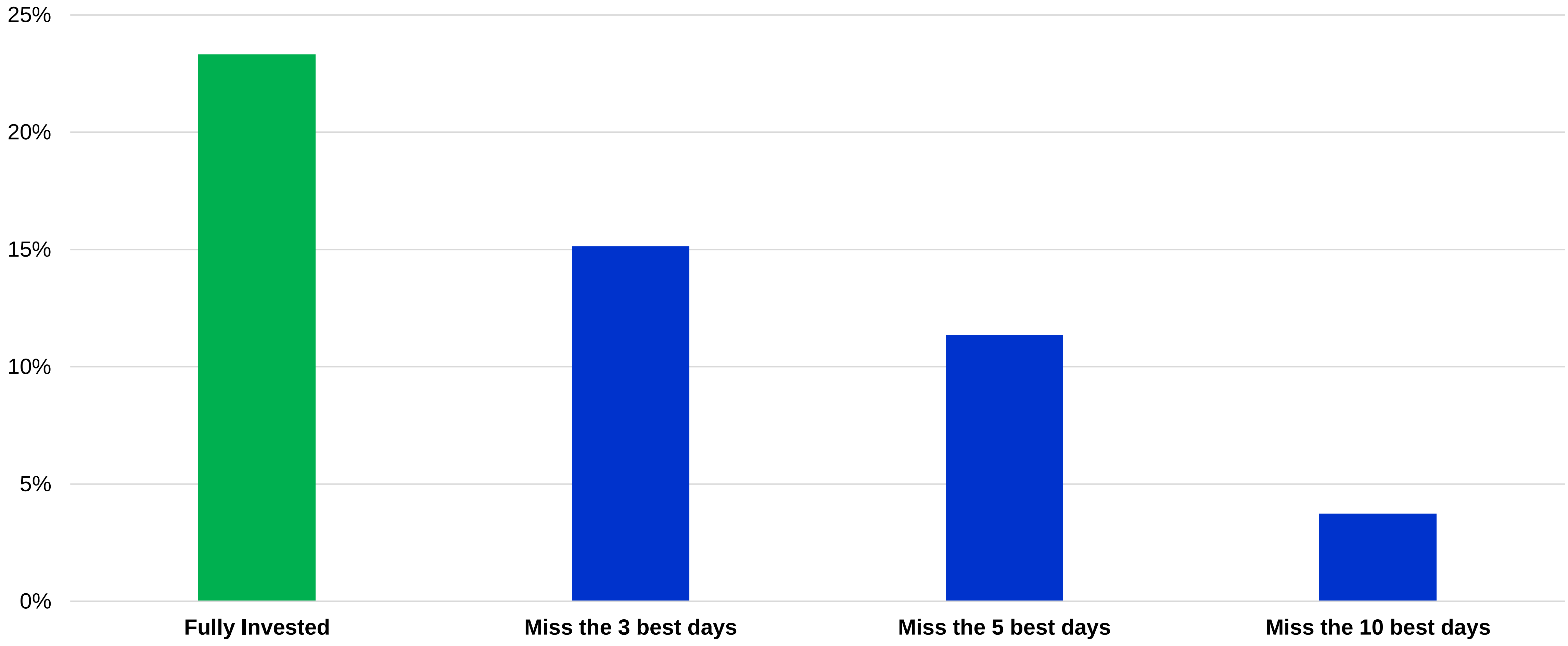
| 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|
| 9.1% | 45.0% | 38.7% | -1.6% | 35.2% | 43.6% | 55.0% | 6.7% | 43.4% | 28.6% |
| 5.7% | 19.5% | 28.2% | -3.9% | 34.5% | 25.1% | 27.2% | -0.3% | 28.2% | 27.2% |
| 5.5% | 17.5% | 21.8% | -4.7% | 28.9% | 22.5% | 26.9% | -3.7% | 24.2% | 23.3% |
| 0.1% | 9.5% | 19.1% | -6.2% | 23.7% | 18.4% | 22.4% | -8.7% | 15.1% | 19.2% |
| -0.7% | 8.2% | 19.4% | -11.6% | 23.1% | 16.3% | 21.7% | -9.4% | 15.0% | 18.0% |
| -3.3% | 8.1% | 15.6% | -12.1% | 22.2% | 16.0% | 21.4% | -11.9% | 13.1% | 10.5% |
| -5.7% | 7.5% | 13.5% | -12.2% | 21.8% | 5.4% | 13.7% | -16.8% | 12.7% | 10.0% |
| -10.4% | 5.0% | 13.1% | -13.1% | 19.1% | 2.2% | 8.8% | -19.4% | 10.9% | 9.7% |
| -11.1% | 2.9% | 12.5% | -13.2% | 18.4% | -5.4% | 8.4% | -21.5% | 8.1% | 5.8% |
| -11.3% | 0.4% | 11.4% | -16.1% | 18.3% | -8.2% | 4.9% | -21.6% | 3.6% | 1.1% |
| -14.6% | -0.5% | 7.3% | -16.4% | 18.2% | -8.7% | -3.6% | -24.4% | 2.5% | 0.1% |
| -30.5% | -1.9% | 6.0% | -24.8% | 15.4% | -20.5% | -6.4% | -33.1% | -10.7% | 2.0% |

| | | |
|---|---|---|
| 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 |

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# 2024 S&P 500 Price Index

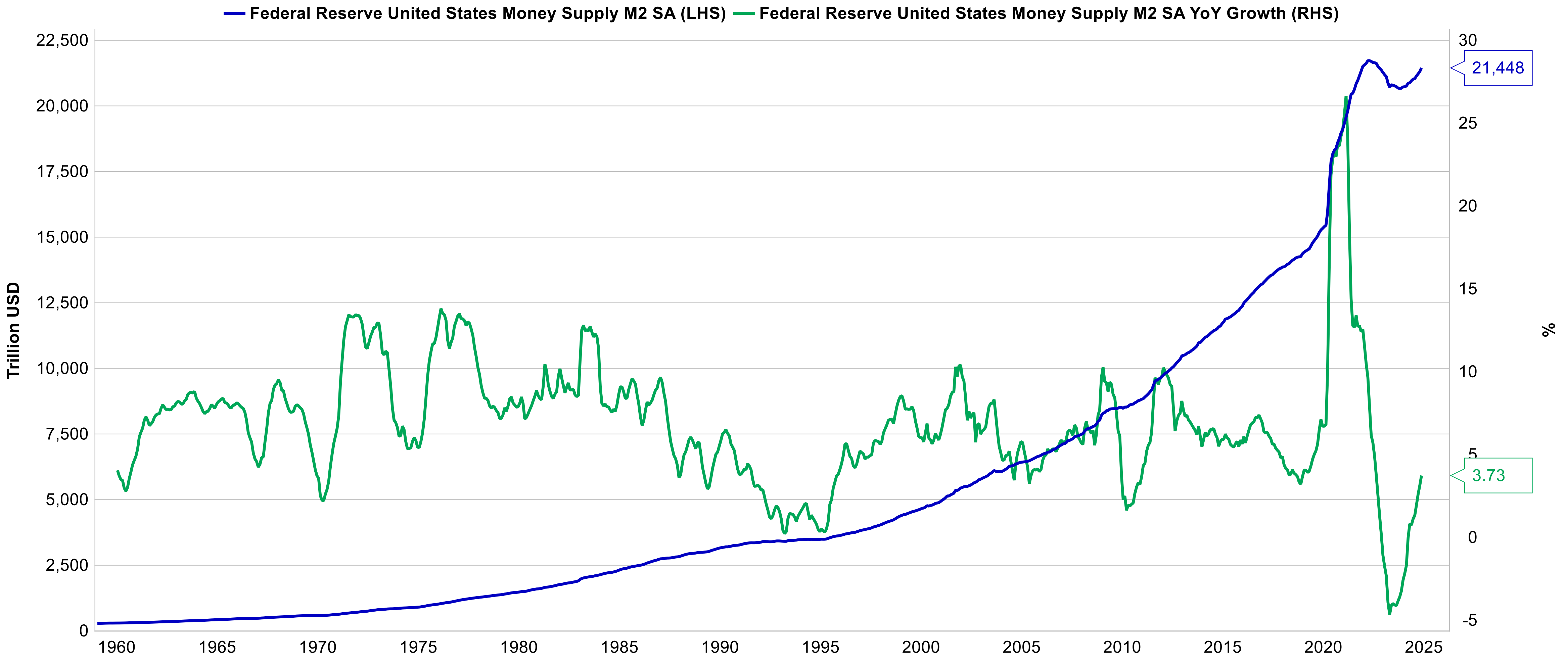
## Fully Invested vs. missing the best days




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Fixed Income

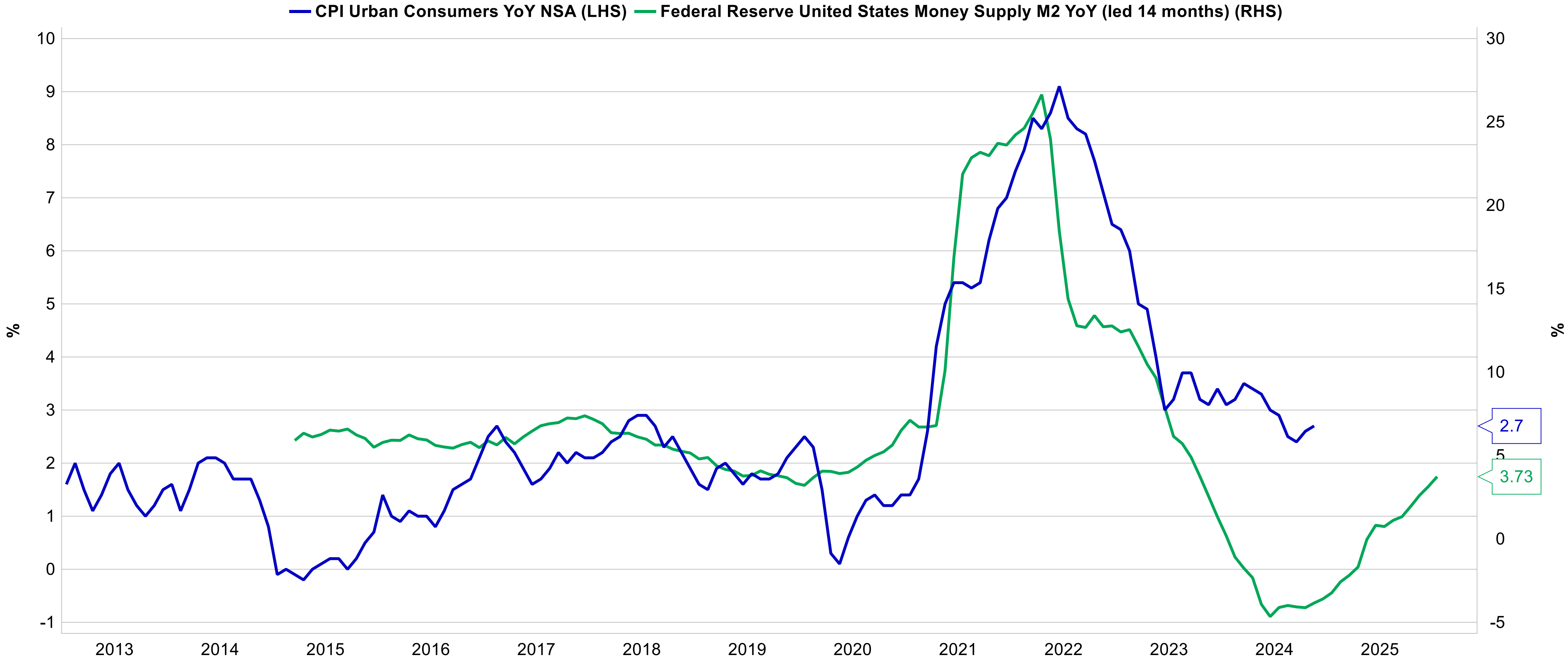
# M2 Money supply growth is picking back up




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

Manulife Investment Management

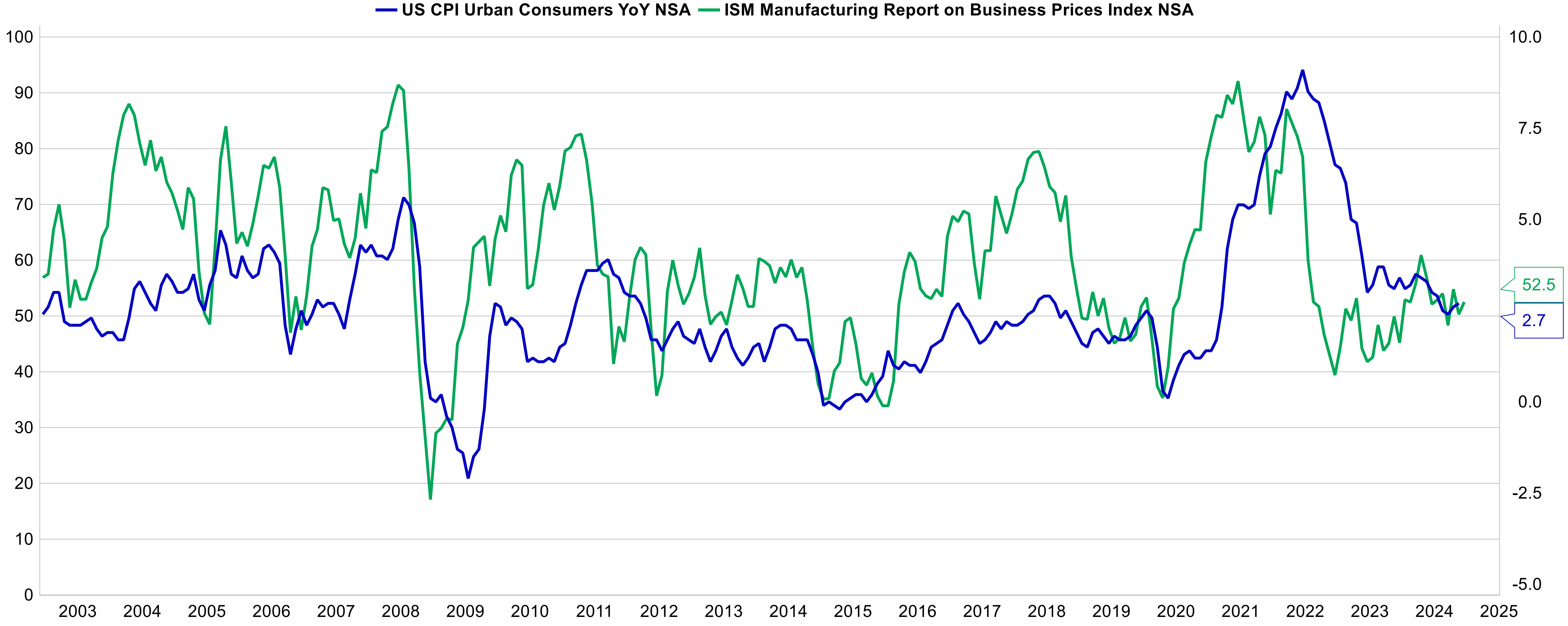
# Money supply growth could indicate a floor in inflation




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Input costs inline with current inflation levels

