

# Navigating the COVID-19 recovery

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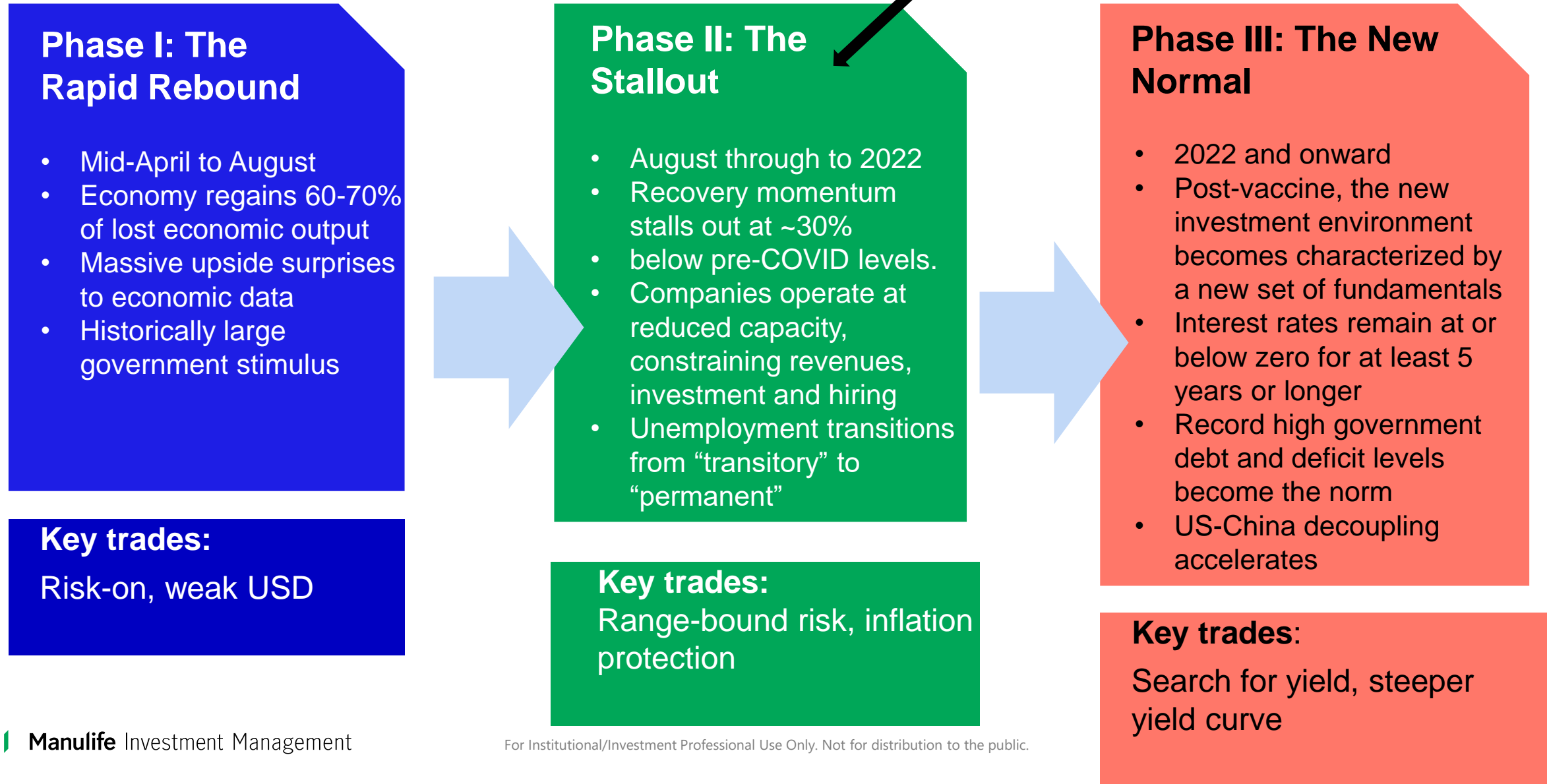
**September 2020**



“ We are called to be the  
architects of the future, not  
its victims.”

- R. Buckminster Fuller

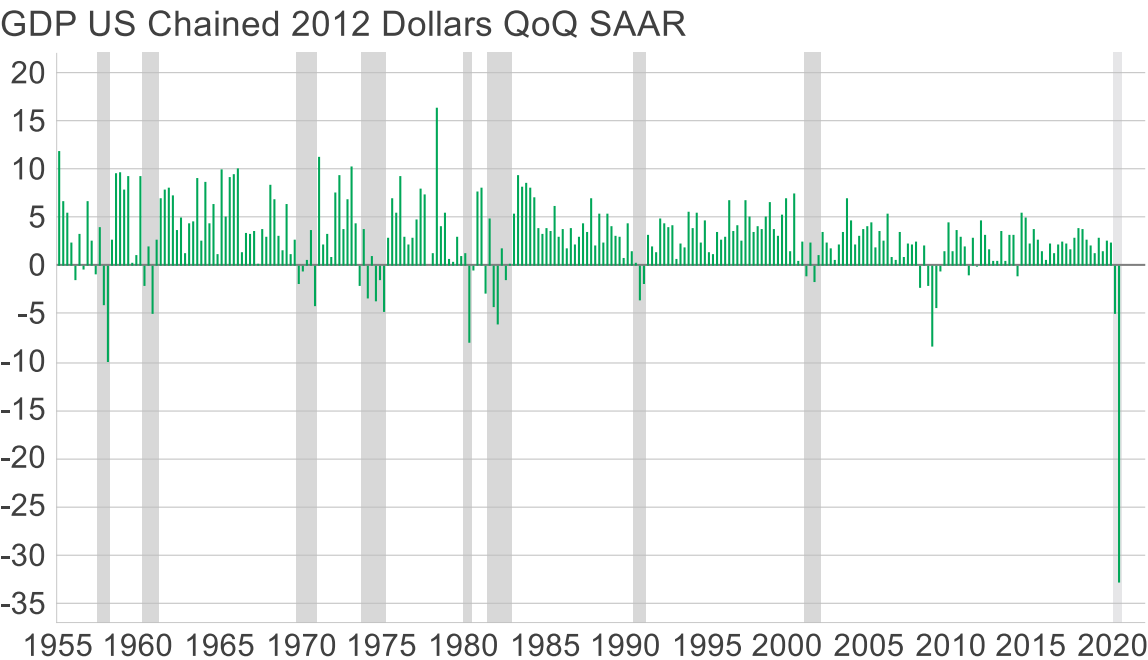
# Our 3 phase framework



# Phase I: The Rapid Recovery

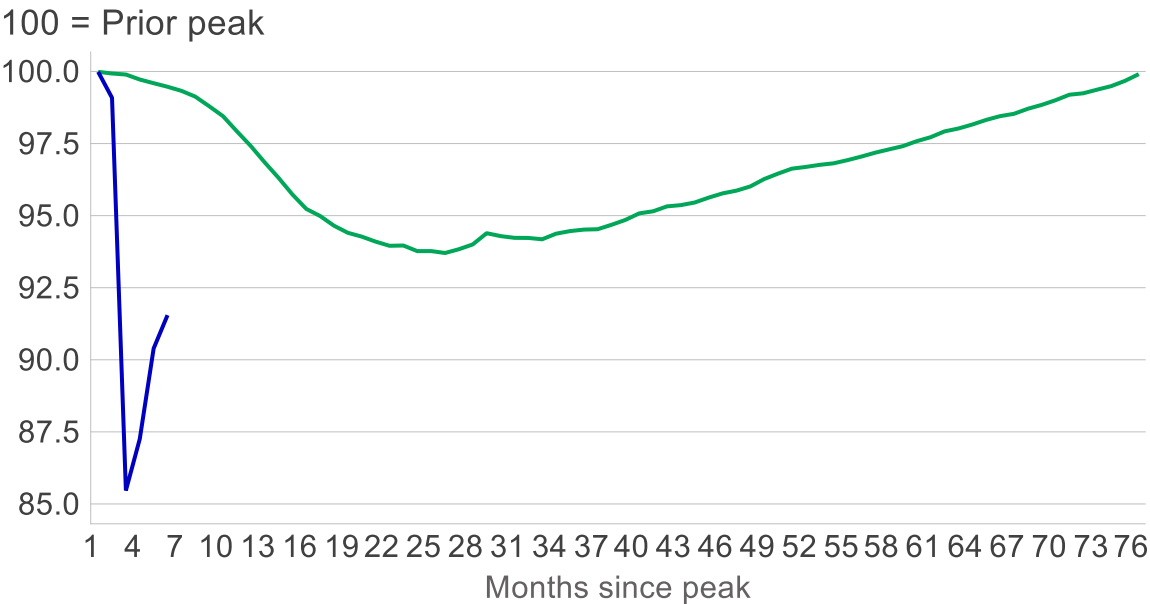
# Truly, the worst economic crisis of our time (United States)

