Q4 | 2020

Global Macro Outlook

Navigating a slowing recovery

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Introduction: entering the stall out

In Q3, we introduced our three-phase framework for navigating the COVID-19 recovery. It was our attempt at providing a road map in the midst of the extraordinary uncertainty as the global economy recovers from the damage arising from the pandemic. We suggested that the first phase of the recovery, which we called the rapid rebound, would see between 60% and 70% of the economic damage inflicted during the March/April lockdowns being recouped. However, the initial positive recovery phase will be followed by a more painful period—the stall out—which we noted would likely begin in September. During this period, recovery will likely stall and momentum could slow substantially, creating a more problematic environment for risk assets as a new suite of challenges emerges. Indeed, we now believe that we've entered this difficult stall-out period—one that isn't devoid of tailwinds but is likely to be dominated by headwinds and obstacles. In this edition of *Global Macro Outlook*, we outline the key issues that we believe will shape the macroeconomic strategy narrative.

Key themes as we enter Phase 2: the stall out

Global high-frequency data suggests recovery momentum has stalled as social distancing measures keep a lid on businesses' operating capacity and job losses are beginning to affect aggregate demand. However, we see evidence of a K-shaped recovery in most developed economies in which manufacturing activity has rebounded strongly while services activity remains weak.

The idea of a policy put is being tested in the United States, with potential ramifications for global markets. The bar for further stimulus from the U.S. Federal Reserve (Fed) appears to be rising, and the lengthy delay in the passage of additional fiscal stimulus from the U.S. federal government will likely exacerbate the loss of momentum in the U.S. economy.

Geopolitical risks are mounting globally, from uncertainty relating to November's U.S. election and the growing unease relating to the prospect of a no-deal Brexit. We expect these rising geopolitical risks to challenge the recovery, exacerbate the stall out, and become an obstacle for risk assets.

Inflationary pressures in the United States could push rates moderately higher at the long end of the yield curve. In our view, the drivers of inflation are shifting, and while we don't expect inflation to spike in a significant manner, there's potential for upside surprises on price pressures in the United States as disinflationary pressures persist in most parts of the world.

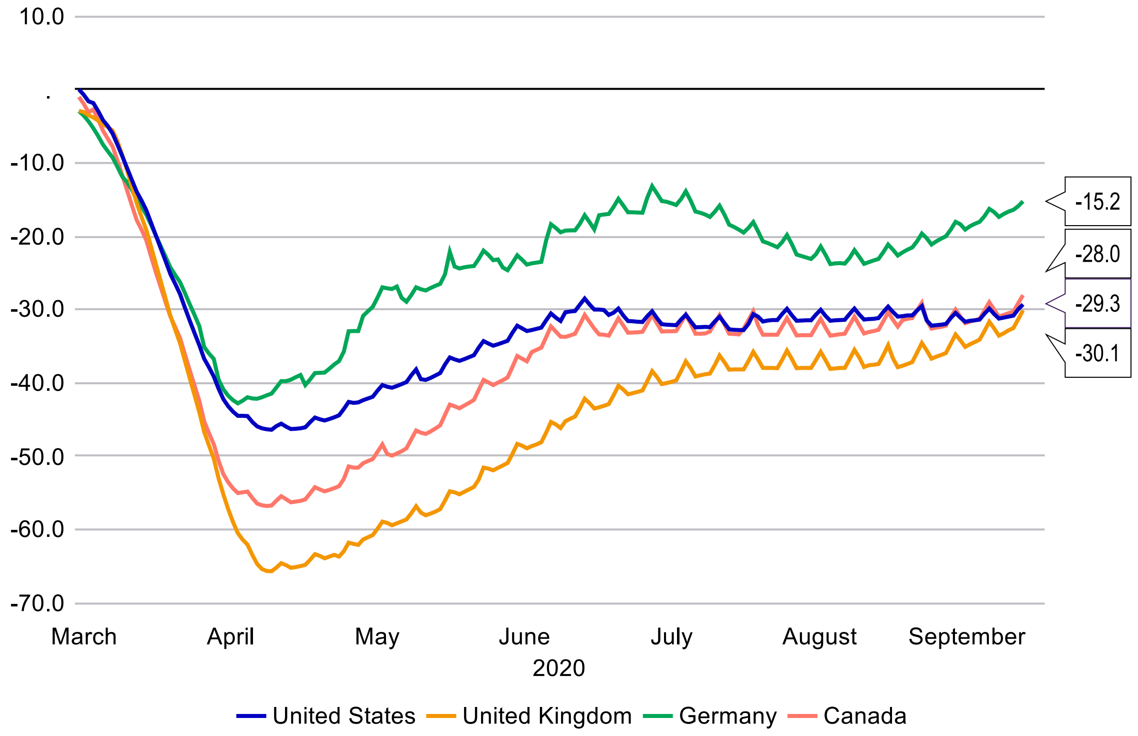
It's not too early to be thinking about Phase 3—the new normal—even if we are a year or more away from the next phase of recovery. Themes that will likely define the global economic system post-COVID-19, such as large government debts and extraordinarily low rates for an extended period of time, are being seeded now.

Global

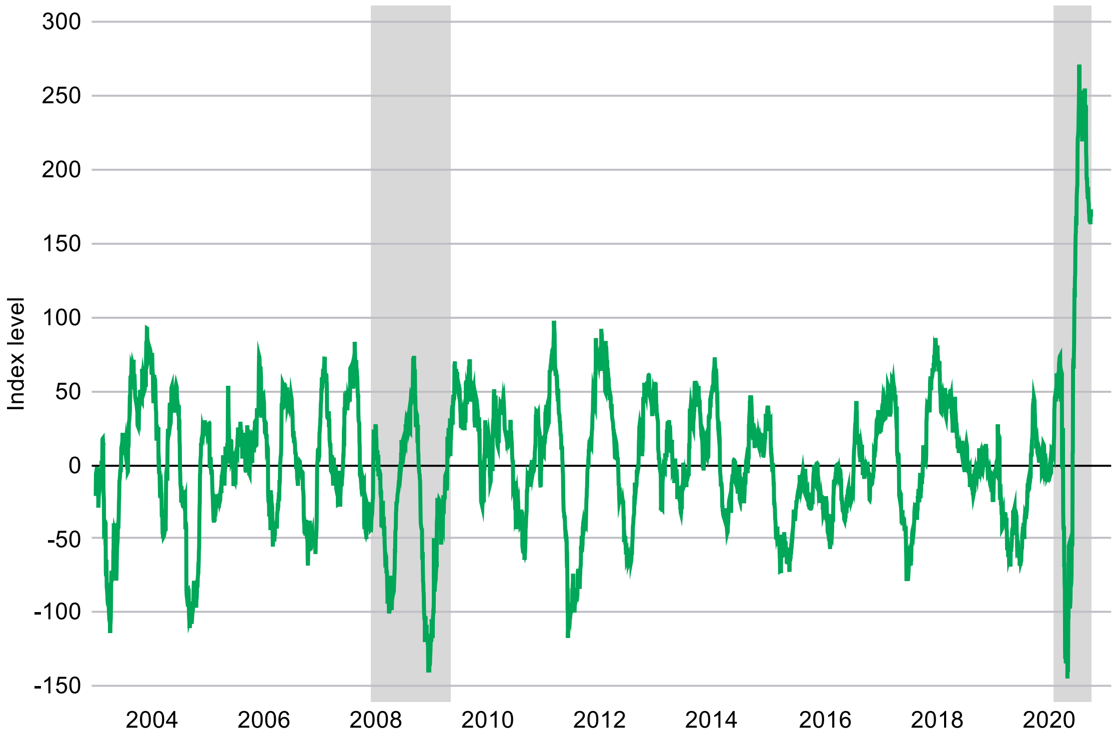
Entering the stall out

The vast majority of high-frequency data and many traditional economic data prints have confirmed our view that the U.S. economy—and the global economy—has entered Phase 2 of the recovery, the stall out. As we mentioned recently, we expect this phase to be characterized by a significant loss of momentum in economic improvement; however, we aren't expecting a double-dip recession or a W-shaped recovery. The loss in momentum can be seen in the Citi Economic Surprise Index, U.S., which shows that upside surprises to economic data peaked in August.[2]

Mobility data—presence at workplaces (compared with baseline)[1] (%)



Citi Economic Surprise Index, U.S.[2]

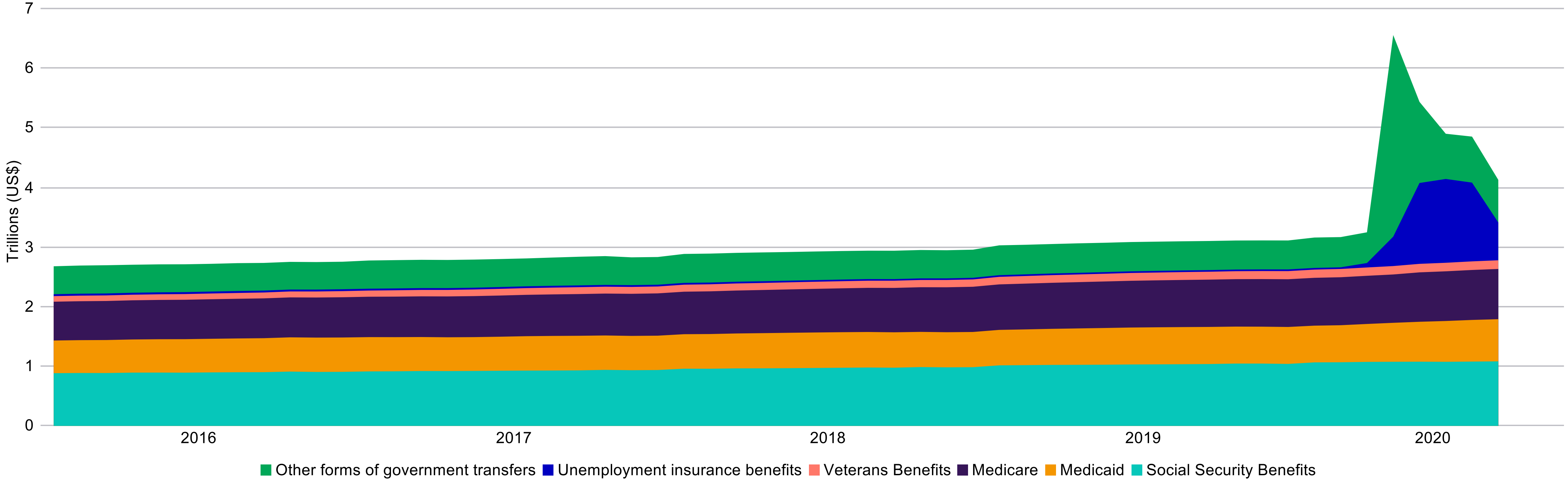


1 Google, Macrobond, as of October 2, 2020. **2** Bloomberg, Macrobond, as of October 2, 2020. The gray areas represent recessions.

Testing the idea of a policy put

In the rapid rebound phase of the recovery, the global economy and financial markets were well supported by unprecedented monetary and fiscal responses. However, we expect the idea of a policy put by either the Fed or the U.S. government to become increasingly tested in Q4. Recent communication from the Fed suggests the bar for additional easing is now much higher. In addition, the United States has hit a fiscal cliff after unemployment benefits expired at the end of July, and an additional fiscal package has yet to be passed (as of this writing). This contrasts sharply with other developed economies—central banks in these economies seem more ready to act (if needed) and fiscal stimulus remains.

U.S. government transfers to households stagnates[1]

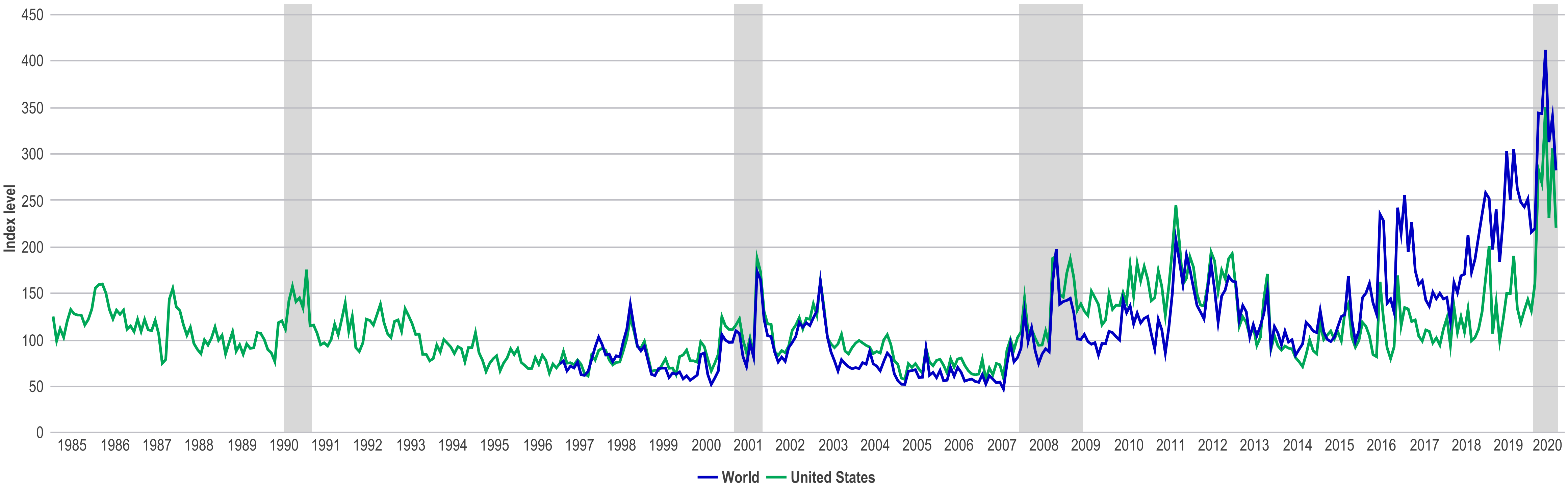


1 U.S. Bureau of Economic Analysis, Macrobond, Manulife Investment Management, as of October 2, 2020. Examples of other forms of government transfers to households include education, training, and transport.

Geopolitical risks are rising

While the U.S. election will no doubt exacerbate uncertainty in Q4, the growing list of geopolitical issues globally could also dampen investors' appetite for risks in the coming months. Issues that could affect sentiment include Brexit-related uncertainty, tensions between the European Union (EU) and Russia, the contested Belarusian election, and an unexpectedly challenging EU-China summit, during which the EU stepped up its demands on market access. We suspect geopolitical uncertainty could come into focus in Q4.

Global Economic Policy Uncertainty Index[1]



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1 Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020. The gray areas represent recessions. The Global Economic Policy Uncertainty Index is only available from January 1, 1997.

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Four pillars to our inflation outlook

Our view is that U.S. inflation could rise to between 2% and 3% within the next 12 months but struggle to reaccelerate from those levels; crucially, the rest of the world will likely struggle more with disinflationary pressures. In our view, it's important to develop a framework through which we can understand inflation in the current environment, and we believe the following four pillars could be a useful starting place.

Timelines matter

- Get your inflation timelines straight. We believe that a great deal of confusion regarding the U.S. inflation outlook can be traced to difficulties in delineating the near-term inflation trajectory from its long-term path.
- There are inflationary and deflationary forces in every time horizon, but one will inevitably outweigh the other at different points in time.

Market expectations

- It isn't just the level of inflation that markets care about but also the *type* of inflation that's being generated—cost push vs. demand pull—and the extent to which it deviates from expectations are just as important
- Critically, mild to moderate inflation isn't always strictly negative for equities.

Regime shifts

- We may be in the midst of a structural regime shift in terms of the key drivers of inflation.
- We expect future inflation to be driven more by active fiscal policy and deglobalization and less by monetary policy.
- Classic inflation models are therefore far less relevant and shouldn't be used to predict future inflationary pressures. This suggests old-school correlations such as the Phillips curve might not be as useful as they once were.

