



Review and rebalance: **navigating waves of volatility**

Market volatility is unavoidable. Despite this, data shows that the number of years with positive returns is still higher than those with negative returns, as indicated by the historical performance of Asian equities¹. So, how should investors stay calm and ride through market ups and downs?

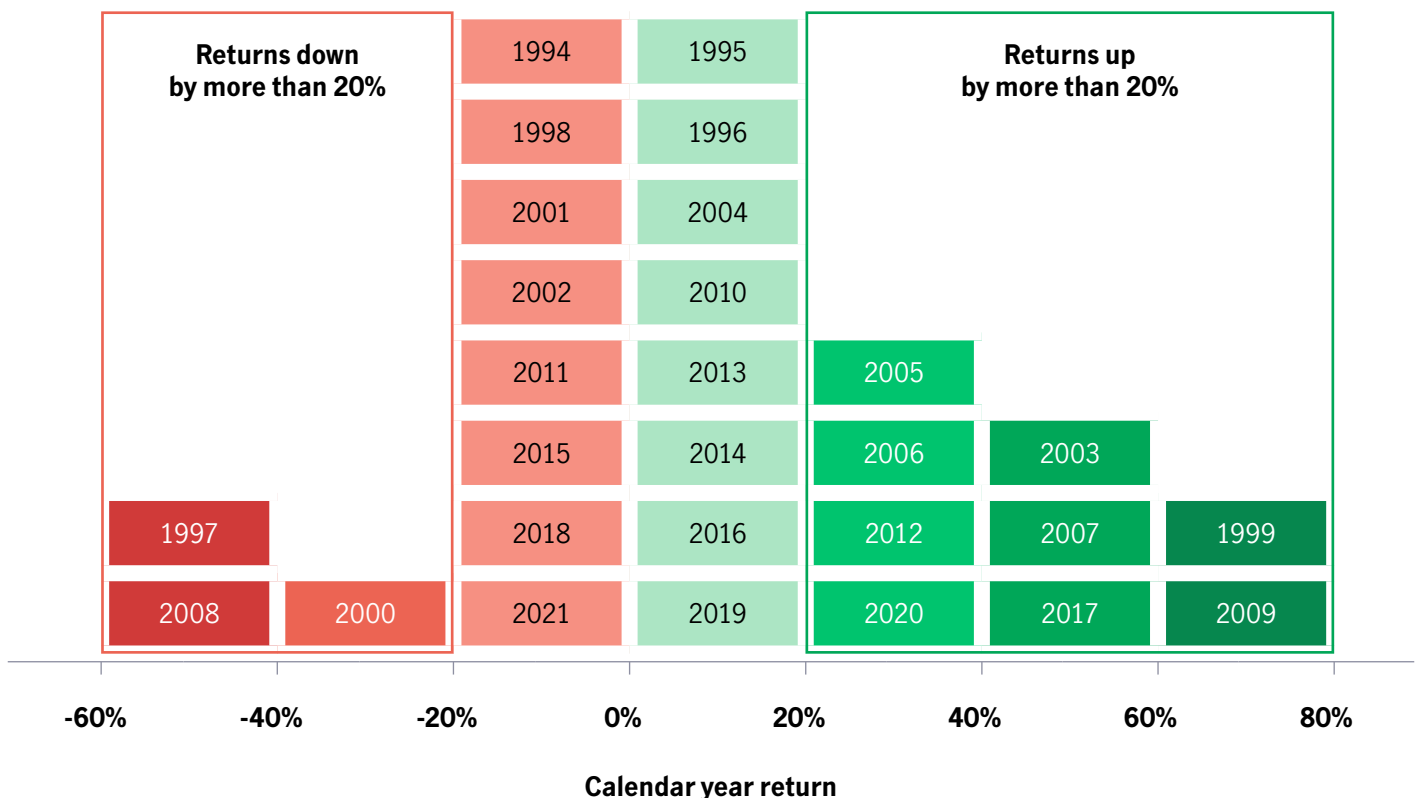
¹ Asian equities refer to MSCI AC Asia ex Japan Index. This index was launched on 30 September 1993.

Volatility is a normal feature of investing, especially when it comes to equities. However, some investors might not be aware that historically, the number of positive years outweighs those that resulted in negative returns. Understanding market psychology – the overall sentiment or behaviour that the market experiences at any given time – provides some revealing insights into the world of investing.

The chart below shows the calendar-year performance of Asian equity markets, represented by the MSCI AC Asia ex Japan Index, from 1994 to 2021 (28 calendar years). The data reveals that the number of years with positive returns (17 years) was higher than those with negative returns (11 years).

What about market ups and downs? For Asian equities, annual market returns rose or declined by over 20% in 12 years. Drilling deeper and despite this volatility, the number of years when returns were up by more than 20% (9 years) outnumbered those when returns fell by greater than 20% (3 years).

As we can see from the chart below, market swings are inevitable, but there was still a greater chance of generating positive returns. The question is: How should investors remain calm and stay invested even when market conditions are stormy?