## US ISM Manufacturing Prices Paid Index vs. US CPI YoY

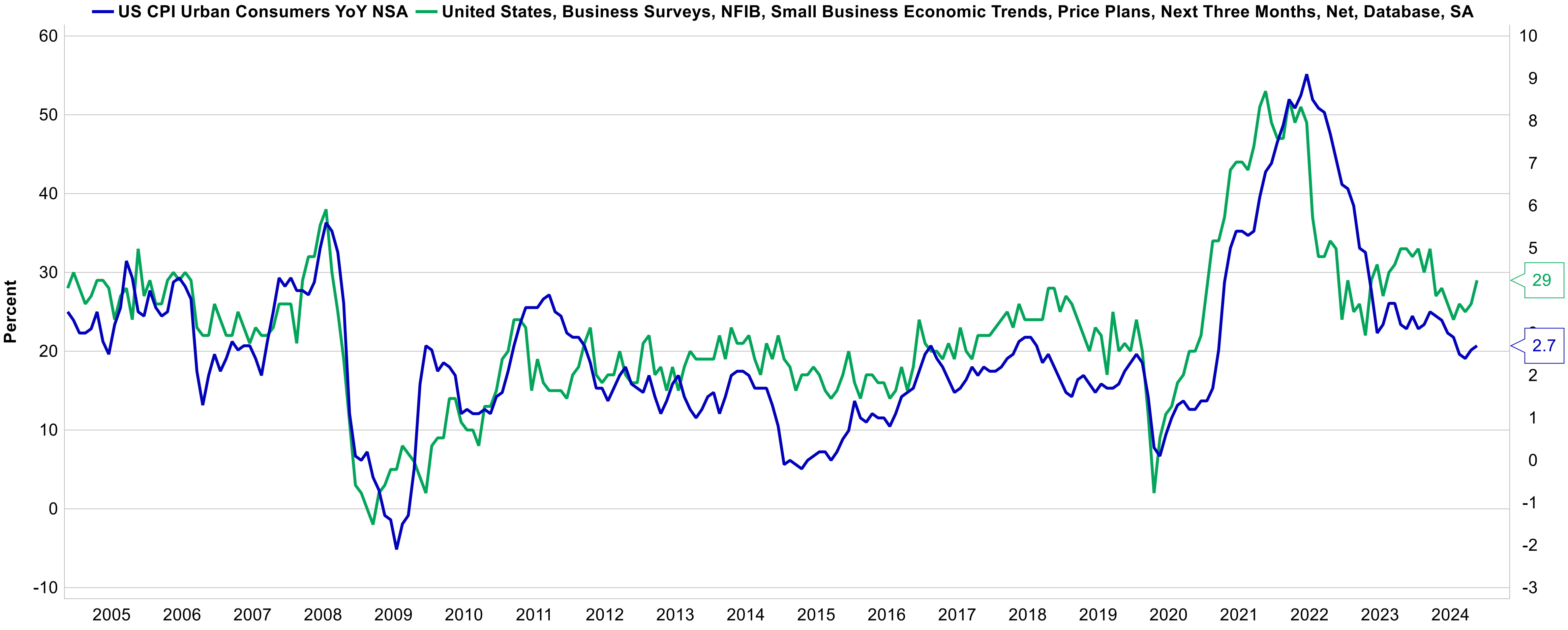



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

Manulife Investment Management

# Businesses are changing their views on price increases

## NFIB Small Business Raising Prices vs. US CPI YoY

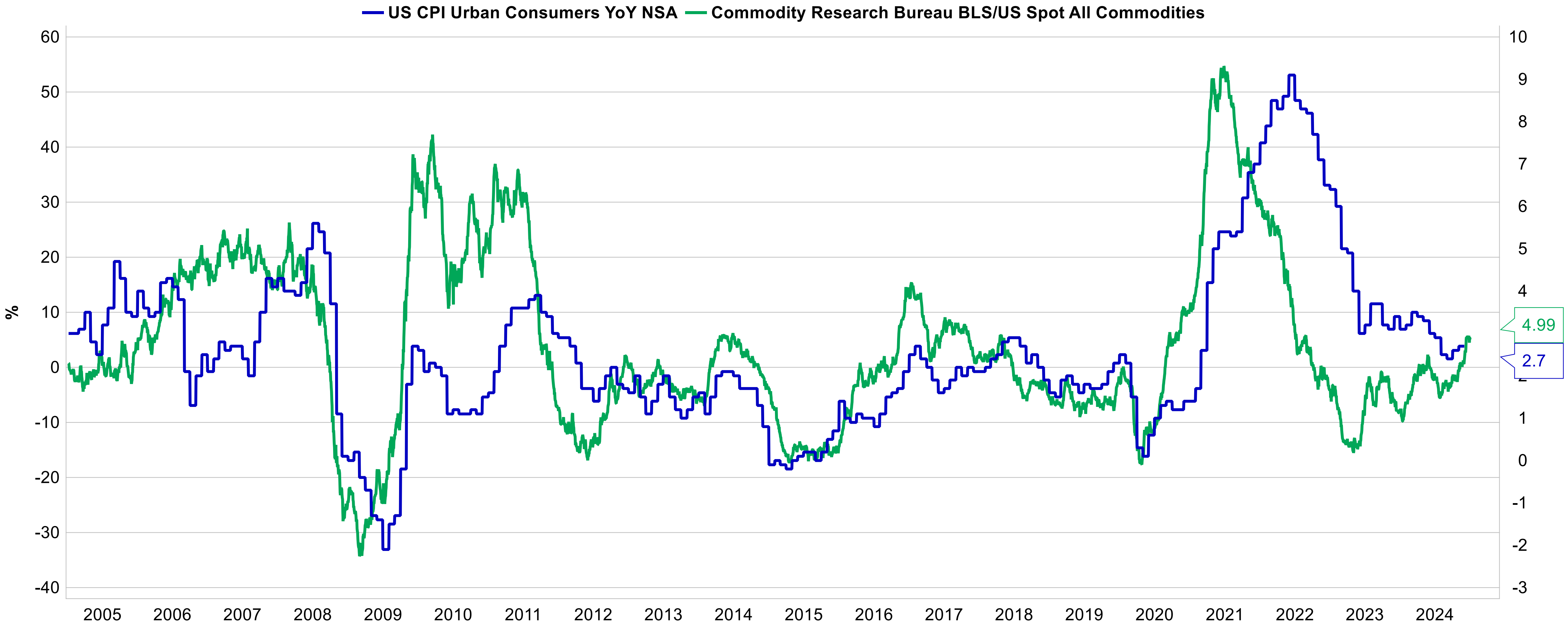



Source: Macrobond, Bloomberg, NFIB, Manulife Investment Management, as of 1/7/2025.

Manulife Investment Management

# Commodity prices could add to inflation

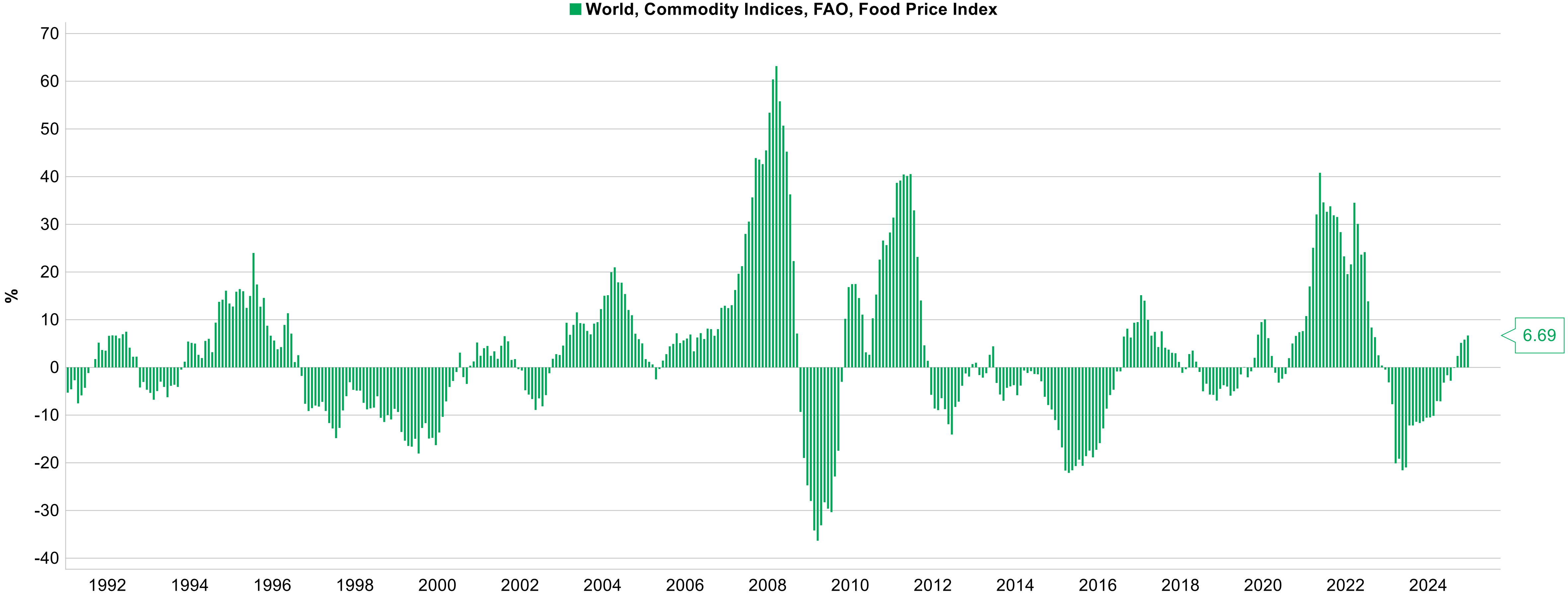
## Commodity Price Change YoY vs. US CPI YoY




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Food price inflation is a possibility again

## UN World Food Price Index

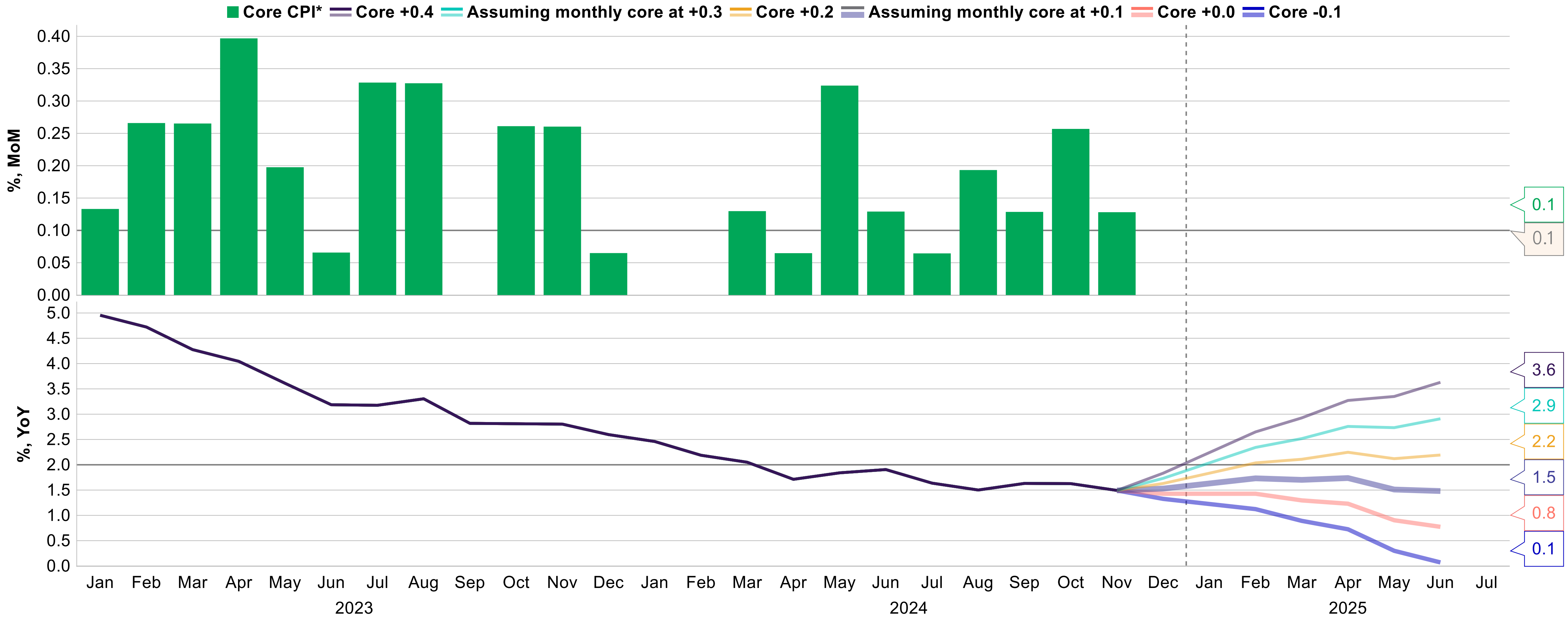



Source: Macrobond, FAO, Manulife Investment Management, as of 1/7/2025.

Manulife Investment Management

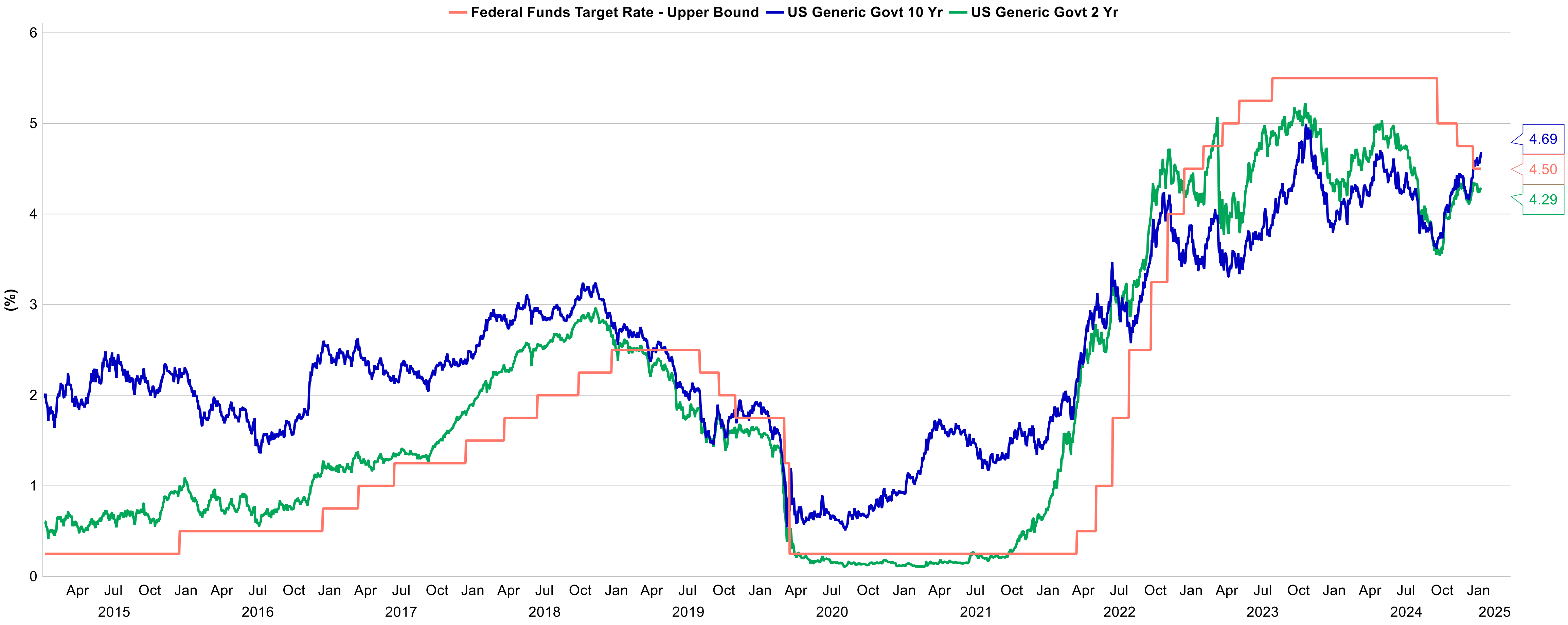
# Canada's Core CPI backdrop supportive of continued Bank of Canada easing

## Canada Core CPI Scenarios




Source: Macrobond, StatCan, Manulife Investment Management, as of 1/6/2025.

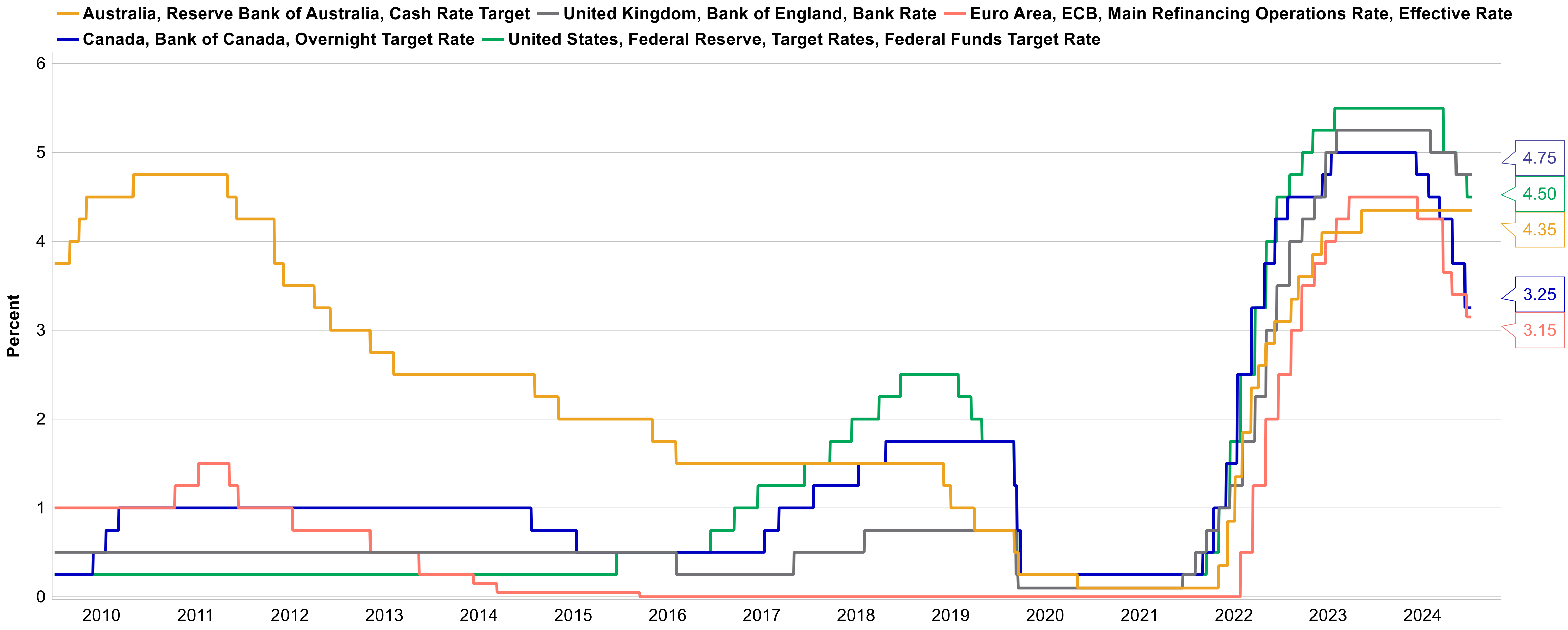
# Bond market is pricing in an end to Fed rate cuts




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Fed is less likely to follow other central banks with rate cuts

