

# Portfolio Manager Insights

Manulife U.S. Regional Bank Trust



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## Market Environment

U.S. bank stocks rebounded sharply in the third quarter as the markets shrugged off the U.K.'s vote to leave the European Union and rallied following the initial sell-off in stocks. Better U.S. economic data, including a stronger jobs report, and commentary from U.S. Federal Reserve Board officials resulted in greater certainty of an interest-rate hike before the end of the year. In the latter part of the quarter, the Financials sector came under some pressure after Wells Fargo & Company's disclosure that it may have opened up to two million customer accounts without prior consent and reports surfaced of the U.S. government's potential \$14 billion fine of Deutsche Bank AG for its activities during the financial crisis.

## Portfolio Review

The Fund's overweight exposure to equities was the largest contributor to its performance. Security selection among fixed income also contributed. Individual outperformers included Independent Bank Corp., whose stock surged 19% as the company exceeded earnings estimates on strong loan and deposit growth, net interest margin expansion, and outstanding credit quality. Hancock Holding Company increased over 25% following better-than-expected results in its energy-lending portfolio. The Fund's underweight allocation in fixed income securities detracted from performance. Our

alternative asset manager holdings also negatively impacted performance. Shares of Blackstone Group, L.P., Intermediate Capital Group plc and KKR & Co. L.P. declined on concerns that market volatility and Brexit could negatively affect their business activity.

Many of the Fund's non-bank holdings negatively impacted performance as banks were the best-performing group in the Financials sector. Individual detractors included F.N.B. Corporation, which declined slightly as the market questioned the price it paid to acquire Yadkin Financial Corporation. Dime Community Bancshares, Inc. missed earnings estimates amid higher expenses and a large decline in its net interest margin.

We added a new position in First Hawaiian Bank and increased the Fund's positions in Citizens Financial Group, Inc. and Regions Financial Corporation. We decreased the Fund's positions in F.N.B. Corporation following its announced acquisition of Yadkin Financial Corporation.

## Outlook

The U.S. banking sector continues to experience solid loan growth and higher earnings even in this prolonged period of ultra-low interest rates. Banks are focused on reducing expenses and increasing fee revenues to benefit earnings. Credit costs continue to be low. U.S. banks remain attractively valued on both book value and earnings, and we continue to find attractive investment opportunities.

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For more information, please  
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[manulifemutualfunds.ca](http://manulifemutualfunds.ca)



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