## U.S. GDP in historical context



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 8/13/2020

## U.S.: Change in total jobs since peak

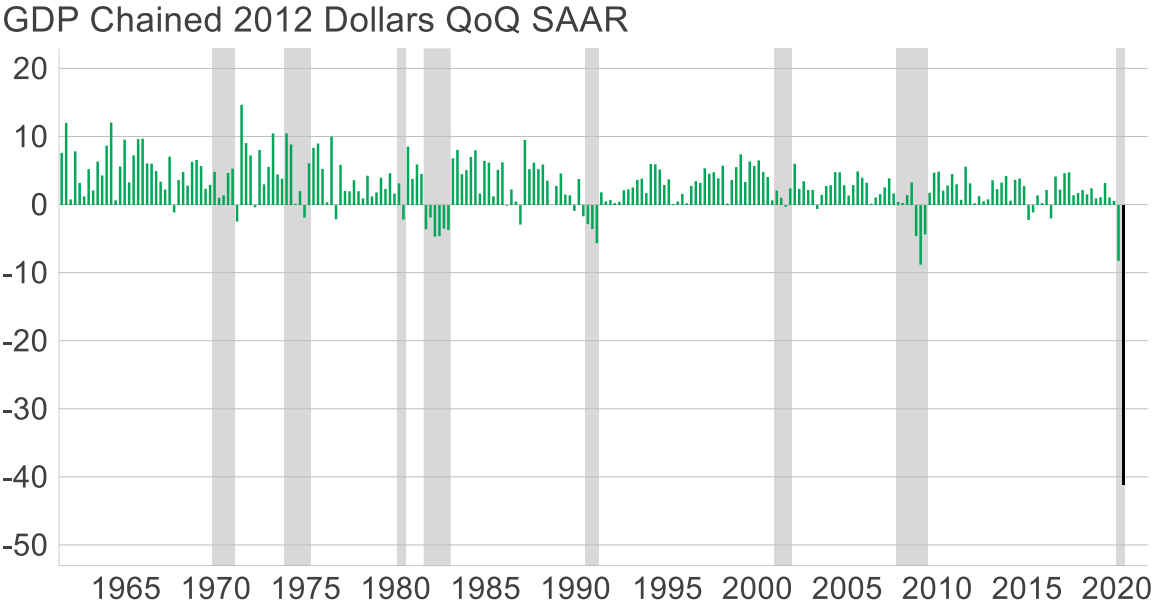


— COVID19 Recession — Great Financial Crisis

Source: U.S. Bureau of Labor Statistics (BLS), Macrobond, Manulife Investment Management, as of 8/13/2020

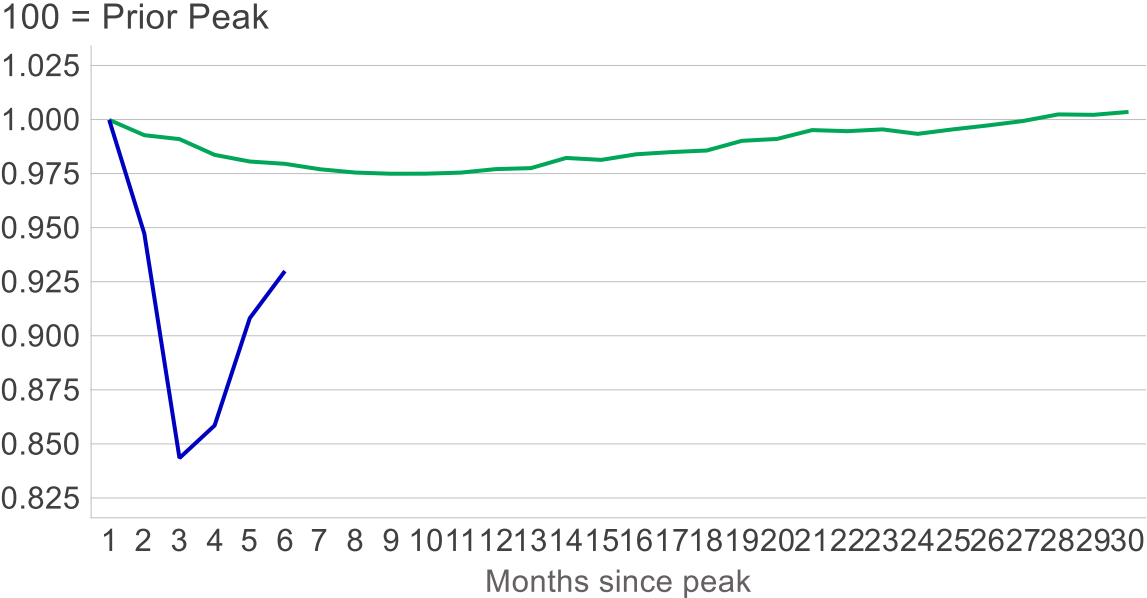
# Truly, the worst economic crisis of our time (Canada)

## Canada GDP in historical context with Q2 consensus forecast



Source: Statistics Canada, Macrobond, Manulife Investment Management, as of 8/13/2020

## Canada: Change in total jobs since peak

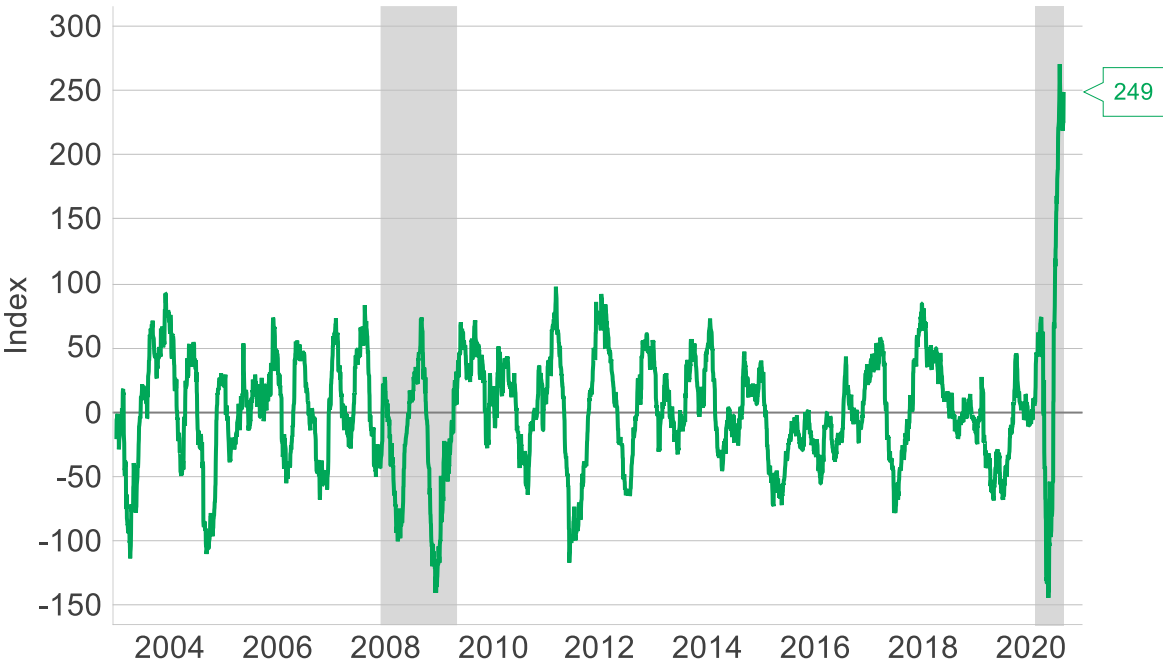


— COVID19 Recession — Great Financial Crisis

Source: Statistics Canada, Macrobond, Manulife Investment Management, as of 8/13/2020

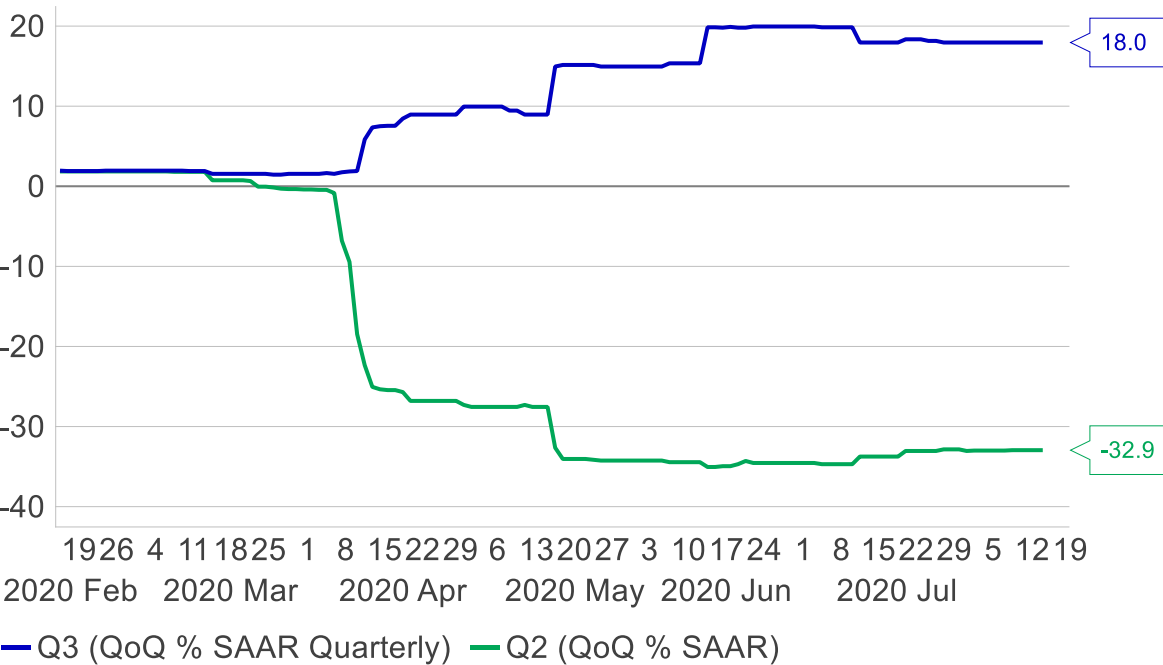
# But low expectations are easy to beat (United States)

