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This is the Private Wealth Podcast with Manulife Private Wealth.

Speaker Participants

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Presentation

Leslie Brophy, AVP, Head of Investments and Head of Sales, Manulife Private Wealth

Hello, everyone. Welcome and thank you for taking the time to join us today for Manulife Private Wealth's webinar for this first quarter of 2022.

The recent geopolitical developments in Europe have been disruptive to global publicly traded markets and sent commodity prices surging across the board. While there is little indication as to when and how the markets might settle down again, there are some very early signs that market participants are beginning to turn their focus again to longer term themes to consider how these developments, coupled with supply chain constraints and inflation, will impact their estimates on revenues, profit margins and overall growth.

Today we'll review the impact of the latest events on our macroeconomic outlook and offer a framework to consider, given the evolving situation. We'll then look at strategic asset allocation positioning, and how to consider preparing investment portfolios for the next 12 months. As always, this webinar is prepared solely for your information. For those interested in a replay or in sharing the contents of this call with others, we are recording this segment and a copy of the recording will be available to participants on our website at Manulifeprivatewealth.ca, or LinkedIn at Manulife Private Wealth. If you have any questions or requests after this call, please feel free to contact a member of the Manulife Private Wealth team.

Our first speaker, Alex Grassino, is the head of North American macro strategy multi-asset solutions team at Manulife Investment Management. He forecasts macroeconomic and financial trends, analyzes the economy and capital markets for potential opportunities and risks, and contributes to thought leadership both within the firm and externally. In addition to his work on the multi-asset solution team's returns forecast process, Alex provides portfolio and positioning views, directs thematic research, contributes to and coordinates internal and external publications, and is an active participant in various internal investment and risk committees.

With that, Alex, over to you.

Alex Grassino, Head of North American Macro Strategy, Multi-Asset Solutions Team, Manulife Investment Management

Thanks, Leslie, and thanks, everyone, for tuning in.

I figured one of the good ways to start today would be to level set. So I'd quickly outline where we were back in January just to underscore how far things have come and where we think things are going on a go-forward basis.

So if you go back to January, we had a pretty clean narrative of how the year was going to go. Basically it was going to be a year of two halves. The first half in a word, not so great. We'd see slow growth, which would have been caused by a slowdown in government spending as stimulus wore off, and slower consumption as consumers started to recalibrate away from the spending and goods they had back towards a more normalized existence. And a little bit of industrial production slowdown at the beginning of the year.

That would have also been coupled by high inflation rates – so when we were seeing [prints?] close to 8% year over year in the United States, it really wasn't very surprising to us, and this is for a series of pretty mathematical reasons. Basically, if you look at where oil prices were a year ago, that would have been a big contributor to inflation. If you look at where distortions related to the pandemic were, that was also another big contributor. And we still had ongoing supply chain destructions.

However, the expectation really was that in the second half of the year you'd start to see a rollover in inflation. So we expected inflation to go from 8% to somewhere a little bit above 2% by the end of the year as supply chains unblocked. And as year-over-year comparables to oil went. But before that we would have expected something like a stagflationary-like type dynamic. But back over towards the second half of the year we would have expected to see a build in inventory as supply chains started to unblock and as things started to move back more towards normal.

So in essence, even with a very moderately increasing central bank backdrop where inflation rates would have tightened slowly, we would have expected to see a dynamic that would have been favourable for asset classes that would have been characterized by the risk on dynamic.

Unfortunately, we all know where events have taken us and where things are now. So, at the risk of summarizing the obvious and going back to what Leslie said, I guess, a little bit. We see sparks or spikes in market volatility across key asset classes. We've seen surges in commodity prices, which are all tied into what Russia and Ukraine have provided – so we're looking at things like wheat, fertiliser, oil, natural gas. Key metals like nickel, copper and palladium, which are all key to the clean tech innovation. And all of these are immediately clear. Just going to the grocery store will tell you that food prices are up, and we can all see what prices at the pumps have done more recently.