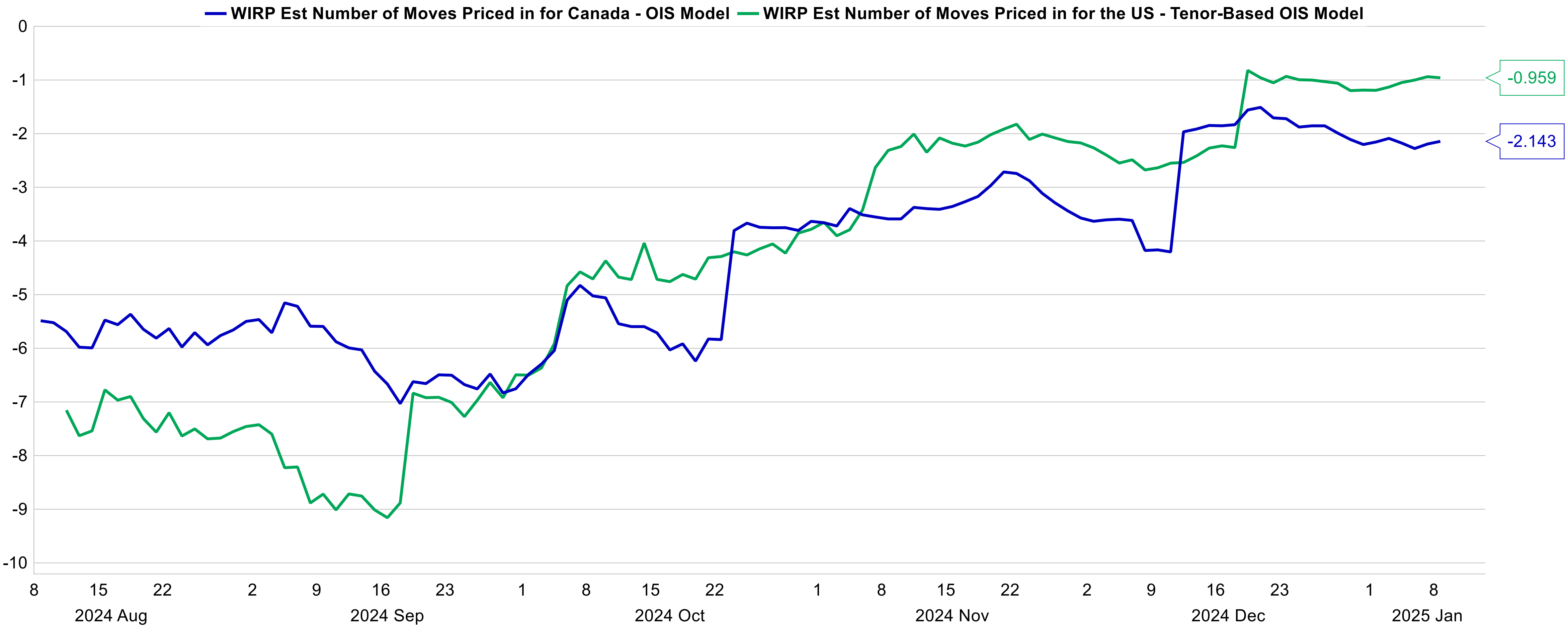
## Central bank main policy rates




Source: Macrobond, Fed, BoC, ECB, BOJ, BoE, RBA, Riksbanken, Manulife Investment Management, as of 1/7/2025.

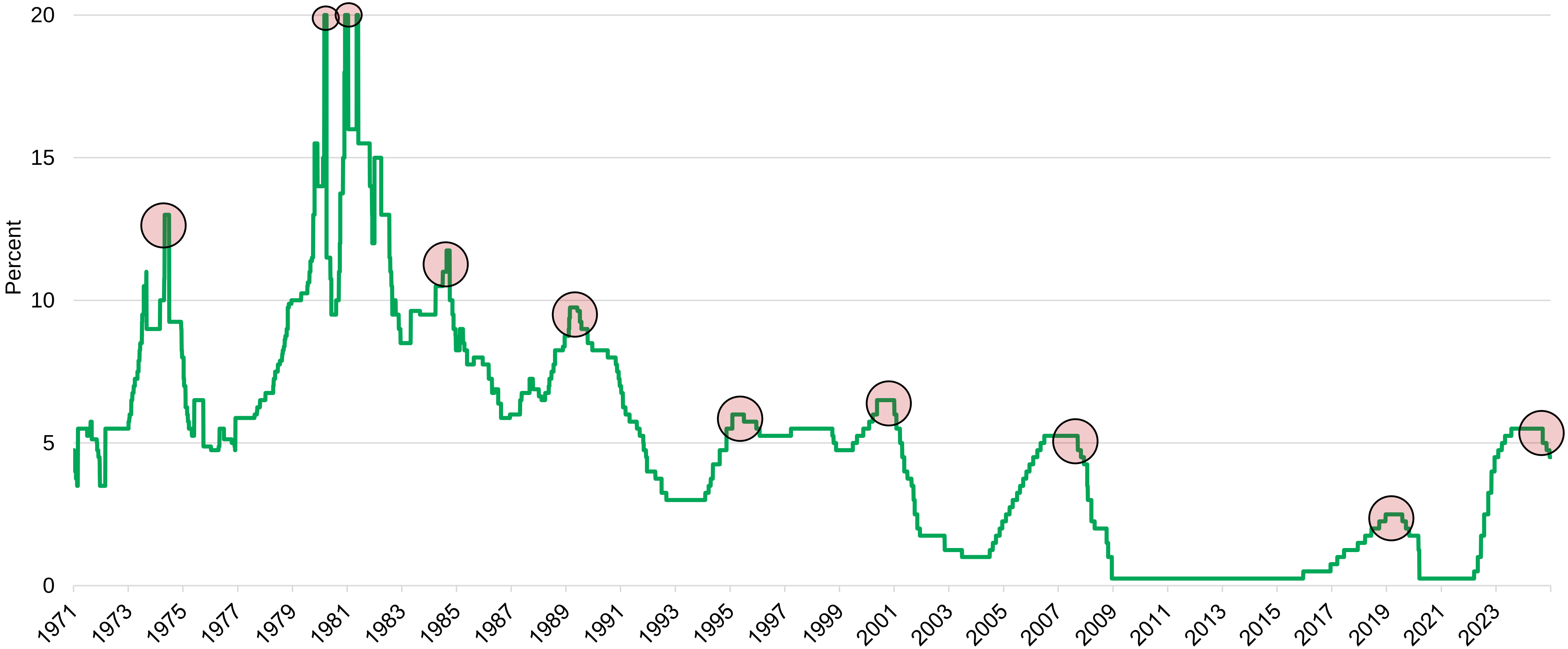
# Market expectations have changed materially

**Market implied rate cuts by June 2025**




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

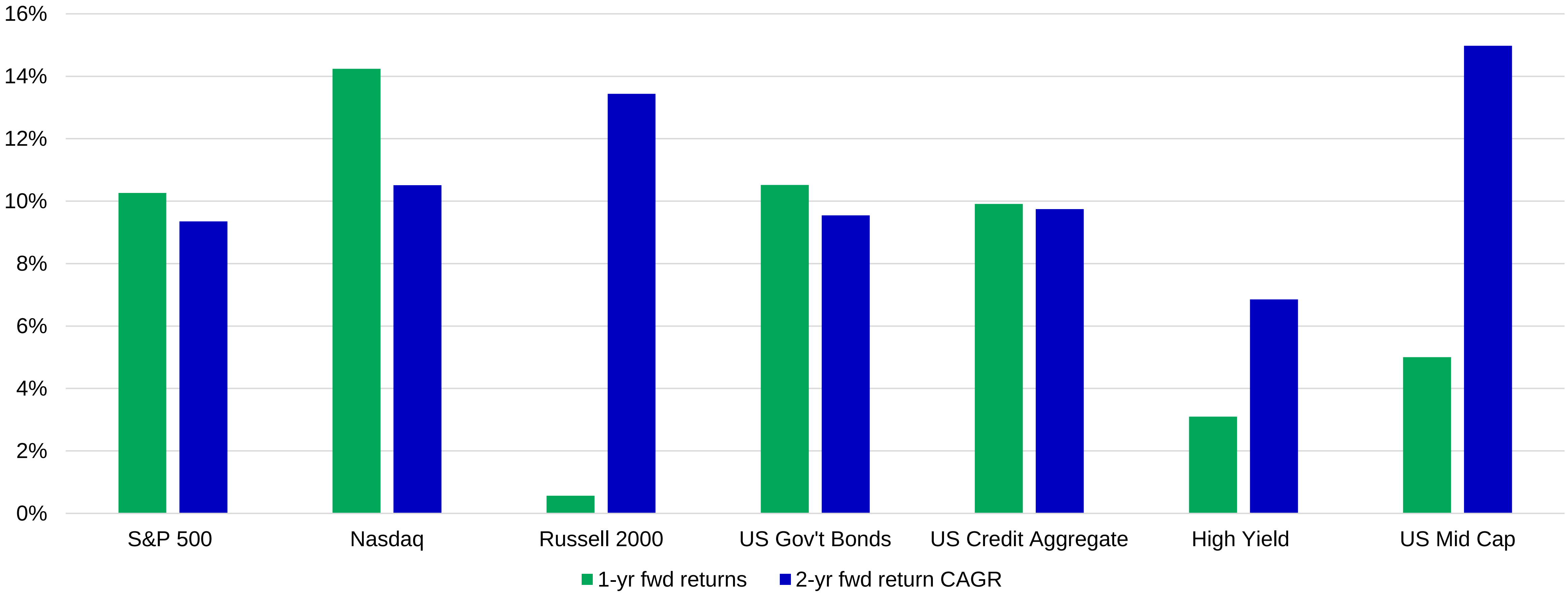
# U.S. Federal Reserve overnight rate (%)




Source: Bloomberg, Manulife Investment Management, as of December 31, 2024

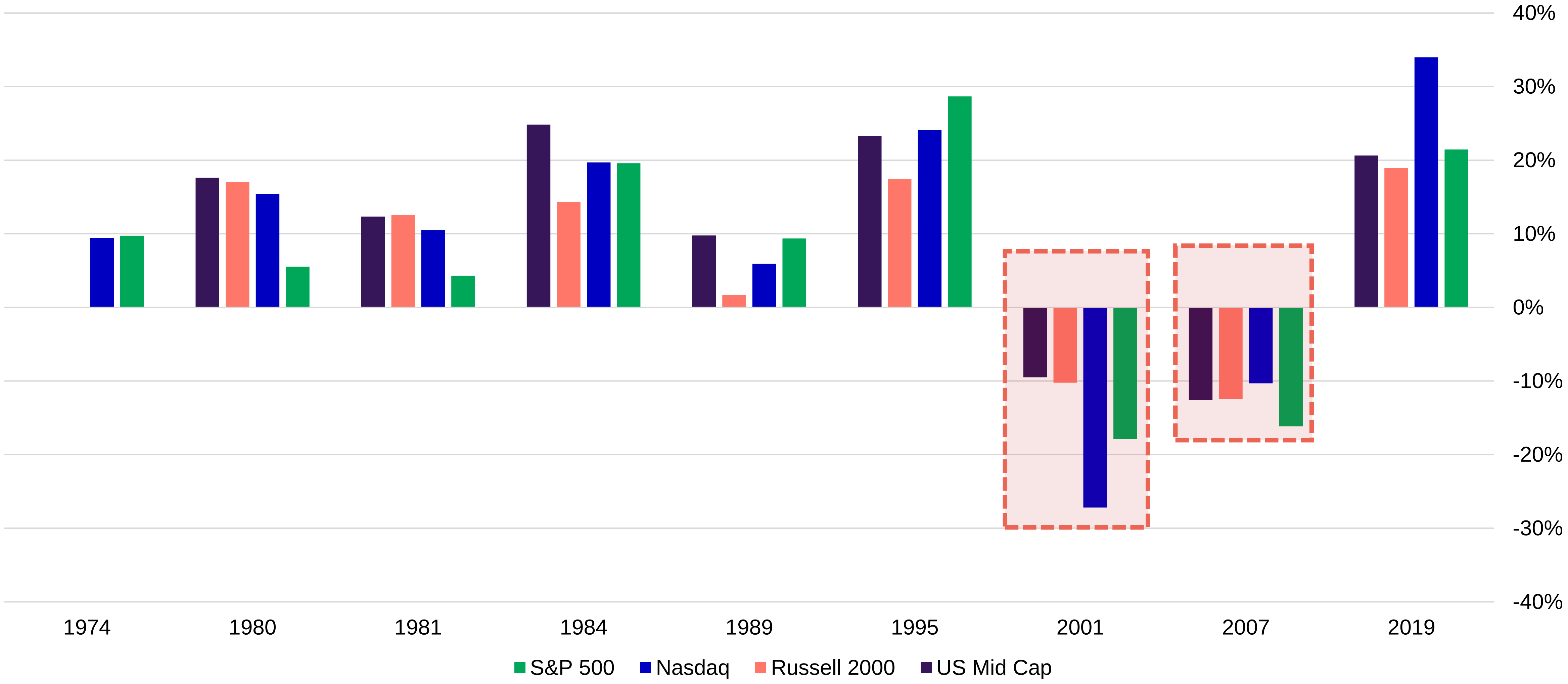
# 1-yr and 2-yr median CAGR forward returns once the Fed has started cutting rates

## Previous 9 easing cycles - since 1970




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 don't include the '74 rate-cut cycle. CAGR refers to compound annual growth rate.

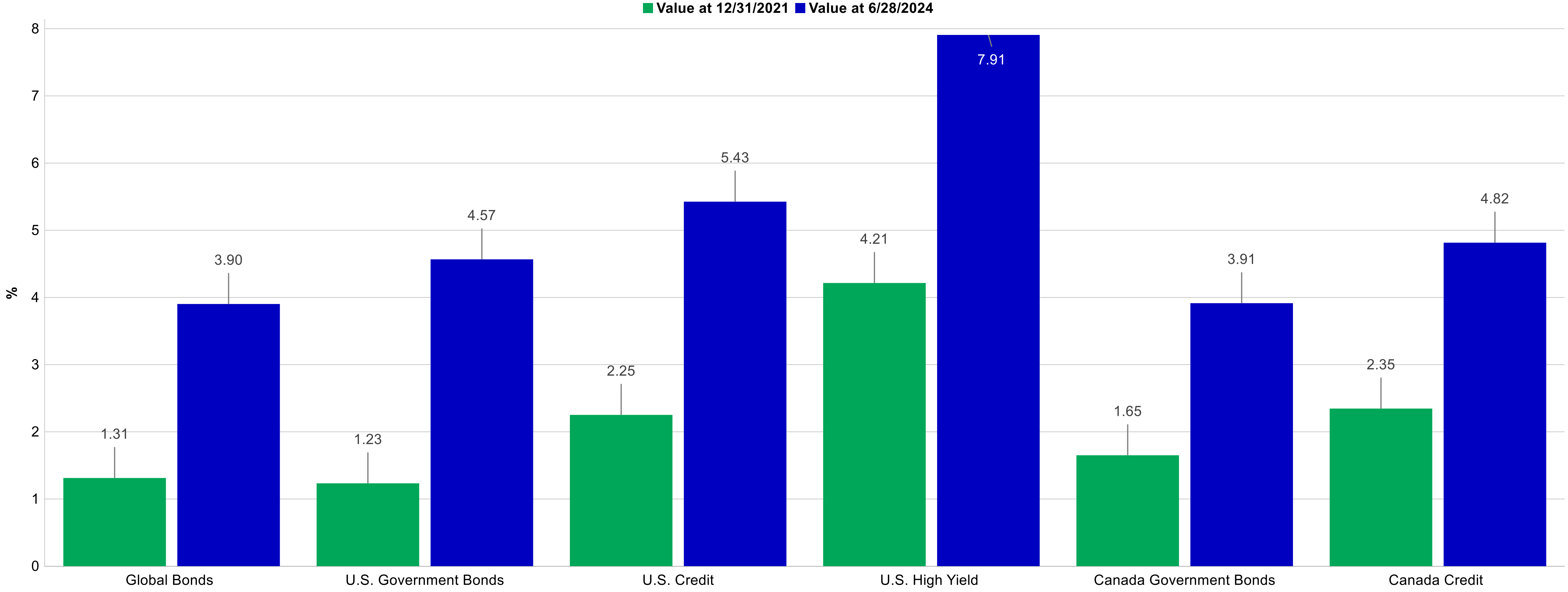
# 2-yr CAGR forward return after the Fed begins its easing cycle




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 don't include the ’74 rate-cut cycle. CAGR refers to compound annual growth rate.

