

In this market note, Sue Trinh, Senior Macro Strategist, Manulife Investment Management, examines the immediate impact of COVID-19 on markets in Southeast Asia. She also assesses the potential longer-term effects of the outbreak on the region’s economies. Particular attention is paid to GDP growth in Indonesia, India, and the Philippines.

Southeast Asia: vulnerable for now, but resilient over the longer term

The COVID-19 outbreak is affecting Asian economies through many direct and indirect channels. In summary:

Direct channels

- A decline in tourism revenue
- Weaker consumer demand for local services
- A decrease in business cashflow
- The negative effect of tighter labour mobility on the supply chain

Indirect channels

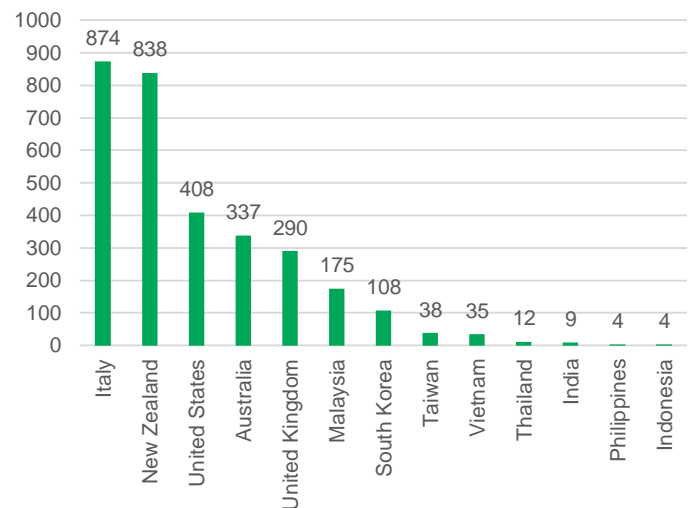
- Dwindling Chinese demand
- Supply-chain bottlenecks and a drop off in production that is being driven by a shortage of parts and components – particularly in economies that are heavily dependent on Chinese imports
- Less demand from the rest of the world, as the outbreak spreads to other markets
- Limited access to credit given financial-market volatility

As with most things in markets, any investment thesis depends on the investment horizon.

In the short term, the market may turn its attention to those economies that could become the next COVID-19 hot spots. Worryingly, there have been rapid increases in the confirmed cases reported in Indonesia, India and the Philippines – these are the region’s more populous economies with a more significant share of its low-

income households, thinner social-security nets and weaker health infrastructure. These markets have also recorded a higher proportion of deaths, which suggests that the actual number of virus-related infections could be greater than reported due to their lower testing capacity (a function of health infrastructure).

Chart 1: Tests per million people

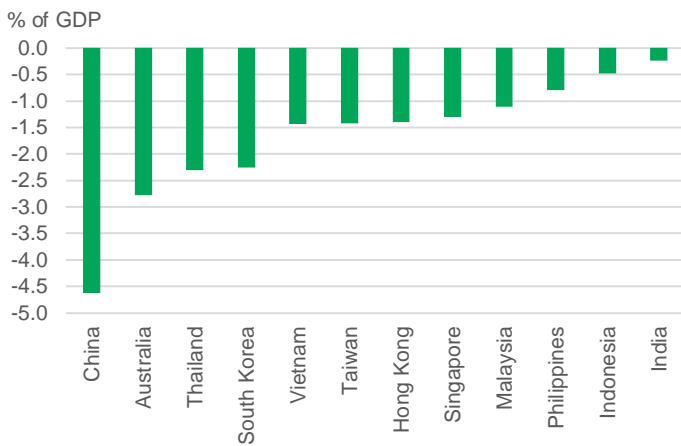


Source: National Sources, Manulife Investment Management, as of 8 April, 2020.

If we look at the longer-term picture, many independent issues have been exacerbated by COVID-19. For instance, a protectionist push is now accelerating across the world, the US dollar is much stronger, and oil-price volatility is creating deflationary pressures, which has implications for credit markets and financial stability. Therefore, rather than a mechanical application of *first in, first out*, we need a more holistic approach when assessing the potential longer-term economic impact in the region.

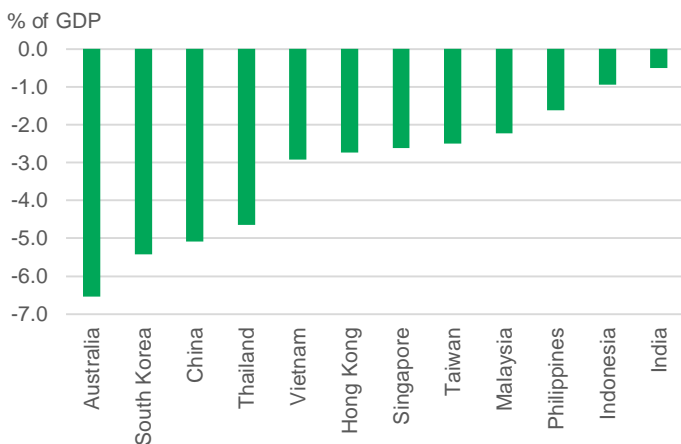
Such a view would take into consideration the quality of health infrastructure, testing capacity and fiscal wherewithal of an economy, along with its ability to pivot supply chains and grow domestic demand. Credit and liquidity risk exposures will also be pertinent. While Indonesia, India, and the Philippines may face the near-term risk of local outbreaks, their economies are among the most insulated from a longer-term growth perspective. Indeed, the Asian Development Bank's recent scenario analysis (chart 2 & 3) indicates that these markets are likely to experience the lowest impact on GDP growth, regardless of timescale.