It also has regional spillover. So if you look at what's happened in Europe, which is naturally the most immediately affected, it's not just prices that we're worried about but also what's going to happen to production. There's an interruption in energy supplies to places like Germany; manufacture and production will start to tilt, and that'll have an adverse negative effect on Europe over the second half of the year.

So much so that if you look at modeling going forward, while most people have a fairly benign and quick resolution to this issue, the reality is that if it extends into 2023 you're potentially looking at a recession in Europe. The good news is that here in North America we're reasonably well insulated from anything like that. Given that when you look at what hits the overall growth are going to look like, Europe is hit first, clearly, but because of the somewhat insulated nature of the United States and Canada, we do get affected but not nearly as badly as other parts of the world.

It's not just the current conflict between Russia and Ukraine that's been happening, though. Underneath the surface, if you look at where central banks have moved from, say, September to now, it's been a really remarkable shift. Some point in the fall it's pretty clear that most developed market central banks basically decided that the transitionary inflation they were so sanguine about during the summer of last year really wasn't going to happen, and they started moving towards aggressive normalization.

If you think about the fed in September, the view was they'd stopped buying assets at quite as high a level, and maybe stopped that altogether by the end of '22 with maybe one hike. By December it was pretty clear that we were going to get normalization of asset purchases by mid-year and then three to four hikes. And then at the most recent FOMC meeting, which was last week, the base case by the governors themselves basically indicated that we're looking at seven hikes this year and possible reduction of the balance sheets. For the record, seven hikes basically means that they're expecting to go every single meeting and potentially have a 50 basis point increase.

For a long time we believe that the FOMC would pivot more dovishly as inflation came off, but unfortunately right now that's kind of out the window given where prices are going and the potentially long lasting impact of sanctions on a go-forward basis. Similarly if you look at Canada the issue right now is that Bank of Canada has a very clear desire to normalize as well, and it doesn't even have cover from the full employment mandate, given that it is entirely price sensitive.

We do think they go a little bit more slowly than the fed and the main reason here is that if you look at the Canadian consumer there's pretty high levels of leverage, and the housing sector is a sector that people have been worried about for years now. So a rapid increase in interest rates there could potentially be very disruptive to the broader economy.

And even Europe, which is usually a dovish central bank essentially doubled down on their hawkish rhetoric, which is, relatively speaking, relative to their own past, still somewhat more benign than what you're seeing in North America. But even they started talking about the eventual unwind of asset purchases and tightening down the road, even against the backdrop of war. All this to us signals really they do expect that inflationary pressures that we thought would be transitory and unwind very quickly could last a little bit longer than expected.

On the subject of inflation I'll focus in a little bit more on the United States right now and just talk about what we're seeing.

Now, CPI isn't real-life inflation and if anything real life inflation is a lot worse than it had been before. So what the academic prints are for inflation is perhaps less important than what's happening in the real economy. When you look at what's been happening in terms of the things that are the most inelastic for consumers, so we'll call that food and gas, which is exactly what they strip out of core inflation, and you look at what it is as a percentage of disposable income, for the last seven or eight years it's been hovering at around 8-8½%, depending on the year, which is a pretty stable state.

As of January, so this doesn't even factor in what's happened more recently, that number had increased by full percentage to about 9.4% of disposable income. And that's even before we got to the $130 oil prices and dollar-80 on gas, so we'll expect to see that number climb a lot higher. To us what this means is that in practice we're going to see a shift from consumption of discretionary goods – things like furniture, electronics, home and building materials, towards the things that people have to buy – so that's more consumer staples.

When you think about that coupled with higher interest rates because of the fed, that's doubly a reason why you look at things like housing and durable goods to slow. And that's a bit problematic because we've talked about an inventory restock. And that's sort of a good news bad news situation. When we look at what's been happening in the last few months in the United States, inventories have climbed up pretty sharply. Unfortunately, inventory levels in exactly those areas is right now very high. So it's looking like we could be getting to a bit of a supply glut. It's not – we don't think it's going to be anywhere near as extreme as what we saw, but glib comments around the peloton dynamics are something that could be watched in certain very specific sectors on a go-forward basis.

