

# Corporate Bond Yields Indicate Exceptional Value for Canadian Stocks

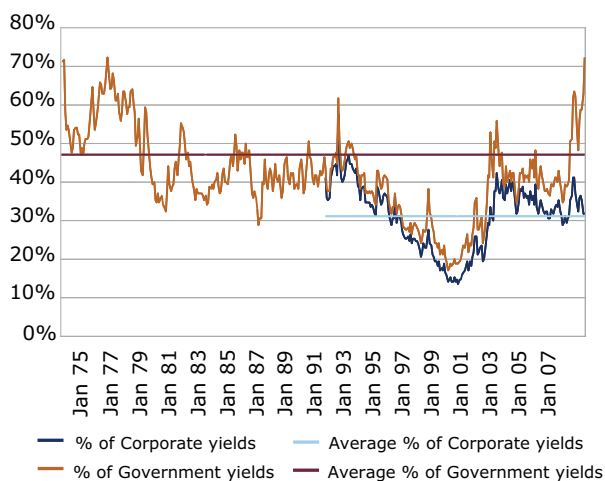
**Mark Schmeer**  
Chief Investment Officer, Equities

**Meaghan Campbell**  
Investment Analyst

As a follow-up to our previous analysis of equity dividend yields in relation to government bond yields, we note that in the past few months corporate bonds have been hit hard, sending prices plunging and yields soaring. We noted in our last research piece that equities are attractive compared to treasuries; are equities still attractive when compared to corporate bond yields?

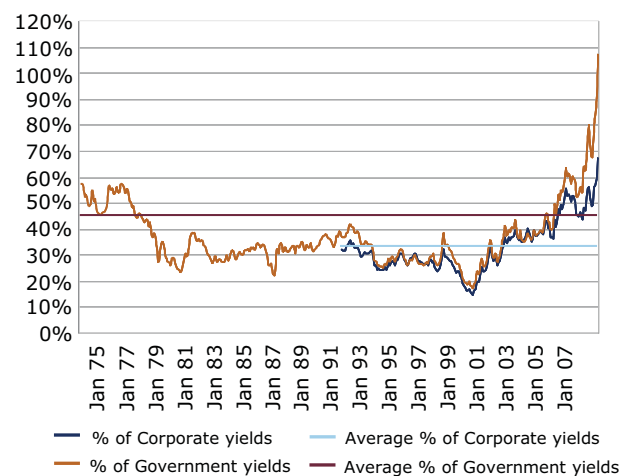
- The S&P 500 is cheap as measured by the comparison of dividend yield vs. government bond yields.
- The same can not be said when dividend yields are compared to corporate bond yields. Against corporates, valuation of stocks is close to average.

## Historical S&P 500 dividend yields as % of U.S. Bond Yields



- The S&P/TSX looks cheap when dividend yields are compared to either government or corporate bond yields.

## Historical S&P/TSX dividend yields as % of Canadian Bond Yields



As shown in the charts, the ratio of S&P 500 dividend yields relative to U.S. corporate bond yields has historically been highly correlated to the ratio of dividend yields to Treasury yields. As of July 2008, the two measures diverged for the first time and the spread has continued to widen. Stocks look cheap vs. government bonds, but are close to their long-term average when compared to corporate bonds. In contrast, Canadian stocks are the cheapest we've ever seen them. The ratios of TSX dividend yields to both corporate and government interest rates have achieved unprecedented levels, indicating exceptional value in the Canadian stock market.

- Dividends are latest quarter annualized; current dividend is as of November 18, 2008.
  - Payout ratios are based on lesser of 2008 / 2009 estimated consensus earnings
- Sources: Bloomberg, TD Waterhouse, Citigroup's Salomon Brothers, Scotia Capital Universe

MFC Global Investment Management® ('MFC GIM') is the asset management division of Manulife Financial. 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 November 2008, and are subject to change based on market and other conditions. 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. 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, financial 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, financial or legal advice. Past performance does not guarantee future results. This material was prepared solely for informational purposes and does not constitute an offer or an invitation by or on behalf of MFC GIM (Canada) or MFC GIM (U.S.) to any person to buy or sell any security.