## U.S. Citi Economic Surprise Index



Source: Citi, Macrobond, Manulife Investment Management, as of 8/13/2020

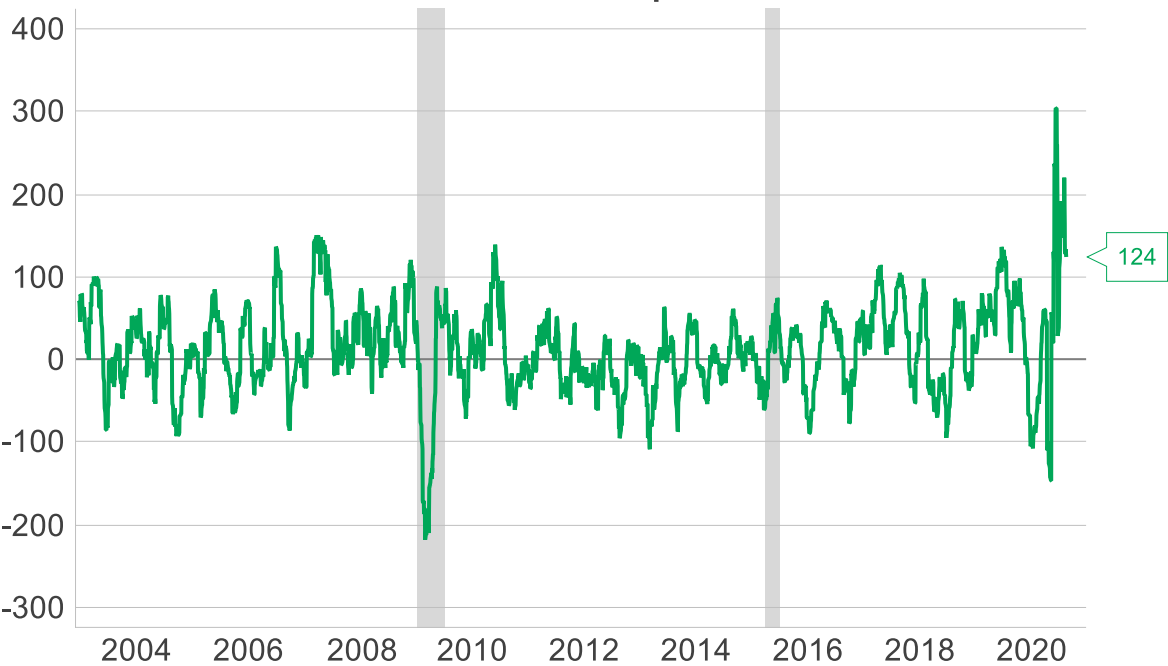
## Evolution of Bloomberg consensus GDP estimates



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 8/13/2020

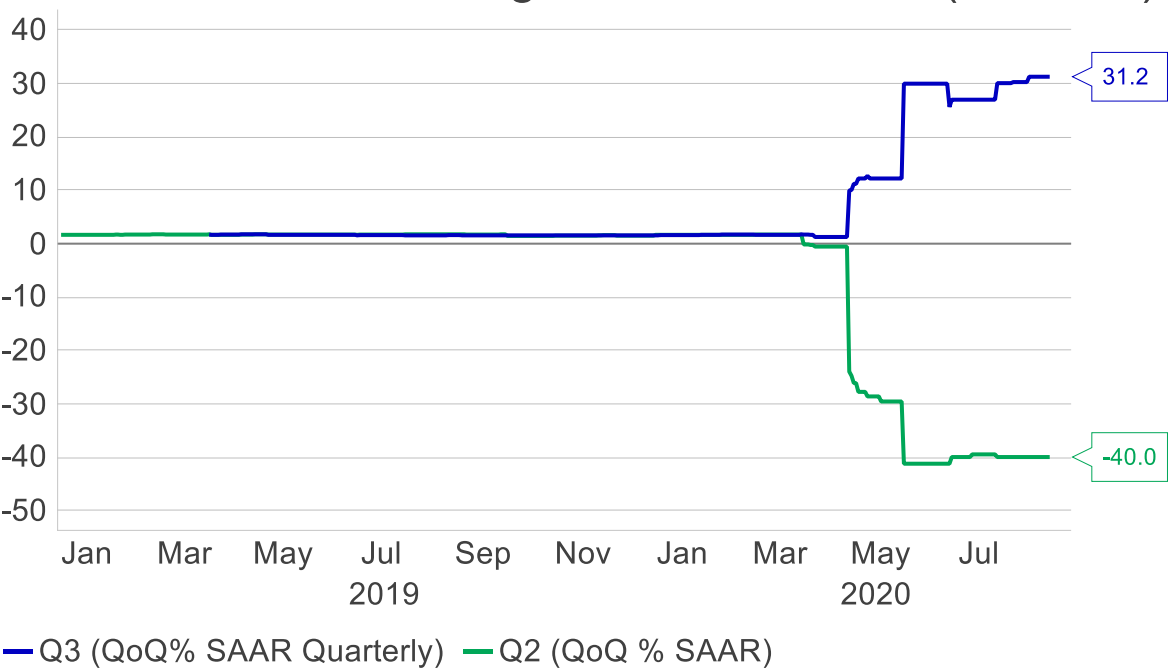
# But low expectations are easy to beat (Canada)

Canadian Citi Economic Surprise



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 8/13/2020

Evolution of Bloomberg GDP consensus (Canada)