Measurement issues

- Even before the COVID-19 outbreak, classic Consumer Price Index (CPI) measures weren't accurately measuring the cost of living for most Americans—they're likely to be even less accurate now.
- Policymakers are increasingly looking to address this problem, and it's likely that both our formal and informal measurements of inflation will need to be adjusted in the coming years, particularly with respect to housing costs and asset prices (which would push measured inflation higher).

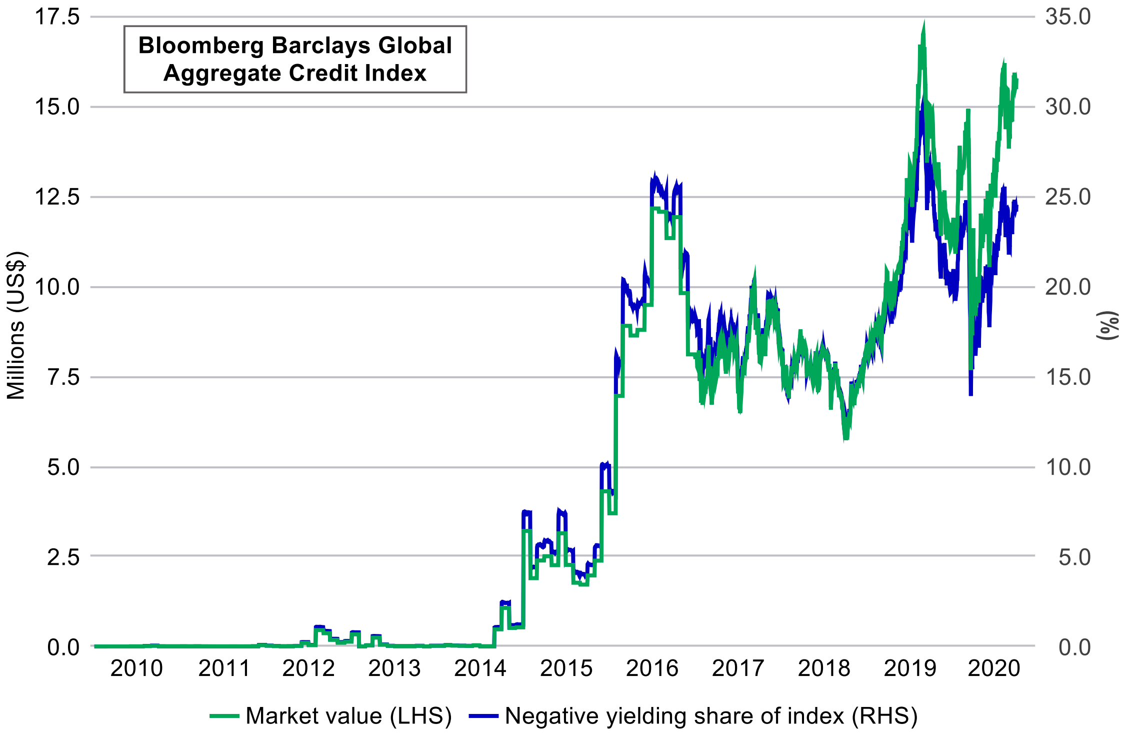
It's time to think about Phase 3: the new normal

Medical advancements will likely dictate when normality will return (we think 2022 is likely). That said, it isn't too early to identify key themes that could shape the next phase of the recovery. In our view, the transition to the next phase isn't likely to occur at a single point in time—it'll be gradual, and each economy's/sector's experience of it could be different. From a multi-year perspective, we're particularly focused on the impacts of a U.S.-China decoupling, unprecedented levels of government debt (and the response of central banks), and increasingly low (or negative) rates. Investors should also consider how environmental, social, and governance (ESG) factors might influence government policies.

Phase 3: longer-term macroeconomic themes

- **U.S.-China decoupling**
- **Persistently large fiscal deficit and rising debt levels**
- **Debt monetization by central banks**
- **Protracted period of low and negative interest rates**
- **Impact of ESG on the design of policies and government policies**

Share of global investment-grade bonds that are negative yielding[1]



1 Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020. LHS refers to left-hand side; RHS refers to right-hand side.

United States

Q4 2020: the uncertainty continues

Fundamentally, we believe the United States has entered the stall-out phase of the recovery. We expect this stage will be characterized by slowing momentum as social distancing measures mean that services-based businesses will continue to operate below activity and that consumer confidence falters as the threat of a second wave of outbreak lingers. There are also multiple sources of tail risk and uncertainty to take into account, including the upcoming U.S. election (and the possibility of a contested outcome), another fiscal stimulus package, and rising geopolitical tensions outside the United States. As a result, we expect key volatility indexes to stay elevated.

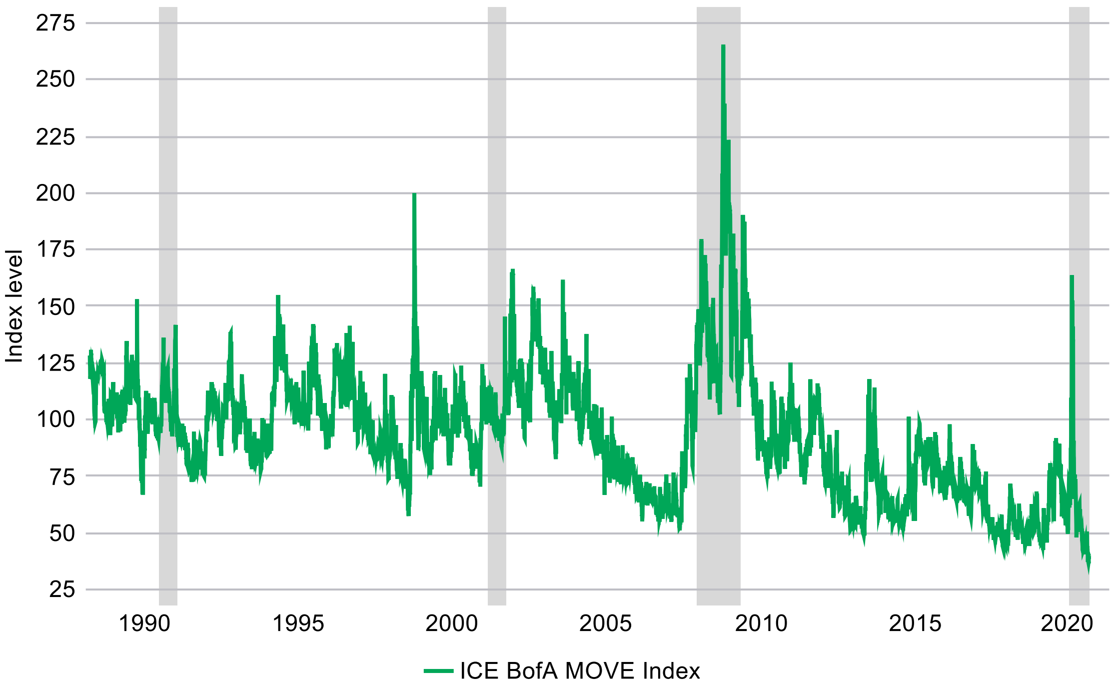
Equity volatility has settled in at the highest range we've seen since the European debt crisis[1]

1 Chicago Board Options Exchange, Manulife Investment Management, as of September 28, 2020. The gray area represents a recession.

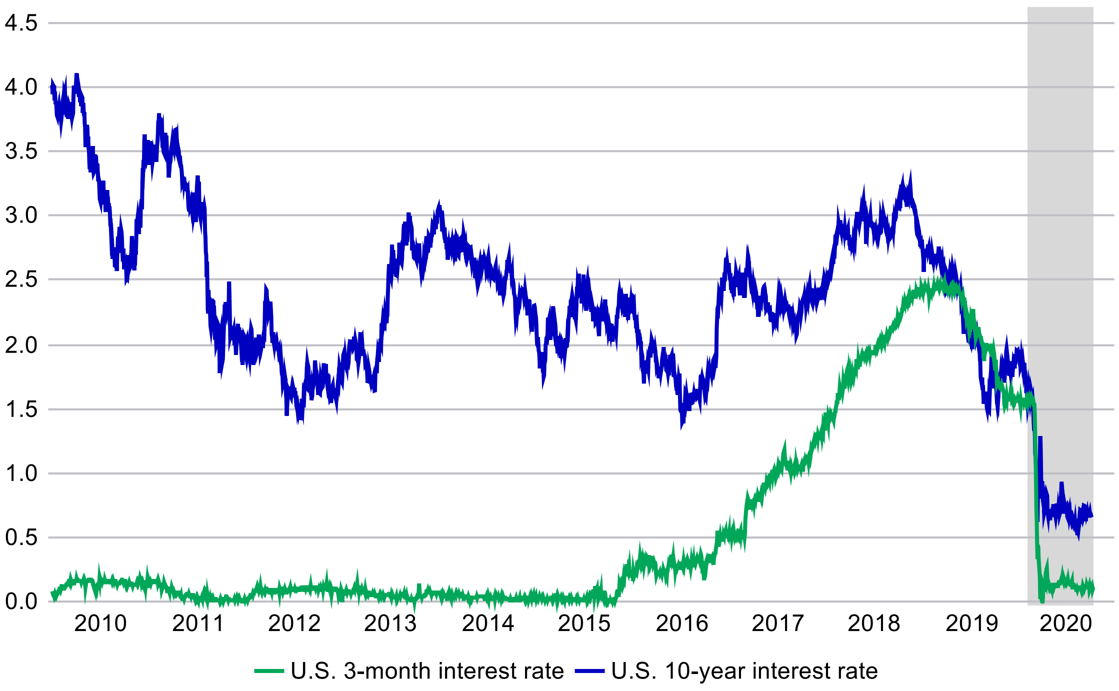
We expect U.S. interest rates to remain nailed to the floor

The Fed has ensured that U.S. interest rates will remain at historic lows: A combination of forward guidance suggesting no increase in policy rates for three years (we believe it'll stay unchanged for five years), ongoing use of unconventional monetary policy, and emergency facilities allowing the Fed to intervene in the credit and high-yield markets will likely continue to keep rates remarkably stable. This can be seen in the ICE BofA MOVE Index—an indicator that tracks U.S. interest-rate volatility—which is at historic lows.[1] While we expect the long end to gradually drift higher as the market recognizes moderate inflation, the Fed's backstops will likely keep those moves modest.

Bond market volatility is at historic lows[1]



U.S. Treasuries: suppressed (%)[2]

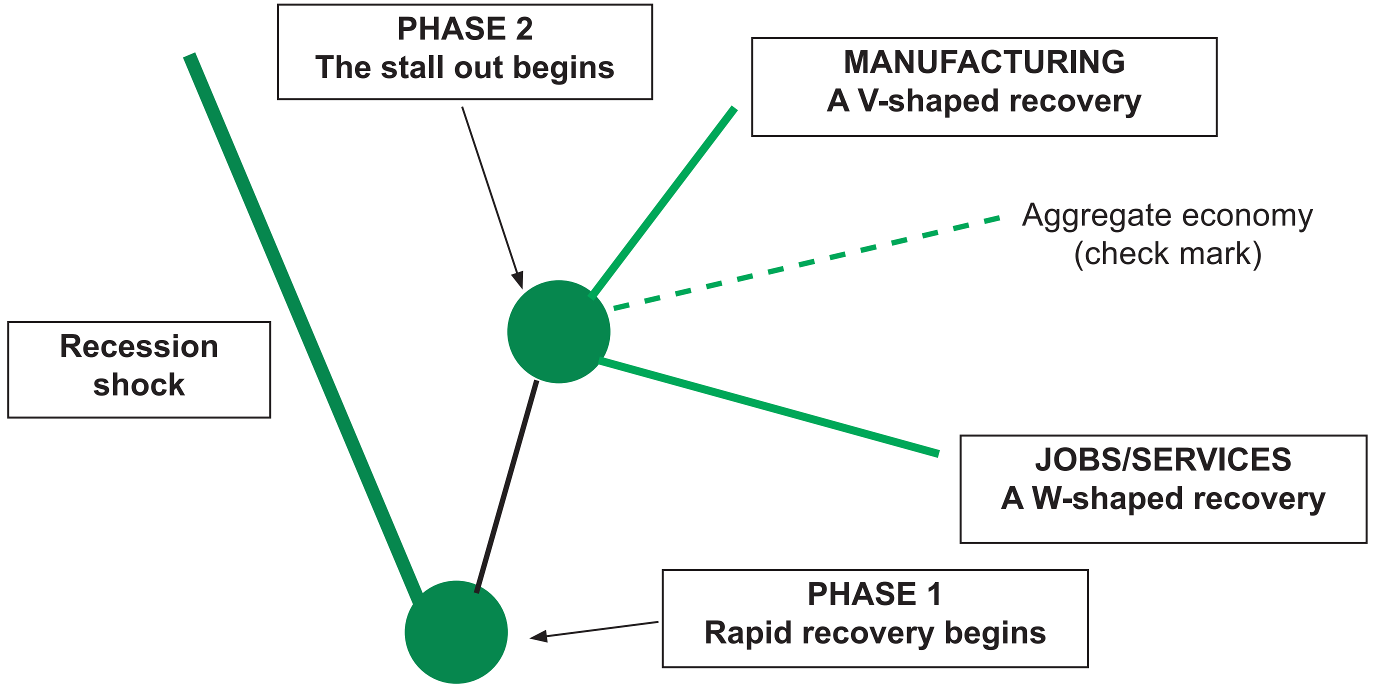


1 ICE Bank of America Merrill Lynch, Manulife Investment Management, as of October 2, 2020. The gray areas represent recessions. **2** U.S. Federal Reserve, Macrobond, Manulife Investment Management, as of October 2, 2020. The gray area represents a recession.

The K-shaped economic recovery

The pandemic-driven recession was unlike anything we've seen before in terms of both magnitude and composition. Much time has been spent writing about what shape the chart of any recovery would take; we believe there's a growing likelihood that we'll see a K-shaped recovery, where certain sectors will rebound strongly while others will stagnate. Broadly speaking, the consumption of goods has so far fared well, while areas that we deem as discretionary services are likely to continue to lag until life normalizes.

Visualizing the K-shaped recovery[1]



What is a K-shaped recovery?