# Bond yields are more attractive than they were at the beginning of 2022

## Global Fixed Income Indices - Yield-to-worst

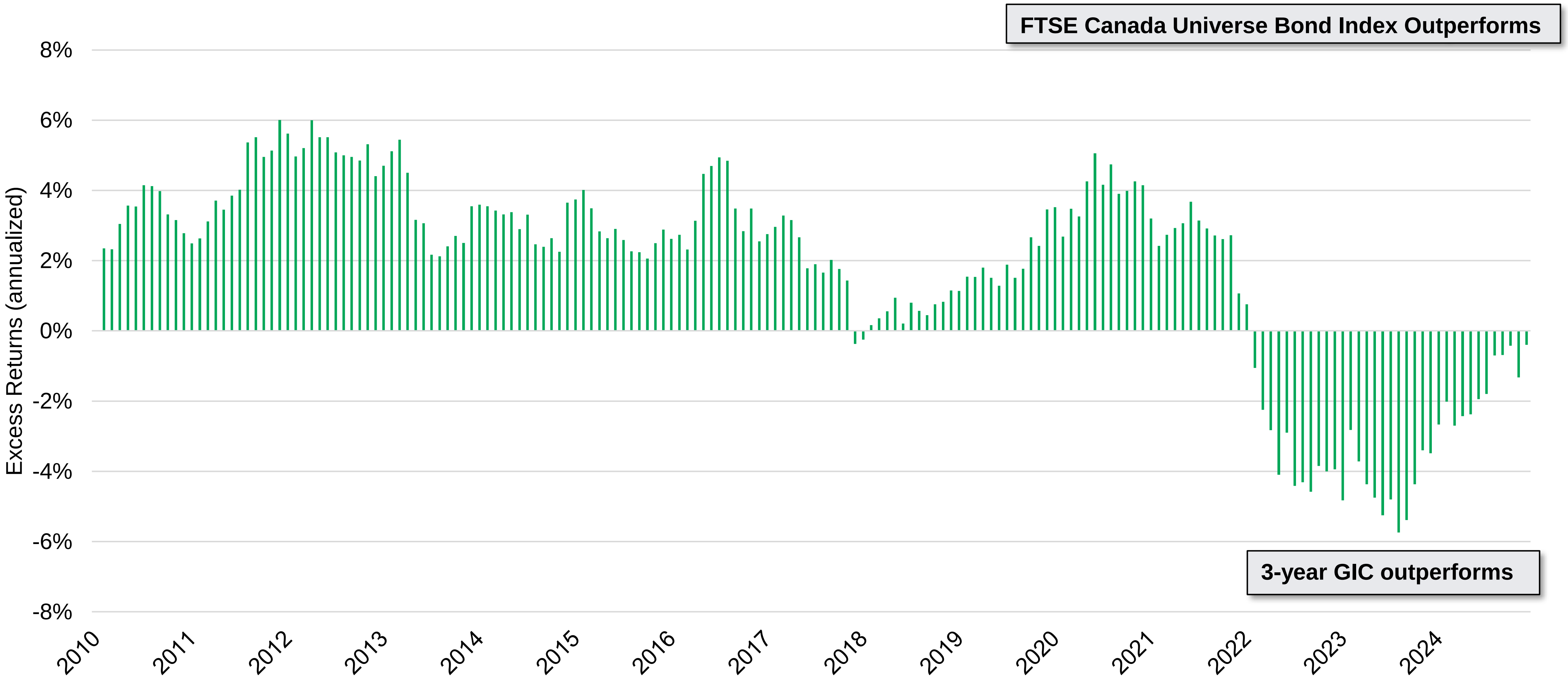



Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

Proxies that represent these asset classes: Global Bonds - Bloomberg Global Aggregate Bond Index, Canadian Credit - Bloomberg Canada Aggregate Credit Index, Canadian Government Bonds - Bloomberg Canada Aggregate - Government Index, US Government - Bloomberg US Treasury Index, US Credit - Bloomberg US Credit Index, US High Yield - Bloomberg US Corporate High Yield Index.

# Bonds outperform GICs nearly 80% percent of the time

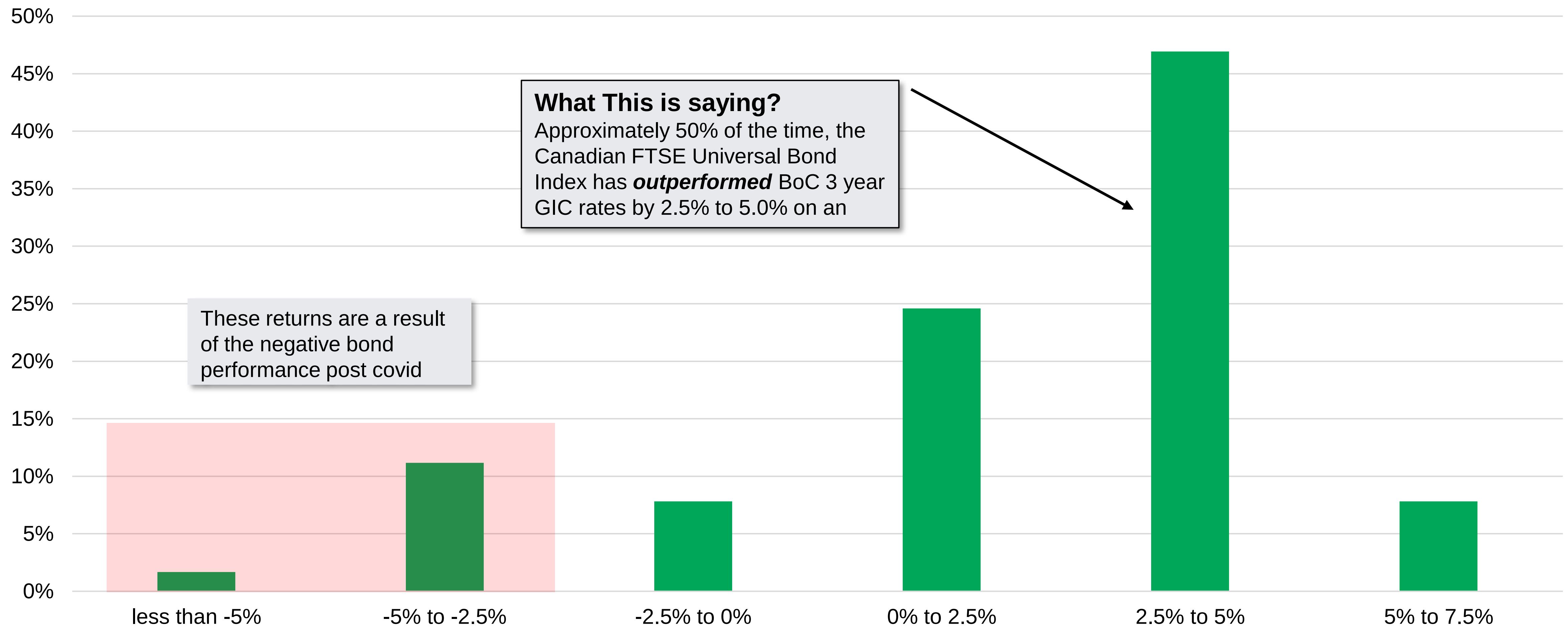
## Relative outperformance of 3-year annualized returns for Canadian FTSE Universal Bond Index vs. Bank of Canada 3-year GIC rates




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024
The FTSE 3 Year Rollings returns have been lagged to illustrate the GIC rate at that time. Indices are unmanaged and cannot be purchased directly by investors. Past performance is not indicative of future results.

# The FTSE Universe Bond Index can provide outperformance vs. GICs

## Relative outperformance of 3-year annualized returns of Canadian FTSE Universal Bond Index vs. Bank of Canada 3-year GIC rates



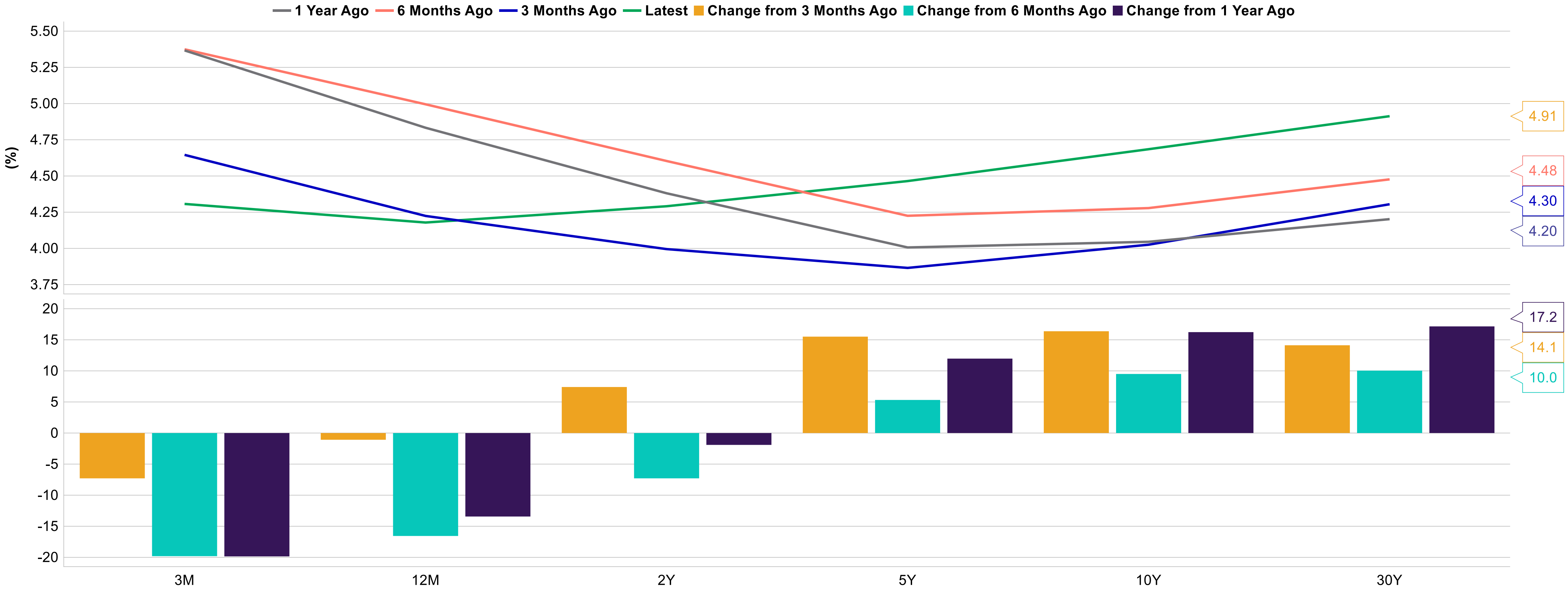

Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024
Indices are unmanaged and cannot be purchased directly by investors. Past performance is not indicative of future results.
Inception date: December 31, 2005

# Bond volatility has fallen but remains elevated


Source: Macrobond, Manulife Investment Management, as of Monday, January 6, 2025. The grey areas represent recession.

# The mid to long end of the yield curve has likely peaked

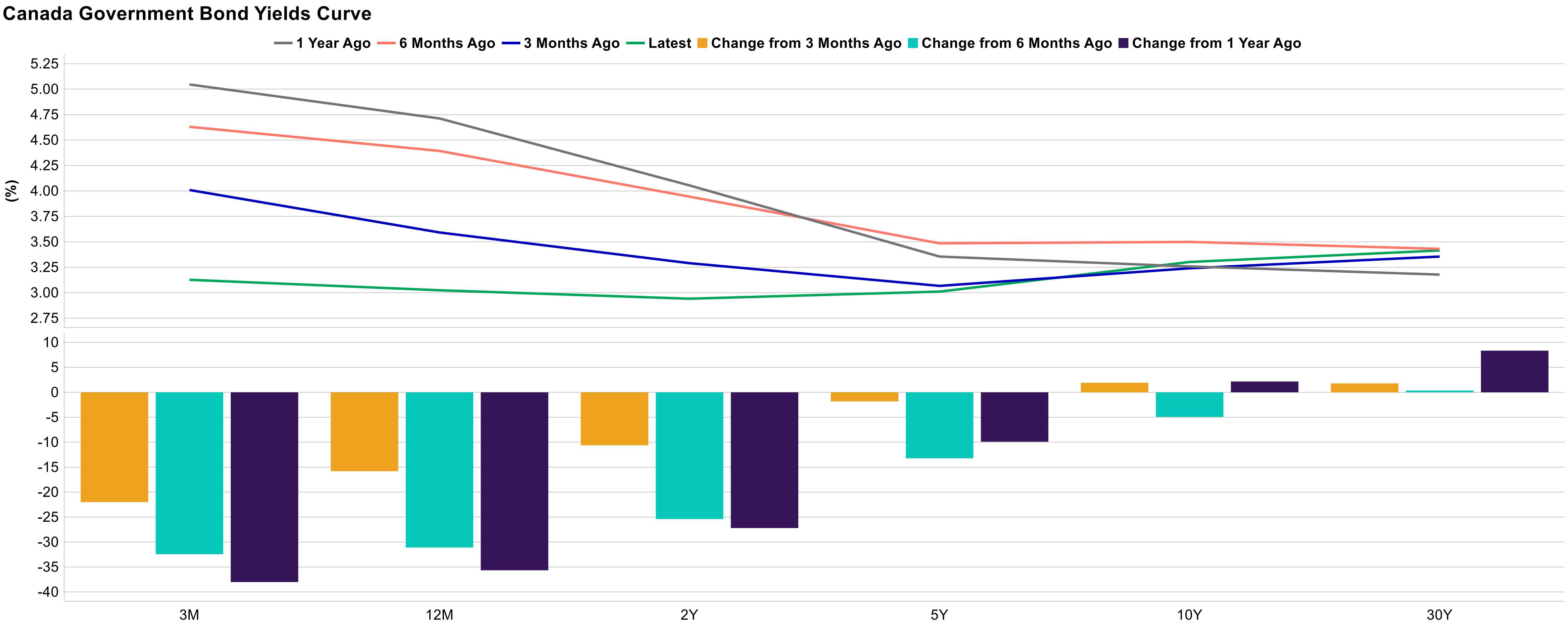
**U.S. Treasury Yields Curve**




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

Manulife
Investment Management

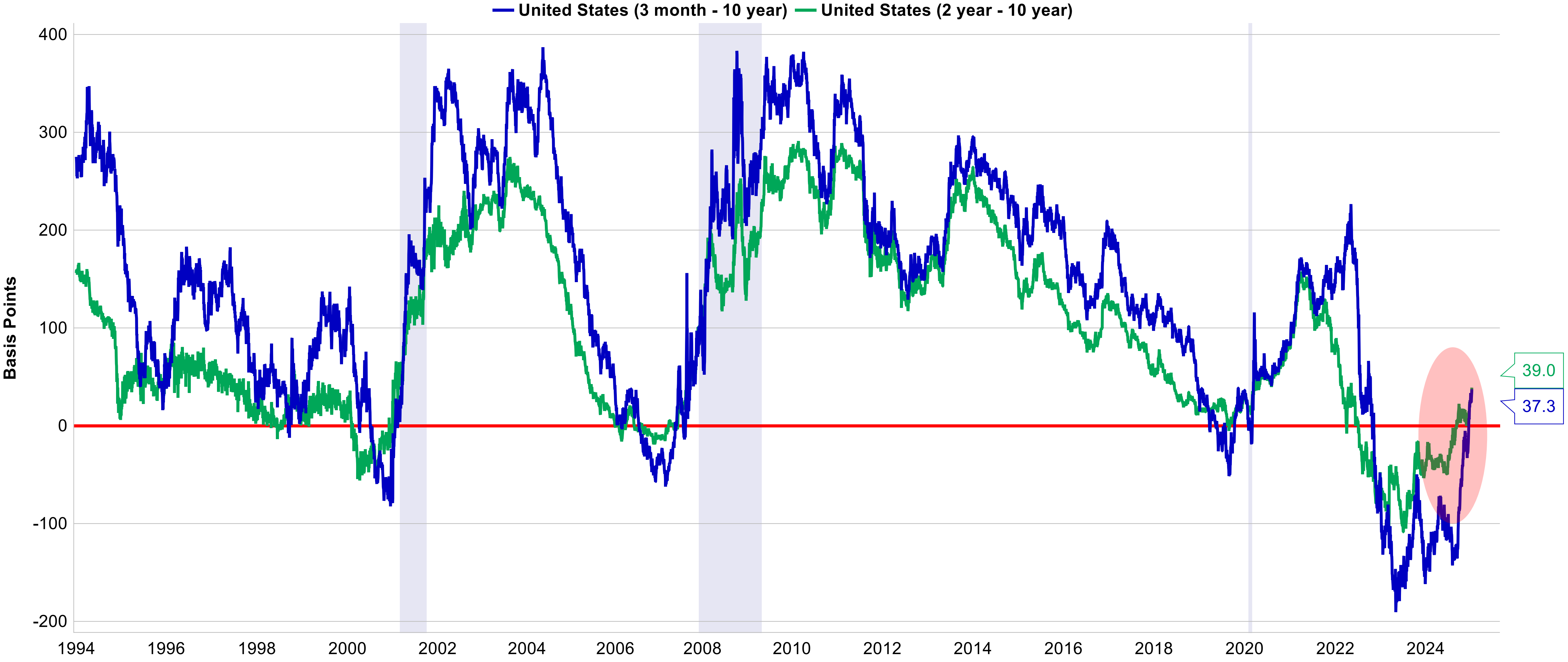
# Canadian yields across the curve have likely peaked




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Shape of yield curve will be important to watch