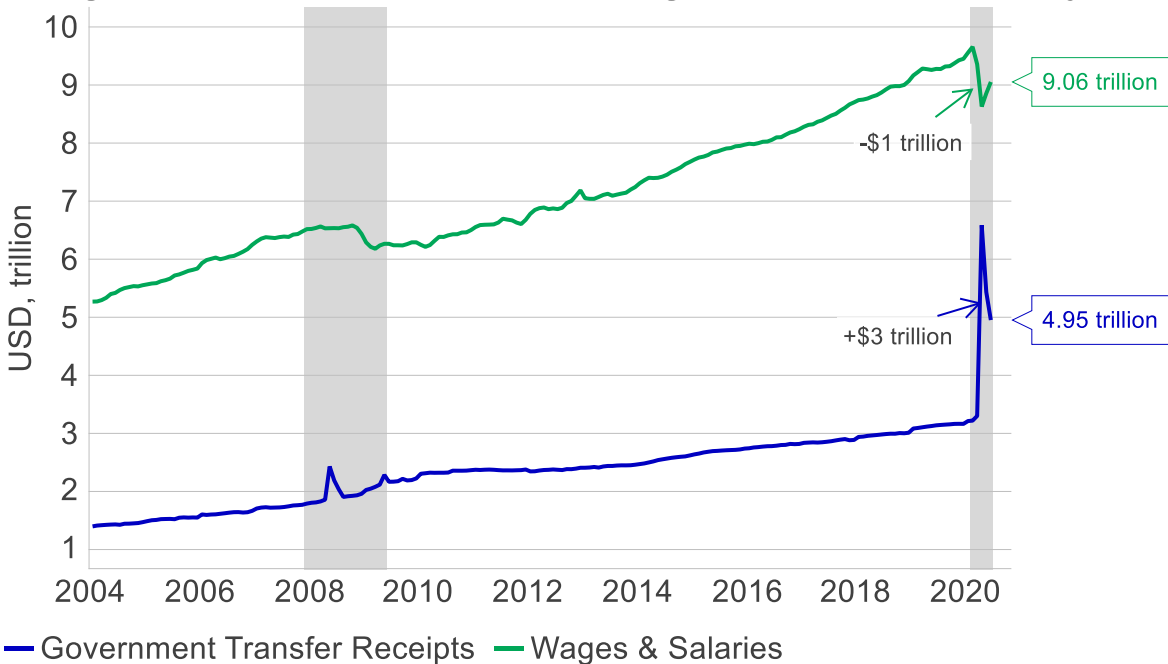


Source: , Macrobond, Manulife Investment Management, as of 8/13/2020



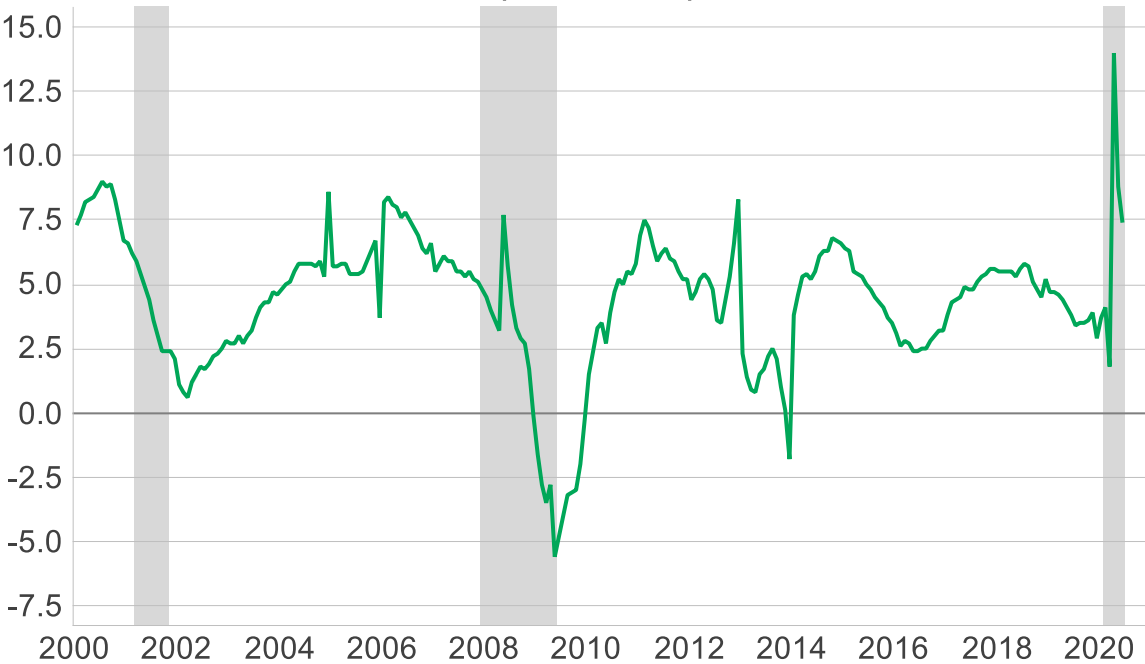
# The gamechanger: government stimulus

## Wages & salaries down, but gov't transfers way up



Source: U.S. Bureau of Economic Analysis (BEA), Macrobond, Manulife Investment Management, as of 8/13/2020

## US Personal Income (YoY SA)

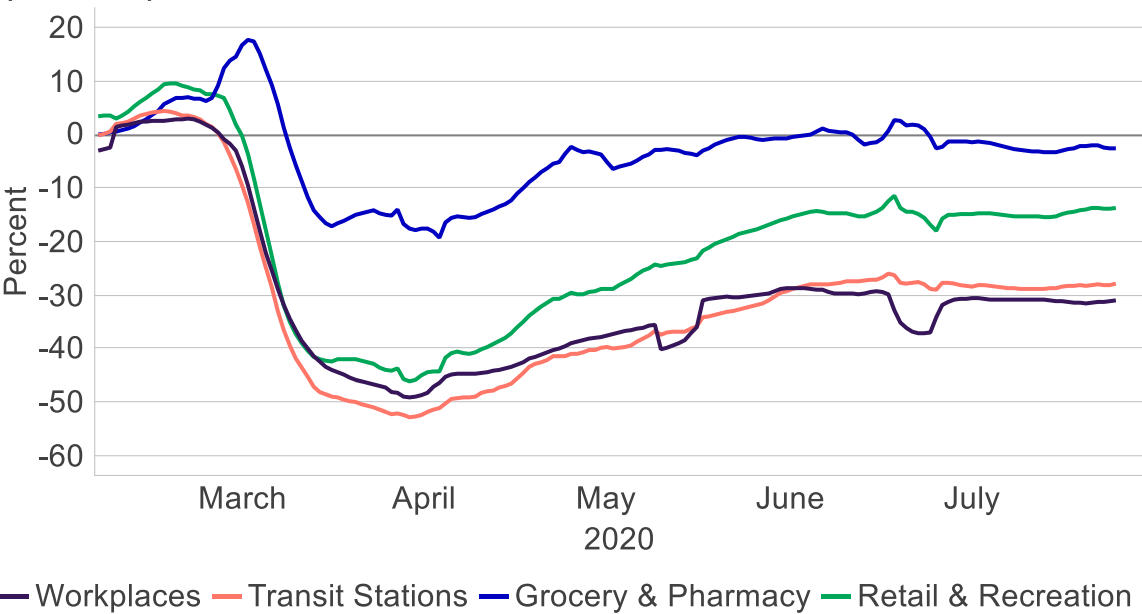


Source: Bloomberg, Macrobond, Manulife Investment Management, as of 8/13/2020

# Phase II: The Stallout

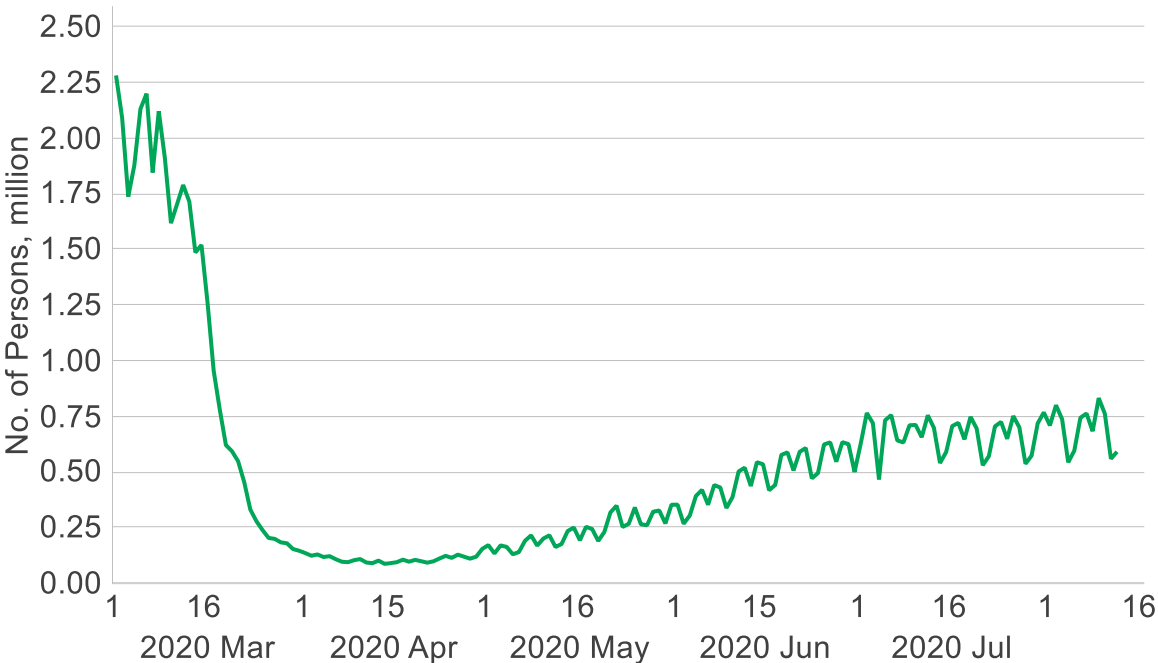
# Economic recovery momentum began to slow in July (United States)

U.S. Google mobility data compared to baseline (7dma)



Source: Google, Macrobond, Manulife Investment Management, as of 8/13/2020

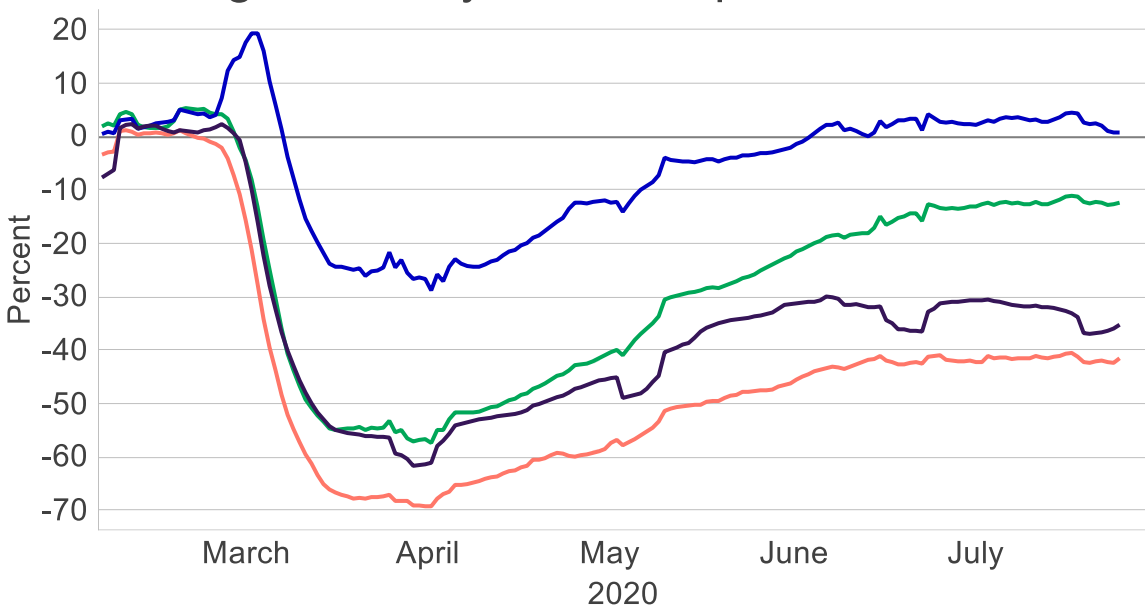
U.S.: Passengers through TSA Checkpoints



