



INVESTMENT NOTE

February 21, 2018

In Investing, What Is Comfortable Is Rarely Profitable

~Robert Arnott

Wow! What a wild couple of weeks. After the S&P 500 didn't even experience a pullback of 3.0% in 2017, volatility returned with a vengeance at the beginning of this month with the S&P 500 falling close to 10% in 10 days. What was even more impressive was the subsequent rally which saw the S&P 500 recover close to fifty percent of its losses over a 5 day period. While the speed of the recovery was surprising, the upward movement was not.

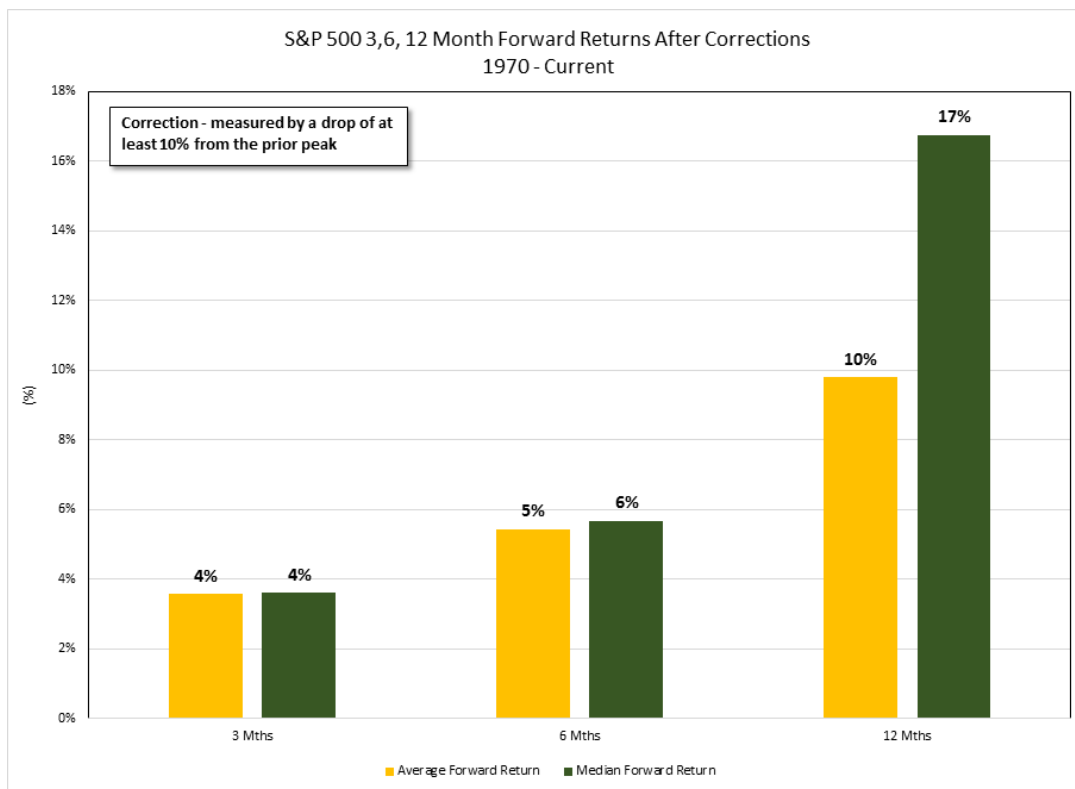
There have been 40 corrections (as measured by a drop of more than 10% from the previous peak) since 1970. We looked at the 3, 6, and 12 month forward returns assuming an investor would have invested at -10% from the prior peak. On average, investors were rewarded with an average return of 17% on a 1 year forward basis. There were 15 instances of the 40 where the forward return was negative, approximately 90% of those occurred either prior to or during a recession. Investing is a probability based decision and when a pullback occurs, history tells that investors are well served to take advantage of the volatility if it occurs in non-recessionary periods.

This Investment Note represents the views of the Capital Markets & Strategy Team

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The table below highlights typical leading signs of a recession and as of today, we do not see any signs that would indicate a higher risk of recession in the next 12 months. We do not believe the current market volatility is indicative of any deeper underlying problems. What we are experiencing is a valuation adjustment to rising inflation expectations. Once we are through this, the equity markets will refocus on the strong earnings growth and strong economic growth that we expect to continue through the year. We stand by our belief that equity markets will deliver a positive return for investors in 2018 however the journey will be more volatile than last year.

Sign of Recession	Present today
Inverted Yield Curve	No
ISM Manufacturing PMI Below 45	No
Positive Inflationary Trends	No
Capacity Utilization above 80% and peaking	No
Housing Starts Declining	No
Labor Market Weakening	No
Leading Economic Indicators Negative	No

Source: Manulife Investments, As of January 30, 2018

There are no sure bets in the world of investing however history is littered with examples where the odds of successful investing are improved at times of volatility that are not rooted in fundamentals – we believe that today is one of those examples. As Benjamin Graham ‘the father of value investing’ once wisely said.... ‘ In the old legend the wise men finally boiled down the history of mortal affairs into a single phase: ‘ *This too will pass.*’

A rise in interest rates typically causes bond prices to fall. The longer the average maturity of the bonds held by a fund, the more sensitive a fund is likely to be to interest-rate changes. The yield earned by a fund will vary with changes in interest rates.

Global events have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign.

Currency risk is the risk that fluctuations in exchange rates may adversely affect the value of a fund's investments.

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