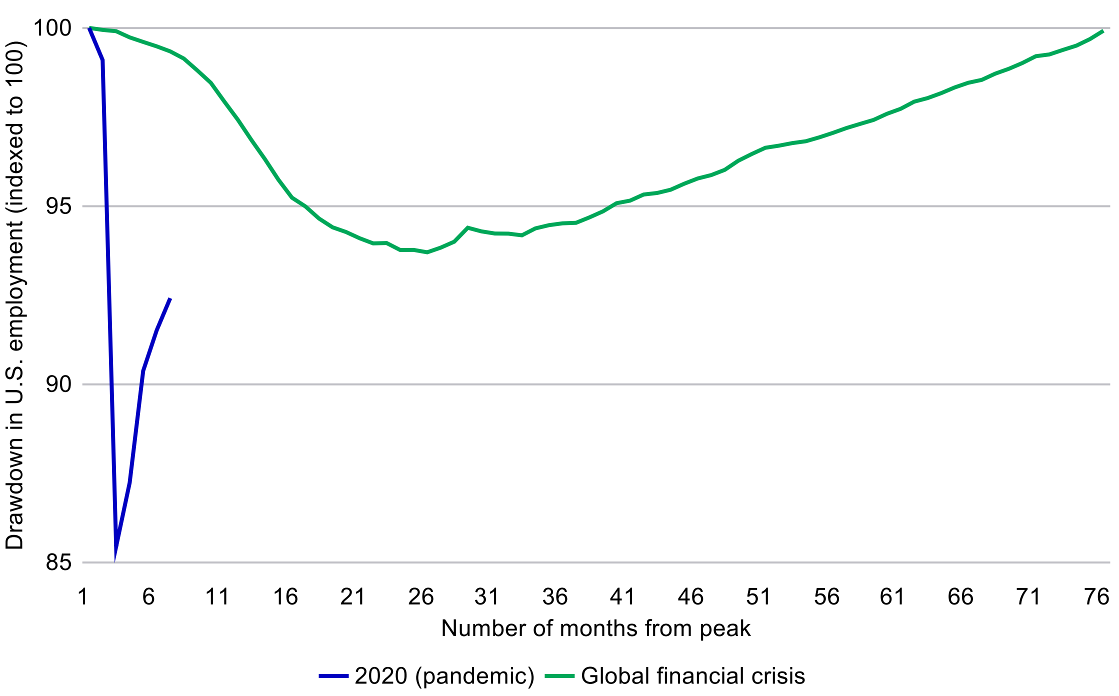
- A period of uneven growth, with sharply diverging growth paths based on industries and economic groups
- The uneven nature of the recovery could widen the gap between the haves and have-nots
- Some believe it will pose longer-term risks for the economy

1 Manulife Investment Management, as of September 28, 2020.

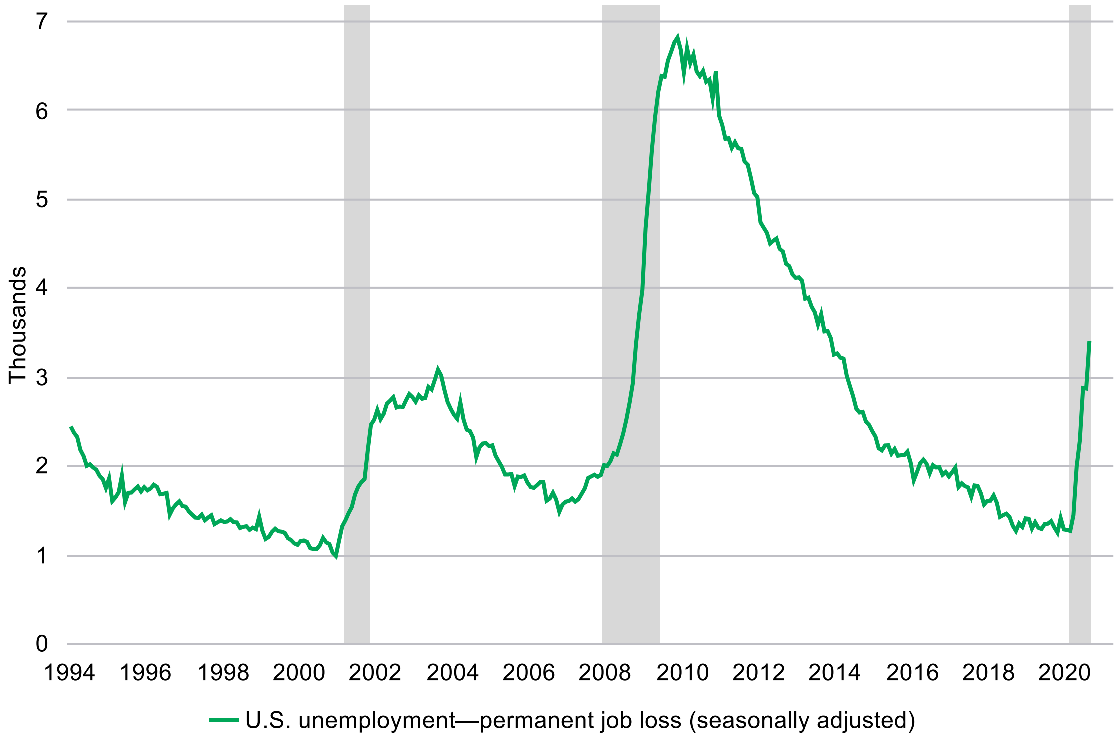
Unemployment remains a significant source of concern

Charts reflecting the number of jobs that have been lost since Q1 remain one of the most jarring visuals summing up the impact of the recent lockdown: Even with the sharp recovery in employment over the last four months, the magnitude of the drawdown has eclipsed the 2008 global financial crisis (GFC) to such an extent that even now, after months of recovery, the labor market remains in worse shape than during the GFC. Worryingly, the number of permanent job losses is climbing quickly, which could potentially undo the progress made in retail sales and throw other sources of growth (e.g., housing and the expected inventory rebuild) into question.

Hit to employment continues to eclipse the GFC, despite recovery[1]



Permanent job losses are climbing quickly[1]

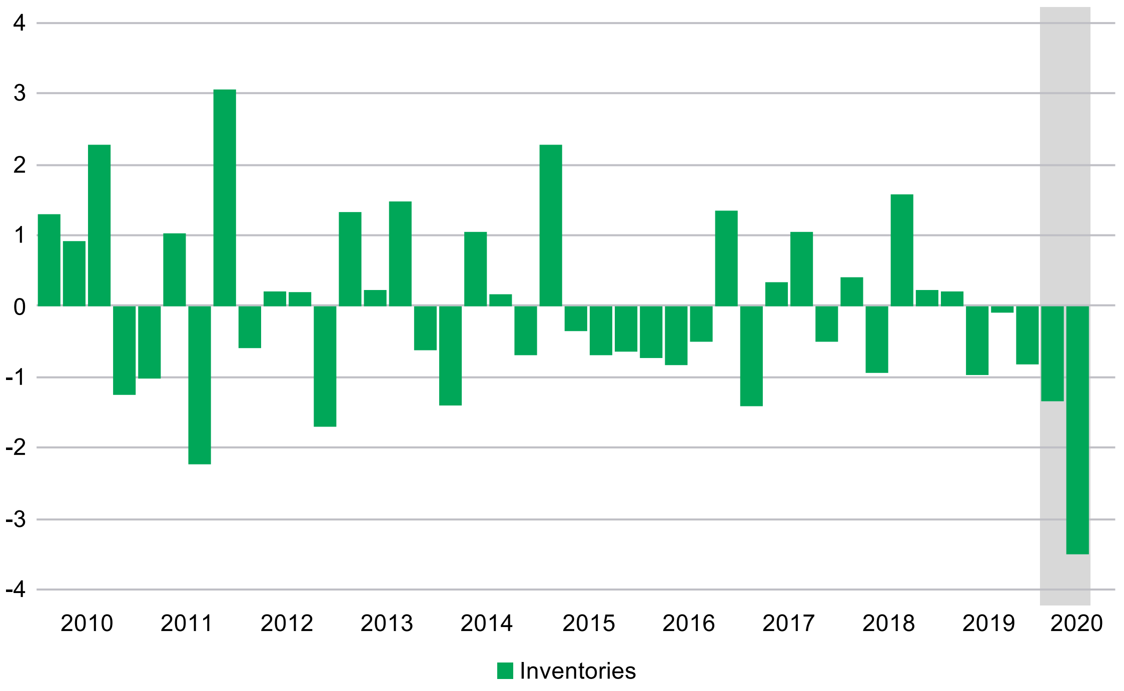


1 U.S. Bureau of Labor Statistics, Manulife Investment Management, as of October 2, 2020. The gray areas represent recessions.

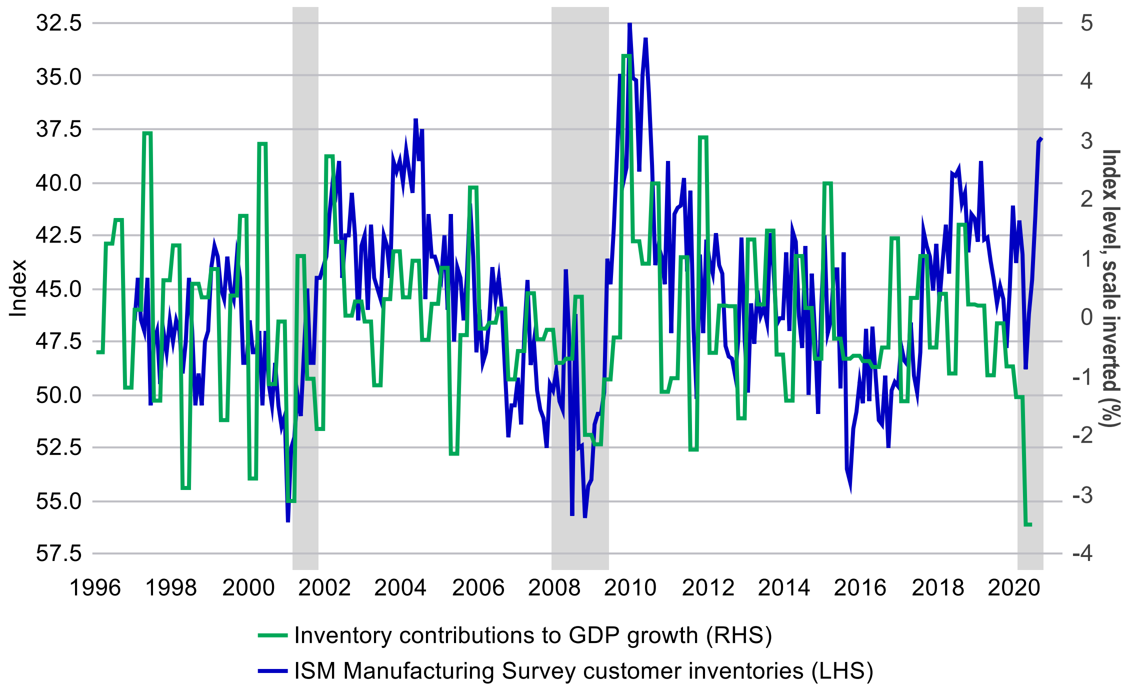
An upside worth monitoring: inventory build a likely source of support

Even before the COVID-19 recession, the United States had seen a fairly significant drawdown in inventories that suggested that it would be due for a stock rebuild that would be supportive of growth. The health crisis further distorted supply chains globally and led to a further drawdown in inventories during Q2 that amounted to an ~3% drag on total GDP growth.[1] While demand remains depressed and businesses aren't likely to be rebuilding in the midst of a recession, we believe that an eventual rebuild—possibly in early 2021—is an upside risk that few are recognizing that would further support the U.S. manufacturing sector and overall growth.

Inventory drawdown should reverse and contribute to growth[1] (%)



Key business surveys also point to an inventory buildup[2]

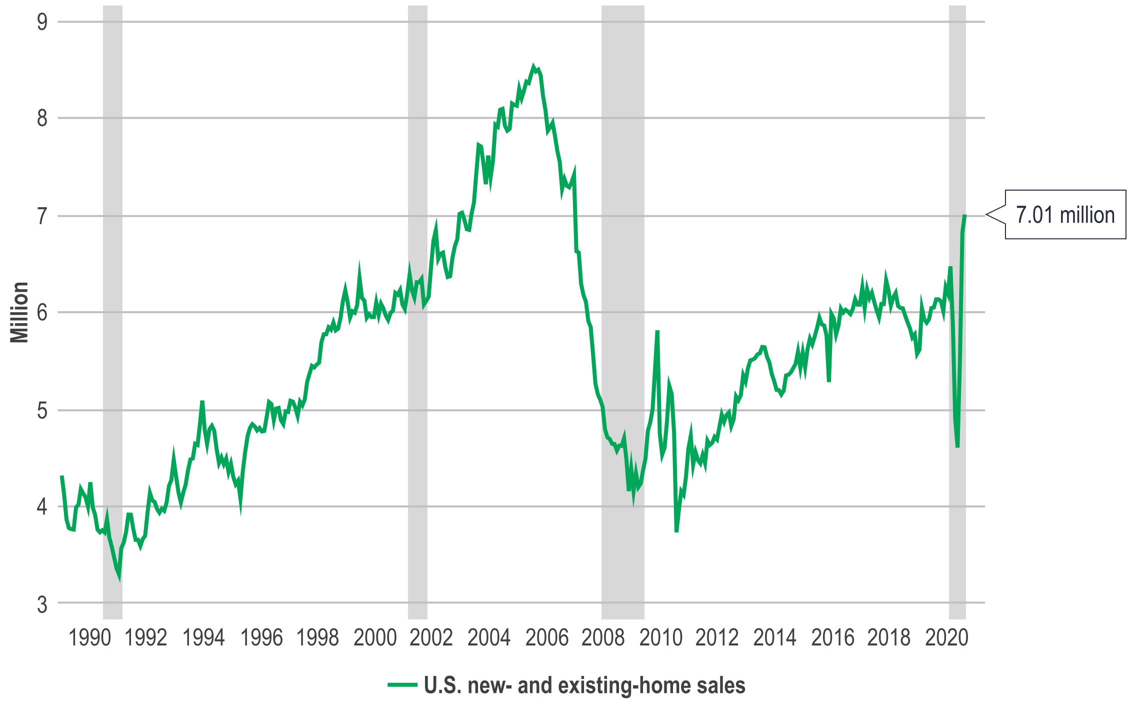


1 U.S. Bureau of Economic Analysis, Manulife Investment Management, as of August 28, 2020. The gray area represents a recession. **2** Institute for Supply Chain Management, Manulife Investment Management, as of August 28, 2020. LHS refers to left-hand side; RHS refers to right-hand side. The gray areas represent recessions.

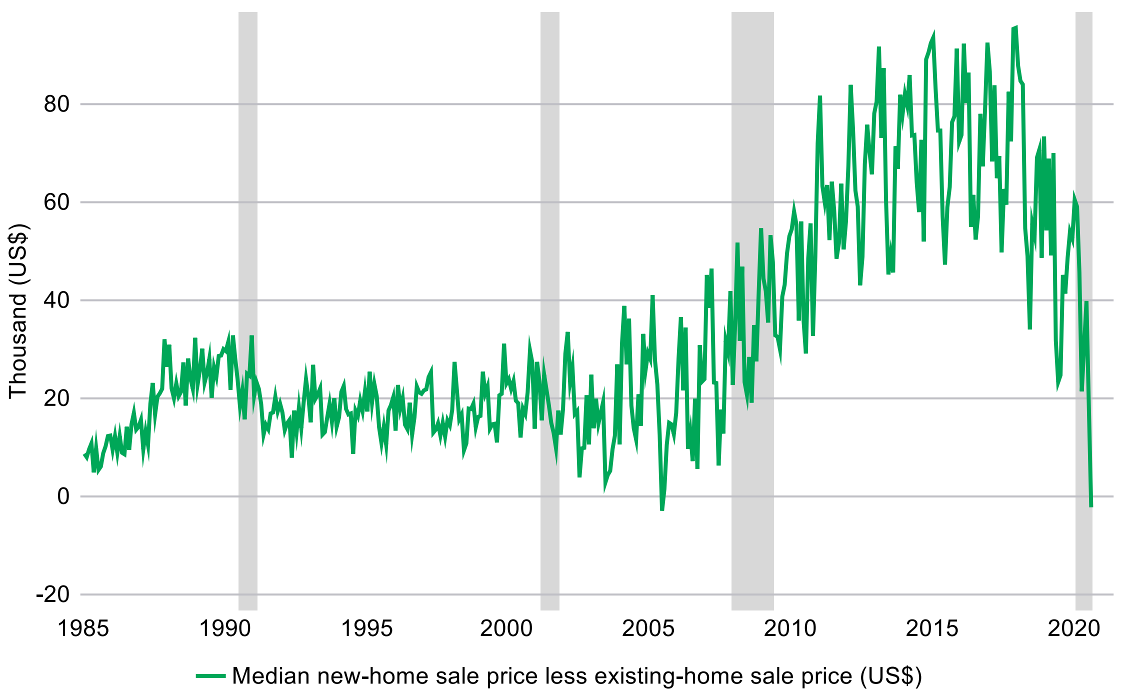
The curious case of U.S. housing

As the economic damage arising from the pandemic became clearer, it had been assumed that the housing market would suffer. So far, however, the opposite is true. In our view, housing strength—particularly relative to prior recessions—is in part because job losses appear more concentrated in lower-income (renters vs. homeowners) segment of the population, and a shortage of supply in the existing-home sales space is driving new-home sales activity. The supply shortage in existing homes for sale has also pushed prices above those of newly built homes, which should provide support to the construction sector (and home builders) until conventional spreads reassert themselves.

