



# ASSET ALLOCATION VIEW

**Mark Schmeer, Chairman**  
**Tactical Asset Allocation Committee**

## **Asset and Market Survey**

### **Economy — Monetary policy to remain cautious**

While markets are increasingly jittery about the withdrawal of fiscal and monetary stimulus, we remain confident that authorities will not act prematurely. Central bankers have begun referencing the need for policy rates to eventually rise, but are not expected to actually move until late 2010, when unemployment is expected to be in a confirmed downtrend and housing markets are less precarious. Furthermore, we believe authorities are prepared to quickly restore stimulus if economic conditions deteriorate in reaction to its withdrawal. Inflation still does not appear to be a threat.

### **Fixed Income — Positive on high yield**

Credit spreads remain well above historic norms and while it will take a while before economic conditions can support normal spreads, high yield remains most undervalued and is likely to see the biggest spread tightening this year. Investment grade spreads are also expected to tighten in, but associated gains could be offset by the expected rise in underlying government bond yields later in the year.

### **Equities — Seen range-bound in short to long term\***

Major markets may have bounced after a brief sell-off, but remain subject to a series of both positive and negative influences. Economic and earnings data are improving and expected to continue to do so. As markets emerge from recession, though, the profit

recovery is typically accompanied by a contraction in valuation multiples, and that is also happening in markets currently. Sentiment has weakened, but that movement is not yet confirmed as a contrarian buy signal. Finally, the news flow on the debt woes of weaker European countries is keeping investors wary about the financial sector and about risk generally.

In response to the above factors, markets are expected to see volatile range trading in the short term, while longer-term gains are expected to be challenged by the need to withdraw and pay for economic stimulus.

### **Emerging Markets — Negative short term**

Despite superior economic fundamentals, emerging markets still face greater risk sensitivity than developed markets. The growing recognition that other emerging markets besides Greece and Iceland face deteriorating fiscal positions could weaken sentiment.

### **Currency — Positive short term on commodity, trade plays; prefer USD to sterling, yen**

The rally in commodity currencies is expected to continue in 2010. Currencies leveraged to rebounding global trade, like the Korean won, should also do well. The U.S. dollar is expected to gain relative to other majors on an earlier tightening in monetary policy and, in the case of the yen, on Japanese efforts to roll back last year's gains.

### **Commodities — Seen higher short term in line with economic growth**

Commodity prices are expected to remain generally well-supported by the ongoing pick-up in economic activity going into the first half of 2010.

\* "Short term"  $\leq$  6 months, "Long term"  $>$  6 months

**REITs — Short-term neutral; long-term positive**

Sector fundamentals are expected to continue to weaken in 2010, but prices should find support from an investor focus on 2011-2012, when renewed demand is expected to come up against an expected dearth of new supply and send values higher.

MFC Global Investment Management® ('MFC GIM') is the asset management division of Manulife Financial Corporation. MFC GIM's diversified group of companies and affiliates provide comprehensive asset management solutions for institutional investors, investment funds and individuals in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative investments such as oil & gas, real estate, timber, farmland, as well as asset allocation strategies. MFC GIM has investment offices in the United States, Canada, the United Kingdom, Japan, Hong Kong, and throughout Asia. Additional information about MFC GIM may be found at [www.mfcglobal.com](http://www.mfcglobal.com). MFC Global Investment Management®, Manulife and the block design are trademarks of The Manufacturers Life Insurance Company and are used by it and its affiliates including Manulife Financial Corporation.

The opinions expressed are those of MFC Global Investment Management® as of February 2010, and are subject to change based on market and other conditions. The opinions may differ from other MFC GIM groups that use different investment philosophies. 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. MFC GIM disclaims any responsibility to update such information. 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 Financial, MFC Global 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 an offer or an invitation by or on behalf of MFC GIM to any person to buy or sell any security and is no indication of trading intent in any fund or account managed by MFC GIM.