

## Will Exit Policy Drag the Market?

Content Highlights:

### **1. The equity market has rebounded considerably since March this year, especially for the emerging markets. So what's your view on that, and do you see further upside potentials for these markets?**

- Hong Kong was up 106% from a low, back earlier this year, the Pacific was up 95%, Europe was up 55%, the U.S. was up 60%. These are big rises in a short space of time and valuations have obviously increased
- For the relationships in the price and fundamentals, e.g. the price-earnings ratios in Hong Kong have risen to about 17 x, whereas it was normally about 13 x earlier this year
- Price-book ratio or price cash-flow of global equities, are selling at around 25-30% premium on their long-term averages. These are quite sharp moves over a short period
- The markets had got a little ahead of the fundamentals and now the fundamentals need to catch up a little bit. With a correctional/consolidation phase in the next few months, the outlook in the long term for equities is still good

### **2. Asian markets seem to be the engine of growth in the past year; do you think the Asian markets will continue to lead the global growth and equity market rally?**

- The Asian economy is driving world growth forward - and it's going to continue
- China's GDP has grown 9% and is expected to continue at that 9% level in 2010. The West will catch up cyclically, although this has been quite slow in 2009, with only 1% growth. It is probably going to improve to a magnitude of about 3% in 2010
- The stock market is a forward discounting mechanism that always looks to the future. Some of the extra growth we've already seen in Asia is already discounted by the movement of stock markets. China has grown about 9% in the long term, yet the Shanghai market has grown fairly cyclically. It is expected that the China economy and stock market will be cyclical because of its export-led economy, which depends on the world's economy

### **3. Many investors are worrying about the "Exit Policy" of the stimulus package launched by the U.S. and many other Governments during the financial crisis. What's your view on this?**

- There are two Exit Policies with which the market is concerned: the monetary side and the fiscal side
- On the monetary side, the central bank essentially needs to exit the low interest rate policy very smoothly, they need to communicate with the market well and make sure that there is no surprise for the stock market. Interest rates are expected to remain fairly low in 2010, but we may see in the next few months announcements of administrative measures and early signs that monetary policy will start to tighten later in 2010
- For the fiscal policy, the West has raised taxes very substantially because the U.S., the UK,

Europe, etc., governments are in very substantial deficits. So taxes will rise and we need to exit the easy fiscal policy, which needs to be done smoothly as well. If government tightened the fiscal policy and raised taxes too soon before the upturn has really solidified, that would attend to stall the Western economy, which would be a problem for the global economy.

- Both exit policies the central banks and governments need to execute very smoothly. Markets will still be in the period of high risk for the next year or two as we exit those policies.

#### **4. Currently there is a low interest rate environment and tightening credit spread. What's your view on the Bonds market?**

- In the short term, the Bonds market might be quite defensive, as correction in the stock market is expected. On the other hand, it faces two major threats in the coming years: returning inflation and huge issues on government debts
- The massive stimulatory monetary and fiscal policies may create some inflation down the road in two or three years' time, which could be potentially very bad for bonds in the future
- Governments need to issue a huge number of government debts that weigh on the bond market in the coming years. The market needs to digest the issuance very carefully although bonds might be okay in the short term, it may not be a particularly good investment in the long run

#### **5. With the slow economic growth in the U.S. and Europe, what is your view on the currency side?**

- We have seen very slow growth in the U.S. but rapid growth in Asia. The dollar is expected to be weak in the medium term, due to:
  - The trade-out in the dollar as people have assumed more of a risk trade. They have gone back to riskier assets, like equities, and people's risk aversion a year ago has evaporated.
  - It has been that the world's reserve currency and the other currencies aren't ready to step up to the plate yet, the euro isn't particular attractive, the Asian currencies over time must take the place of reserve currencies. Gold, meanwhile, is more attractive than the dollar
- The sentiment is so terrible at the moment, a technical bound is possible.

#### **6. In terms of sector and investment themes, do you see any opportunities under the current market situation?**

- In the West, companies grow steadily, despite moderate economic growth in the region. These companies are on quite cheap valuations and the consumer sector, for example, is attractive
- In Asia, consumer discretionary stocks, gaming and some insurance stocks, where they will benefit from higher interest rates
- Much operating margin upside to come in Asia and around the world, which are very attractive. So there are lots of opportunities out there, even though markets are going through a consolidation phase.

## **7. So you have mentioned your favourite sectors and investment themes. Regarding a diversified portfolio construction, what is your view on tactical asset allocation?**

- In the short term, cash is overweighted, neutral on bonds, and underweight in the main equity regions in Asia, Europe and North America
- The underweight position is due to the market expecting to undergo consolidation or correction, which will probably reverse at some stage during the winter or spring, depending on how the markets develop.
- In the long term, the most important message of all is diversifying the portfolios with a good spread of assets, so that even areas that seem to show low returns and historically have been unattractive, do provide diversification benefits, such as Japan.

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