New and existing-home sales have eclipsed cycle highs[1]



Price differences between new- and existing-home sales have collapsed[2]



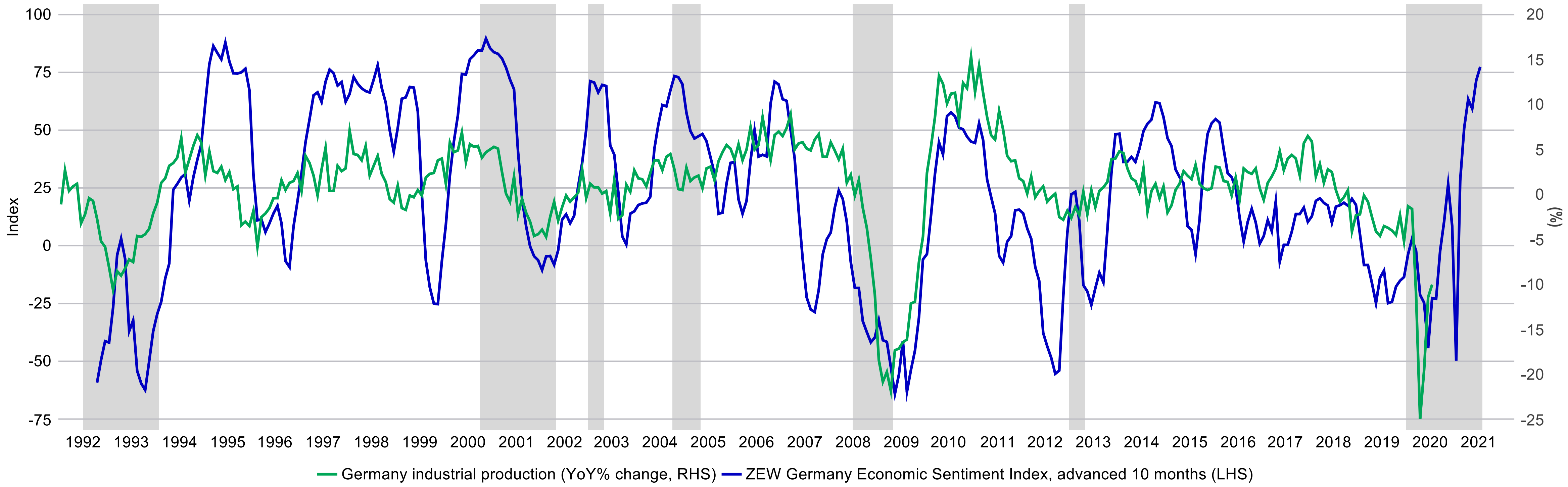
1 National Association of Realtors, Manulife Investment Management, as of August 28, 2020. The gray areas represent recessions. **2** U.S. Census Bureau, as of August 28, 2020. The gray areas represent recessions.

Europe

German sentiment is looking stretched near record levels

Like the United States, Europe has entered the stall-out phase and, notably, is also experiencing a K-shaped recovery in which the manufacturing sector does well but the services sector lags. This is well evidenced in the expectations subcomponent of the German ZEW Financial Market Survey, which is back at fresh multidecade highs.[1] This sentiment measure is important as it typically leads industrial production by about 10 to 12 months. This may initially seem like good news, but it also suggests that a great deal of the manufacturing surge has been priced in: Continued economic progress will likely to be much more challenging from current levels.

German ZEW sentiment expectations and German industrial production¹

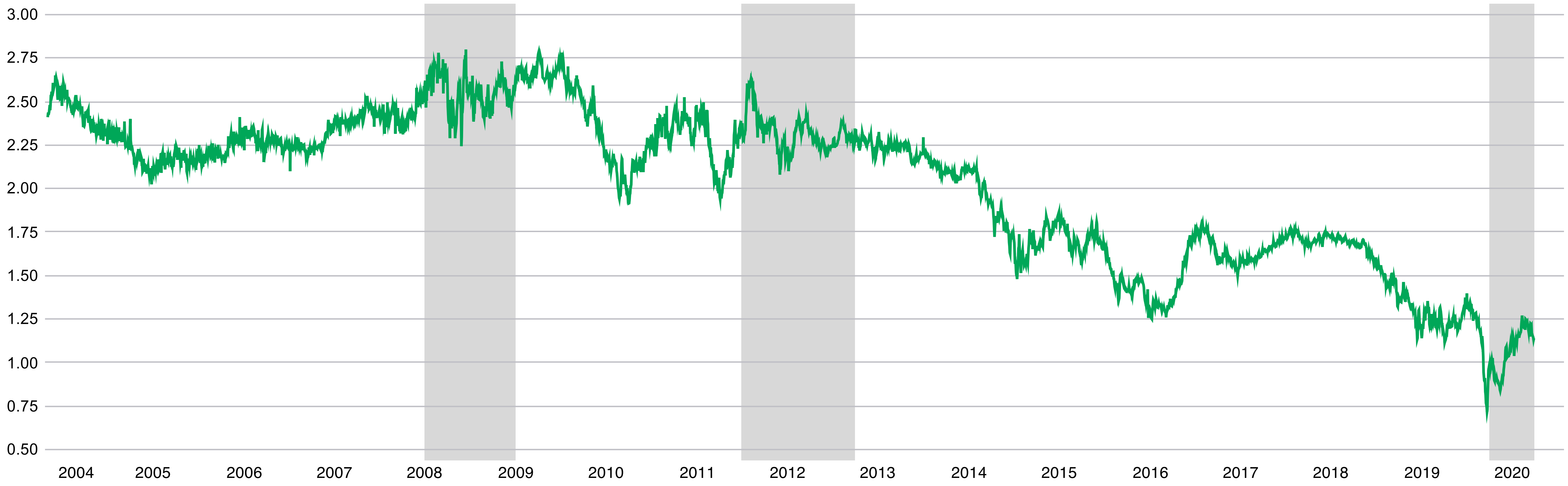


1 Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020. YoY refers to year over year. LHS refers to left-hand side; RHS refers to right-hand side. The gray areas represent recessions.

The ECB still has more work to do

We expect further policy action from the European Central Bank (ECB) in the next couple of quarters as it fights strengthening disinflationary headwinds. Euro area inflation expectations recovered—modestly—from March's record low and appear to have settled well below the ECB's price stability target of 2%.[1] Policymakers have characterized price pressures as being subdued due to weak demand, low wage pressure, and exchange rate appreciation. Risks to growth are also seen as being tilted to the downside. What's next? We see further balance sheet expansion as the next logical step. While a deeper push into negative interest rates remains on the table, it seems less likely.

EUR 5-year, 5-year forward inflation expectation rate (%)

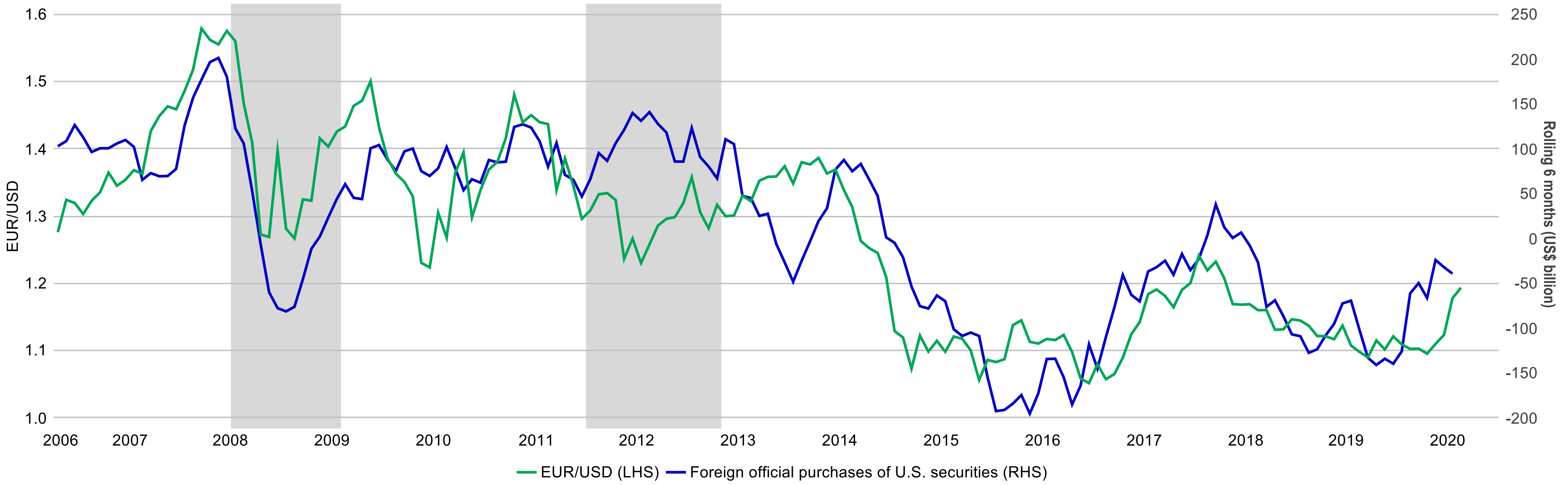


1 Bloomberg, Macrobond, Manulife Investment Management, as of September 29, 2020. EUR refers to the euro. The 5-year, 5-year forward inflation expectation rate measures the average expected inflation rate over five years, beginning from the as-of date. The gray areas represent recessions.

Shifting liquidity trends suggest a pause in the EUR/USD rally is likely

Global central bank reserve management trends remain crucial for the euro (EUR), specifically the currency's exchange rate against the U.S. dollar (EUR/USD). In our view, the EUR remains a procyclical currency, responding positively to global liquidity conditions and vice versa. Recent events hint at the potential for a near-term pause in the EUR/USD's bullish trajectory as major central banks pivot from crisis liquidity provision to longer-term policy accommodation. Crucially, the Fed—in contrast to the ECB—appears to want to pause on additional stimulus. This period of adjustment may take a quarter or two; however, we expect the EUR/USD rally to resume in the spring/summer of 2021.

EUR/USD vs. foreign official purchases of U.S. securities



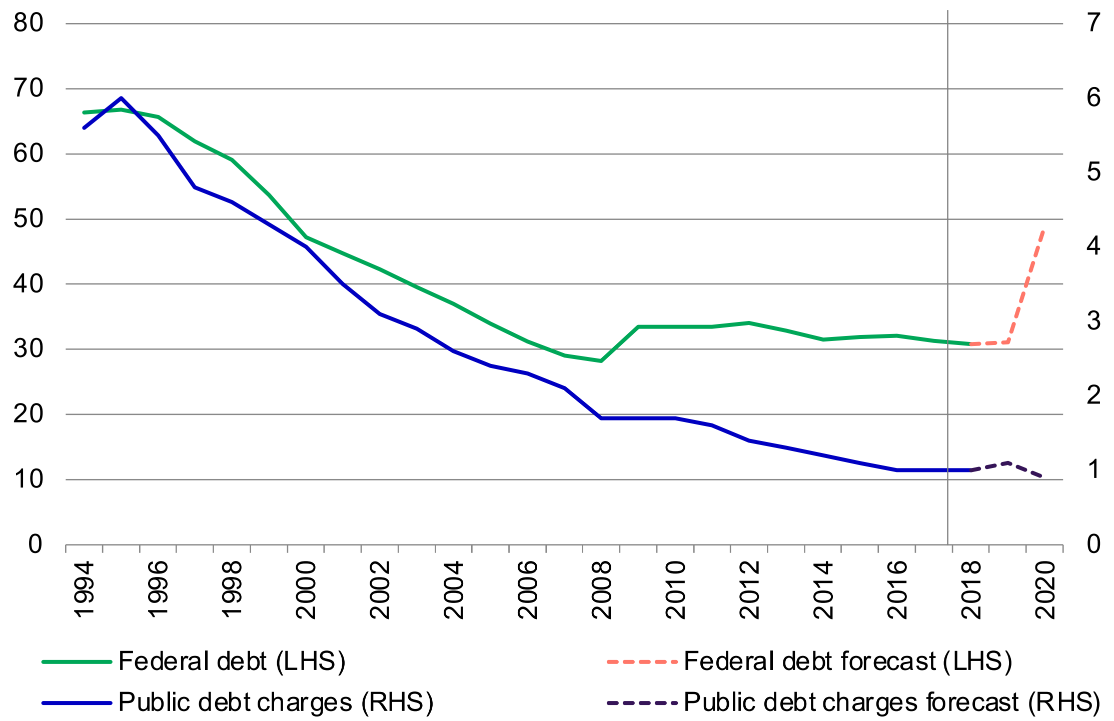
1 Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020. LHS refers to left-hand side; RHS refers to right-hand side. The gray areas represent recessions.

Canada

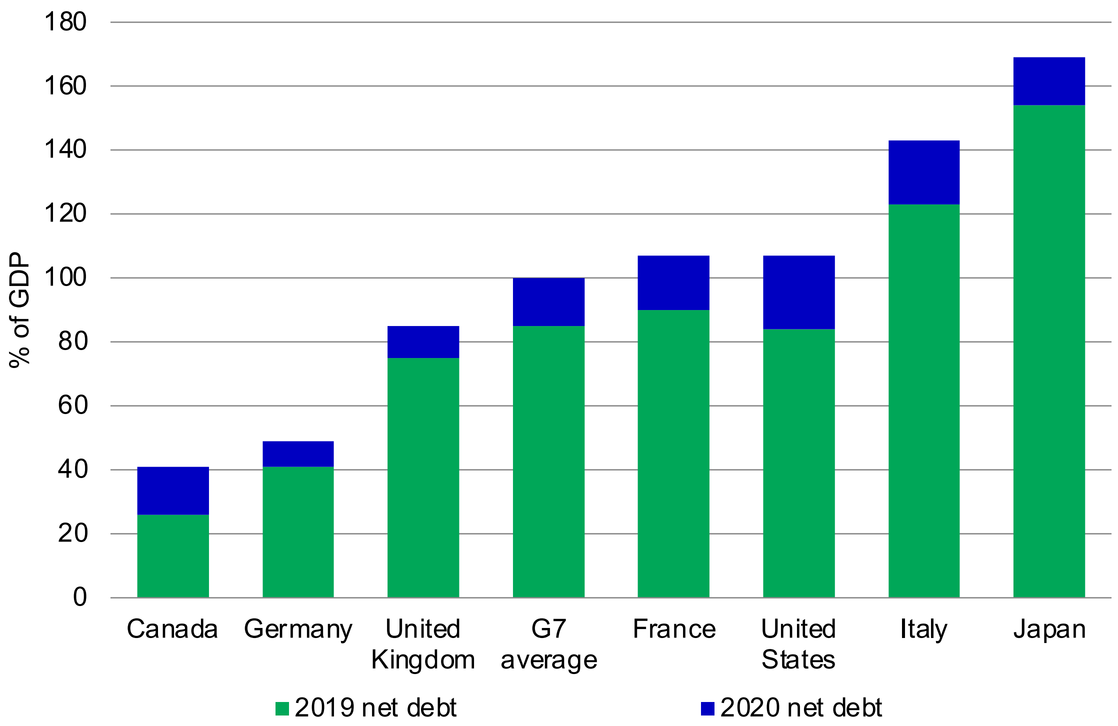
Canadian government debt in focus; spending is likely to surge

Like many developed countries, the federal government's debts are surging: It's on track to match or exceed its record debt-to-GDP levels in the mid-1990s, which theoretically should lead to higher rates and debt servicing costs; however, we don't expect that narrative to play out. The country's federal finances are in substantially better shape than most OECD economies.[1] Besides, the Bank of Canada is buying up the vast majority of government bond issuance, meaning the debt market is less dependent on international investors. Finally, extraordinary low interest rates means total debt servicing costs could actually *decline* next year when compared with this year.

