Manulife Investment Management

Investment Insights
July 2021

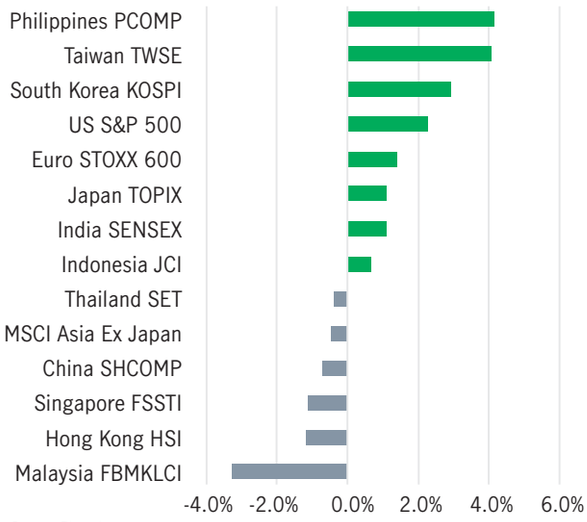
Macro

- Vaccination campaigns accelerated in developed markets. Governments in most developed markets have eased Covid-related mobility restrictions and indicators are pointing towards a strong economic rebound.
- US Fed has turned slightly hawkish. The Fed dot plot projections now imply two rate hikes in 2023, up from no rate hikes just three months ago.
- Many emerging economies still lagged behind on vaccination progress. Spread of highly-transmissible delta variant of Covid-19 risks slowing down the full reopening of economies.
- Malaysia experienced persistently high new Covid-19 cases despite implementation of a nationwide Movement Control Order (MCO) in June 2021.
- In July 2021, large swaths of Klang Valley were placed under Enhanced Movement Control Order, which is an even stricter form of lockdown. This latest development derailed the country's economic recovery timeline and we see downside risks to growth as long as Covid-19 infections are not brought under control.

Equity market

- Equity markets were mixed in June 2021. Developed economies' equities rose as vaccination campaigns accelerated and economy rebounded strongly.
- The FBM KLCI Index fell by 3.2% m/m to close at a YTD low of 1532.6 points. Both average daily trading volume and values fell to the lowest levels since April 2020, with lacklustre interest from market participants.
- Sentiment was hit by the high Covid-19 infection rate and prolonged mobility restriction. Fresh uncertainty from the political front adds to the jitters.
- The best performing sectors in the month were transport, REIT and finance, while the worst performing sectors were healthcare, plantation and energy.
- FBM KLCI Index outperformed the FBM Small Cap Index (-3.6% m/m) due to positive gains in the banking sector but underperformed the FBM100 Index (-2.9% m/m).
- Malaysia (-3.2%) was one of the worst performers in the region. Most markets generated positive return; top performers were Vietnam (6.1%), Philippines (4.1%) and Taiwan (4.0%).
- Malaysia equity market expected to be directionless until Covid-19 is brought under control.
- With significant acceleration of vaccination in Malaysia, there will be buying opportunities for stocks benefitting from reopening of economy if we look beyond the current COVID situation.
- We are positive on long-term prospects of equity market, thanks to anticipation of eventual global economic recovery.

MTD stock market
performance a s of 30 June 2021(%)



Source: Bloomberg

Fixed income market

- UST yield curve flattened in June 2021. Short term yields climbed as the Fed turned more hawkish, hinting towards possible tapering and rate hikes eventually.
- High level of inflation in the US is viewed to be transitional, resulting in lower long-term yields.
- MGS yields were mixed; most part of the curve move downwards as elevated Covid-19 cases reduced risk sentiment. Yields also trended downwards towards month-end as market speculated on possible rate cut scenario.
- We expect Overnight Policy Rate to stay at 1.75% for the remainder of the year despite downside risks to economic growth. Propensity for 'lower for longer' theme to remain and therefore keep short-term yields low.
- We expect yield curve to remain steep as long-term yield is pressured upwards by unfavourable supply-demand dynamics and inflation expectation.
- Over the long term, MGS yields are expected to rise as Malaysia overcomes Covid and rate normalizes.

What are REITs?

REITs are companies that own or finance income-producing real estate and properties. REITs make money by leasing space and collecting rent or buying and selling of property/spaces

Why invest in REITs?

Income and growth opportunities

- Reliable and attractive dividend income
- Long-term capital appreciation opportunities
- Pooling of investment capital to own income producing real estate
- Diversified and high quality portfolios

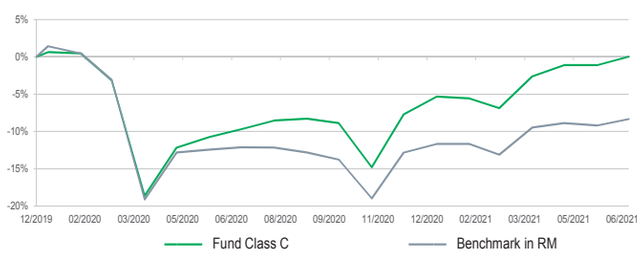
Why REITs now

- Participate in reopening of economy by investing in REITs
- Attractive yields compared to equities and bonds
- Beneficiaries of global search-for-yield

Manulife PRS Asia-Pacific REIT Fund

Fund review and strategies

Since inception performance as at 30 June 2021*



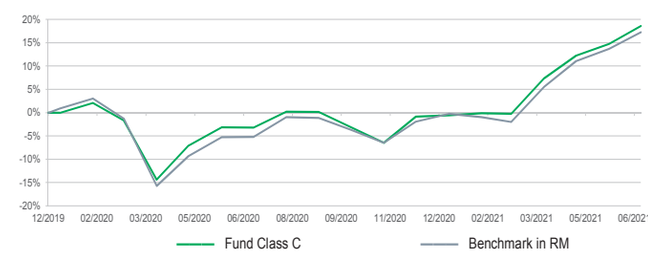
Strategies overview

Major Asia ex Japan REITs delivered positive performance in June 2021, amid declining bond yields and investors looking past current Covid worries to focus on strengthening of US and global economy. More volatility is expected in market as investors weigh inflation risks and hawkish Fed vs good news on vaccination front and global economic strength. Higher earnings growth for Asia REITs could help compensate for potential shifts in bond yields. Singapore REITs market is favored on relative valuation and reopening recovery theme.

Manulife Shariah PRS-Global REIT Fund

Fund review and strategies

Since inception performance as at 30 June 2021*



Strategies overview

Shariah Global REIT sector outperformed the broader global equity markets. Given the current pace and level of stimulus supports from government and central banks, demand for commercial real estate is expected to rise in 2H 2021 and into 2022. The investment case for Shariah Global REITs remains positive due to trajectory of the recovery and likely lower-for-longer interest rate environment. Distribution yields are attractive compared to other yield-oriented investments and there are still attractive opportunities within the market that trade at significant discounts to their NAVs.

Note: For more details on the PRS funds offered by Manulife, please click on link https://www.manulifeinvestment.com.my/Products-and-Services-List-of-Funds-PRS