So in essence we've gone from a pretty benign second half outlook to a lot more cautious.

That having been said, we do think that there are areas to invest and we do think that there's takeaways that we can look at. On a regional basis it's pretty self-evident. We do prefer North America right now over Europe until things clear up, because part of the story in Europe would have been for re-acceleration in industrial production. That's right now out of the windows, so North American markets do seem to look at least a little bit more stable. It's more about flight to safety and compelling opportunity set at this point.

Second, we'd be looking really to align with more secular trends. Unfortunately one of the by-products of conflict is that areas like defense and infrastructure are increasingly being talked about, with noise from places like Germany, which has traditionally being very conservative with spending, coming out and talking about more money. So from an opportunistic perspective over the medium to long term there's probably benefits to be had there. But we'd rather focus on something which is much bigger, which would be clean tech.

Even before the war started, there was a very clear shift towards spending and infrastructure, particularly in Europe around clean tech. And I think one of the things that this conflict has really done is brought that back into sharper dynamics – a sharper focus. So dynamics like spending on nuclear energy or spending on alternative sources of natural gas and EV vehicles do suggest that infrastructure and engineering firms that would go towards that field, or even key commodities – things like lithium and copper – will also be major beneficiaries over the medium to long term.

So while there is short-term volatility at play, we'd suggest stay safe and keep a close eye on longer-term structural benefits right now.

I think that's it for me, Leslie, so thank you, and I will pass it off to you. Thanks.

Leslie Brophy, AVP, Head of Investments and Head of Sales, Manulife Private Wealth

Thank you, Alex. I guess you could say the team's best laid macroeconomic forecasts have certainly been disrupted by the geopolitical tensions in Europe, and the central banks raising rates at a faster pace than signaled in mid to late 2021. No doubt we are in for some more additional turbulence in the markets.

Manulife Private Wealth aims to provide institutional expertise tailored to your personal goals. As we continue with this episode, you'll discover how our partnership with Manulife Investment Management's asset allocation team is one of three key factors MPW employs to help our investment councillors deliver that institutional expertise. Our collaboration with the asset allocation team helps MPW deliver a carefully constructed asset allocation selected from over 140 asset classes that fits in with your overall risk tolerance.

As many of our listeners will know and appreciate, in an article published in the financial analyst journal in the late 1980s by Brinson, Singer and Beebower, the authors determine asset allocation as the largest contributor to total return when compared to the other two key aspects of the investment process – those being active asset allocation and security selection. It makes sense, then, for MPW to value the importance and work closely with the asset allocation team to prepare and deliver to you, our customers, a carefully constructed asset allocation according to your overall risk tolerance.

Our next speaker Jamie Robertson is responsible for overseeing all aspects of Manulife Investment Management's Canadian asset allocation franchise, including portfolio management, research and development, product development, business development and trading. He leads Canadian portfolio management efforts across a wide range of multi-asset and multi-manager solutions. In addition, as global head of taxable asset allocation, Jamie takes a leading role in driving the tactical positioning and the portfolio construction process of tactically oriented solutions globally.

Jamie, over to you.

James (Jamie) Robertson, Head of Asset Allocation Canada and Global Head of Tactical Asset Allocation, Multi-Asset Solutions Team, Manulife Investment Management

Thank you very much, Leslie. I appreciate that kind introduction, and I want to thank everybody for joining us today and I thank you also for all the support that you provided to Manulife Private Wealth as well as our team.

I want to cover three topics with you today. You know, the first is really the value of advice, you know, of having an advisor in terms of navigating the sea of asset class selection. And that can be a complicated and challenging world. The second is how we at MAST – multi-asset solutions team – approaches asset allocation. And finally just to give you some observations on how, you know, how we have some – asset classes that are having a pretty major influence on the portfolios that you see when you sit down with your advisor when you open up your account.