Source: U.S. Department of Homeland Security, Macrobond, Manulife Investment Management, as of 8/13/2020

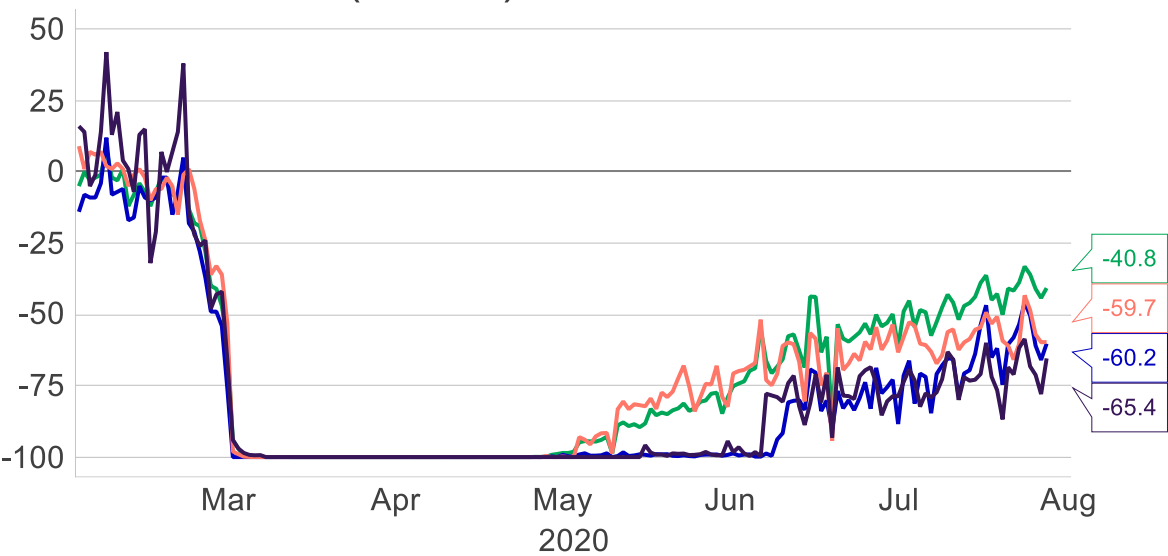
# Economic recovery momentum began to slow in July (Canada)

CDN Google mobility data compared to baseline



Source: Google, Macrobond, Manulife Investment Management, as of 8/13/2020

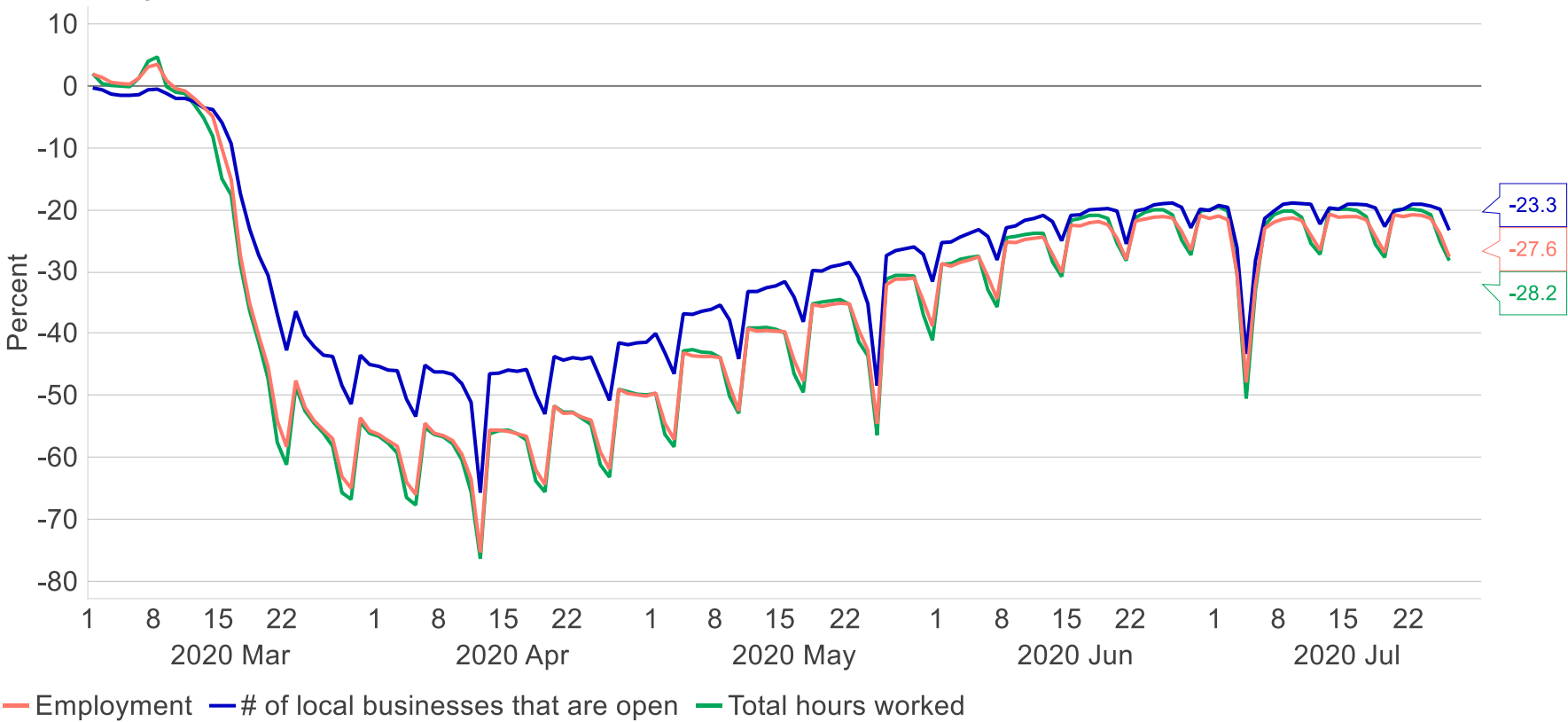
Canadian OpenTable Restaurant Reservations: Seated Diners (YoY%)



Source: Bloomberg, OpenTable, Macrobond, Manulife Investment Management, as of 8/13/2020

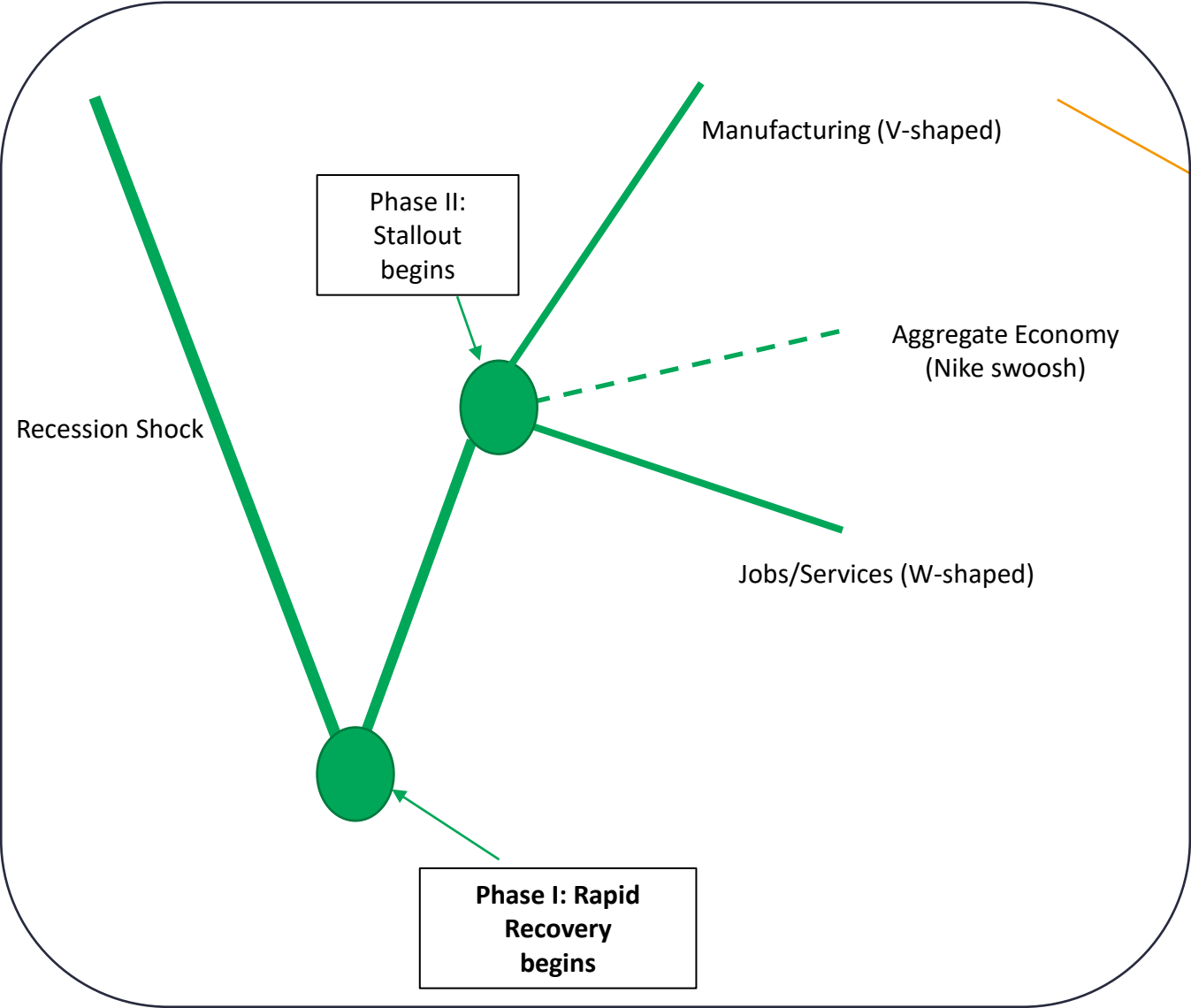
# The Stallout will be characterized by: operating below capacity