Source: Bloomberg, data as of 31 December 2021, total returns in US Dollar. It is not possible to invest directly in an index. Past performance is not indicative of future performance.

Let's look at a hypothetical example of two investors: Investor A and Investor B. Both invested US\$ 10,000 on 31 December 2011, with 50% in stocks and 50% in bonds.

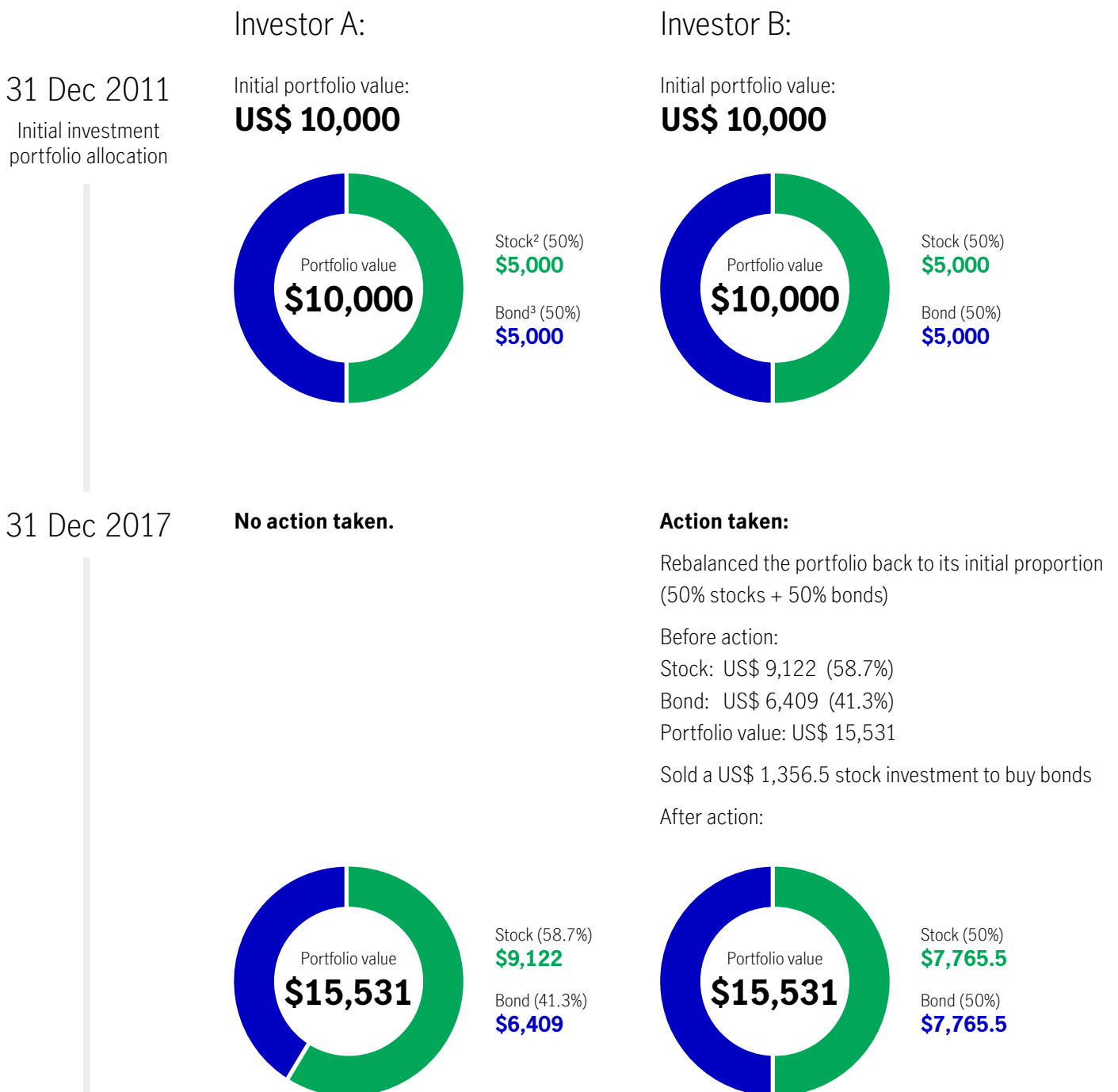
Asian equities ended 2017 on a high due to a strengthening global economy. By the end of that year, Investor A had made no changes to the original allocation. At the same time, investor B performed a review and rebalanced the portfolio back to its initial allocation.

Event: On 23 March 2020, World Health Organization (WHO) declared COVID-19 a global pandemic, which sent the stock market tumbling.

Action: In response, Investor A sold all the stock and bond investments, while Investor B again rebalanced the portfolio by selling bonds and buying stocks.

Outcome: On 31 December 2021, Investor B generated a total return of +89.87%, 1.64 times more than that of Investor A (+34.04%).

The graph below shows how their investment performance varied by adopting different approaches.