So the first thing I'd like to point out is this. Is it, as a do-it-yourself investor, do-it-yourselfers, beware. What you're looking at here is the last 20 years ending in 2020, because this is the type of data that actually comes a little bit slower. And you're looking at the annualized 20-year returns starting in 2000 for a number – a wide variety of asset classes. You know, you've got US equities at 6½ or 6.6, Canadian equities a little bit behind that. Your sort of standard, you know, balanced fund of 55-45 generated around 5.4. Bonds did very, very well; global bonds a little bit less so. But look at what your average asset allocator generated over that 20-year period. You generated 2%. So, what does that imply? That means that level of underperformance has a massive, massive impact on the outcomes that an investor would actually achieve.

So the old rule of 72 is, you know, how quickly does it take for a for portfolio to double? You know, when you're looking at 4- or 500 basis points a year of underperformance, you're looking at an asset allocation investor who's sitting looking at a balance that is a mere fraction of what it had been if he'd simply gone with an advisor and gone with a simple asset allocation solution.

So, why is it that these average asset allocators underperform as much as they do? Well, there's actually a couple of reasons for that. The first is that they have a tendency of chasing. So what you're looking at on this screen in the blue line is the flows that that that go into equities on a rolling 12-month basis. And then the green bars are the Canadian equity rolling 12-month returns. And with the sole exception of the aftermath of 2008, you can see that whenever we have a period of very robust returns, investors become enamored with stocks and they actually – they actually pile into stocks. So generally speaking, they are a lagging indicator and they're chasing the market.

The second reason that they have a tendency of underperforming is that they panic. It's simply a behavioural aspect. You know? In 2022 at the depths of the market there were reports that up towards of 40% of investors bailed all together on their equity exposures. So a great example of how emotion can take over to the detriment of their long-term outcomes.

2022 has been a year where we have seen a real collapse in investor sentiment. We're looking at some investors sentiment indicators that are worse than where they were in the bottom of 2020, and even worse than they were in 2020. Or 2008 – excuse me. And what we really saw was about a 14% decline in the S&P. We generally look at the S&P as sort of our benchmark. But it just so happens that 14% is pretty much of an average drawdown from peak to trough in the S&P in any 12-month period, in any calendar year, so it is not at all unusual to see that type of pullback. And certainly, you know, with the narrative around the geopolitical issues, inflation issues, fed policy, you can see why investors got very, very despondent and very, very quickly.

And I'm not going to make light of it. You know, the first 50 days of 2022 rank as the sixth worst start to the year going all the way back to 1920. And some of those other examples, or most of those other examples, are associated with pretty significant events. So we had 1935, which was a very poor market in the throes of the depression. We had 1982 was another example of a very horrible first 50 days of the year, and that was when interest rates were basically at 15%. 2001 we were coming off the tech bubble. 2009 we were coming off of the bubble of real estate in the US. And 2020 when we basically had the shutdown due to COVID. So 2022 is number six on that list.

The good news is that those – during those six instances, the market returned, on average, 36% from the lows after that 50 day – from that 50 days. On average the market produces six-and-a-half, but the markets advanced by over a third. And it did that with every single time with the exception of 2001. So I'm not making a prediction here, but I am pointing out that we've seen a very good correction, we've got a very negative narrative, we've got very negative sentiment, and this just provides you a little bit with a means of framing where we are at any given time.

So, just holding on to the market, being in the market, staying in the market is very challenging. But it's also very challenging from an asset allocation perspective.

So here is a somewhat noisy chart, but I would ask you to look at towards the bottom which is the delta between the top performing asset classes and the worst performing asset classes in any given year. And those are highlighted in blue as the best and red as the worst in each of these calendar years. And what you see is that the asset allocation decision is incredibly important. You can – by picking the wrong asset class, you can have a divergence in performance of 25, 30, or, in the case of 2016, 40%. And I would have no expectation that 2022 would be any different.

So it's really, really important to be able to have a framework, an expertise and ability to navigate your way through the asset allocation decision and make the right decision, or at least an optimal decision, given all the information at our disposal.

