# Manulife Asset Management Market Views

## Global Equity

- We believe that global equities will be bullish in 2013. The outlook in China is improving modestly, the US is stable and the euro zone appears to be stabilising.

- Global equity valuations are reasonable, interest rates are low and inflation is subdued. Expected earnings growth in the US and many Asian and emerging markets look healthy, except in Japan and Brazil.

- Japan may be at a turning point. The government is expected to provide further fiscal stimulus and unlimited monetary easing to end the country's 20-year deflationary spiral. Continued depreciation of the yen would benefit Japanese exporters. Japanese stocks are expected to rebound.

- A slower growing China should result in a better balance between investment spending and consumer spending – a positive development for the US and Europe. Meanwhile, Chinese equities are cheap after its three-year bear market. Convincing signs of a modest recovery in economic growth should have a positive impact on markets.

## Global Fixed Income

- In the US, the housing market is starting to stabilise and we are expecting a 2013 GDP growth of 1.5% to 3.0%. We believe there will be a resolution to the country's fiscal problems eventually and that the US will not slide into recession or provoke a crisis in the world economy.

- So far the central banks have provided liquidity, the European Central Bank (ECB) has moved to prop up the market, and now governments are implementing austerity measures. We believe those were the right steps, and if Europe continues on this path then foreign debt will cease to be a threat.

- Although China's economic growth has slowed, the government has the means to do whatever is necessary to make sure this slowdown does not reach the point where it could disrupt the world economy.

- Though the outlook is positive, we do not foresee a return to attractive yields from traditional investments any time soon. With no signs of rising interest rates, the best opportunities are still to be found in less familiar territories such as high yield and emerging market sovereign debt, particularly Asian government bonds.

## Asian Equity

- Looking ahead in 2013, Asian equity markets should benefit from renewed growth in the US and China, manageable inflation and lower policy risk amid diminished political uncertainty – in particular, monetary and fiscal policy across Asia is accommodative.

- We will pay particular attention to the potential for inflation, which could result in policy tightening. In China, economic stabilisation and recovery depends on the policies adopted by the incoming government. The markets have so far welcomed the new government's policy statements.

- In the medium term, the outlook is mostly positive. China is seeing growing consumer demand for digital products and services. As the nation increasingly focuses on high value-added manufacturing, Burma and Cambodia are opening up for low-cost production. We also focus on energy as urbanisation and associated infrastructure investment continue in China.

- Finally, there is the promise of the integration of the ASEAN economic community in 2015, which should increase trade, financial and skilled labour flows across the ten economies.

## Asian Fixed Income

- We expect a 2013 GDP growth of almost 7% for the region as a whole and about 8% for China.
- Asian bond markets, which have seen record issuance coupled with strong demand in 2012, remain attractive. While corporate credit spreads have compressed significantly, we still see attractive opportunities.
- In addition to positive credit yield on carry trading, we believe some local-currency sovereign markets could perform well next year.
- We believe sovereign bonds from some South East Asian markets, such as the Philippines, offer compelling value. However, India appears high-risk as a possible downgrade candidate.

## Singapore Equity

- The Singapore equity market ended the final quarter of the year on a positive note. Property developers rallied strongly as real estate prices stayed firm despite numerous rounds of housing measures. Real estate investment trusts generally did well given attractive yield spreads and scope for further yield compression.
- Looking forward, we could see further economic restructuring within Singapore as the government tightens foreign labour policies. This will provide healthy employment prospects for the local workforce, and hence boost private consumer spending. As such, we continue to favour companies which would benefit from the resilient domestic consumption trend.
- Meanwhile, global macro-economic developments will continue to unfold in 2013 and may add to the volatility of the Singapore economy and stock market.

## Singapore Fixed Income

- The risks of a major global crisis and a sharp economic slowdown have been reduced significantly with the announcement of the Outright Monetary Transactions program by the ECB in September. Additional monetary easing by the US Federal Reserve in December was also supportive of risk sentiment.
- During the quarter, market was paying more attention to developments regarding the upcoming fiscal cliff – a combined US$607 billion in automatic spending cuts and tax increases at year end, which could potentially cause a sharp slowdown in the US economy if it is not managed properly. Although, as at 2 January 2013, there was only a partial solution to buy more time, the market is relatively sanguine as most investors still expects some form of compromises from the US politicians in the coming months.
- Singapore bond market performed positively in the 4th quarter of 2012, benefitting from foreign capital inflows. Singapore corporate bonds outperformed the government bonds as investors continue their search for yield.
- As expected, the Singapore economy performed below trend in the last quarter of 2012. Given the weak outlook for global economies, we continue to expect further weakness in the Singapore economy in the first half of 2013. Interest rates are likely to stay low globally with the continued deflationary pressures in the Western developed economies.
- Moving forward in 2013, we expect interest rates to stay low in general. Credits are expected to outperform government bonds.

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