MFC Global
Investment Management®

Canadian Market Outlook

Canada's S&P/TSX Composite Index fell 5.5% in the second quarter and is now down 2.5% for the year. Investor confidence took it on the chin as a result of the deteriorating sovereign debt market in Europe, a tightening of Chinese economic policy and an overall slowing of the global economic recovery.

While a second half slowdown will cause earnings estimates to be revised downwards, we are not forecasting another recession. Indeed, current consensus estimates look quite healthy, with calls for 24.6% and 19.6% growth in earnings for the S&P/TSX Composite in 2010 and 2011, respectively.

The market is currently trading at compelling valuations – 13.5 times forward and 16.1 times trailing earnings. The forward earnings yield on the market is 428 basis points above ten-year Government of Canada bonds and the dividend yield lags the ten-year bond by only 60 basis points; again, exceptional value for the patient long-term investor.

Profitability, as measured by the return on equity (ROE), has rebounded sharply. The market is currently generating an ROE of 11.1%, up from 10.6% three months ago and consensus estimates imply an ROE of 13.2% by year end. Finally, the last time the market traded at its current price-book ratio was in mid-2003 and then the market was generating an ROE of only 9.8%, not the 11.1% it is currently generating.

As global economic activity continues to improve, we believe that market fundamentals shall reassert themselves and give investors the green light to step back into higher-risk assets. While debt constraints and austerity programs will have a negative impact on the economic recovery, a double-dip recession is not in the forecast and cheap valuations will ultimately trump any estimate revisions. As a result of this market correction, we foresee attractive returns in the second half resulting in high single-digit or low double-digit returns for 2010 as a whole, but significantly better returns thereafter.

MFC Global Investment Management ('MFC GIM Canada') is a division of Elliott & Page Limited, a corporation incorporated under the laws of Ontario. 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. 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 July 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.

MICMO-MC-0710