So, what do you need to do that? Well, first of all you need a team. So Alex and I are a member of the largest portfolio management team at Manulife. There's over 60 investment professionals working on – across the globe, basically 24 hours a day. We manage over 212 billion of AUM, and we are truly a global team. We're located in Boston, Toronto, Montreal, London and Hong Kong. And the level of connectivity that we have, partially thanks to the pandemic and thanks to teams and Zoom and that sort of thing, is that these are truly a global team that interacts on a daily if not on an instantaneous basis. And we've been doing this and it's all we do since 1995. So, what – you have a team that gets up every morning and all we think about is not security selection or what's going on in a particular company; we are singularly focused on how to build a portfolio that generates the highest expected risk-adjusted returns.

So for that, what do we need? We need a process. What does our process reside on? Our process resides on a – rests on an exercise that we go through basically four times a year, and we're actually starting this on Friday. What we do is we do five-year expected return forecasts for a vast array of asset classes. Over 140 asset classes. And the reason that we do five years is – there's a couple of reasons for that.

The first is that, you know, generally speaking, if I sat down with a client or if I sat down with my sibling and said, you know, we're going to build you a portfolio, it's going to be more strategic in nature, we don't want you to be meddling with it, you know, five years would probably be a pretty reasonable timeframe to be thinking about it. But equally, if not more importantly, our research has shown is that five years is the shortest period of time over which valuation matters. And I know that's sort of a strange sounding thing to say, that valuation matters or doesn't matter, but valuation is a lousy timing mechanism. Just because something's cheap doesn't mean it can't get cheaper. But our research has shown is that over a five year period you tend to see asset classes that are extremely expensive revert back to their mean, or asset classes that are very cheap to become a little bit more fair value. So that mean reversion component takes place over that five-year term.

So we do expect a return forecast for fixed income, private assets, as well as equities. On the fixed income side, it's a little bit – I wouldn't say straightforward but certainly one of the most important things, as we say, is what you see is what you're going to get, which is that your starting yield is an extremely important aspect to what you're ultimately going to get. So right now we're at 238 on US tenure notes. You know? For spread product you're going to get 3- or 400 basis points better than that. You're going to see some spread widening or spread tightening and maybe some defaults along the way. And there's going to be some currency aspect to it. But generally speaking it's pretty important your starting point, and right now we're starting at a point that is, you know, by no means attractive from a longer term perspective but certainly a lot better than it was at the beginning of the year when we started at 150 and are now at 237. So we've had over a 50% increase in interest rates this year.

The private asset side, we go through this exercise as well. And here we're looking at what the yield might look like. We're looking at what type of capital appreciation one could expect over that five-year time horizon. In certain aspects, you know, we have to take a look at what valuations look like because private assets, just like any other asset class, can get over overbought or overvalued. And we just want to drill down as well as to what drives that – those asset class returns. So that's another aspect that we spend a lot of time on.

And then finally we look at equities. And equities, we think about what drives an equity forecast. It's basically broken down into four components and I think this is a pretty elegant way of thinking about equities.

So, what do you get when you buy an equity? Well the first thing you do is you're going to have some sort of expectation for some income. So that's your dividend yield. This is pretty observable and certainly is reasonably stable outside of extraordinary periods. The second is you you're expecting to see some sort of price appreciation. And, again, our research has shown is that in developed markets your nominal GDP growth is a pretty good approximation for what you should expect to see from a price perspective. We make some adjustments for emerging markets and some other markets but generally speaking nominal GDP, which is real GDP plus the inflation, is a pretty good proxy for growth.

The third thing that we look at is that whole aspect of valuations. So are is valuations going to get – are they going to expand? Is that going to be a tailwind to returns? Or are they really expensive and going to be a headwind to returns? And certainly we're in a – it's that situation a few asset classes at this point. And then of course because we're building portfolios in Canada, for our – for Canadian domiciled investors, you know, we have to take into consideration what the currency adjustment would be over that time period. And as such we rely on Alex and his team to come up with a currency forecast as well.