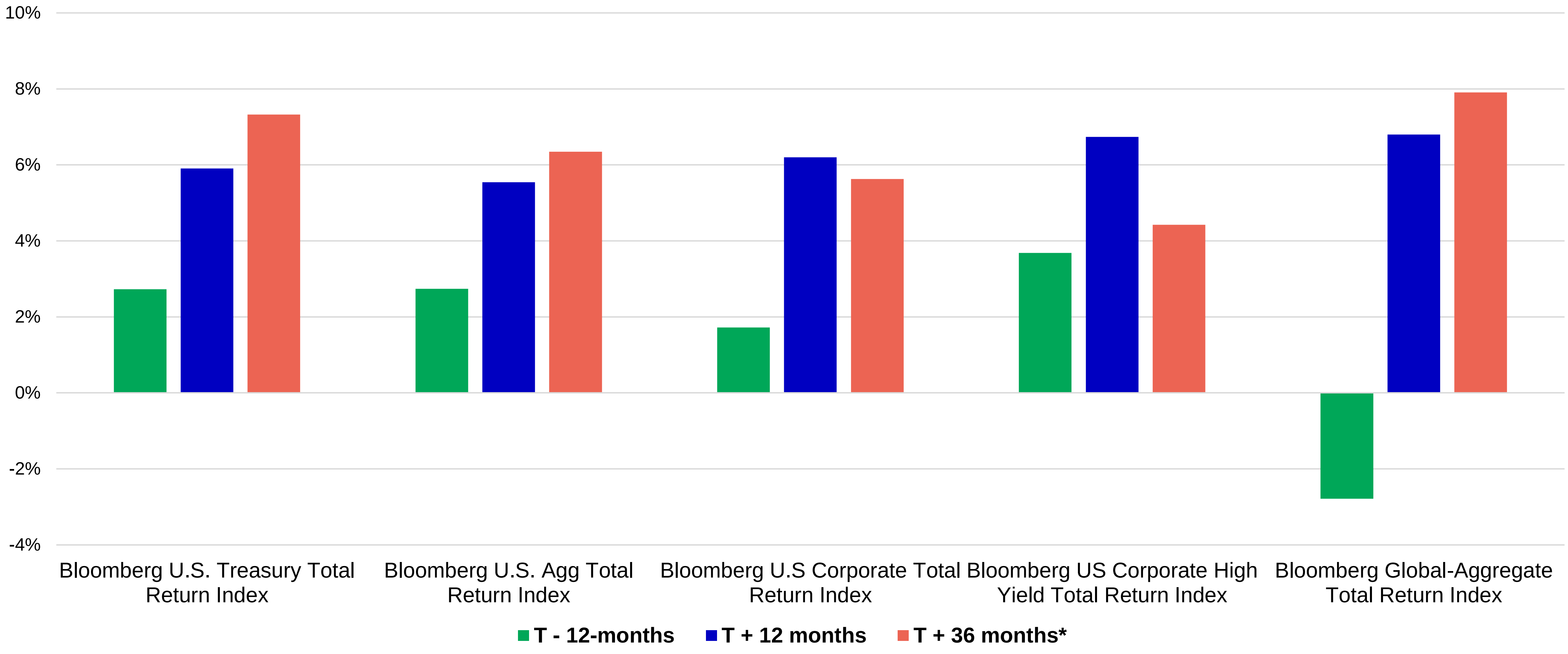
The yield curve tends to de-invert just prior to recession




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

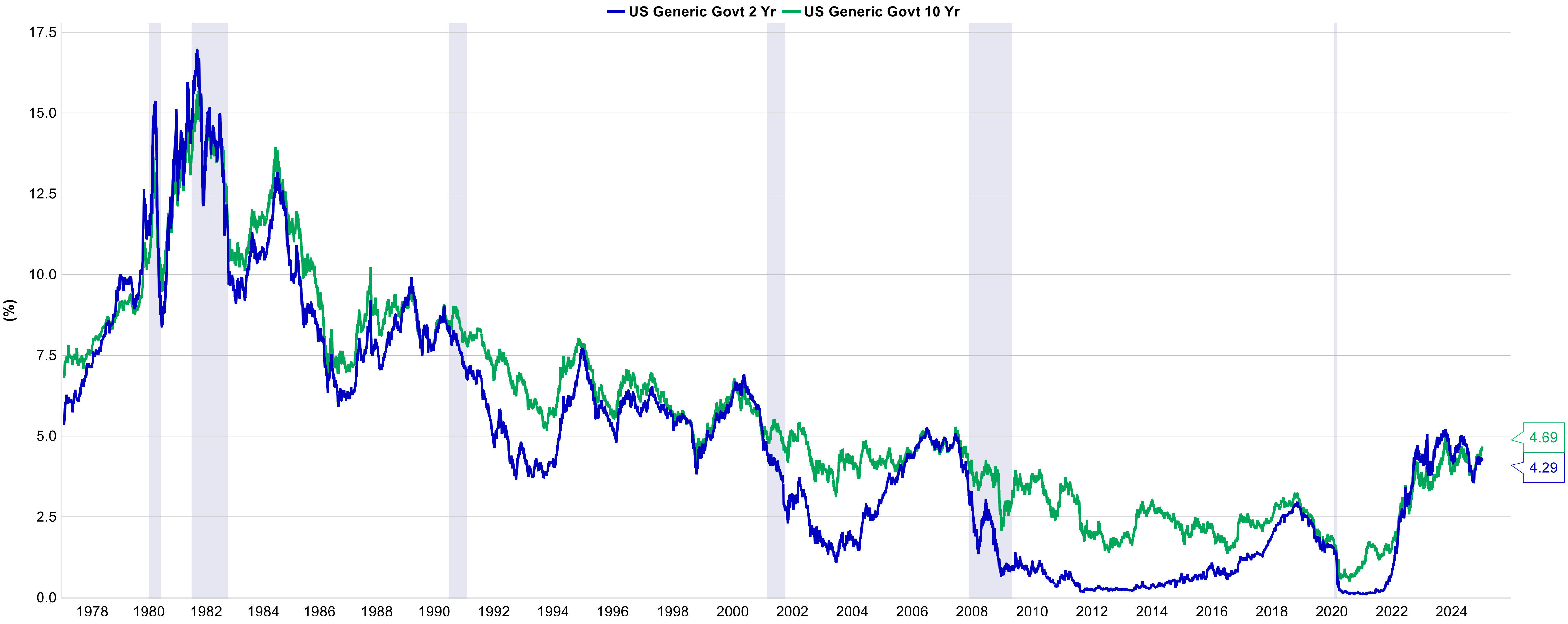
# Bonds typically perform better after yield curve inversion

## Fixed Income Returns Pre and Post Yield Curve Inversion




* Annualized. T = 10/2 yield curve inversion for 3 consecutive months
Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2023

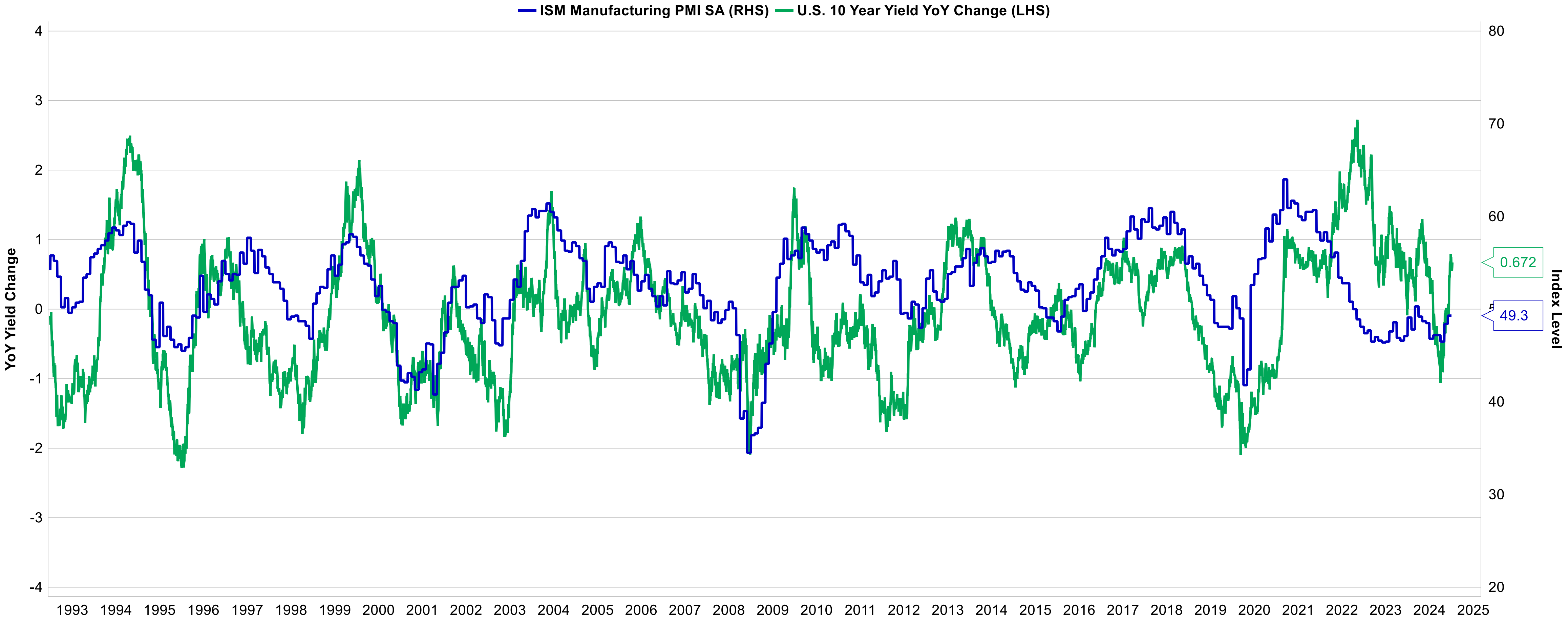
# Government bond yields tend to fall during recessions




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Dislocation between manufacturing and 10-year yields

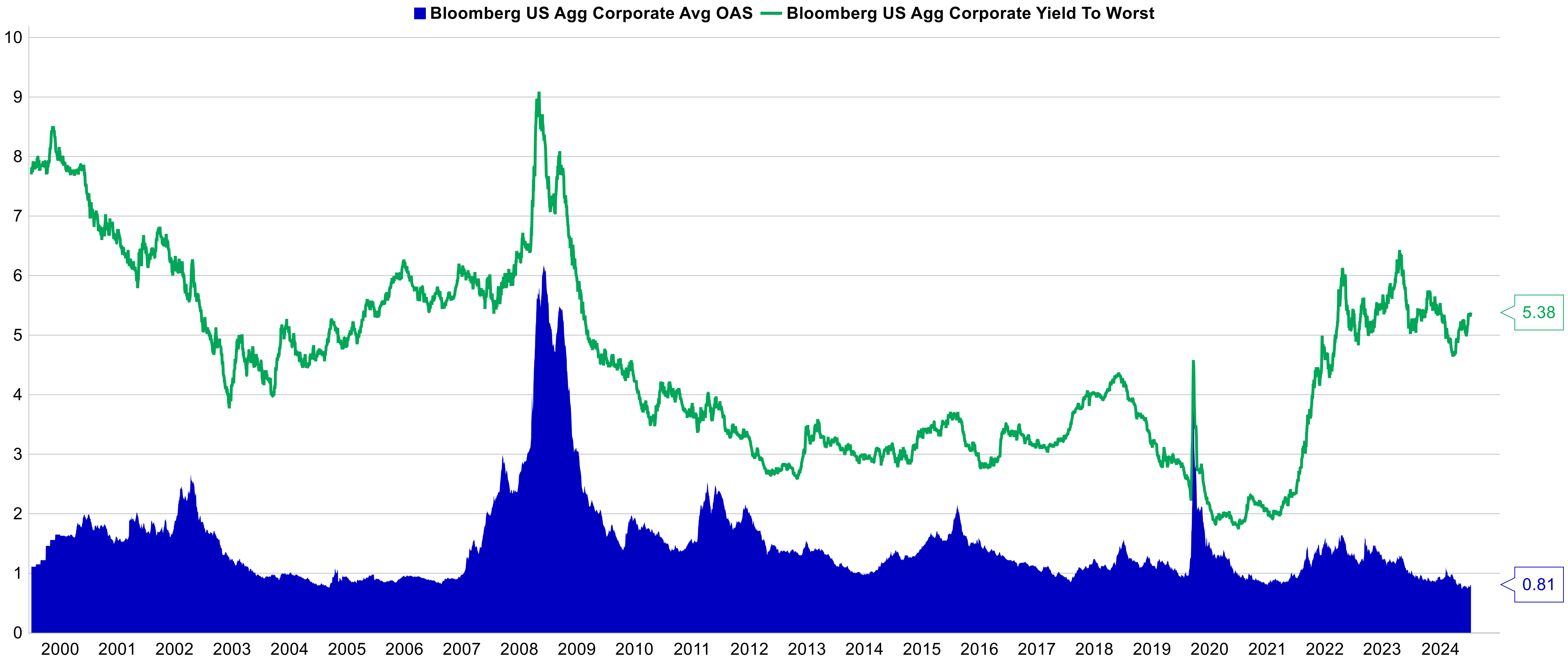
Manufacturing strength has historically had a strong relationship with the move in 10-year-yields. With the ISM PMI now below 50, the 10-year Treasury yields should be falling.




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Investment grade spread below long term average, while yield is higher

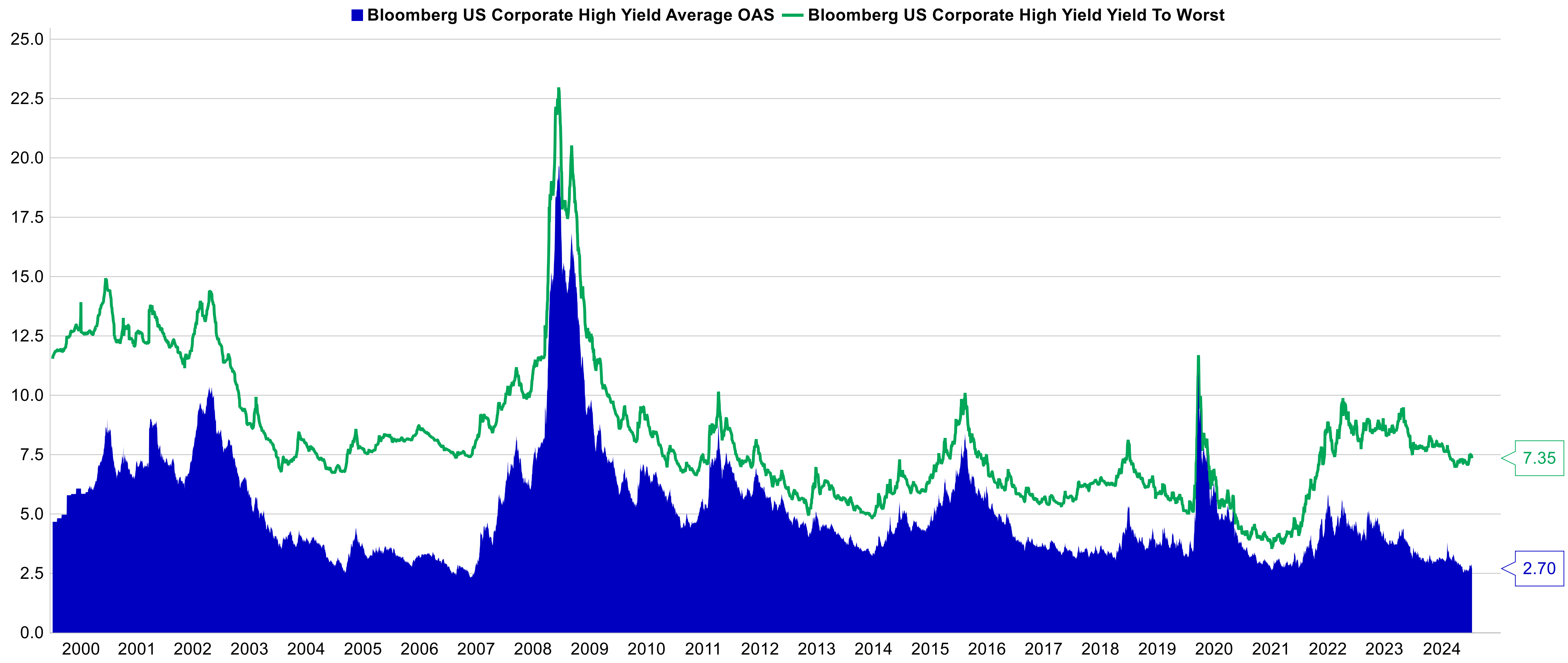
## U.S. Investment Grade Corporate Bonds, spreads (OAS) and yield




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# High yield spreads not reflecting recession risk

