Manulife Investment Management

Manulife Strategic Income Plus Fund update
July 2024

Within the new Manulife Strategic Income Plus Fund, our starting point, of course, is our macroeconomic view, and then we utilize that to think about four significant risks: interest rate, credit, foreign currency, and liquidity.

Risk assessment

So, from a starting point, our macro view has been that inflation pressures globally will continue to decelerate, which puts central banks at a position where they can begin to cut rates. And that's what we've seen so far from the Bank of Canada and from the ECB. We believe over the next three to six months, additional developed market central banks will be able to join in rate-cutting, which includes the US Fed. So, we've had a favorable view for interest rate risk.

Interest rate risk management

Now, that said, while we do think yields continue to move lower over time, there will be some volatility as that occurs. And so, we're going to actively manage portfolio duration. And so, we've been doing that within the new Strategic Income Plus Fund. We have an overall bias to be more favorable for interest rate risk, but we're going to be active in terms of managing portfolio duration.

Credit risk management

From the perspective of credit risk, we think there are still some really interesting opportunities within segments of the credit space, US high yield, leveraged loans. But at this point in the cycle, and because of where valuations are, from our perspective, it warrants to be somewhat particular from a credit perspective in terms of security selection, the individual issuers you're participating in, the credit qualities, the sectors as well.

So, there's opportunities there, but I think security selection becomes increasingly important here as we go forward.

Currency risk management

From the currency perspective, if we think about dollar-CAD, you've seen the Bank of Canada has cut rates and they, we believe, will continue to cut rates. The data there warrants that. The Fed has somewhat postponed the start of their rate-cutting cycle, but we believe that will be happening over the next three to six months. In terms of dollar-CAD, it's been somewhat rangy, $0.72 to $0.76 for roughly the last year and a half. There's a potential for some further downside risk in terms of Canadian dollar weakness, but to be honest, from the perspective of a lot of that we feel has been in the price. And a lot of folks are already positioned that way. We're not necessarily sure you're going to see that much more Canadian dollar weakness. And so, we'll trade accordingly within the range.

Use of liquid alternative tools

More broadly, and this is an example of where we're able to take advantage of the increased flexibility that is afforded to us from being in the liquid alternatives category, we're also looking at relative value of other currencies, setting aside the Canadian dollar. An example of that right now, we're taking a more favorable view in the Australian dollar relative to the New Zealand dollar. And we could structure that both in terms of portfolio hedging, but also the ability to take outright positions in foreign exchange through currency forwards.

One other example of taking advantage of some of the increased tools that we have in the toolkit in the new fund, we are given that view. Again, thinking about Bank of Canada versus the Fed – there's been a lot, we believe, in the price for Canadian 10-year yields. And so, we've taken a more bearish view on Canadian 10-year yields relative to US 10s. Again, using derivatives on futures to do that, to be able to express an investment view as opposed to just using derivatives for hedging purposes.

So, pairing that macro view, thinking about those four risks, utilizing the additional tools that we have available to us in the Manulife Strategic Income Plus Fund.

For more information, visit manulifeim.ca/strategicincomeplus

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