U.S.: Activity amongst local businesses & their hourly employees relative to January 4 - 31, 2020

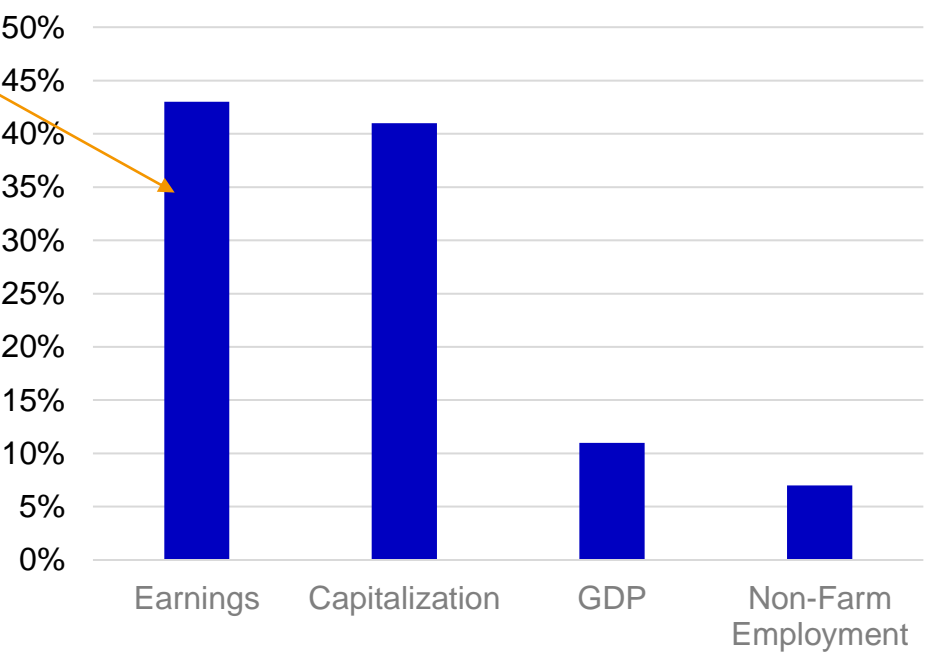


Source: Homebase, Macrobond, Manulife Investment Management, as of 8/13/2020

# But even Phase II “The Stallout” is uneven and complex. It looks like a “K”

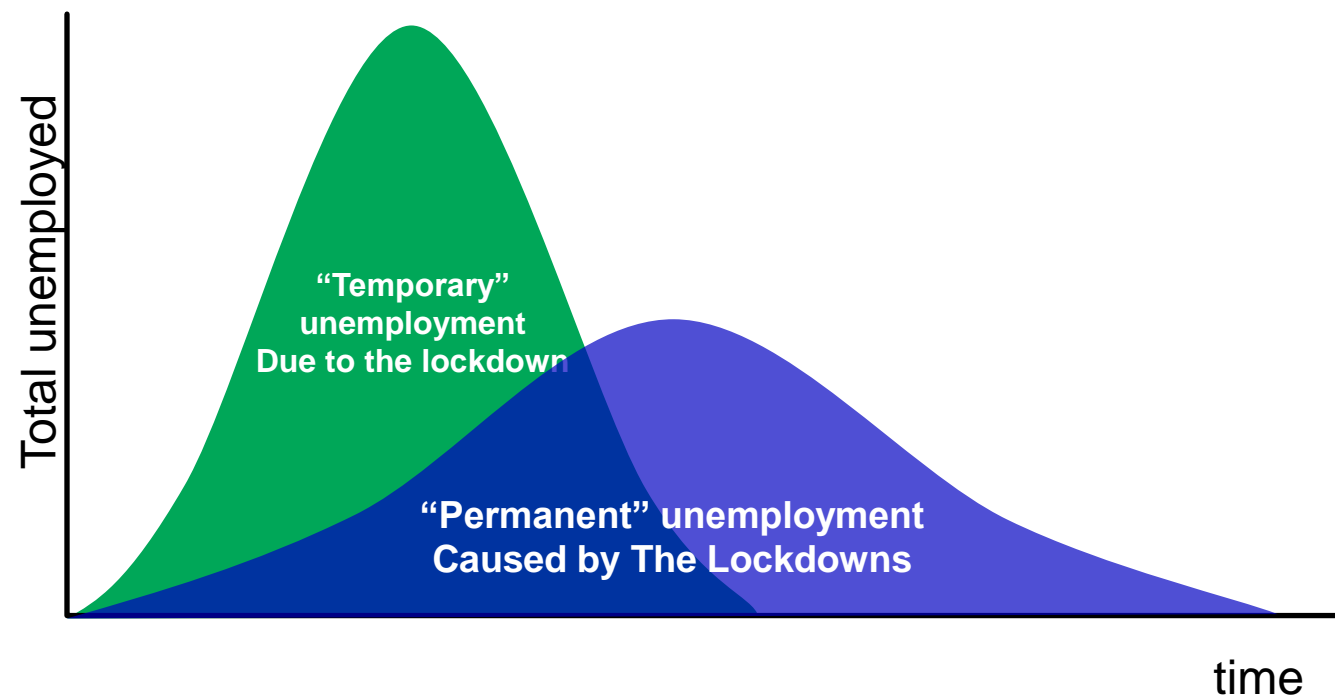


Manufacturing as a share of S&P500 earnings, market cap, the U.S. economy and total U.S. jobs

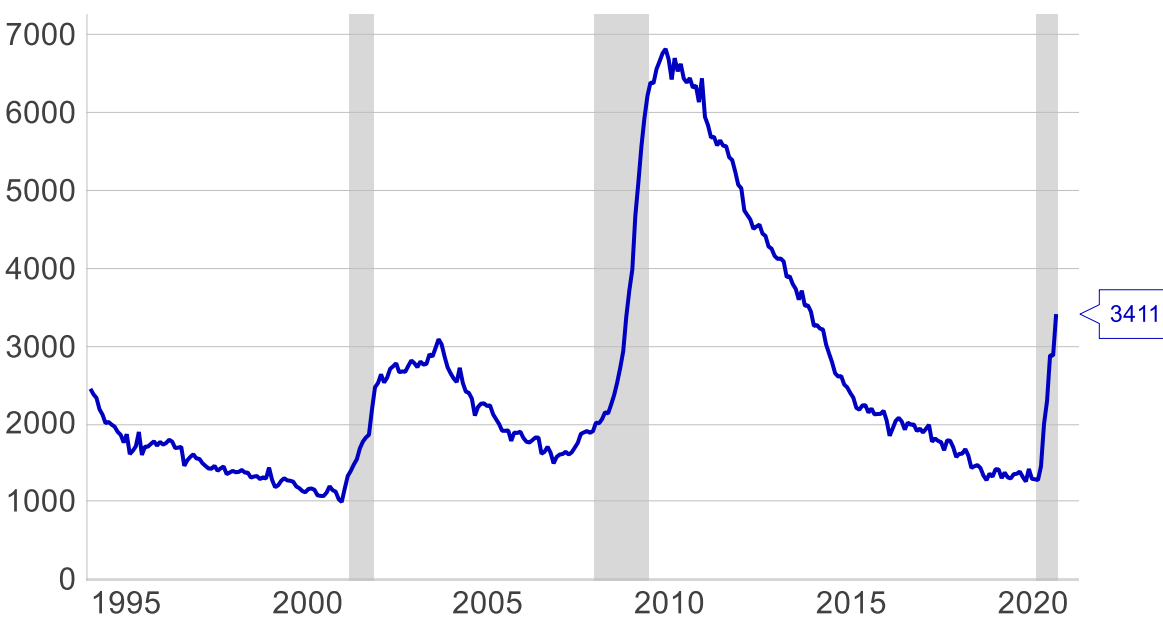


Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Manulife Asset Management. As of August '18