Federal debt and public debt charges as a % of GDP[2]



G7 general government net debt[3]



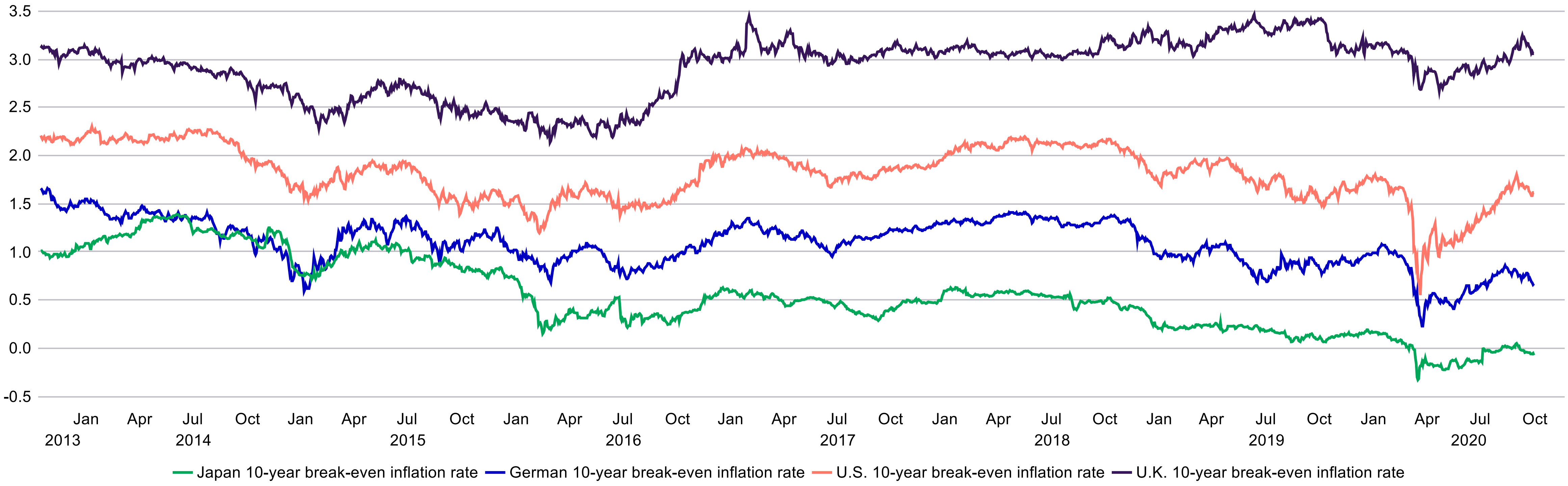
1 The Organisation for Economic Co-operation and Development (OECD) is an intergovernmental economic organization with 37 member countries. **2** Fiscal reference tables, Finance Canada, Manulife Investment Management, as of September 28, 2020. LHS refers to left-hand side; RHS refers to right-hand side. **3** IMF, Finance Canada, Manulife Investment Management, as of April 2020.

Japan

Inflation expectations in Japan remain far too low

Market participants have been offered a significant amount of reassurance from incoming Japanese Prime Minister Yoshihide Suga as he conveyed a message of continuity following Mr. Shinzo Abe's surprise resignation. However, Prime Minister Suga's challenge is the same as his predecessors: Inflation expectations remain incredibly low, evidenced by Japan's marginally negative break-even yields. Low break-even yields limit the extent to which low policy rates can help the real economy, especially when compared with global peers whose real interest rates are much lower. With limited policy tools left, we believe Japan remains stuck in its deflationary spiral.

10-year break-even yields[1] (%)



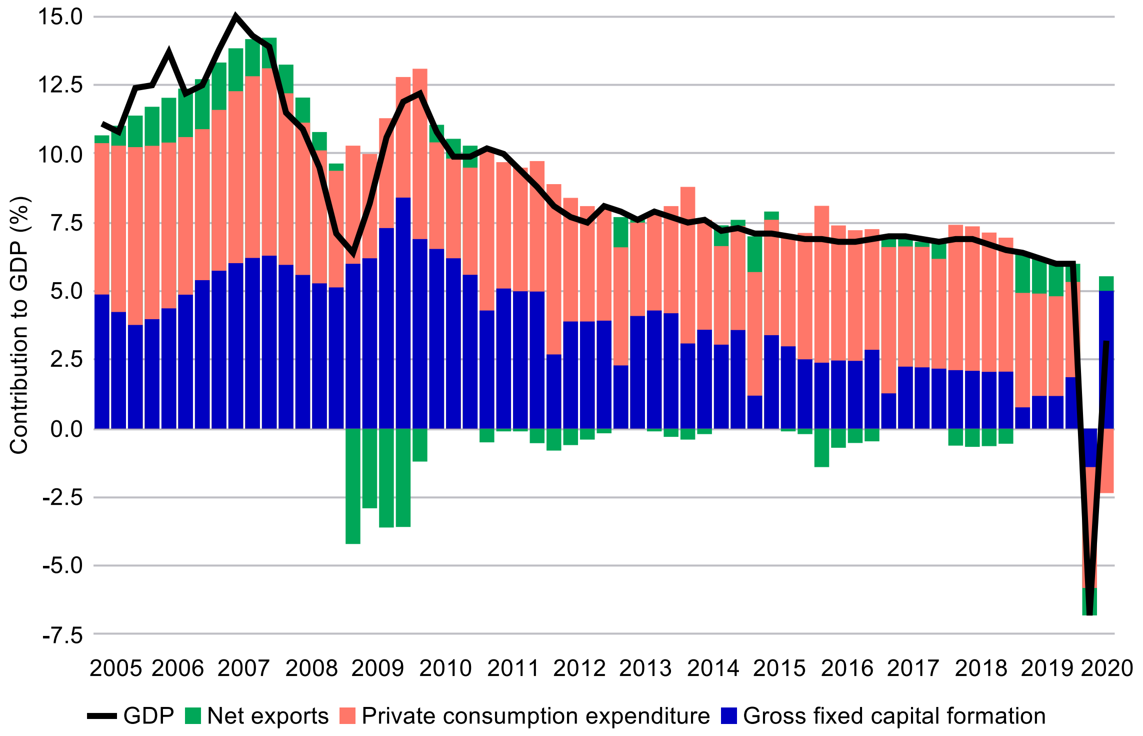
1 Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020. The break-even yield, or break-even inflation rate, is the difference between the yield on a government bond and the real yield on an inflation-linked bond of similar maturity and credit quality. It is typically used as a gauge of inflation expectation.

China

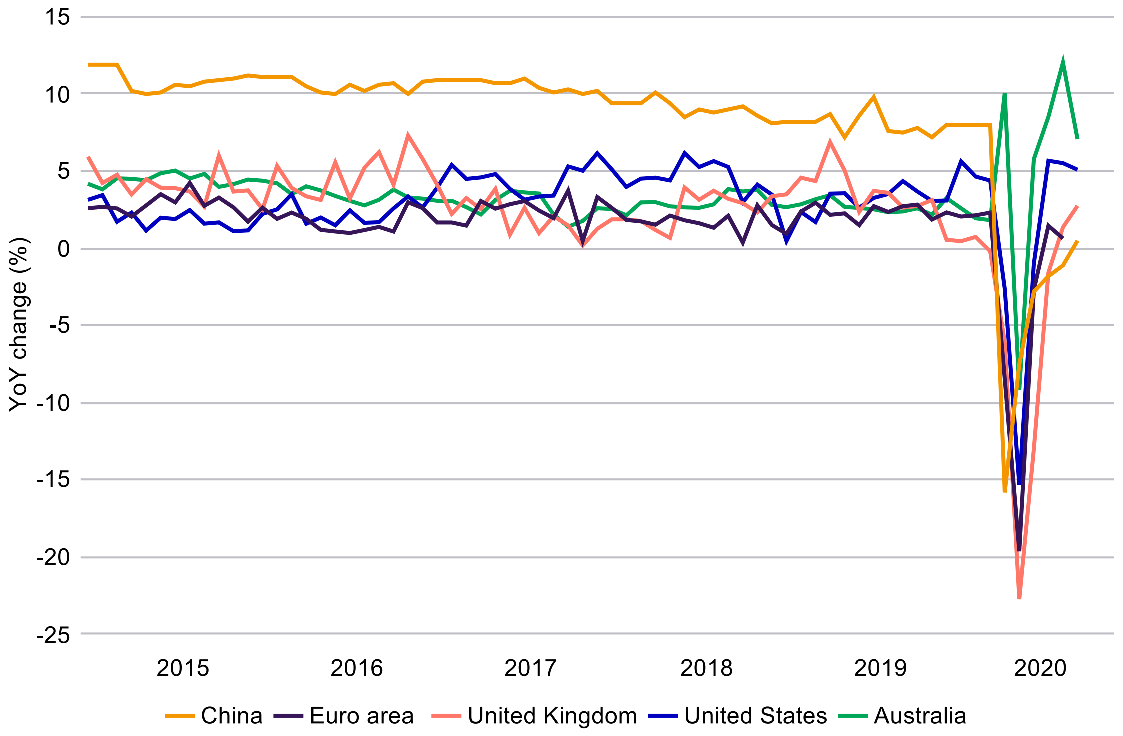
Composition of Chinese GDP growth is disappointing

Q2 GDP growth came in at ~3% in real terms, supposedly signaling a strong recovery from the contraction that we saw in Q1.[1] This was achieved by channeling strong credit growth to public investment projects, the main driver of growth in Q2. Worryingly, consumption growth remains a major laggard, detracting from economic growth for the second consecutive quarter. Moreover, despite China exiting lockdown some two months before the rest of the world, with COVID-19 ostensibly under control, China's consumption recovery lags what we've seen in key developed economies.

Chinese GDP growth imbalance[1]



Despite reopening ~two months earlier, Chinese consumption lags[2]

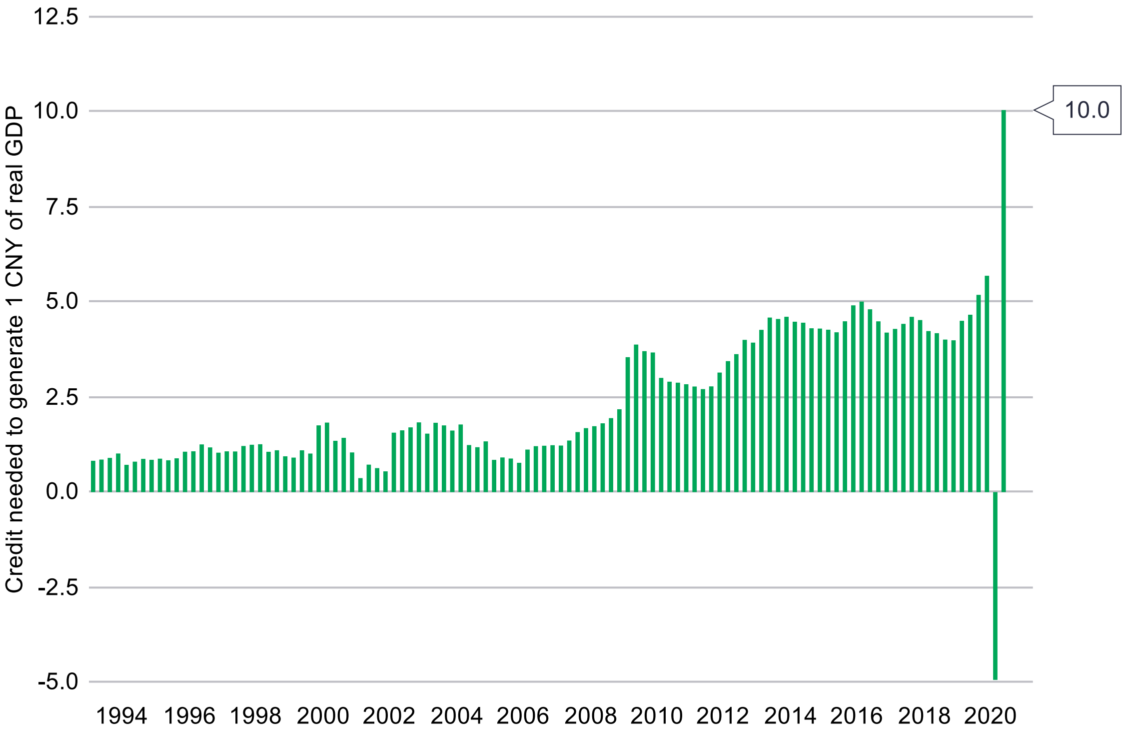


1 U.S. Congressional Budget Office (CBO), Macrobond, as of May 20, 2020. The section in black represents CBO forecasts.
2 National Bureau of Statistics, Macrobond, Manulife Investment Management, as of August 20, 2020. YoY refers to year over year.

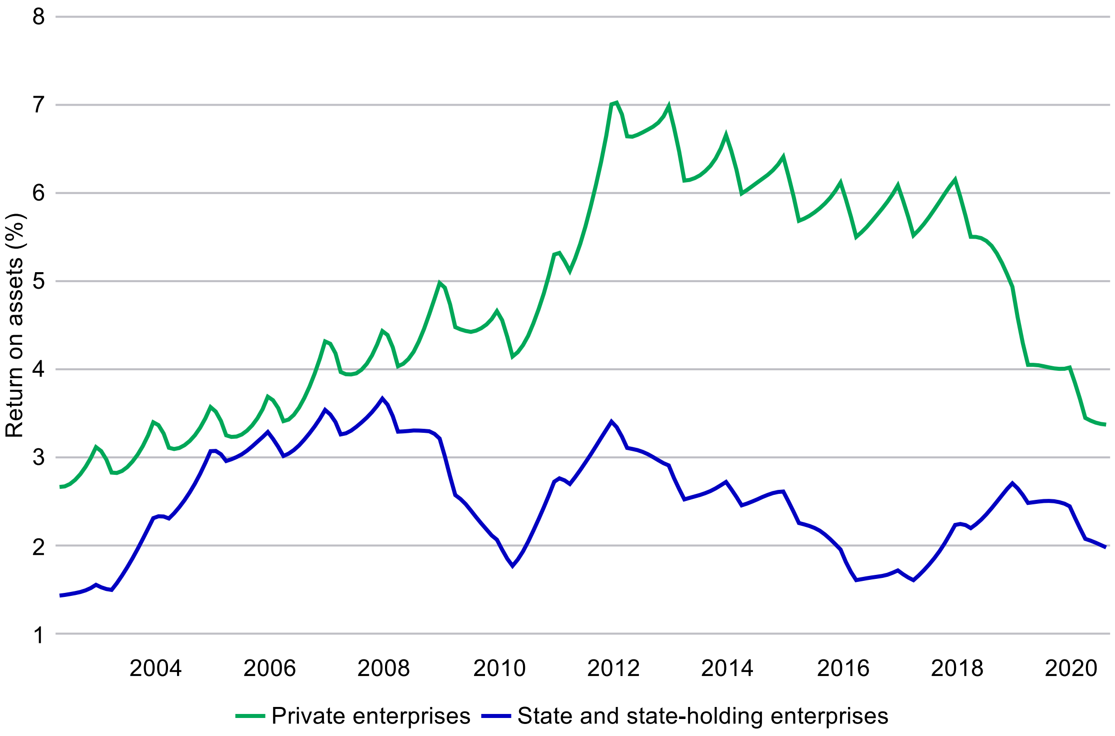
China may not be cutting official interest-rate, but is ramping up debt

Despite weak economic growth, the People's Bank of China hasn't joined the global easing party by cutting benchmark policy interest rates. Its loan prime rates and medium-term lending facility rates have been unchanged since April, while its reserve requirement ratio has been unchanged since January. China has, however, been easing credit aggressively. In August alone, total social financing increased by US$500 billion. GDP credit intensity shot to 10:1 in Q2,[1] highlighting rapidly declining marginal return on investment. Beijing is now pressing ahead with reforms to enable greater oversight of private companies, especially those pivotal to the economy and technological innovation.