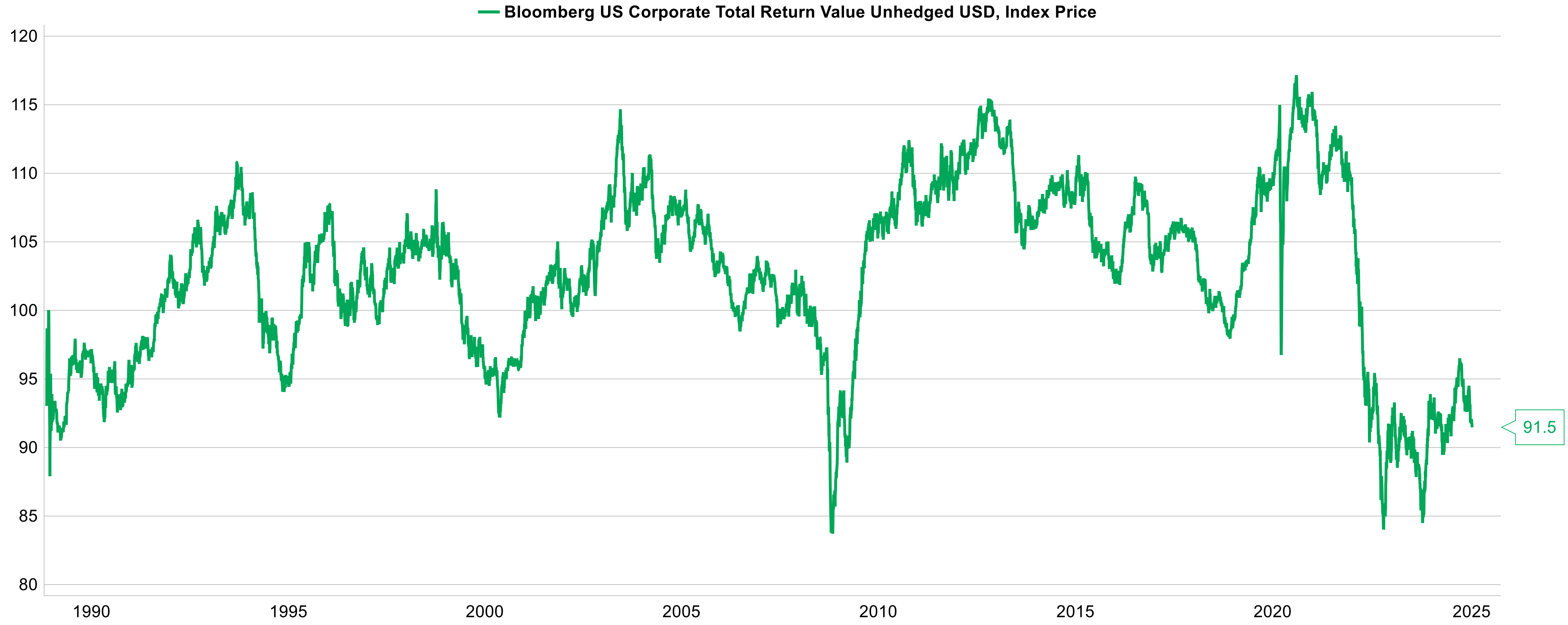
## U.S. High Yield, spreads (OAS) and yield




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

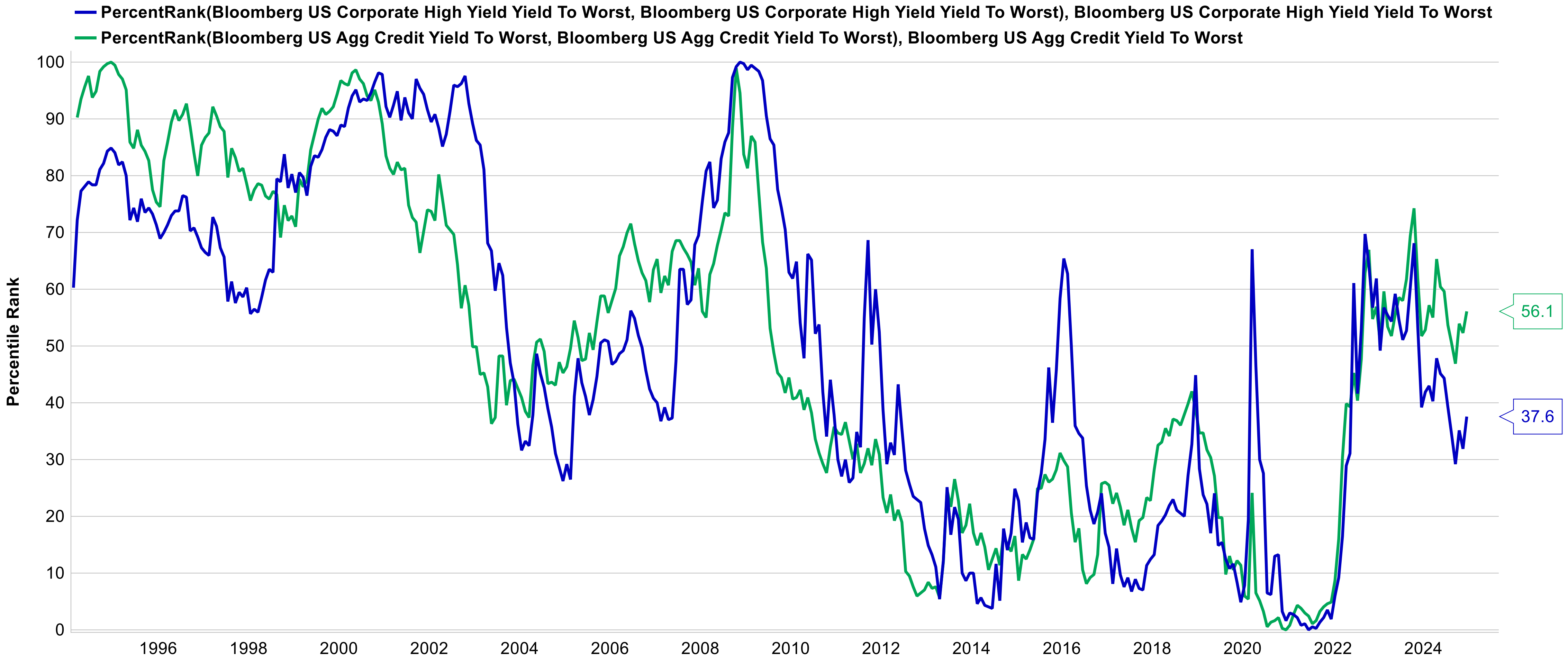
# U.S. investment grade corporate credit prices still below par

## Average Price for U.S. Investment Grade Bonds



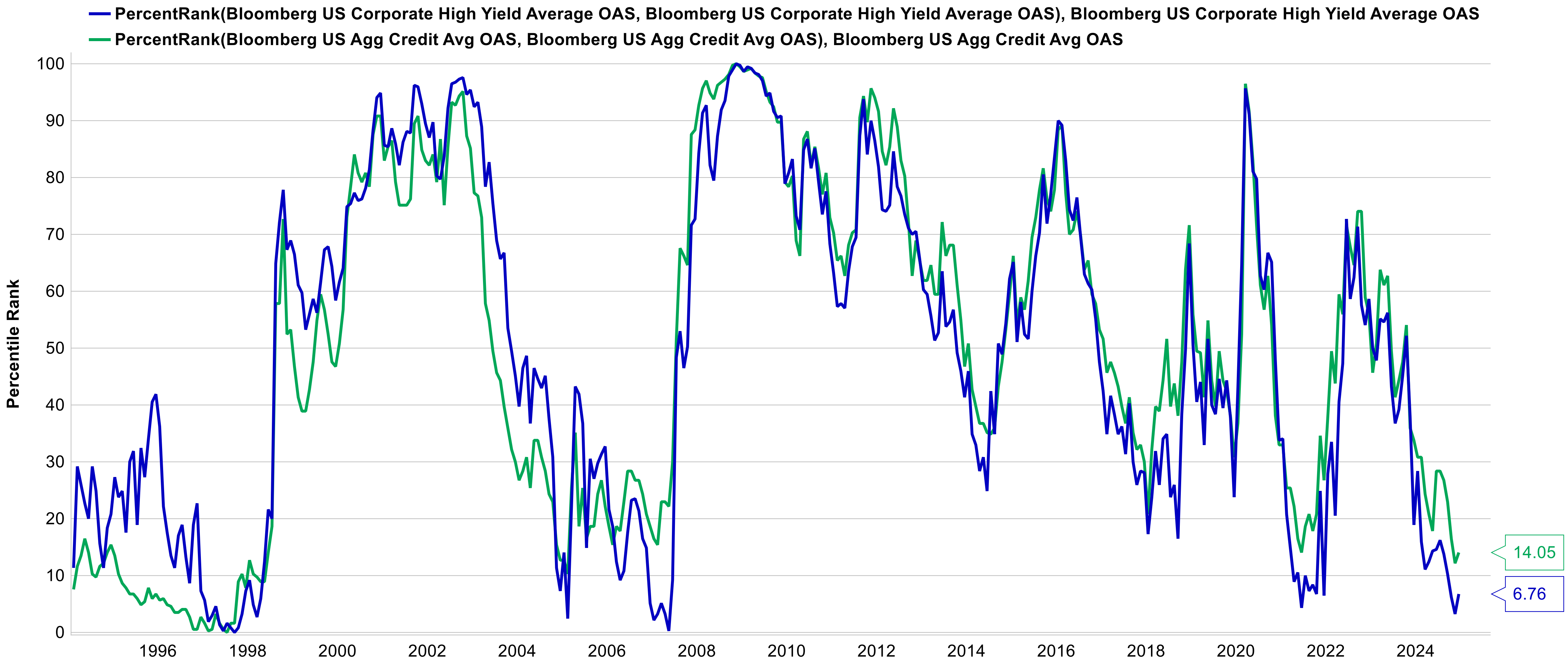

Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Credit yields remain selectively attractive




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

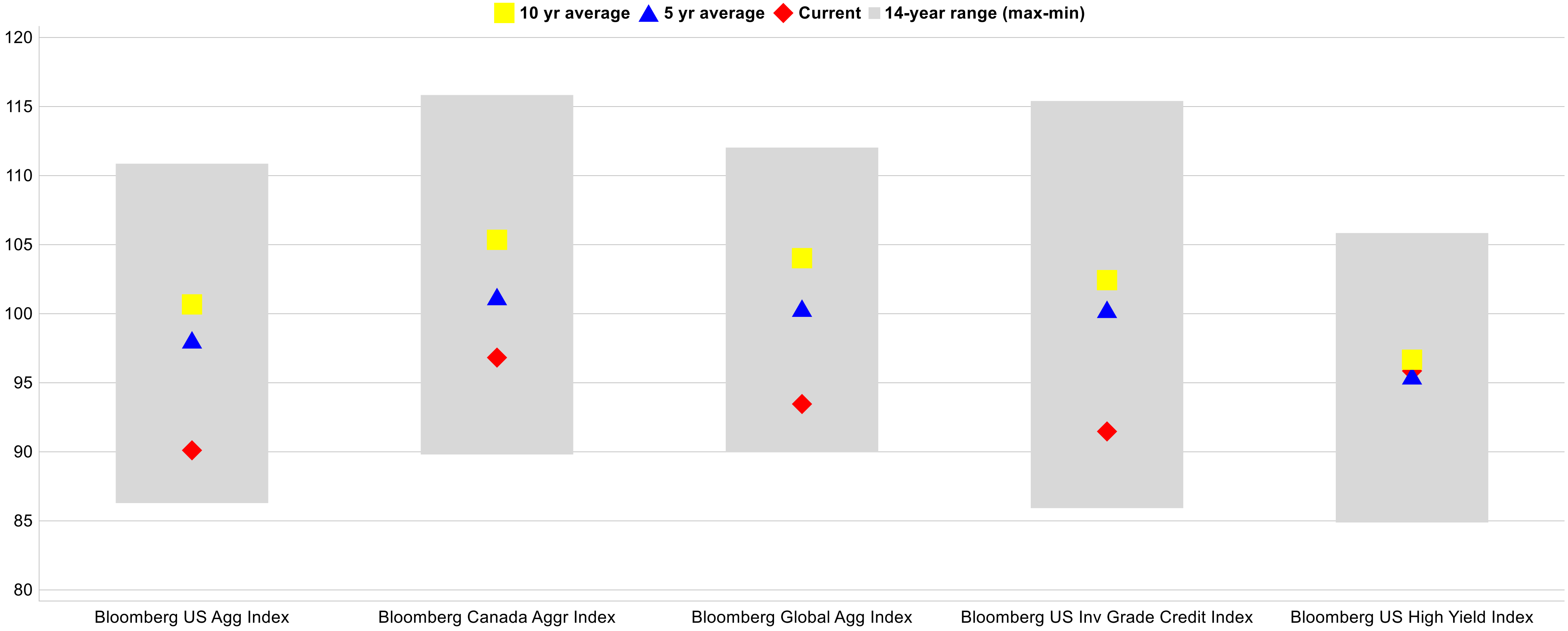
# HY Credit spreads are not pricing recession risks




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

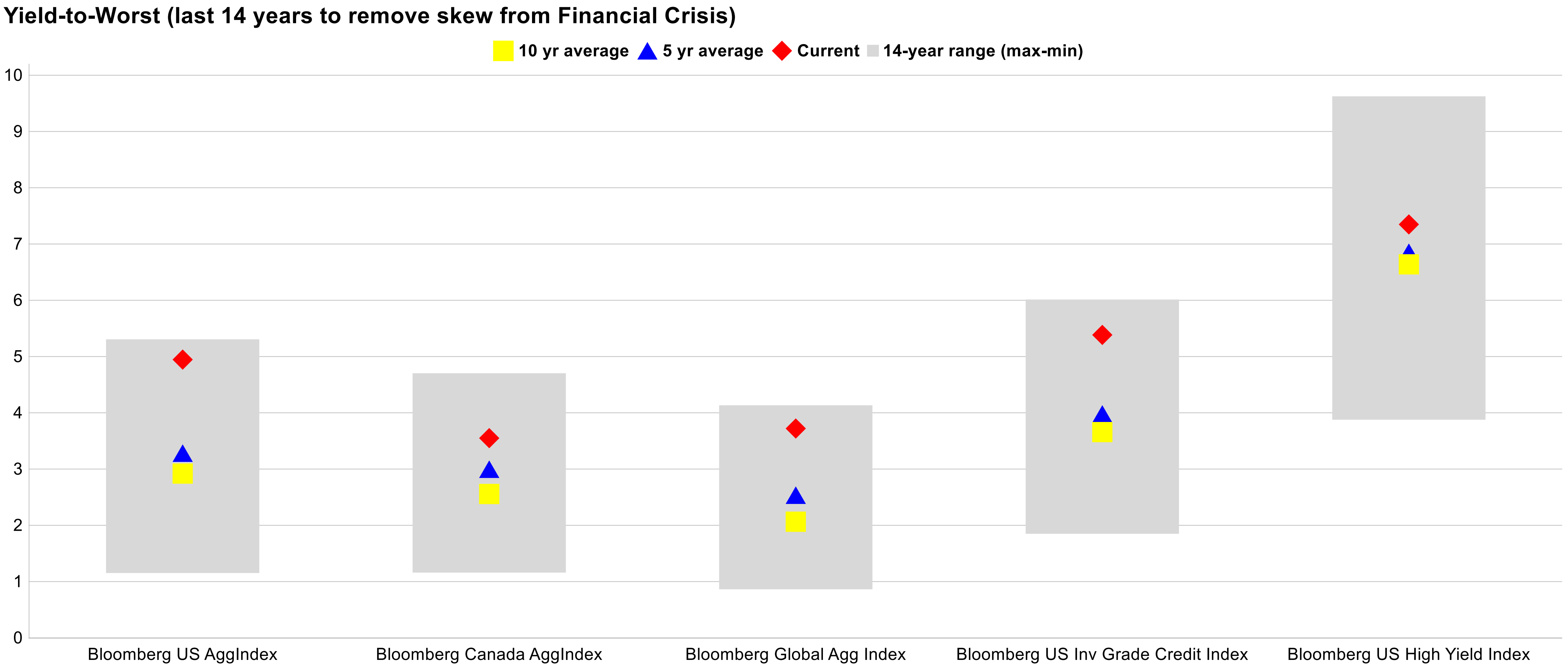
# Bond prices remain below their historical averages

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



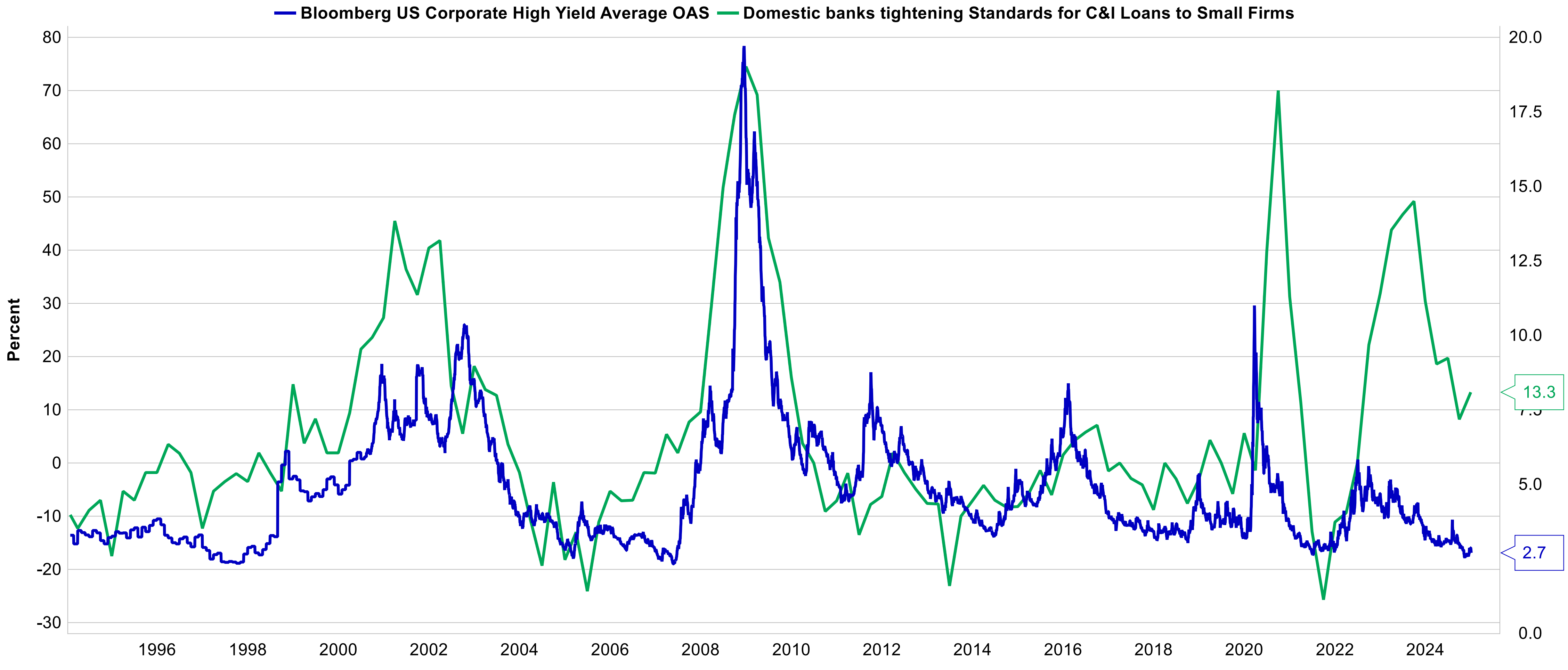

Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Yields are above their historical averages