# Be aware that the labor market “improvements” we are witnessing mask a more sinister undercurrent



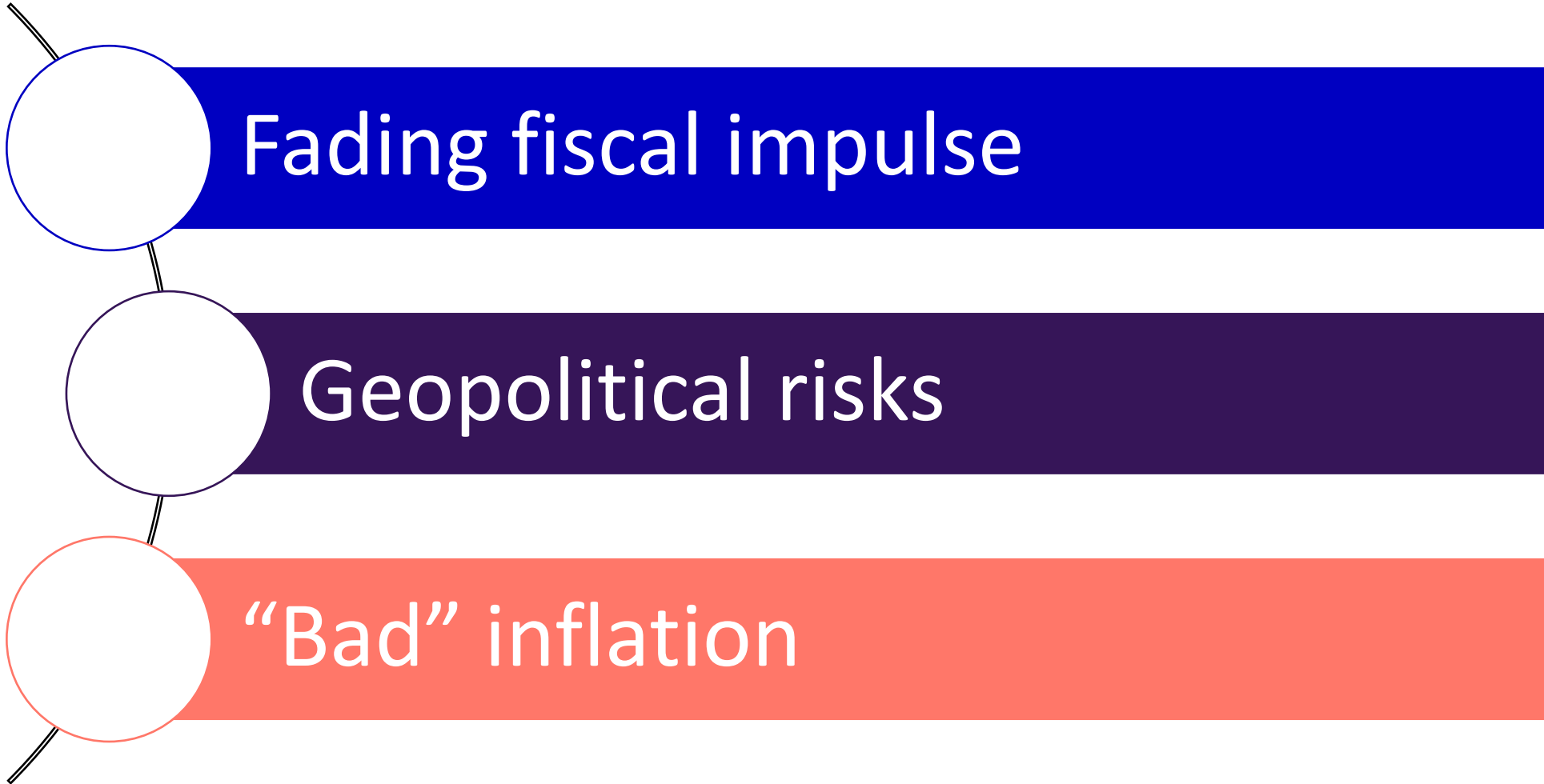
US Unemployment: Number of Permanent Job Losers



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 9/7/2020

• Source: Bloomberg, Manulife Investment Management. For illustrative purposes only

## Other challenges





# Phase III: The New Normal

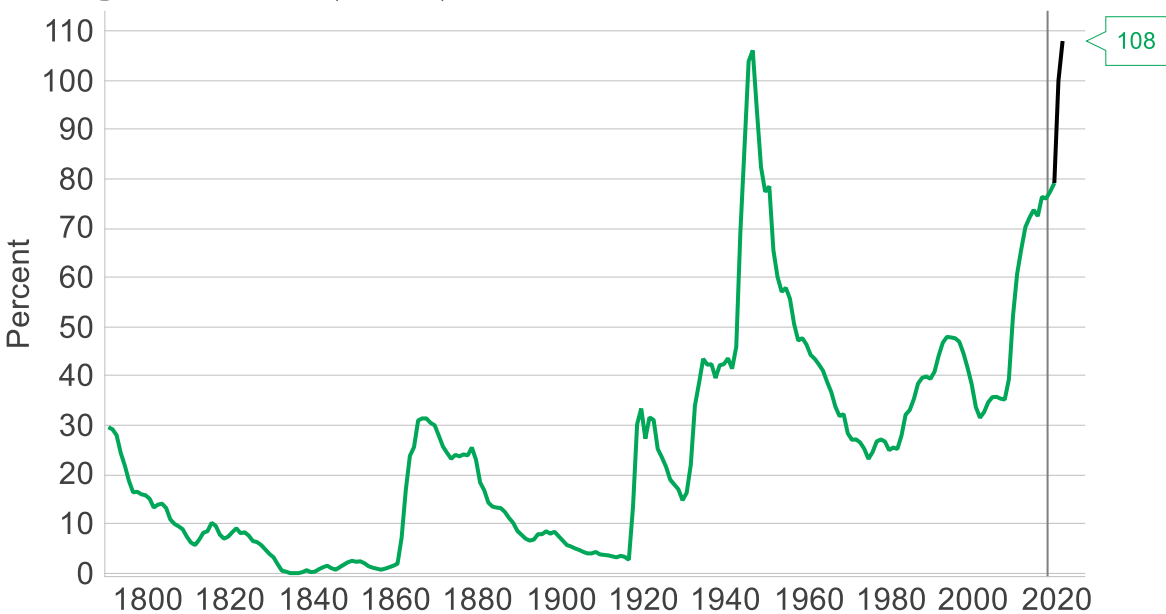
# The Long-Term Outlook: Dominated by 5 key themes and 6 trades

	Inflationary	Produces Steeper Yield Curve	Positive For Risk Assets	Supports U.S. dollar	Positive for alternative assets	Exacerbates misallocation of capital
US-China decoupling	✓		✓	✓	✓	✓
Historic fiscal stimulus	✓	✓	✓	✓	✓	✓
Low/Negative Rates	✓	✓	✓	✓	✓	✓
Debt Monetization	✓	✓	✓	✓	✓	✓
ESG transitions	✓				✓	✓

- For illustrative purposes only.

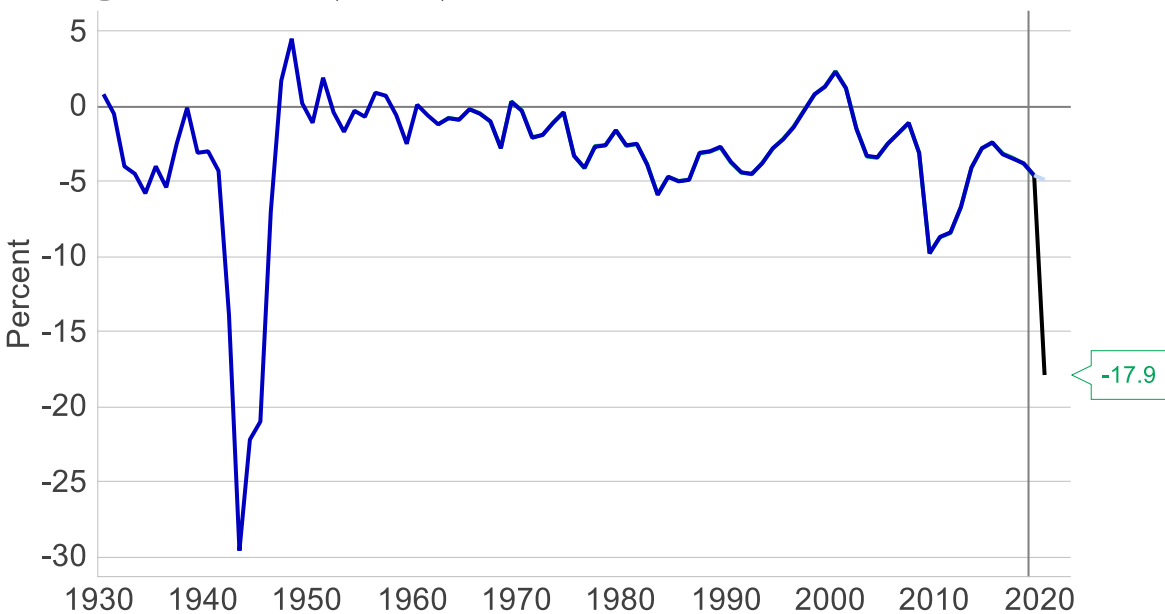
# The “new normal” of massive government debt and deficit figures

U.S. federal debt as % of GDP with Congressional Budget Office (CBO) forecasts



Source: U.S. Congressional Budget Office (CBO), Macrobond, Manulife Investment Management, as of 8/13/2020