Credit intensity of GDP[1]



Diminishing marginal returns[2]



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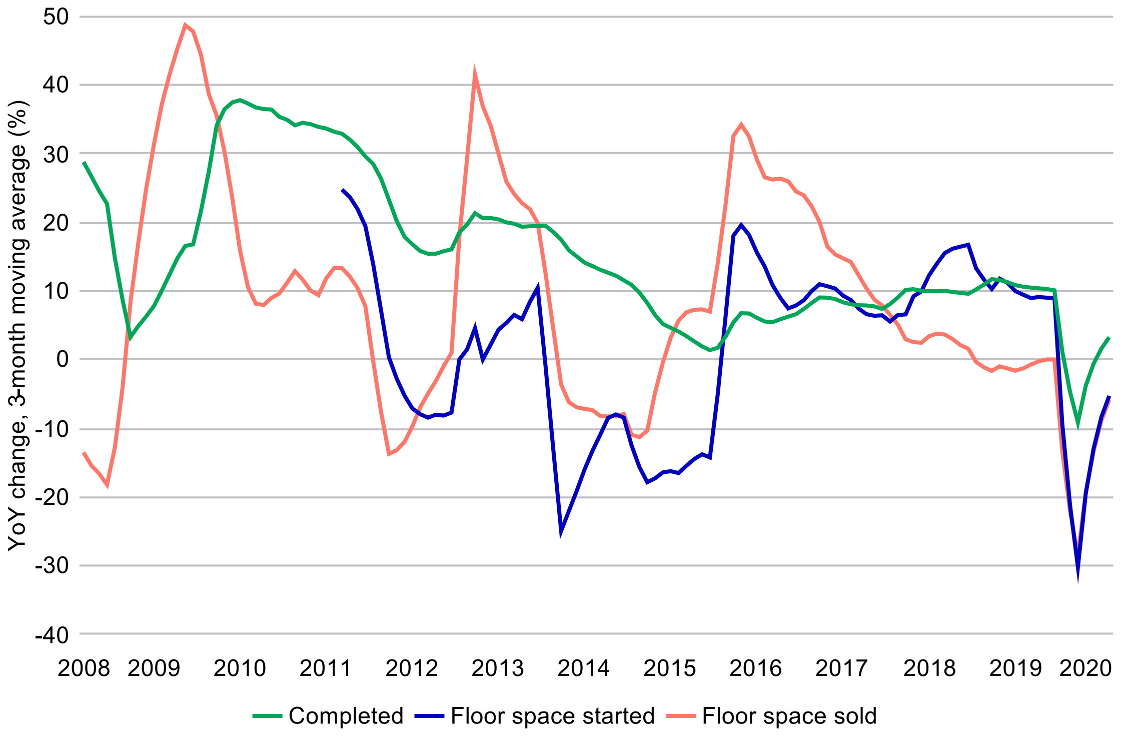
1 People's Bank of China, National Bureau of Statistics, Macrobond, Manulife Investment Management, as of August 30, 2020. CNY refers to the Chinese yuan. **2** National Bureau of Statistics, Macrobond, Manulife Investment Management, as of August 30, 2020.

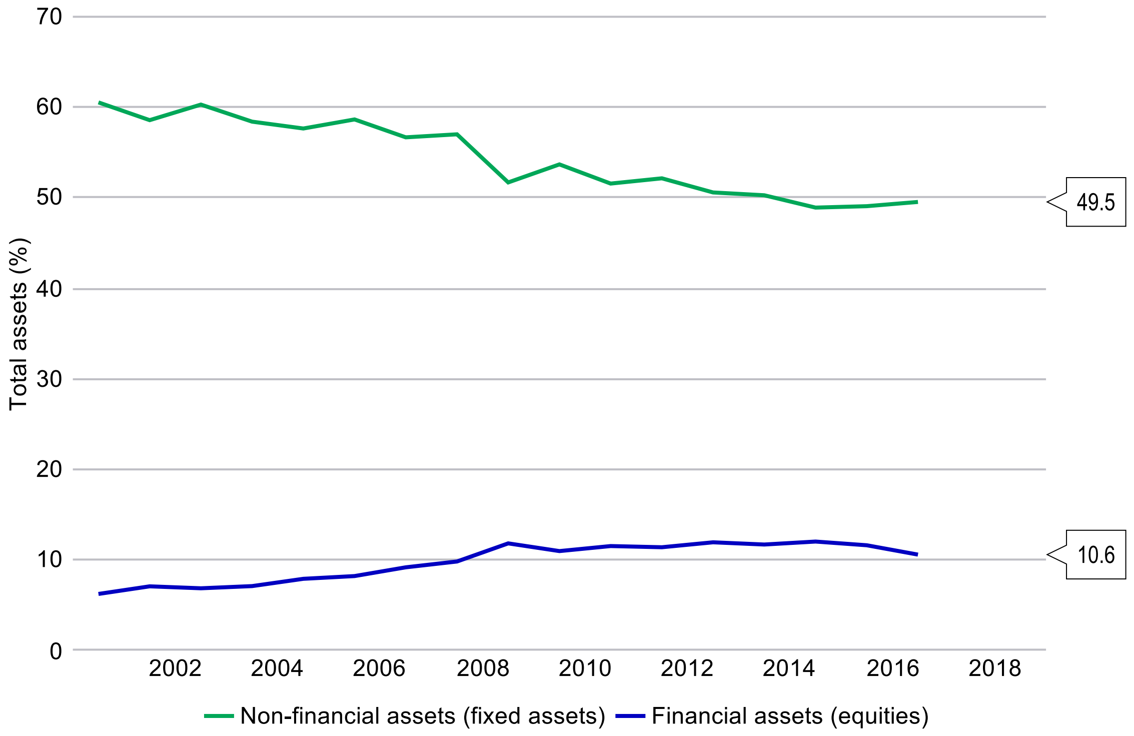
Property market is faced with tightening measures

Chinese policymakers introduced a dramatic change to the funding framework for the property industry where growth in developers' borrowing would be monitored and limited by balance sheet considerations—essentially a credit tightening exercise for the property sector. Restrictions on developers' financing has prompted discounted pricing to raise cash and boost sales growth. We expect this dynamic to ultimately reduce investment/speculation-driven demand and create headwinds to future economic growth by crimping household wealth. That said, this could set the scene for better overall long-run financial stability if managed properly.

Sluggish property market[1]



Property is a much bigger share of household wealth than equities[2]

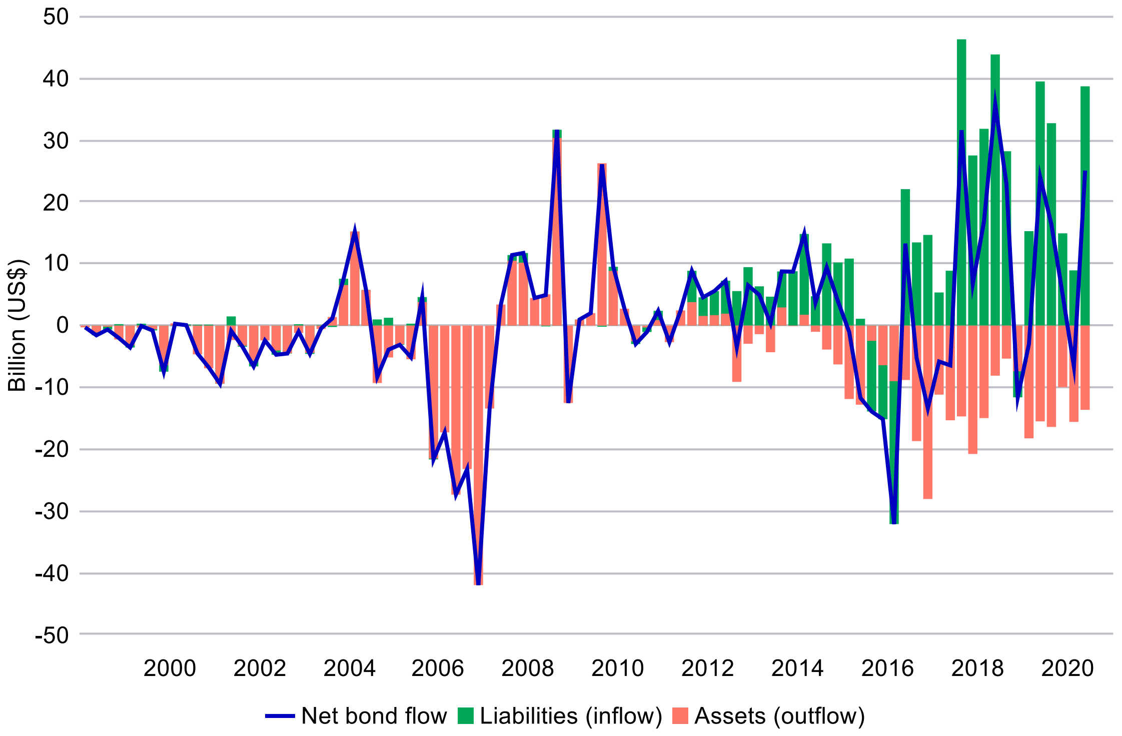


1 National Bureau of Statistics, Macrobond, Manulife Investment Management, August 2020. YoY refers to year over year.
2 National Institute for Finance and Development, Macrobond, Manulife Investment Management, December 2016.

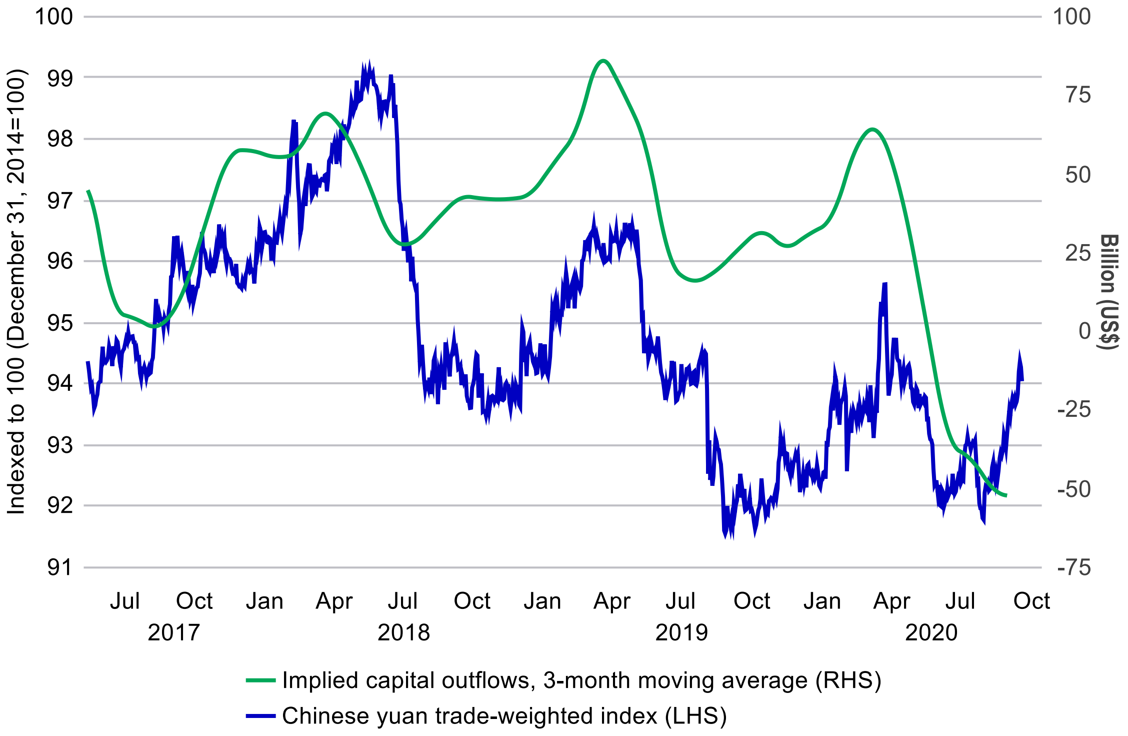
Foreign capital inflows are offsetting domestic outflows

Foreign bond inflows into Chinese government bonds (CGBs) have been strong, which is linked to the passive requirements of tracking the Bloomberg Barclays Global Aggregate Bond Index (~US$6 billion/month) and J.P. Morgan Emerging Bond Index (~US$2 billion a month). FTSE Russell announced on 24 September that CGBs would be added to its World Government Bond Index (WGBI), starting in October 2021, with a 12-month inclusion period, subject to final affirmation in March 2021. Potential passive inflows could be worth ~US$10 billion a month.[1] Without these foreign inflows, net capital outflows from China would likely be even more negative than they already are.

Domestic outflows dominate foreign bond inflows[2]



Net capital outflows accelerating[2]



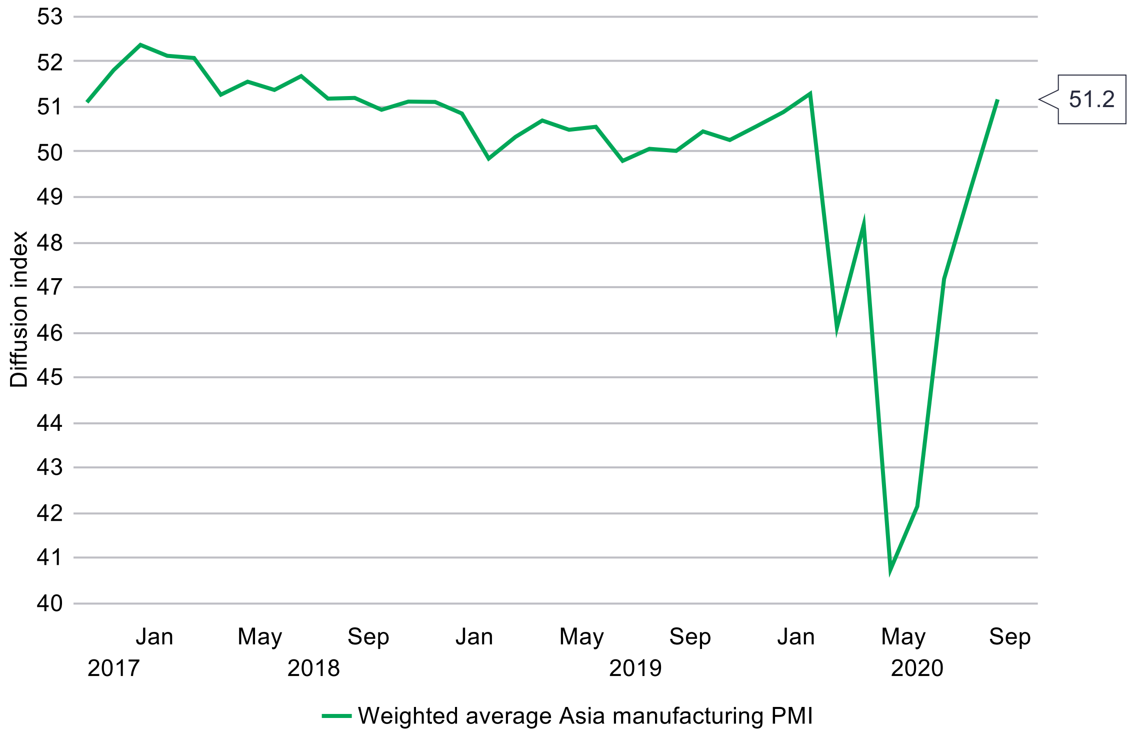
1 "China to be added to FTSE global bond benchmark in 2021," *Reuters*, September 24, 2020. 2 People's Bank of China, State Administration of Foreign Exchange, Macrobond, Manulife Investment Management, as of October 2, 2020. LHS refers to left-hand side; RHS refers to right-hand side.