2 Stock = MSCI AC Asia ex Japan gross total return US\$ index

3 Bond = 50% JPMorgan Asia Credit Index (as of 31 December 2021) + 50% HSBC Asian Local Bond Index (as of 31 December 2012)/Markit iBoxx Asian Local Bond Index (1 January 2013 to 31 December 2021).

23 Mar 2020

Investor A:

Action taken:

Sold the stock investment for US\$ 6,773 and bond investment for US\$ 6,616 and held 100% cash⁴

Cash out value: US\$ 13,389

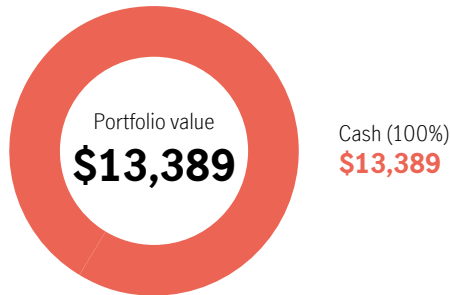
Before action:

Stock: US\$ 6,773 (50.6%)

Bond: US\$ 6,616 (49.4%)

Portfolio value: US\$ 13,389

After action:



Investor B:

Action taken:

Rebalanced portfolio back to its initial proportion (50% stocks + 50% bonds)

Before action:

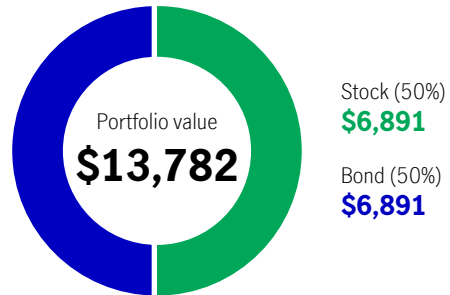
Stock: US\$ 5,765 (41.8%)

Bond: US\$ 8,017 (58.2%)

Portfolio value: US\$ 13,782

Sold US\$ 1,126 bond investment to buy stocks

After rebalancing:



24 Mar 2020
to
31 Dec 2021

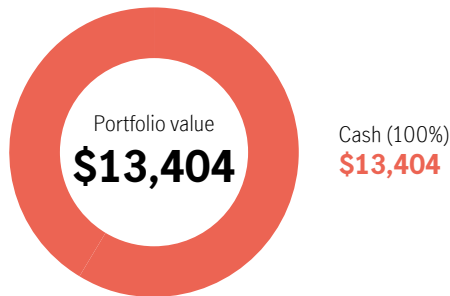
Kept holding cash

No change to the portfolio after performing a review

31 Dec 2021
Portfolio allocation at the end of the investment period

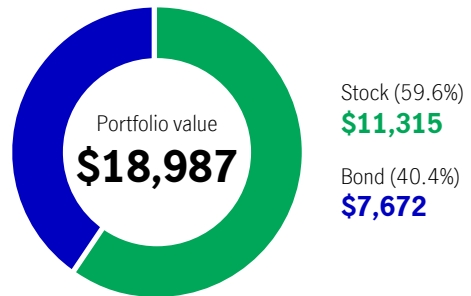
Final portfolio value:
US\$ 13,404

Total return:
+34.04%



Final portfolio value:
US\$ 18,987

Total return:
+89.87%



⁴ Cash = USD overnight deposit rate

Source: Bloomberg, as of 31 December 2021. Total returns in US Dollar. It is not possible to invest directly in an index. Past performance is not indicative of future performance.



Like medical check-ups to detect health issues, it's important for investors to review and rebalance your portfolio regularly, so your investment remains on track during market rallies and dips. Remaining invested rather than leaving the market immediately could potentially reap better results. In practice, this could mean adjusting a particular segment of your portfolio when markets rise or fall so it doesn't outweigh or underweight the initial allocation.

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. The information and/or analysis contained in this material have been compiled or derived from sources believed to be reliable at the time of writing but Manulife Investment Management does not make any representation as to their accuracy, correctness, usefulness or completeness and does not accept liability for any loss arising from the use hereof or the information and/or analysis contained herein. Neither Manulife Investment Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein.

This material was prepared solely for educational and informational purposes and does not constitute a recommendation, professional advice, an offer, solicitation or an invitation by or on behalf of Manulife Investment Management to any person to buy or sell any security. Nothing in this material constitutes financial, investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Past performance is not an indication of future results. Investment involves risk. In considering any investment, if you are in doubt on the action to be taken, you should consult professional advisers.

Proprietary Information – Please note that this material must not be wholly or partially reproduced, distributed, circulated, disseminated, published or disclosed, in any form and for any purpose, to any third party without prior approval from Manulife Investment Management.

These materials have not been reviewed by, are not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions.

Malaysia: Manulife Investment Management (M) Berhad 200801033087 (834424-U). Singapore: Manulife Investment Management (Singapore) Pte. Ltd. (Company Registration Number: 200709952G). Philippines: Manulife Asset Management and Trust Corporation. Australia, South Korea and Hong Kong: Manulife Investment Management (Hong Kong) Limited in Hong Kong and has not been reviewed by the HK Securities and Futures Commission (SFC).