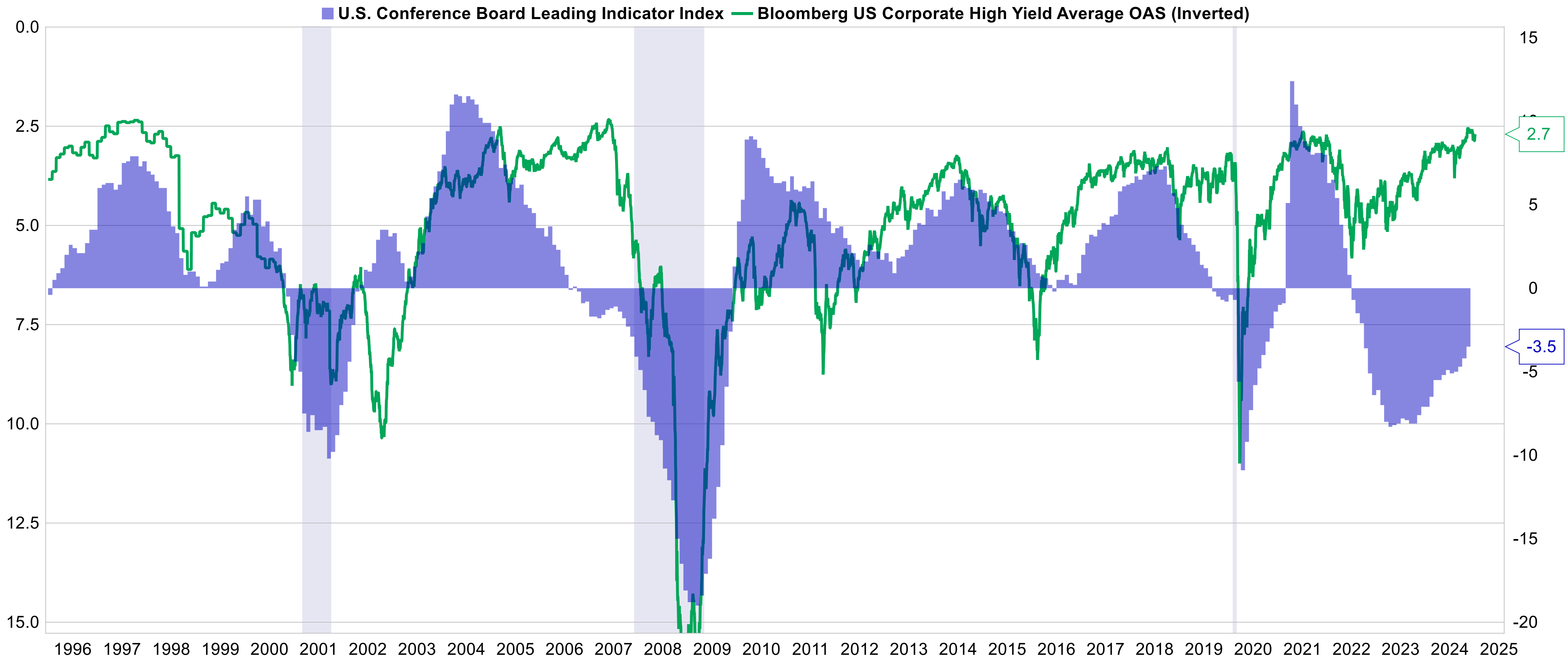

Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Tightening standard for C&I loans historically leads to jump in HY spreads



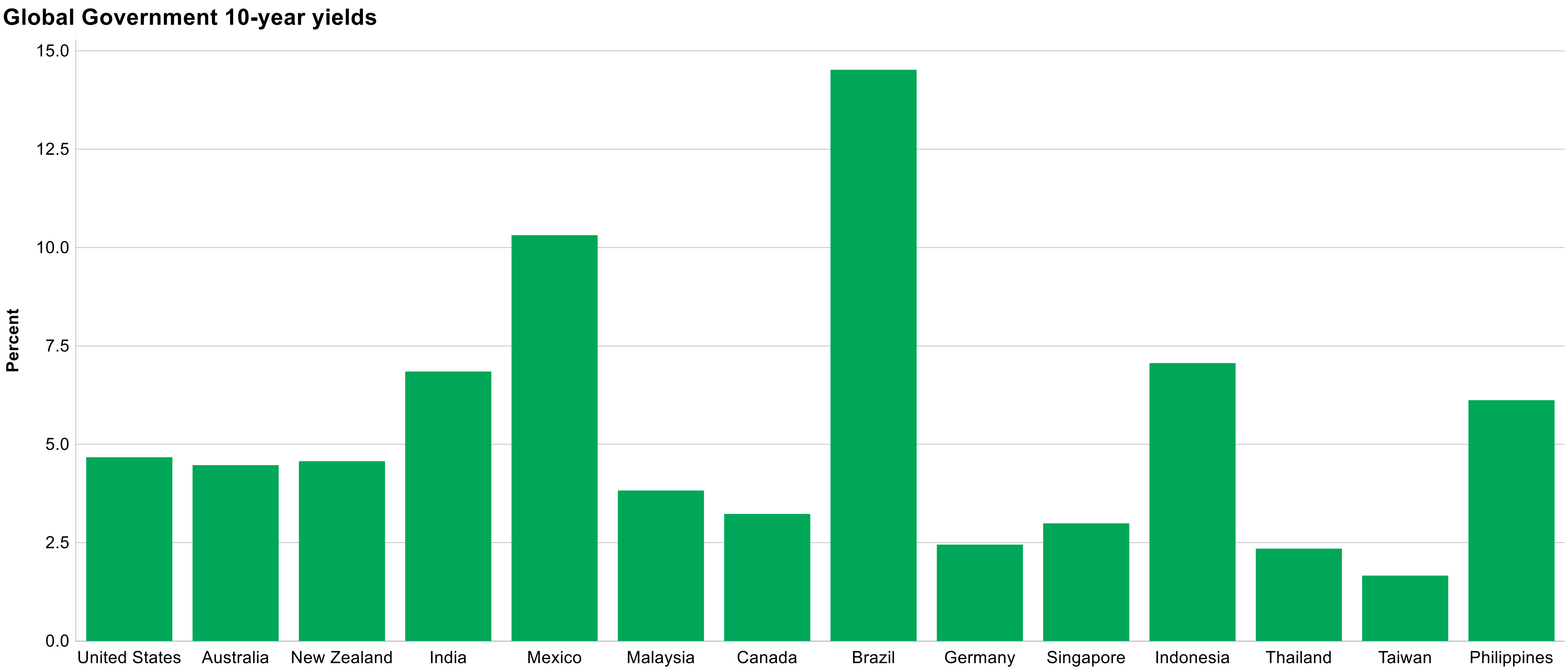

Source: Macrobond, Bloomberg, Fed, Manulife Investment Management, as of 1/7/2025.

# Weaker economic data could lead to wider high yield spreads




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

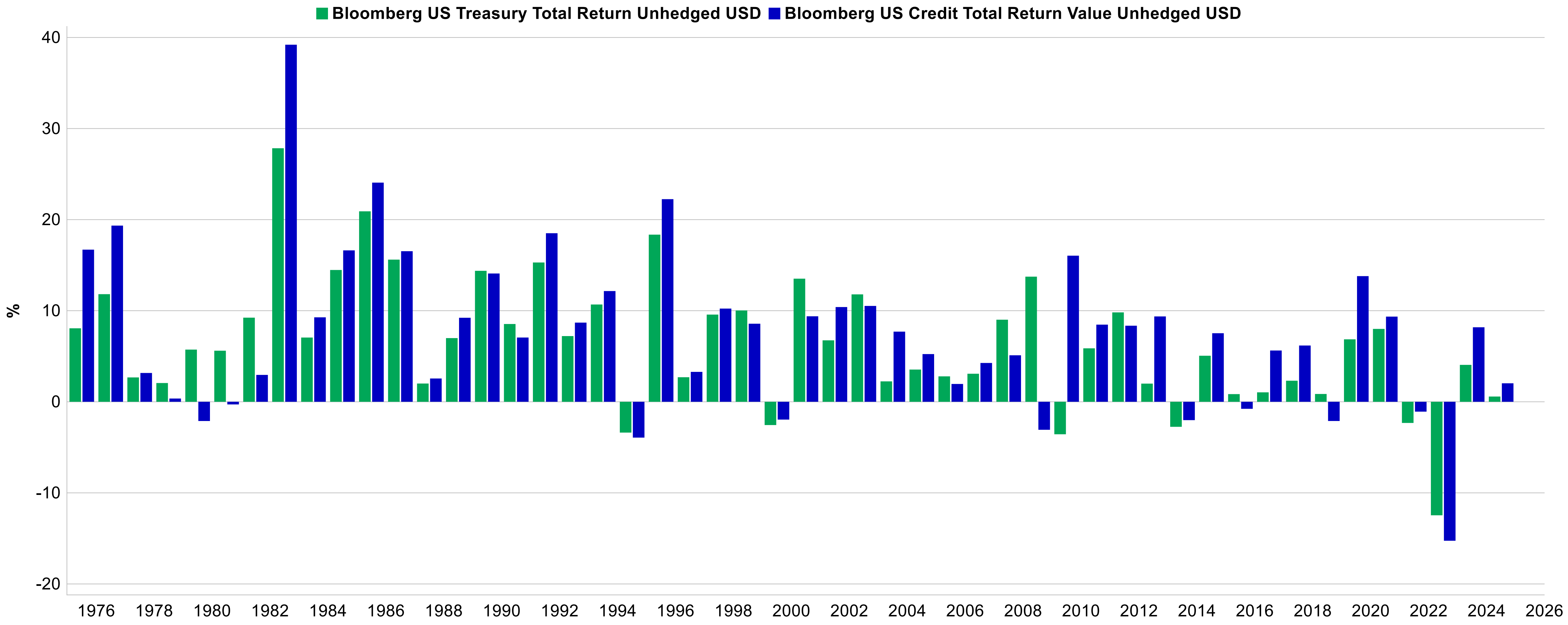
# Sovereign bond yields are selectively attractive




Source: Macrobond, U.S. Treasury, Macrobond, RBNZ, MAS, IDX, Thai Bond Market Association, GTSM, Philippine Dealing & Exchange Corp., Manulife Investment Management, as of 1/7/2025.

# It’s rare to have 2 consecutive years of negative returns for bonds

## Calendar year returns for US Treasuries and US Corporate Credit




Source: Bloomberg, , Manulife Investment Management, as of 1/7/2025.

# Various Fixed Income Asset Class Annual Yearly Returns

**Fixed Income Asset Classes**

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 11.9% | 9.5% | 13.7% | 58.2% | 15.1% | 9.8% | 18.5% | 7.4% | 8.8% | 3.7% | 17.1% | 9.3% | 2.4% | 14.4% | 9.4% | 5.3% | -0.6% | 13.5% | 9.0% |
| 9.9% | 9.0% | 11.5% | 51.6% | 12.0% | 9.7% | 15.8% | 5.3% | 7.6% | 3.5% | 10.2% | 7.5% | 1.9% | 14.3% | 9.2% | 5.2% | -4.0% | 13.3% | 8.2% |
| 6.7% | 7.0% | 8.6% | 28.2% | 10.1% | 8.5% | 9.7% | 1.7% | 7.5% | 2.7% | 10.2% | 7.4% | 1.4% | 13.8% | 8.7% | -0.9% | -9.3% | 10.4% | 7.0% |
| 6.6% | 6.3% | 6.4% | 16.3% | 8.5% | 8.4% | 9.4% | 0.8% | 6.9% | 2.6% | 5.6% | 6.2% | 1.1% | 8.7% | 8.7% | -1.1% | -9.9% | 8.4% | 5.7% |
| 4.4% | 5.1% | 5.2% | 16.0% | 7.3% | 8.4% | 6.2% | -1.2% | 6.0% | 1.2% | 3.7% | 4.1% | 0.9% | 8.6% | 8.0% | -1.3% | -11.2% | 8.2% | 5.7% |
| 4.3% | 4.6% | 4.8% | 6.9% | 6.7% | 8.2% | 4.3% | -1.5% | 5.5% | 0.8% | 2.6% | 3.5% | 0.4% | 8.1% | 7.5% | -1.5% | -11.7% | 6.7% | 4.2% |
| 4.3% | 4.1% | 0.2% | 5.9% | 6.5% | 7.8% | 4.2% | -2.0% | 5.1% | 0.5% | 2.1% | 3.4% | 0.0% | 6.9% | 7.3% | -1.5% | -12.5% | 5.7% | 3.5% |
| 4.1% | 3.7% | -3.1% | 5.4% | 5.9% | 5.6% | 3.6% | -2.0% | 3.1% | -0.7% | 1.7% | 2.5% | -1.2% | 6.9% | 7.1% | -2.3% | -13.0% | 5.5% | 2.0% |
| 4.0% | 2.1% | -10.9% | 4.5% | 5.5% | 4.7% | 2.1% | -2.6% | 2.5% | -0.8% | 1.0% | 2.3% | -2.1% | 6.8% | 5.9% | -2.5% | -15.3% | 5.0% | 1.25% |
| 3.6% | 1.9% | -26.2% | -0.2% | 5.4% | 5.0% | 2.0% | -2.7% | 1.6% | -3.2% | 1.0% | 0.1% | -2.1% | 3.7% | 5.3% | -2.6% | -16.2% | 5.0% | 0.6% |
| 3.1% | 1.8% | -29.1% | -3.6% | 3.6% | 1.5% | 2.0% | -6.6% | 0.6% | -4.5% | 0.0% | 0.1% | -4.6% | 3.1% | 3.1% | -4.7% | -16.5% | 4.1% | -1.7% |

| Fixed Income Asset Classes | | | |
|---|---|---|---|
| Global Bonds | US Aggregate | US Treasury | US Credit |
| US High Yield Bonds | US Floating Rate | Canadian Bond Universe | Canadian Government Bonds |
| Canadian Corporate Bond | Canadian Short Term Bonds | Emerging Market Debt | |

Source: As of December 31, 2024. Floating Rate (S&P/LSTA Leveraged Loan Index), Canada Bond Universe (DEX Universe Bond), Canada Inv. Corporate Bonds (DEX Corporate Bond), Canadian Government Bond (DEX Federal Universe Bond), Canadian Short Term Bonds (DEX Short Term Bond), Global Blonds (Barclays Global Aggregate), US High Yield (Bloomberg US High Yield Index), Emerging Market Debt (JPM EMBI

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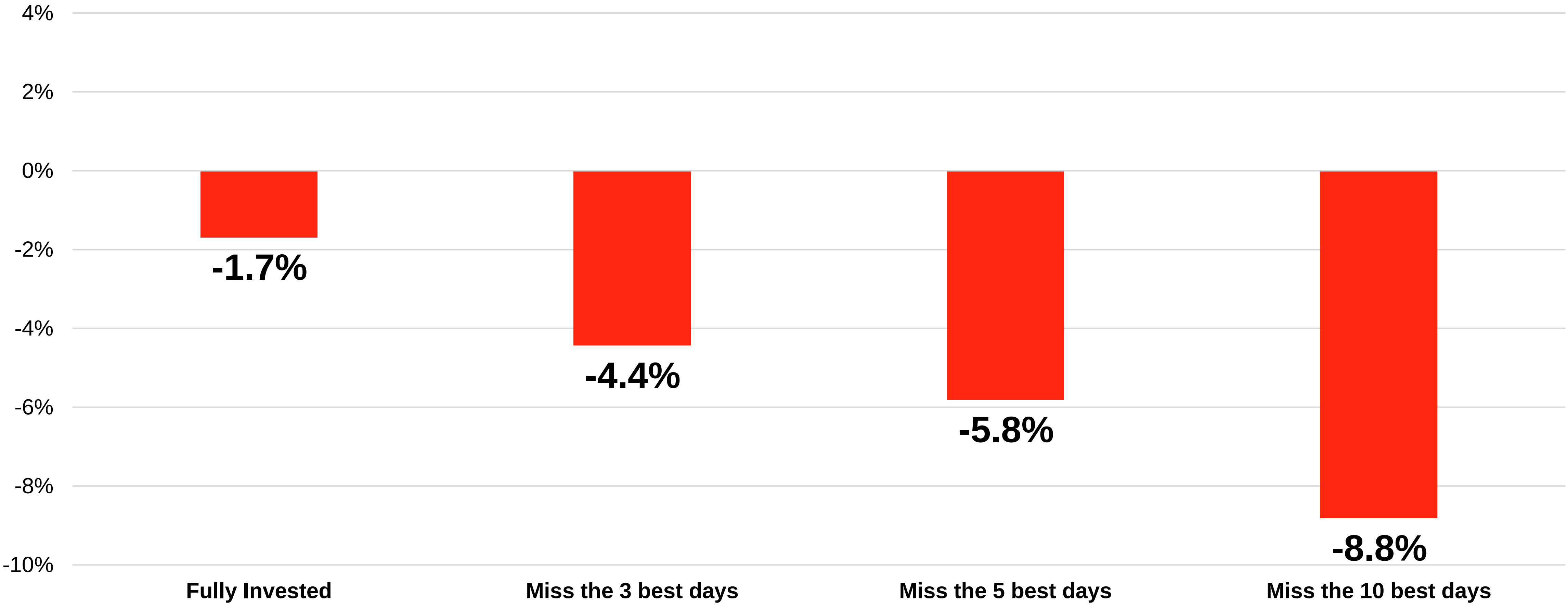
Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy.

