

News Release

For Immediate Release
29 July 2024

Manulife Investment Management Sees Attractive Opportunities Outside the US Amid Anticipated Global Rate-Cutting Cycle

- A pivotal shift in the economic landscape is anticipated as a reflection of the aggressive tightening cycle of 2023.
- The Asian credit market's positive momentum is expected to continue, offering attractive income and potential capital gains.
- With easing headwinds and attractive valuations, there could be a potential re-rating in Asian equities with pockets of opportunities in China, India and South Korean Electric Vehicle (EV) sector.

HONG KONG / SINGAPORE – Reflecting on the aggressive tightening cycle of 2023, **Manulife Investment Management (Manulife IM)** now anticipates a pivotal shift in the global economic landscape. At its 2024 Mid-Year Investment Outlook Media Briefing today, Manulife IM revealed that the US interest rate has likely peaked and expects the Federal Reserve (Fed) to join the global easing cycle later this year.

Inflation is expected to align with the Fed's targets, while employment is not anticipated to exert upward pressure on services inflation. Despite these favorable trends, a fundamental slowdown in the US economy is expected, driven by tightening conditions for businesses and consumers. This nuanced outlook underscores the importance of strategic adaptability for investors in the evolving economic environment.

Luke Browne, Head of Asset Allocation, Asia, Manulife Investment Management, said: "We believe the global economy remains in decent shape as we stand here at the midpoint of the year. Leadership from an economic perspective remains with the US, driven by strong consumer activity, despite some recent cooling. Economies like Europe, Japan, and China have shown signs of stabilisation and improvement, with policymakers intervening to support challenged sectors such as the property market in China."

"The pace of disinflation globally, particularly in the US will be our focus for the remainder of the year. Central banks in developed countries like Switzerland, Canada, and recently the European Central Bank have cut rates over the past several months. However, the US Fed has been more cautious due to persistent inflationary factors like auto insurance and shelter costs, which have caused disinflation to progress unevenly."

"Looking ahead, we believe these one-off inflationary factors will stabilise, allowing the Fed to cut interest rates towards the end of the year. This is crucial as interest rate cuts in a stable growth environment could unlock relative value in markets. For instance, US small-cap stocks, which have been highly leveraged to the interest rate cycle and trade at multi-decade relative valuation discounts, are poised to benefit. Additionally, attractive opportunities emerge outside the US in both developed and emerging markets, particularly in Japan and India. In terms of sectors, energy and commodities should also be on investors' radar as well. We observe emerging opportunities across ASEAN markets and as we progress through an easing cycle there will be opportunities to take advantage of."

Asia Fixed Income: Positive momentum expected to continue

Murray Collis, Senior Managing Director, Chief Investment Officer, Asia (ex-Japan) Fixed Income, Manulife Investment Management highlights that the performance of Asian credit has stood out year to date compared with other fixed income asset classes and there is a strong case for the positive momentum to continue into year-end, delivering attractive income and potential capital gains for investors.

Mr. Collis said: “We have seen Asian credit navigate a relatively volatile fixed income market at the beginning of the year due to the uncertain Fed outlook, as well as elections across Asia that have not had a significant impact on Asian bonds so far with policy continuity largely expected by the market. While US investment grade bonds have been negatively impacted by the Fed holding off on cutting rates, Asian investment grade credit outperformed on the back of resilient fundamentals and favourable market technicals. Asian high yield credit’s performance year to date was even more impressive, as stabilising defaults and cheap valuations started to attract interest from investors.”

“From an Asian credit perspective, we expect the positive momentum in the asset class to continue into the second half, backed by robust investor demand to meet the expected pick-up in gross new issuance. Asia’s economic fundamentals remain resilient and continue to drive global growth. Relative to developed market credit, Asian credit continues to trade at attractive valuations and is poised to draw interest from investors potentially looking for diversification benefits and to increase allocations to risk-assets when the Fed potentially lower rates later in the year. Investment grade credit remain attractive on a risk-adjusted basis, and we also see opportunities in the Asian high yield space as credit spreads trade at historically wide levels, offering investors an attractive entry point into the asset class.

Asian Equities: Attractive valuations and growth opportunities

Despite inflation being largely under control in Asia, persistent headwinds from higher US interest rates have constrained consumption and investment in Asian economies. However, **Marco Giubin, Senior Portfolio Manager, Equities, Manulife Investment Management** believes that easing headwinds combined with an upwards earnings revisions trend for Asia ex Japan and attractive valuation could catalyze a potential re-rating in Asian equities.

Mr. Giubin said: “Asian equities are currently trading at a projected price-to-earnings (P/E) ratio of approximately 12 times their estimated earnings for the year 2025, with an expected earnings growth rate of over 15%. In contrast, US equities are trading at a much higher projected P/E ratio of 21 times their estimated 2025 earnings, with a slightly lower expected earnings growth rate of 14%. Asian equities appear to offer more attractive value, providing investors with the potential for higher earnings growth at a lower price relative to US equities.”

From a geographic standpoint, Manulife IM is now more constructive on China due to low valuations and more cautious market expectations. “China’s incremental policy responses are expected to mitigate the impact of weakness from the property sector. While India remains a strong structural story, our positioning is cautious given elevated valuations and the Modi government’s slender majority, which raises questions about some drivers of its investment-led growth model. Consequently, we are starting to favour more consumption-related stocks that had underperformed industrial names before the Indian election.”

“In North Asia, we have become incrementally more positive on Korea relative to Taiwan, given valuations and the upcycle in Dynamic Random Access Memory (DRAM), while many of Taiwan’s tech stocks have re-rated significantly on the AI thematic despite many being only indirectly exposed. Additionally, many South Korean battery manufacturers have significantly underperformed due to concerns about EV market growth. We believe these names look extremely cheap given the growth opportunity that still exists. Recent protectionism against Chinese suppliers in markets like North America and Europe is likely to accelerate interest in South Korean EV supply chains as a substitute.” Mr. Giubin concluded.

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