Chart 2: Short containment scenario, hit to total GDP



Source: ADB, Manulife Investment Management, as of 8 April, 2020.

Chart 3: Long containment scenario impact on GDP



Source: ADB, Manulife Investment Management, as of 8 April, 2020.

Conclusion

Near-term newsflow may be negative, particularly as these markets deal with domestic outbreaks. However, the impact of the COVID-19 must also be viewed in a longer-term context. To this end, we believe Southeast Asia should emerge from the pandemic with resiliency.

Disclaimers

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.

The information provided does not take into account the suitability, investment objectives, financial situation, or particular needs of any specific person. You should consider the suitability of any type of investment for your circumstances and, if necessary, seek professional advice.

This material, intended for the exclusive use by the recipients who are allowable to receive this document under the applicable laws and regulations of the relevant jurisdictions, was produced by, and the opinions expressed are those of, Manulife Investment Management as of the date of this publication, and are subject to change based on market and other conditions. The information and/or analysis contained in this material have been compiled or arrived at from sources believed to be reliable, but Manulife Investment Management does not make any representation as to their accuracy, correctness, usefulness, or completeness and does not accept liability for any loss arising from the use of the information and/or analysis contained. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline, or other expectations, and is only as current as of the date indicated. The information in this document, including statements concerning financial market trends, are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Manulife Investment Management disclaims any responsibility to update such information.

Neither Manulife Investment Management or its affiliates, nor any of their directors, officers or employees shall assume any liability or responsibility for any direct or indirect loss or damage or any other consequence of any person acting or not acting in reliance on the information contained herein. All overviews and commentary are intended to be general in nature and for current interest. While helpful, these overviews are no substitute for professional tax, investment or legal advice. Clients should seek professional advice for their particular situation. Neither Manulife, Manulife Investment Management, nor any of their affiliates or representatives is providing tax, investment or legal advice. Past performance does not guarantee future results. This material was prepared solely for informational purposes, does not constitute a recommendation, professional advice, an offer or an invitation by or on behalf of Manulife Investment Management to any person to buy or sell any security or adopt any investment strategy, and is no indication of trading intent in any fund or account managed by Manulife Investment Management. No investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment. Diversification or asset allocation does not guarantee a profit nor protect against loss in any market. Unless otherwise specified, all data is sourced from Manulife Investment Management.

Manulife Investment Management

Manulife Investment Management is the global wealth and asset management segment of Manulife Financial Corporation. We draw on more than 150 years of financial stewardship to partner with clients across our institutional, retail, and retirement businesses globally. Our specialist approach to money management includes the highly differentiated strategies of our fixed-income, specialized equity, multi-

asset solutions, and private markets teams—along with access to specialized, unaffiliated asset managers from around the world through our multimanager model.

These materials have not been reviewed by, are not registered with any securities or other regulatory authority, and may, where appropriate, be distributed by the following Manulife entities in their respective jurisdictions. Additional information about Manulife Investment Management may be found at www.manulifeim.com/institutional

Australia: Hancock Natural Resource Group Australasia Pty Limited., Manulife Investment Management (Hong Kong) Limited. **Brazil:** Hancock Asset Management Brasil Ltda. **Canada:** Manulife Investment Management Limited, Manulife Investment Management Distributors Inc., Manulife Investment Management (North America) Limited, Manulife Investment Management Private Markets (Canada) Corp. **China:** Manulife Overseas Investment Fund Management (Shanghai) Limited Company. **European Economic Area and United Kingdom:** Manulife Investment Management (Europe) Ltd. which is authorised and regulated by the Financial Conduct Authority, Manulife Investment Management (Ireland) Ltd. which is authorised and regulated by the Central Bank of Ireland **Hong Kong:** Manulife Investment Management (Hong Kong) Limited. **Indonesia:** PT Manulife Aset Manajemen Indonesia. **Japan:** Manulife Investment Management (Japan) Limited. **Malaysia:** Manulife Investment Management (M) Berhad (formerly known as Manulife Asset Management Services Berhad) 200801033087 (834424-U) **Philippines:** Manulife Asset Management and Trust Corporation. **Singapore:** Manulife Investment Management (Singapore) Pte. Ltd. (Company Registration No. 200709952G) **South Korea:** Manulife Investment Management (Hong Kong) Limited. **Switzerland:** Manulife IM (Switzerland) LLC. **Taiwan:** Manulife Investment Management (Taiwan) Co. Ltd. **Thailand:** Manulife Asset Management (Thailand) Company Limited. **United States:** John Hancock Investment Management LLC, Manulife Investment Management (US) LLC, Manulife Investment Management Private Markets (US) LLC and Hancock Natural Resource Group, Inc. **Vietnam:** Manulife Investment Fund Management (Vietnam) Company Limited.

513816