

Positive economic data throughout the quarter provided signs that the global recession is potentially beginning to bottom out, with moderating rates of decline in several key economic indicators bolstering a view that this may be a very sharp but potentially quite short economic slowdown. Asian equity markets enjoyed bullish surges over the quarter, at one point hitting its highest level since last October. However, these rises were interspersed with worries that the equity rally had overvalued the earnings prospects of some stocks. Data from China pushed stocks higher as industrial output and retail sales climbed more than economists expected, although fears were voiced that record lending by the Chinese government may increase the level of bad debt in the economy and risk inflation.

Markets have moved in anticipation of a continued improvement in the economic environment over the next few quarters. If this improvement is sustained, there is significant scope for company earnings estimates to be revised sharply upwards. On normalized, mid-cycle earnings, there remains compelling value in Asian equities and the prospect of attractive returns for long-term investors.

Mark Grammer of Mackenzie Investments notes that the slowdown in the developing markets of Asia has so far not been as severe as investors expected and as a result the Asian stock markets have rebounded faster than elsewhere. The biggest risk that Asia faces is dependence on exports to the U.S. and Europe. China has implemented an economic package aimed at stimulating domestic demand growth. If this proves successful, China, and by extension, the rest of non-Japan Asia, may finally decouple from the Western stock markets. The decline in the oil price should also benefit since Asia is still dependent on imported oil. Overall, the portfolio managers remain positioned to capitalize on a rebound in the Asian market with a third of his portion of the Fund allocated to the Financial Services sector.

*Any amount that is allocated to a segregated fund is invested at the risk of the contractholder and may increase or decrease in value.*

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Mackenzie Financial Corporation.