Manulife Strategic Income Fund – Call Summary Notes

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Fixed Income Landscape and Outlook

- Last year, central banks were forced to hike rates unexpectedly
- Unprecedented amounts of stimulus and accommodative monetary policy in response to Covid lead to high inflation, combined with uncertainty and geopolitical risk that helped spur inflationary pressures
- From a total return view, it didn't take much of an upward move in yield to see high quality bonds end up with a negative return.
- This year, fixed income is in a far better place. Some central banks are further along than others in their tightening cycle and some are even at the end. There's an opportunity to take advantage of mispricing, and potentially deliver higher returns.
- Current environment is one of the most attractive years for total return potential for the mandate
- **YTW**: 5.67%
- **Duration:** 4.91 yrs
- **Average Credit Quality:** A-

Duration management was beneficial:

- Tactical duration management, with a 2 year band on either side of their neutral 4 years
- Duration was taken down to low end of the range to about 2.5 yrs at the start of 2022
- When U.S. Treasury yields broke out in the third quarter of last year, it made sense to take on more interest rate risk.
- Overall, we managed to increase the Fund's duration up to 5.10, while increasing credit quality and yield, which was a positive contributor to performance since the peak in 10 year treasury yields late last year

Credit:

- Increased overall portfolio credit rating to A- from BBB
- Currently only about 16% in High Yield
- We've held larger positions in high yield in the past, but that's because there was ample liquidity in the system and spreads were widening. Economic data was bottoming and potentially reverting upwards, so we opted to take on more risk.
- Now, the market seems to be incorrectly pricing in default risk. At this point, our position in high yield isn't as significant, and we've even decreased our position in bank loans from 10% to 0%.

Currency:

- The U.S. dollar has come down, and the Canadian dollar may strengthen before the end of the year. We're going to have a bias to fully hedge back and take U.S. dollars out of the equation, but it's important to realize we don't only use currency as an alpha generator. It's also used as a risk mitigator and acts as a natural hedge in a flight-to-quality environment.
- There might be other opportunities outside the U.S. to embrace currency risk and potentially add to return (i.e., high quality emerging markets).

Opportunity/Outlook Going Forward

- The risks of further rate increases have come down
- We feel we're in a much better point in the fixed income cycle, and we see this as a potentially attractive year from a fixed income standpoint. The market is pricing in one more Fed rate hike and the risk of a massive move higher has diminished significantly. As such, there is room to take on a little more interest rate risk.
- The market could experience volatility in the second half of the year, when companies disclose earnings and begin feeling the effects of tighter financial conditions.
- With investors potentially pricing in some recession risks, government bond yields could come down and corporate credit spreads could be under pressure.
- This offers strong potential for capital appreciation in addition to the attractive coupon (close to 6%)