U.S. budget deficit as % of GDP with Congressional Budget Office (CBO) forecasts

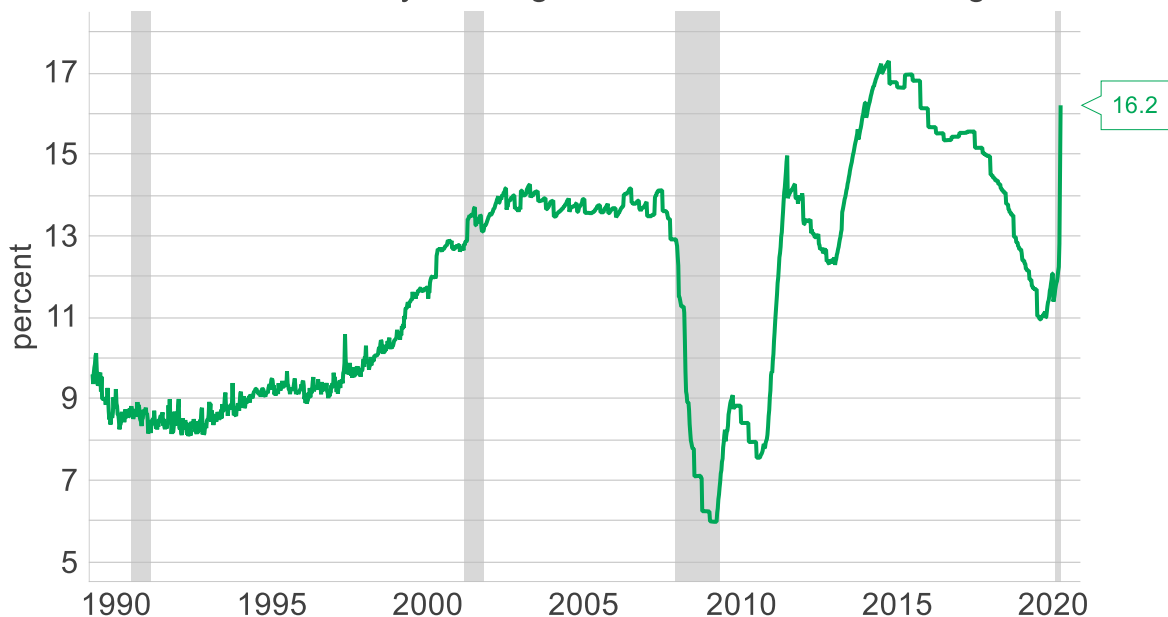


Source: Congressional Budget Office, OMB, Macrobond, Manulife Investment Management, as of 8/13/2020

# What does “Debt Monetization” really look like?

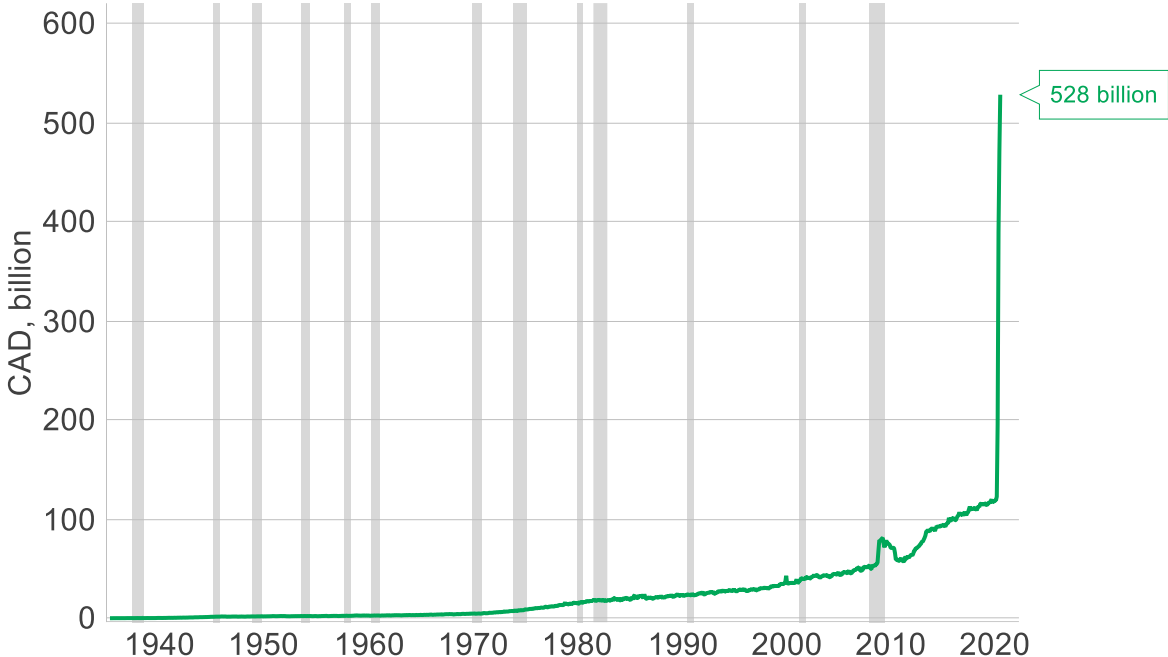
## The Fed already owns 16% of all U.S. Treasuries

Federal Reserve Treasury Holdings as % of Total Outstanding Treasuries



Source: Federal Reserve, Macrobond, Manulife Investment Management, as of 8/13/2020

## The Bank of Canada's Balance Sheet



Source: Statistics Canada, Macrobond, Manulife Investment Management, as of 8/13/2020

# Extremely low interest rates means another chapter in the Search For Yield story

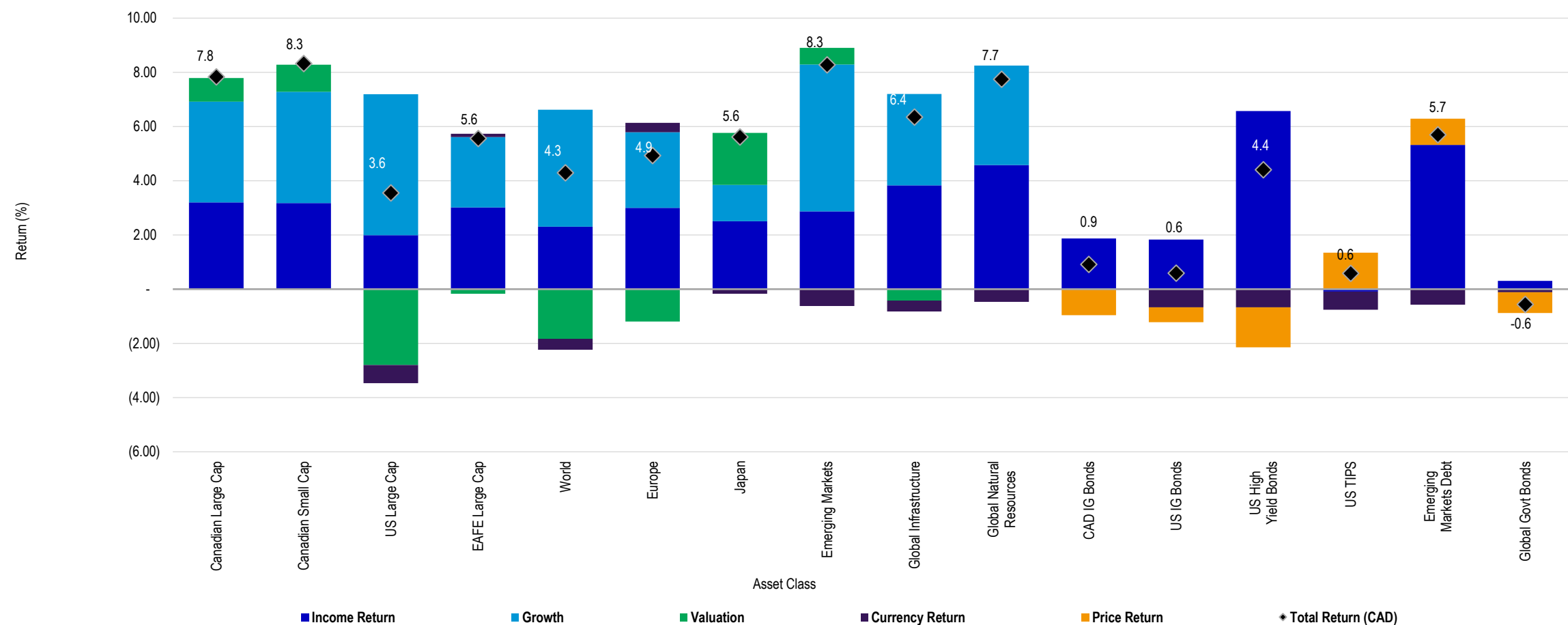
Share of global investment grade bonds that are negative yielding (Barclays Global Aggregate)



Source: Bloomberg, Macrobond, Manulife Investment Management, as of 8/13/2020

# Asset Allocation Group Current 5-Year Asset Class Forecasts

Asset Class Expected Return Components – June 2020



Source: Asset Allocation Team, June 2020. Note: Model inputs are factors in Manulife Investment Management research and are not meant as predictions for any particular asset class, mutual fund or investment vehicle. Components not represented in the chart of zero or negligible values

# Thought Leadership Disclosure

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 pre-existing political, social and economic risks. Any such impact could adversely affect the portfolio's performance, resulting in losses to your investment

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.

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