



# ASSET ALLOCATION VIEW

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

## **Asset and Market Survey**

### **Economy — Recovery Decelerating**

While many economic indicators continue to surprise on the upside, they are also confirming the deceleration of the recovery. We continue to expect data to deteriorate in the fall as the economic down cycle takes hold.

Although the investment environment looks more favorable for risky assets over the next couple of months, deteriorating economic conditions generally mean volatile capital markets that should favor defensive risk positioning beyond August.

### **Fixed Income — Recent liquidity and credit squeezes easing**

The spike in credit default swap (CDS) spreads that accompanied the recent correction appears to have peaked, signaling improved liquidity and renewed appetite for credit risk. Credit spreads can be expected to resume normalizing (tightening) over the next couple of months. Beyond then, whether spreads hold in or widen out again will depend on the depth of the expected economic slowdown.

There remain short term\* opportunities to add value in lower-risk, developed market public debt as markets continue to price in evidence of the slowing recovery and unwind earlier expectations of aggressive monetary tightening starting in late 2010.

### **Equities — Summer gains could favor Europe**

Equity markets generally look set to benefit through late summer from revived risk appetites and continued

recovery in corporate profitability. In particular, Europe may benefit from recent underperformance relative to other developed markets and from a possible stabilization in the euro.

### **Emerging Markets — Expected to outperform in any rebound**

Having been more heavily sold off in the recent flight from risk, these markets are expected to outperform their developed market peers in any rebound.

### **Currency — Renewed risk appetites could favor commodity currencies, euro**

The improved backdrop for investing in risky assets is expected to send flows into currencies exposed to the recovery as commodity plays, such as the Canadian and Australian dollars. The euro could also benefit from improved sentiment and steps to stabilize the currency.

### **Commodities — Positive as play on global demand**

These assets are expected to benefit from ongoing (albeit slower paced) economic expansion, renewed risk appetites and the leveling out of the U.S. dollar, in which many are denominated. The recent rally in gold could pause as general risk aversion has abated for the moment as a source of demand for the metal.

### **REITs — Positive as liquidity concerns ease**

REITs also benefit from any shift to more bullish risk sentiment as the liquidity constraints that real estate is so sensitive to typically ease in such an environment.

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

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 June 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.