# 2024 Global Bond Index

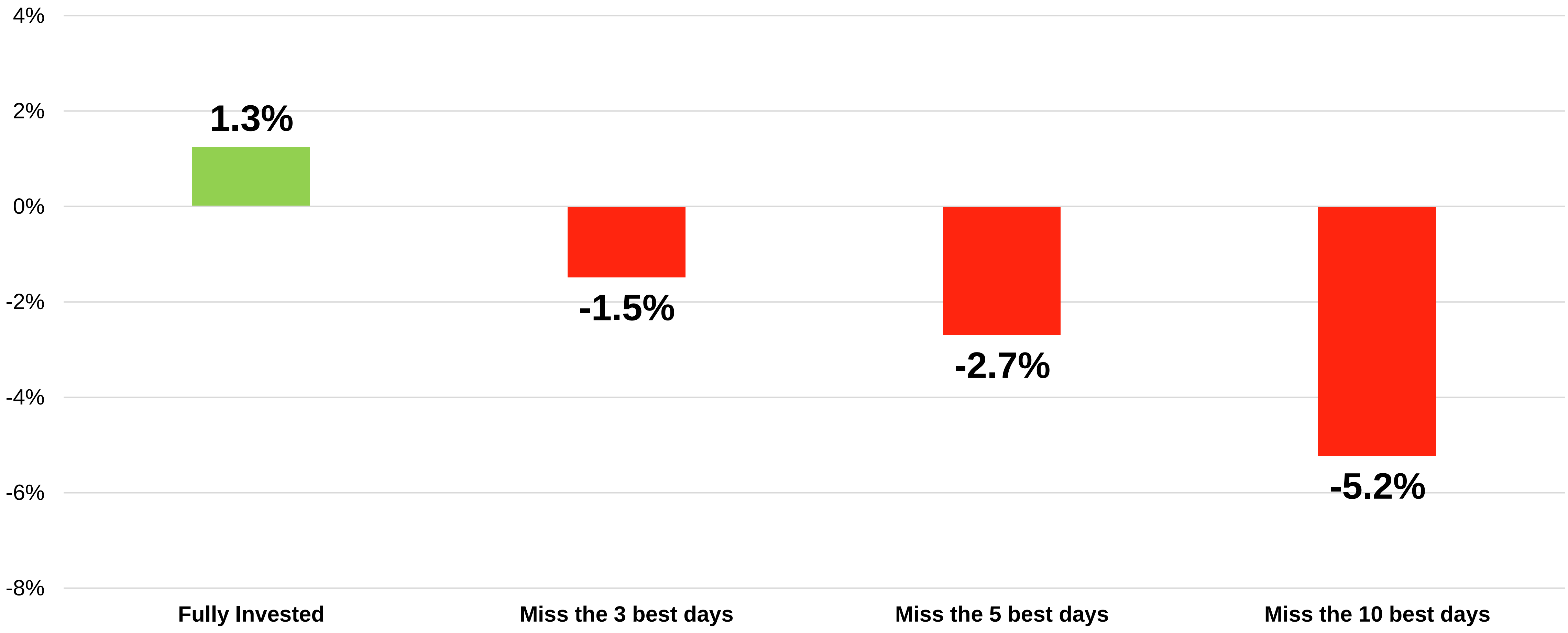
Fully Invested vs. missing the best days




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024.
Index is Bloomberg Global Aggregate Bond Index

# 2024 U.S. Bond Index

Fully Invested vs. missing the best days

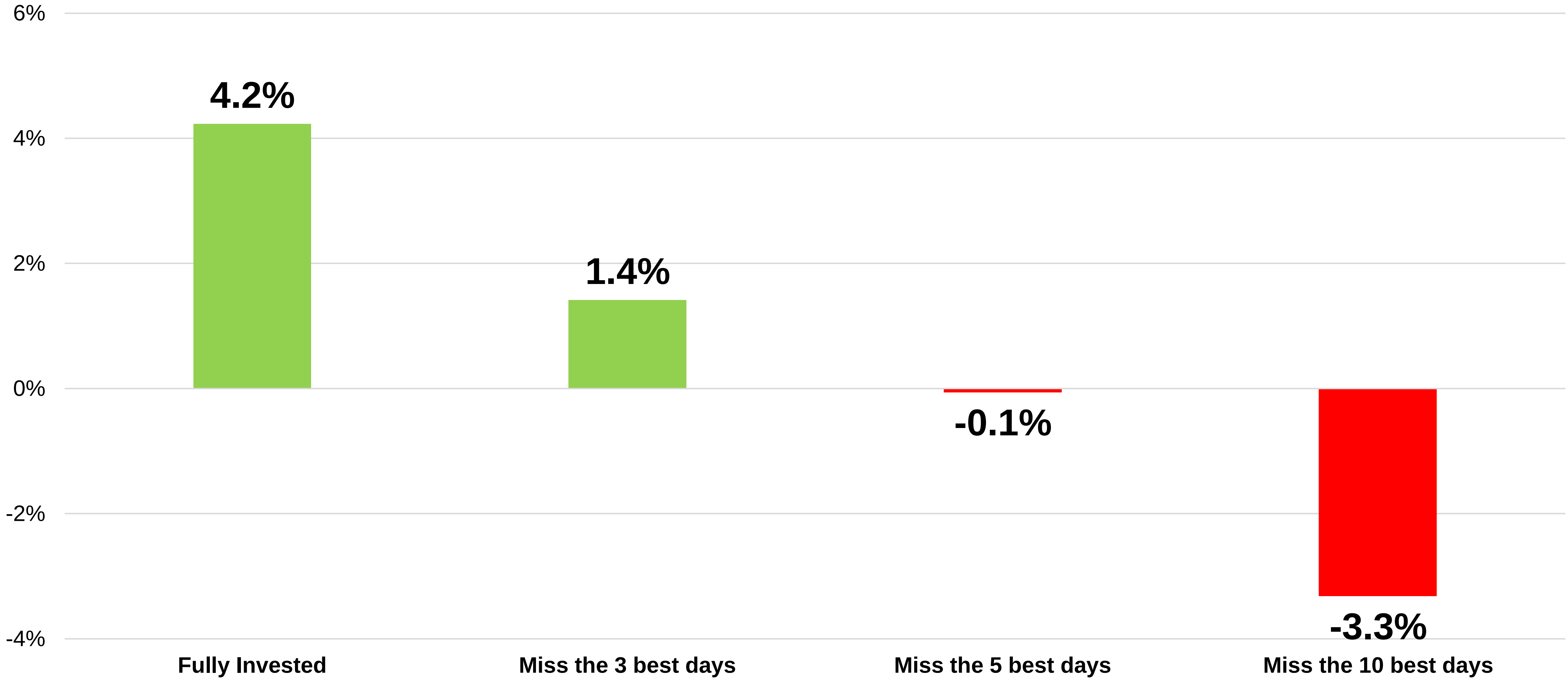



Manulife Investment Management

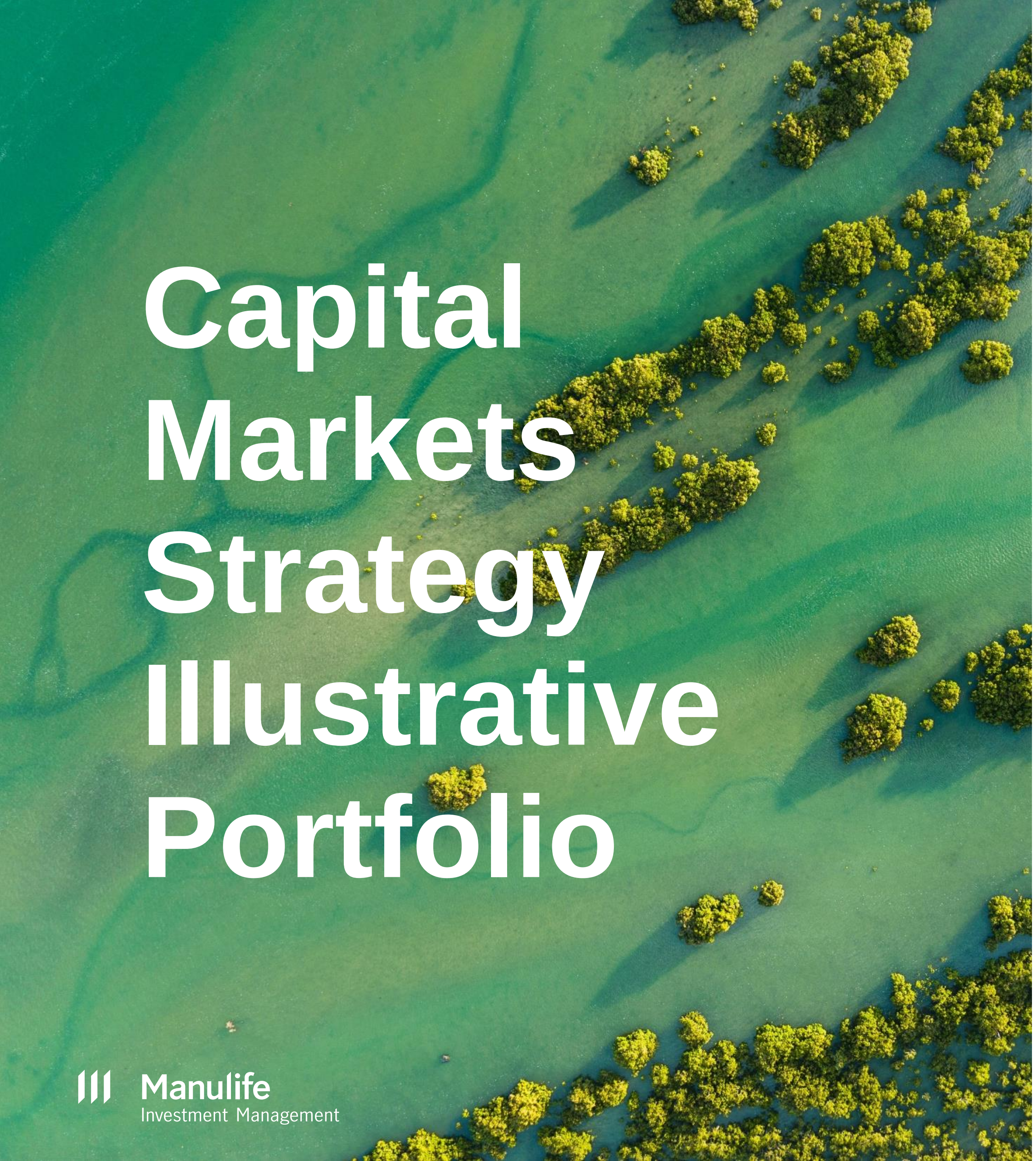
Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024.
Index is Bloomberg US Aggregate Bond Index

# 2024 Canada Bond Index

Fully Invested vs. missing the best days




Source: Bloomberg, Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024.
Index is FTSE Canada Universe Bond Index



# Capital Markets Strategy Illustrative Portfolio

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The Capital Markets Strategy Illustrative Portfolios (the “Illustrative  Portfolios”) are hypothetical portfolios comprised of various asset classes and Manulife Investment Management's funds. They are designed to illustrate an approach in general terms and are not for specific investors. The Illustrative Portfolios and the related information do not constitute and are  not to be construed as, investment advice. Any investment or allocation decisions by an investor should be made with the advice of a qualified investment professional with respect to individual circumstances, preferences, risk tolerance, and after reading the relevant fund facts and prospectuses.

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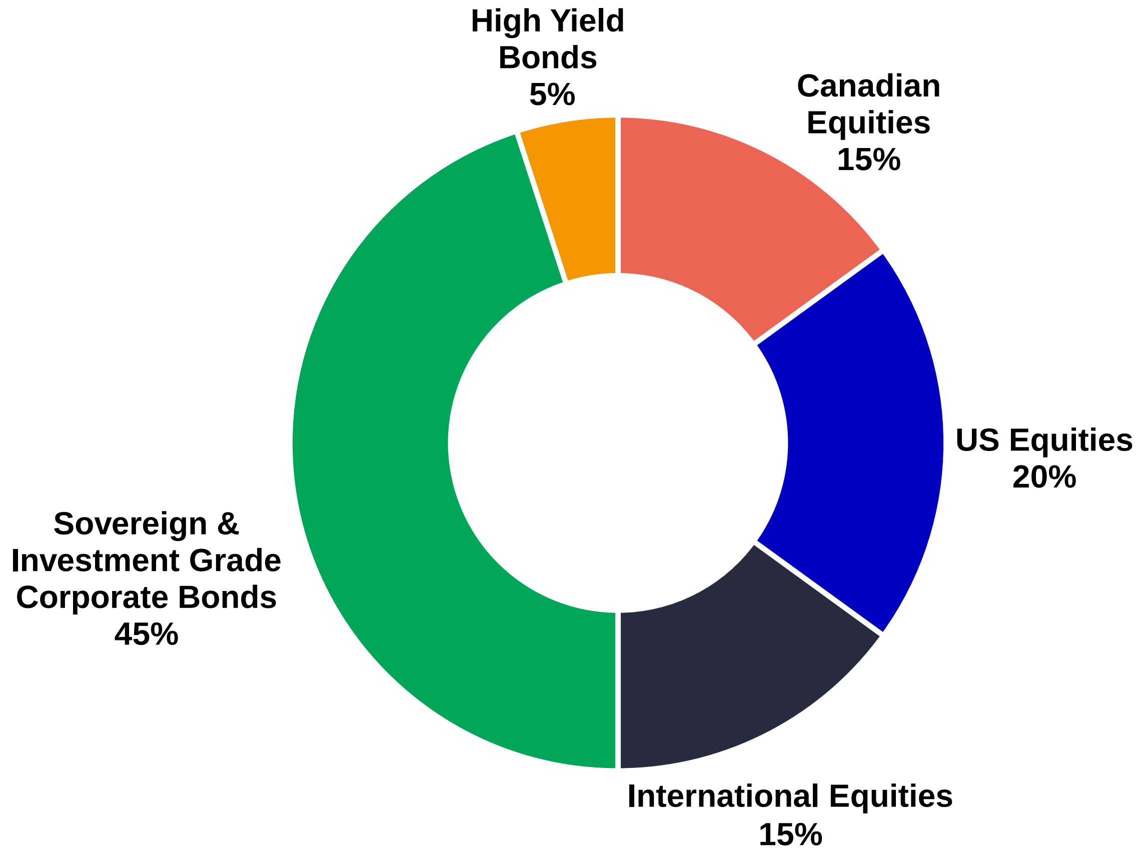
# Capital Market Strategy Illustrative Asset Mix




In our view, despite the strong rally in equities, the relative risk/return between equities and fixed income hasn't yet shifted enough to warrant a change in the asset allocation of the Illustrative Portfolio. Given the continued uncertain macroeconomic and geopolitical environment and elevated valuation in many equity indexes around the world, we favour taking a balanced approach to portfolio construction. We believe the focus should be on security selection in both equity and fixed income rather than on broad index allocation.

As of December 31, 2024, the Illustrative Portfolio reflects a defensive posture with an equal weight between equities and fixed income; the portfolio is well balanced across equity geographies. Throughout the past couple of years, we've been advocating rebalancing portfolios to target asset allocations and dollar cost averaging into this market. We continue to emphasize that approach today.

Source: Manulife Investment Management, Capital Markets Strategy, as of December 31, 2024

# Important Information

Investing involves risks, including the potential loss of principal. Financial markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. These risks are magnified for investments made in emerging markets. Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a portfolio's investments.

The information provided does not take into account the suitability, investment objectives, financial situation, or particular needs of any specific person.
You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.
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The Capital Markets Strategy team has a range of responsibilities, from market and economic analysis to investor education. The team analyzes and interprets the economy and markets on behalf of Manulife Investment Management. They work with the portfolio management teams to provide clients and investment intermediaries with commentary on strategies and asset allocation weightings. Their expertise spans across multiple asset classes and geographic regions.
The output of the team's work is via written reports, audio and video recordings, conference calls, and webcasts. The team regularly contributes to Manulife Investment Management publications. Team members often speak at industry conferences, are frequent guests on BNN and are regularly quoted in the press.

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