

## The Greek Debt Crisis – is more than just a risk?

Content Highlights:

### 1. The Greek debt crisis hit the financial markets early this year. Could you briefly explain how it happened and what is the impact on the Eurozone and to investors?

- The Greek Crisis is itself a small problem, but it is a symptom of a bigger problem. Many countries and companies have debt burdens that are too great for their revenue. Greece has a debt burden that is too great for their taxing base. It causes stress in the market, it causes volatility, and it became a concern for investors.
- Expected to see an improved austerity program in Greece. When Greece moves from great fiscal imprudence to a slightly more prudent fiscal policy, it means the risk in the capital market is lower, which brings about good investment opportunities.
- Italy, Portugal and Spain may soon meet problems around the corner but will continue to look for solutions. It is probably more of a buying opportunity than a selling opportunity.

### 2. Some investors are concerned about a possible government bond crisis, given the deteriorating budget deficit of some countries like U.S., UK and peripheral European countries. What is your view?

- They are sort of auctioning off their borrowed money at a higher rate for a longer term. But if they can make their interest payments, they are probably okay carrying debt burdens. So there is no immediate crisis today.
- The real solution is economic growth. As economic growth happens, earnings increase, tax bases increase. We are in an environment where there will be a slow growth, so it improves slowly.

### 3. Where are you finding the best opportunities in the bond market for 2010?

- We have just now started to pull some of that marginal liquidity out and, when money starts seeking a return, it moves from zero per cent or low yielding cash balance to corporate bonds and to other investment, like equities.
- We favour only high grade corporate bonds in this environment. They will outperform like they did last year, although not to the same magnitude.

### 4. With the increased volatility of the USD, what is your view on the currency side?

- We expect to have a very volatile currency year. Many countries are removing liquidity and starting to raise rates. That changes the relative value of currency; that's the volatility.
- Due to the stronger economic growth in the Asian economies, we think those currencies will continue to appreciate versus the U.S. dollar.
- We think that the U.S. dollar will appreciate relative to the currencies of the PIIGS (Portugal, Ireland, Italy, Greece and Spain), the European Union, the European countries, and the UK..

## 5. There has been lots of talk about inflation. What is your view on that?

- Due to the strong economic growth in Asia, companies are starting to bid against each other for pools of labour, land and capital. The inflationary bias we see as a positive.
- From a professional investor's standpoint, we can break revenue into pricing power and volume. Pricing power times volume gives you revenue. And pricing power is inflation. We are looking for companies that have both pricing power and volume. So I am actually looking to running into inflation, where it is necessary to restructure portfolios for the future.
- In Europe and in the U.S., we see quite the opposite inflationary bias. They are not recovering as expected, since companies are still downsizing and shrinking their balance sheets. All of those take strength off pricing power, which is a worrying type of inflation.

Important Note: The above is strictly for information purposes only and should not be considered as an offer, or solicitation, to deal in any of the investments mentioned herein. Some information contained here is provided/sourced by information providers or it is being re-transmitted in the ordinary course of business to you for information and reference purposes only. Manulife endeavours to ensure the accuracy and reliability of the information provided but do not guarantee its accuracy or reliability and accepts no liability (whether in tort or contract or otherwise) for any loss or damage arising from any inaccuracies or omissions. Some of the information in this document may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Manulife reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice. Any unauthorized disclosure, use or dissemination, either wholly or partially, of this document is prohibited and this document is not to be reproduced, copied, or made available to others.

Investment involves risks. Fund prices may go down as well as up. Past performance figures shown are not indicative of future performance. Please refer to the prospectus for further details, including the risk factors, charges and features of the product. Investments in the emerging markets may be subject to special risks and the risks could be substantially higher than the risks normally associated with the world's more established stock markets.

Investor has his/her own personal investment objectives and investment products may not be suitable for everyone. Investors should not solely rely on this website to make any decision to invest in an investment product and should seek independent professional advice if necessary.

This video has not been reviewed by the Securities and Futures Commission (SFC).  
Issued by Manulife Asset Management (Hong Kong) Limited