Asia

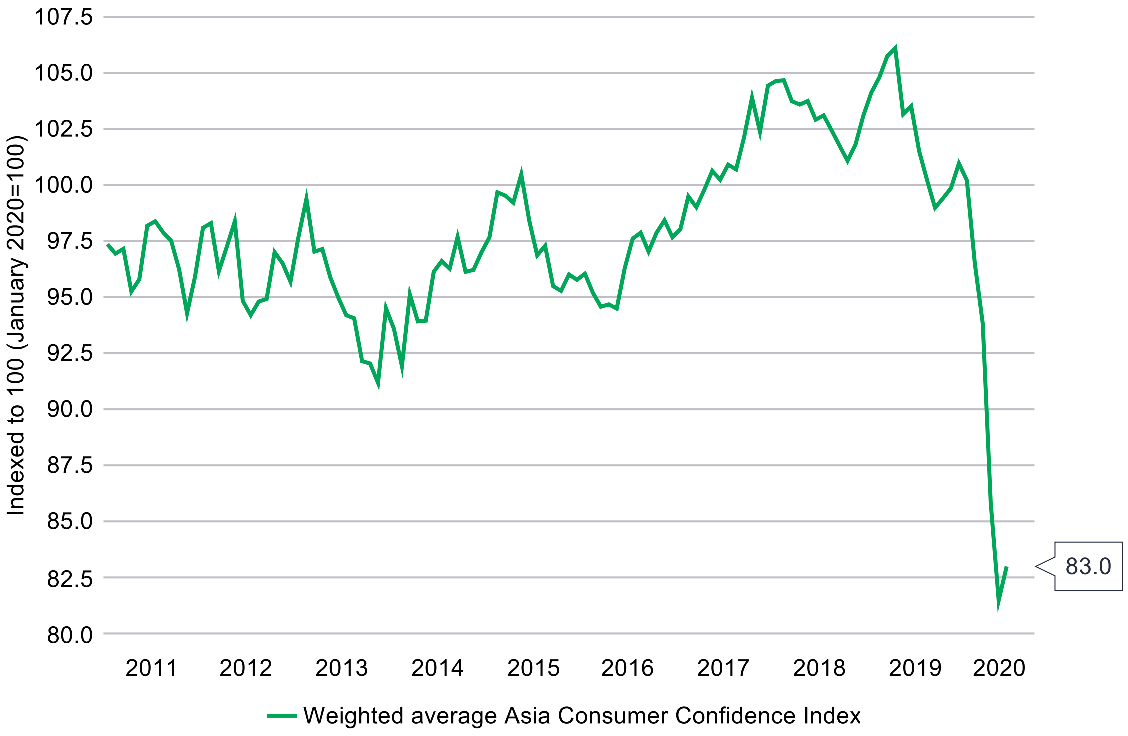
Asia's recovery is concentrated in supply, not demand

Asia's recent recovery has been largely concentrated in production. The region's manufacturing Purchasing Managers' Indexes (PMI) have rebounded off their lows, led by Southeast Asia, a key beneficiary of the ongoing diversification of global supply chains. In contrast, consumer demand, proxied by consumer confidence, is still very much in the doldrums. Data shows that consumers are buying what they need and less of what they want. Consumer staples such as food and groceries and work from home-related technologies are outperforming consumer discretionary goods and services, suggesting consumers are cautious about their finances and job security.

Big bounce in GDP-weighted average Asian manufacturing[1]



GDP-weighted Asian consumer confidence is still in the doldrums[1]



1 Macrobond, Manulife Investment Management, as of August 31, 2020.

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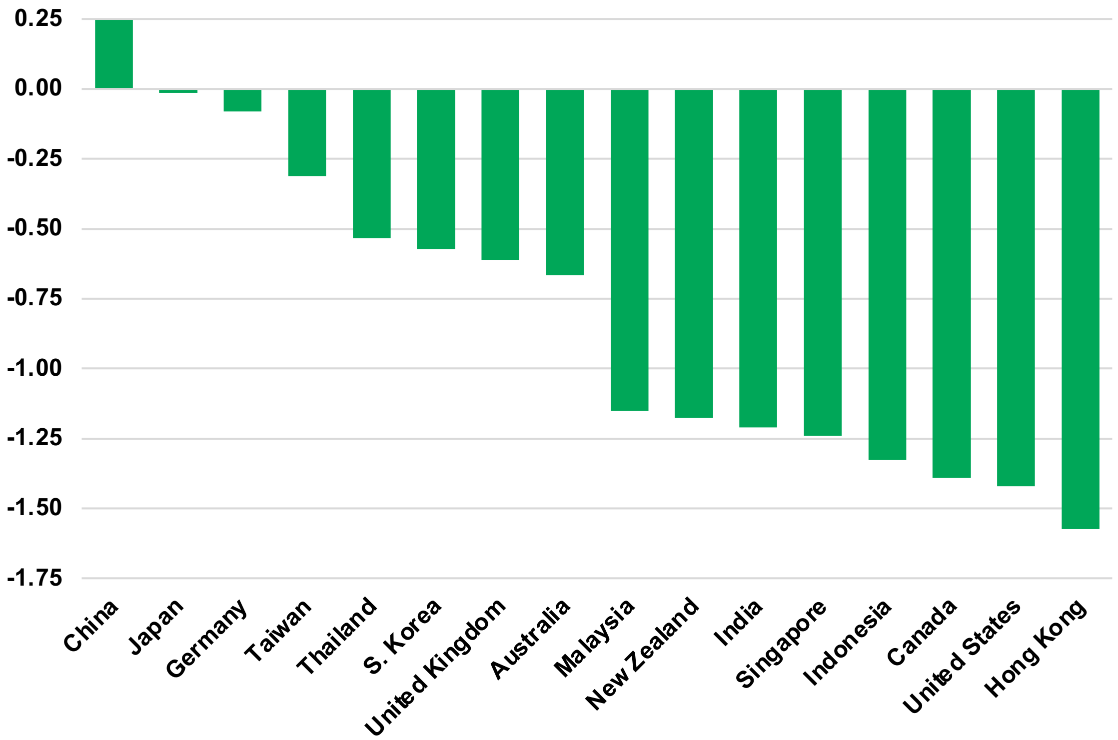
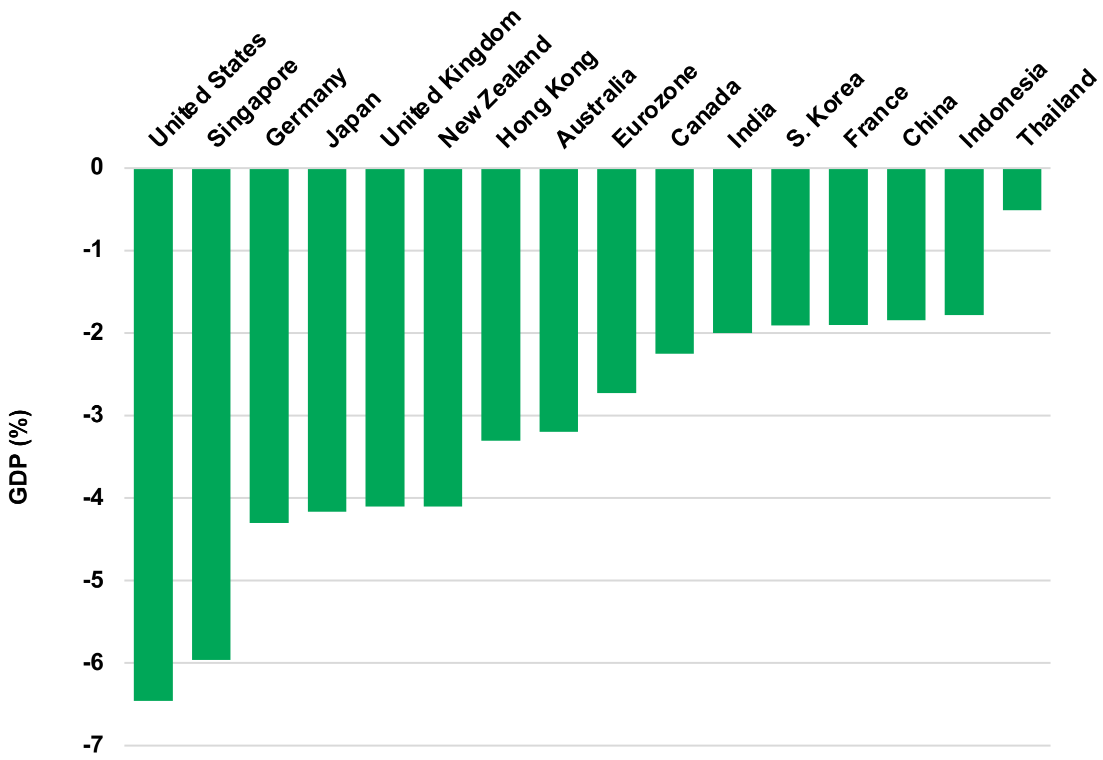
Monetary and fiscal easing across the region, but there are uneven patterns

In response to the unprecedented health and economic crisis, the region's governments loosened monetary and fiscal policy, although in varying degrees. This reflects the fact that some economies have more policy space than others when considering the hit to economic growth, proximity to effective lower interest-rate bounds, current account, and fiscal and private sector balances. As more economies run out of traditional policy space, governments will come under increasing pressure to open their checkbooks, facilitated by debt monetization. However, not all can go down this route to sustainably without risking potential macro or financial instability—Indonesia is one such example.

Two-year government bond yields slashed across most of Asia[1] (%)



Change in cyclically adjusted primary budget balance[2]



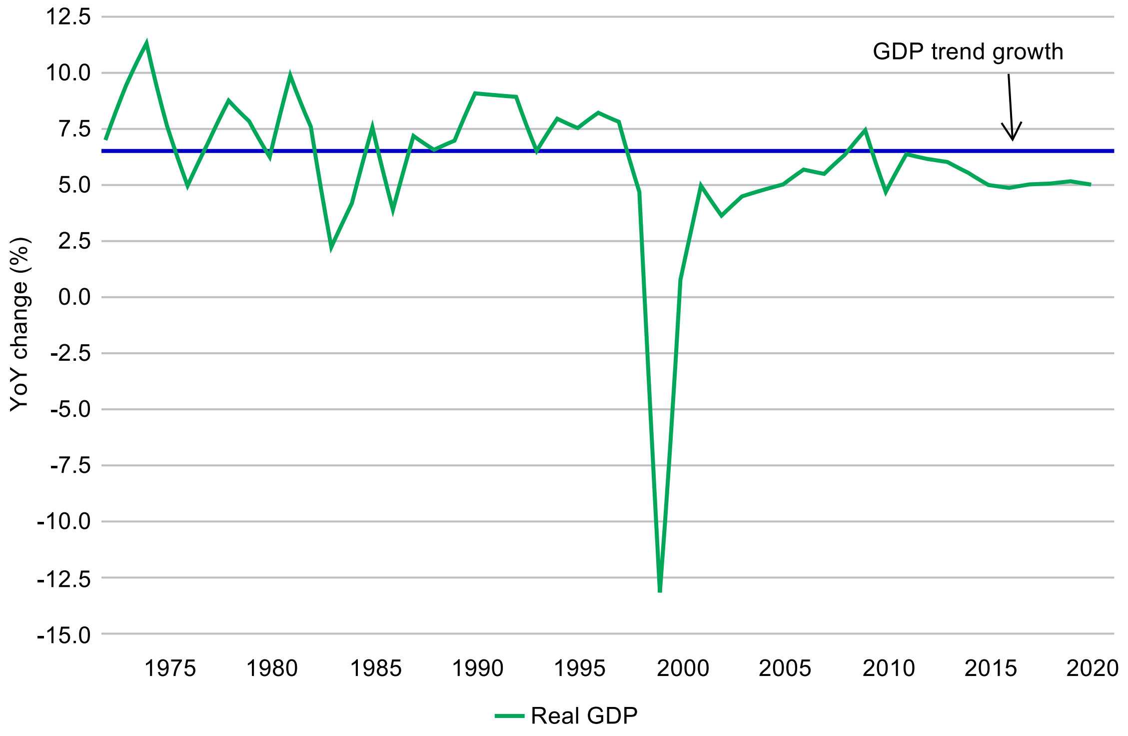
1 National central banks, Macrobond, Manulife Investment Management, as of August 23, 2020. 2 National governments, UBS, Macrobond, Manulife Investment Management, as of July 31, 2020.

Indonesia’s debt monetization experiment

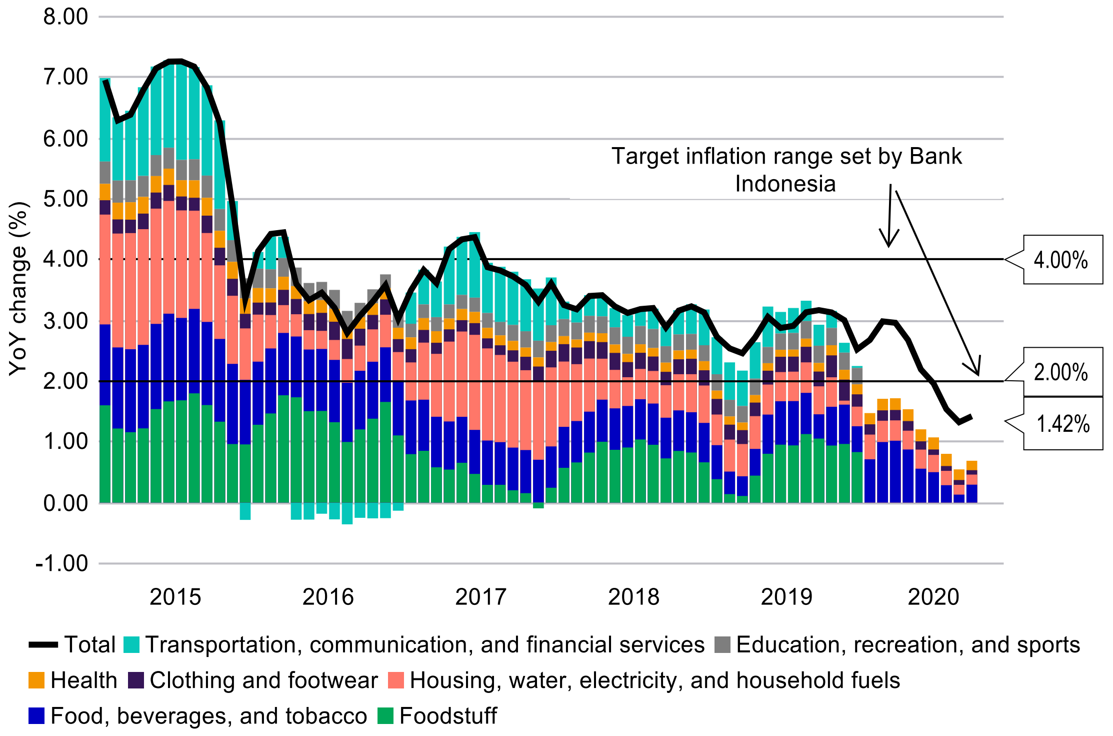
Indonesia—as a real-time experiment with debt monetization

Social distancing has been difficult to implement in Indonesia—a dense, populous, and expansive archipelago in which informal employment is dominant and health infrastructure is relatively weaker. Indonesia has one of the highest COVID-19 infection and fatality rates in the region.[1] Q2 saw the third straight negative quarter of growth, and at –5.3%, it was the first contraction in YoY terms since the Asian Financial Crisis.[2] The negative demand shock has pushed inflation below Bank Indonesia's target range, and the weak economic outlook has prompted the government to announce a debt monetization program in an attempt to boost growth.