So, after all is said and done, we produce a pretty extensive list of asset classes and what their expected returns are going to be. So I'm going to encourage you to start on the right-hand side, with no particular logic except that's where I want to start. So here you're looking at the – at basically a lot of the more – the private assets. And you can see that, you know, in the case of agriculture lending and timber and ag and global infrastructure, we're looking in that sort of 6½% return level. Private debt is a little bit lower; European real estate is in that similar type vein as well as US real estate.

And then as you approach the middle of the graph you're looking at basically what we're looking or expectations are from the fixed income side of the balance sheet, or from the asset allocation. Now, these are reflective as of the end of January and rates have moved up a little bit, so I would expect that when we go through this exercise later on this week, these returns will be a little bit more interesting. But generally speaking, you know, fixed income as a income generator is below average, as a diversifier it still holds an important place in the portfolio, but generally speaking it's not our most preferred asset class.

On the left-hand side you can see some of our major equity asset classes that we use to build these portfolios. And a couple of things are going to jump out at you, I think.

The first is, starting from the left, is that, you know, Canadian large cap as well as emerging markets are two asset classes that are probably the most favoured from an asset class perspective. Global infrastructure is another interesting asset class from a return perspective. The one that should really jump out is this US large cap. We are expecting somewhere in the vicinity of 0.5 over the next five years. And the big reason for that is that green bar, which is the valuation, is that given the valuation of US equities, and I'll speak to how that valuation got there in a few minutes, but it's going to be what we expect to be a pretty major drag on forward-looking returns. And that's just simply a function of where we stand in the cycle at this point.

So when we build portfolios you can certainly expect that we will have US large cap in those portfolios because it is clearly, you know, the premier asset class. But we are going to have a preference for Canadian large cap and we're going to have a preference for emerging markets.

So how did we get to where we are on yields? Well, I'm embarrassed to say that basically I got into the market around 1982 so I managed to hit the absolute top in yields. I guess I should have bought long bonds and never touched them ever again, but you can see, since Volcker became fed chairman in the early 80s, we have been on a disinflation bull market secular decline in interest rates that has persisted for 40 years. We've actually gotten to levels – I mean, I've been around the markets long enough that I recall when we got to sort of 4% back in 2001; people thought it was crazy that we would have interest rates as low as they are. And we bottomed out at 50 basis points in 2020. So you're talking about investing over a 10-year horizon and getting 50 basis points' return, so you're absolutely locking in a negative real yield – so not very attractive.

As inflation has reared itself up over the last little while, as the fed has started to signal that they are going to be pretty aggressive in terms of their tightening, we've seen a pretty dramatic backup in rates. And this slide was updated as of the 17th as you can see when tenure notes were at 219. We're now at 238. So we are into a very rapid increase in interest rates at this point. That's good news in some respects from an asset allocation perspective because certainly building an asset allocation portfolio when you can expect to have some reasonable level of return from the fixed income side is pretty reassuring. And I would point out now that, you know, we are now, when we're looking at high-yield debt at this particular point, we're back into that 6% running yield level. So we're starting to see – we're going to be beneficiaries of these slightly higher interest rates, because we're going to have a better amount of selection that we can have on the equity side, or on the fixed income side.

But equities are a whole different thing. So here is 20 years of the S&P 500 on a monthly basis. That's the green line. The blue line is the 100-month moving average. So, why have I selected the 100-month moving average? Well, generally speaking, you know, we run tactical portfolios, we run strategic portfolios. It's always nice to have a timeframe that you think is sort of dominating the world that you're looking at. And I can tell you that if you go back all the way back to, like, the 1950s through to 2000, any divergence from the 100-month moving average was a pretty rare event. Well, we're now sitting 60% above the 100-month moving average this is a market that since 2012 has [cay gerred?] at 16% annualized return. It's been a incredible run. It's been – it has defied logic. And the only logic I think that you could attach to it is this, is that coming out of the global financial price in 2008 we basically entered a world where growth was extremely low across the globe, really, from a global perspective. And in that type of environment investors are going to hunt for growth. And where they found growth was in US stocks in general – tech stocks in particular. So that was where the that was where the money was flowing.