GDP growth stalled well below trend[2]



Disinflationary pressures are strong[2]



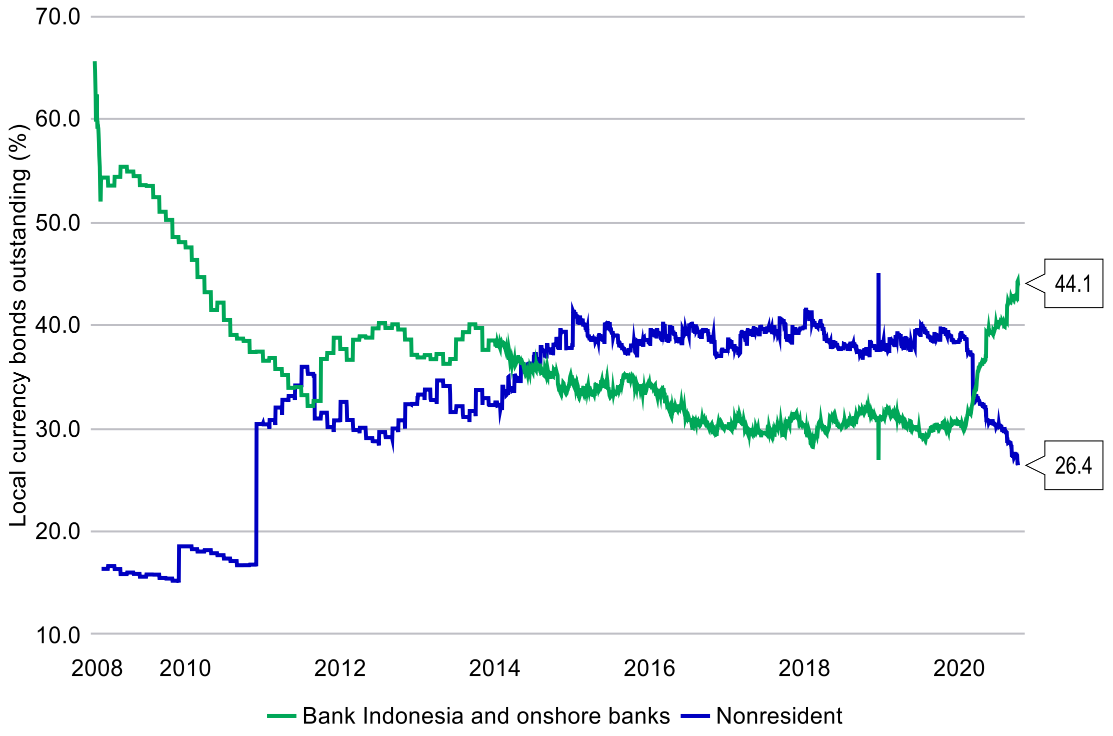
1 "With world's lowest testing rate, Indonesia far from Covid-19 peak," the *Straits Times*, September 3, 2020. 2 Badan Pusat Statistik Indonesia, Macrobond, August 2020. YoY refers to year over year. Indonesian Statistics rebased and changed the methodology for calculating contributions to inflation in February; some data series will appear discontinued until the process is completed.

Currencies and bond markets are reacting differently to debt monetization

An unusual negative correlation has developed between Indonesian government bonds and the Indonesian rupiah (IDR). Markets are worried that rapid expansion of Bank Indonesia's (BI) balance sheet would increase monetary base and weaken the IDR, while bond investors are understandably relieved that BI will absorb a large share of upcoming supply. The bond/FX correlation breakdown may persist. In contrast to pre-COVID-19, Indonesia is now less reliant on foreign investors to fund its current account deficit and support bond issuances. As foreign holdings of local currency bonds fell, onshore banks and BI stepped in to fill the gap.

A correlation breakdown between IDR and Indonesia gov't bond yields?[1]

Shares of tradeable public debt (local currency) held[2]



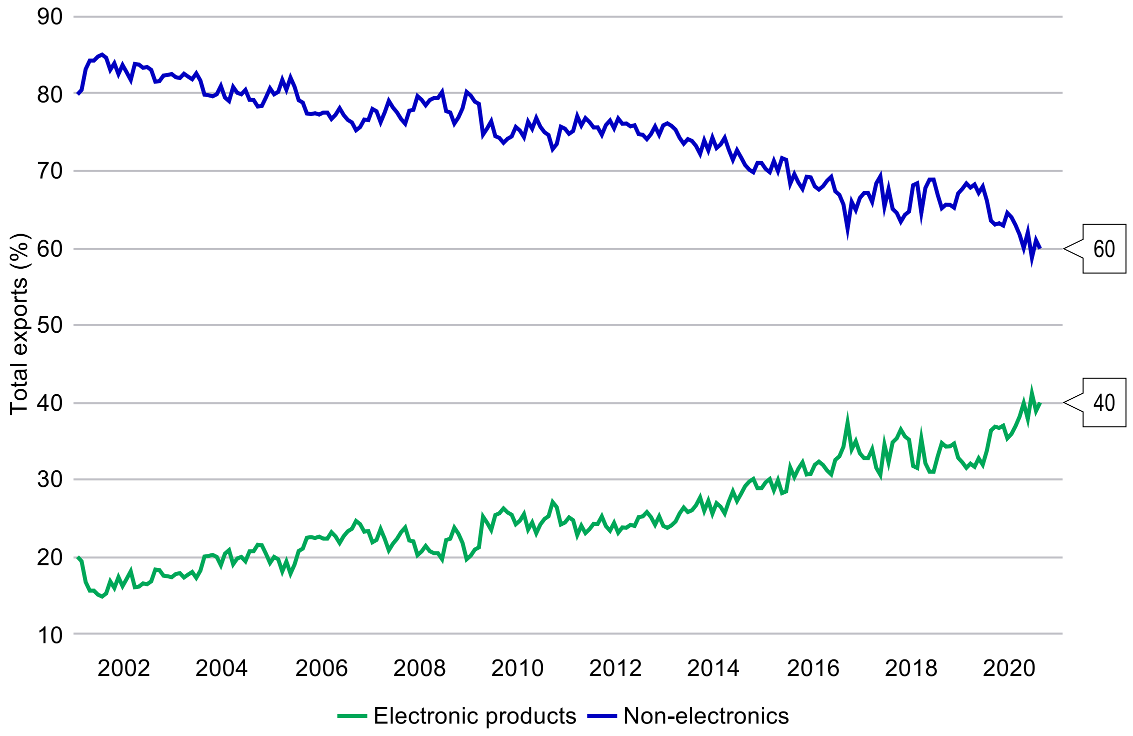
1 Indonesia government, Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020.
2 Bank Indonesia, Bloomberg, Macrobond, Manulife Investment Management, as of October 2, 2020.

Taiwan

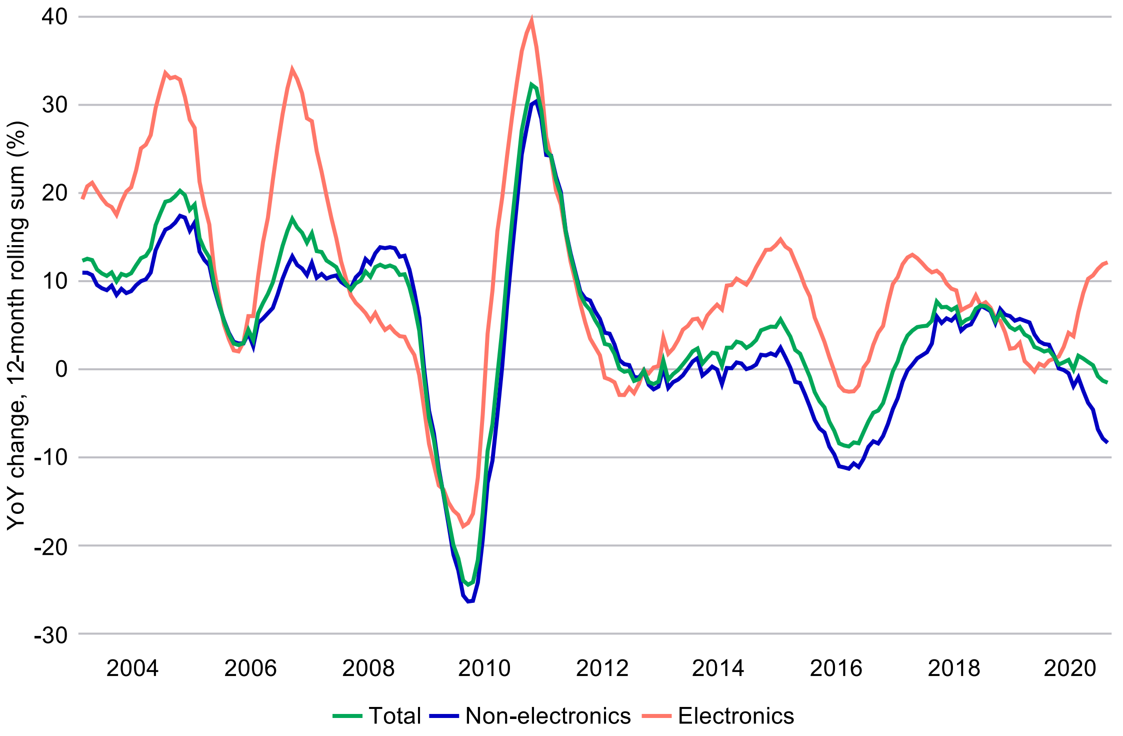
Taiwan exports—the electronics sector shines

Taiwan's export orders increased 13.6% in August when compared with the previous year, registering the biggest gain since January 2018 (19.7%). Export growth remains underpinned by strong and relatively inelastic demand for high-end semiconductor technology arising from the ongoing need to work from home/remote learning and ongoing diversification of global supply chains. Electronics represent an increasing share of Taiwan's overall exports (~40.0%) and has been the bright spot in an otherwise sluggish picture—non-electronic exports are shrinking at an increasing rate, pushing overall export growth into negative territory (on a 12-month rolling sum basis).[1]

Electronics—an increasing share of exports with strategic significance[1]



Taiwan's two-speed export sector[1]



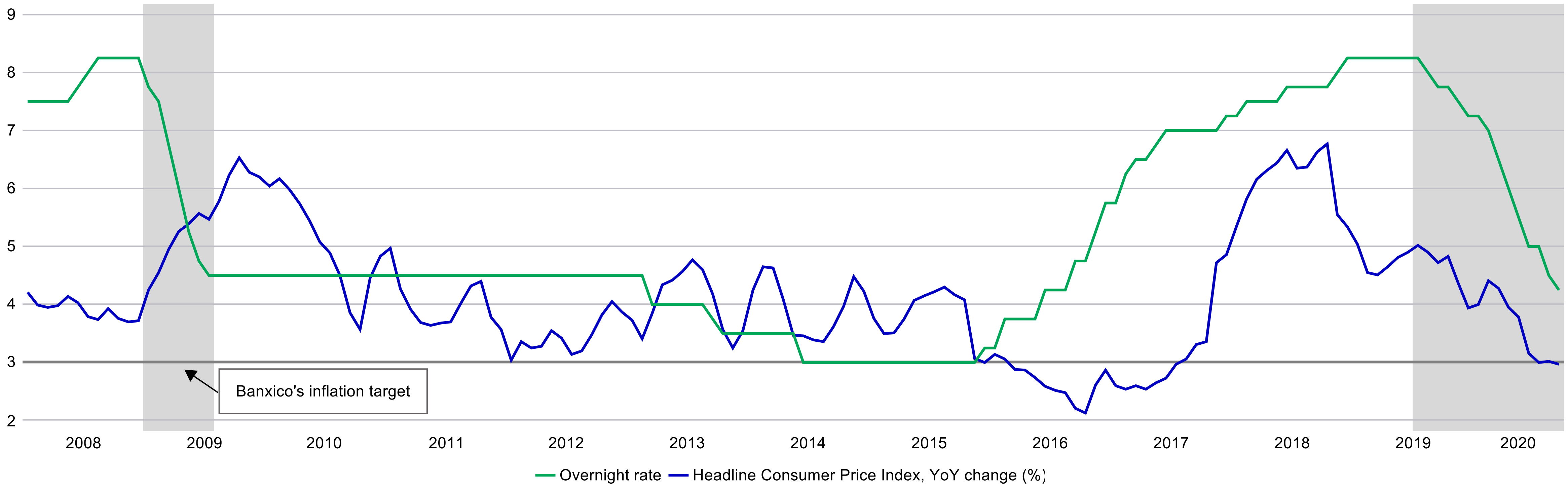
1 Taiwan Ministry of Finance, Macrobond, Manulife Investment Management, as of August 31, 2020.

Latin America

Banxico is at, or near, the end of its current easing cycle

Mexico's central bank (Banxico) appears increasingly comfortable with its policy stance after its most recent 25 basis points rate cut in September. The recent rebound in inflation has stirred some concern among the bank's more hawkish board members, and policymakers remain sensitive to the fragile global environment in addition to the negative impact low rates can have on capital flows. A wide output gap should help mitigate inflationary pressures over the medium term as Banxico targets 3% inflation with a 1% uncertainty band on either side. Several global central banks, however, seem ready to ease further—the coming months may be very interesting for the Mexican peso.

Mexico headline CPI and Banxico overnight target rate (%)



1 Bloomberg, Macrobond, Manulife Investment Management, as of September 29, 2020. YoY refers to year over year. The gray areas represent recessions.

Important information

A widespread health crisis such as a global pandemic could cause substantial market volatility, exchange-trading suspensions and closures, and affect portfolio performance. For example, the novel coronavirus disease (COVID-19) has resulted in significant disruptions to global business activity. The impact of a health crisis and other epidemics and pandemics that may arise in the future could affect the global economy in ways that cannot necessarily be foreseen at the present time. A health crisis may exacerbate other preexisting political, social, and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment.

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Definitions

Citi Economic Surprise Index, U.S.	The Citi Economic Surprise Index, U.S., tracks how actual economic data deviates from market expectations by comparing the actual economic data with the median reading of a prerelease survey among market participants. A positive reading suggests that economic releases have, on balance, been beating consensus and vice versa. It is not possible to invest directly in an index.
The Global Economic Policy Uncertainty Index	The Global Economic Policy Uncertainty Index is a GDP-weighted average of national economic policy uncertainty indexes for 18 countries. Each monthly national economic policy uncertainty index value is proportional to the share of each country's newspaper articles that discuss economic policy uncertainty in that month. It is not possible to invest directly in an index.
Bloomberg Barclays Global Aggregate Bond Index	The Bloomberg Barclays Global Aggregate Bond Index tracks the performance of global investment-grade debt in fixed-rate treasury, government-related, corporate, and securitized bond markets. It is not possible to invest directly in an index
The Cboe Volatility Index (VIX)	The Cboe Volatility Index (VIX) shows the U.S. equity market's expectation of 30-day volatility and is constructed using the implied volatilities of a wide range of S&P 500 Index options. It is not possible to invest directly in an index.
ICE BofA MOVE Index	The Intercontinental Exchange (ICE) Bank of America (BofA) Merrill Lynch Option Volatility Estimate (MOVE) Index tracks the movement in U.S. Treasury yield volatility implied by current prices on one-month U.S. Treasury options. It is not possible to invest directly in an index.
ISM manufacturing index	The Institute for Supply Management (ISM) manufacturing index monitors employment, production, inventories, new orders, and supplier deliveries. It is not possible to invest directly in an index.
ZEW Economic Sentiment Index	The Zentrum für Europäische Wirtschaftsforschung (ZEW) Economic Sentiment Index tracks institutional investor sentiment, reflecting the difference between the share of investors that is optimistic and the share of analysts that is pessimistic. It is not possible to invest directly in an index.
Purchasing Managers' Indexes (PMI)	The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing sector based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment. It is not possible to invest directly in an index.

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