And certainly so far this year you've seen a reversal of that to some extent, but clearly the market was putting a big attachment on growth – the S&P was where you would find it – and that's certainly one of the major things that we're dealing with now.

So putting it all together, how do we go about, you know, providing a solution for our clients that makes sense? Well, first of all we go through an optimization process where we take all those expected return forecasts. We think about, you know, what the correlations around those asset classes are, as well as what their risk is. And one thing I want to point out which I should have earlier. If you have never heard me speak and you saw those expected return forecasts, which I'm going to go back to very quickly here, and I'm sitting here telling you that I think that US large cap are going to return 0.5% over the next five years, I would think if I were you I'd have pretty low levels of credibility. Because, you know, here I am giving you the impression that I can predict or that our team can predict equity asset classes within 10 basis points for the next five years. That is not the case at all. I don't know if US large cap is going to produce 5.5, 0.5, negative 0.5 or 10. But I do know that from a growth perspective, from a valuation perspective, from a from a dividend generation perspective, the US is a lot less attractive a place to be than Canada and ME.

So I just wanted to highlight that in case anyone was scratching their head as to as to how we think we can generate expected return forecasts with that degree of accuracy.

But, you know, after all is said and done, this is what we're going to get from the portfolios. We are going to have highly diversified portfolios that are extremely well equipped to deal with the current environment, and that current environment could be bumpy, it could have commodity issues, and we could have higher inflation. So, as a result of that, you know, we have very large allocations to Canadian equities. But 40% of our of the equity exposure in the portfolios is Canadian equities. And that has been the best performing developed markets so far year to date by about a thousand basis points. And it's really attributable to the fact that that if you had to pick an equity market, it was going to perform very well during a period of higher inflation, it would be Canada. We've got large oil, you know, energy exposure, which we have been a big fan of in our tactical portfolios. We've got materials, banks. We're really in the sweet spot.

The second part of the portfolio is the exposures that we have to infrastructure and REITs – again, you know, very attractive from an income perspective, very attractive from an inflation perspective. This is where a lot of the – particularly in the case of infrastructure a lot of the investment is going, and, as a result, it's adding tremendously to the yield of the portfolio as well as to the diversification. We still are going to have US. You know? Certainly, you know, it's only 17% of the portfolio but there is still some reasonable exposure there. And then of course we top it off with international and EM exposure as well.

On the fixed income side, rest assured that when you hear these horror stories of rates going up and losses in the equity and the fixed income side of the market, that is not what these portfolios are experiencing. These are actively managed portfolios, they are shorter duration and are very, very well equipped to deal with a rising interest rate environment.

So I think the message here is: rest easy. You know? Higher rates are not going to be a hindrance to the portfolios. There's a lot of inflation protection and sensitivity built into it. And we've got the exposures to those higher expected return equity asset classes at the expense of those lower ones.

So the final messages here is that with Manulife Private Wealth, with portfolios that are looked at and determined by the multi-asset solution teams, you're in good hands. And with that I will pass back to Leslie.

Leslie Brophy, AVP, Head of Investments and Head of Sales, Manulife Private Wealth

Thanks for sharing your process with us today, Jamie. I think our audience now has much better insight and understanding of Manulife Private Wealth's approach to asset allocation and why our partnership with the recognized institutional capabilities of Manulife Investment Management's multi-asset solutions team is so important to us and our customers.

In the lead-up to my introduction of you, Jamie, I mentioned our partnership with the asset allocation team as one of three key factors we employ to deliver institutional expertise to our customers. The other two are Manulife's global manager research team, and of course Manulife Private Wealth's investment committee, which brings all of our investment partnerships and processes together in the selection of quality investment managers to fulfill the recommended asset allocations for our customers' investment portfolios.

To learn more about Manulife Private Wealth's investment platform, or for more information on our investment process, please reach out to a member of the Manulife Private Wealth team.

With that, thank you for joining us today and we look forward to hosting you at our next session.

Have a good afternoon, everyone.

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