Manulife Asset Management™

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TACTICAL ASSET ALLOCATION VIEW

Don Rich and his team provide Manulife Asset Management investment professionals around the world with insights and information on a wide range of issues and subjects that may affect the global markets, focusing largely on the near term. These insights, however, do not dictate investment policy nor do they represent a "house" view.

Asset	View
Cash	Neutral; watching for opportunities to redeploy
Fixed Income	Negative. Frothy credit market most vulnerable short term*, but impending cyclical turn generally favors riskier assets
Equities	Negative as overbought short term, but expected to rally later in 2011
Emerging Market Equities	Negative short term, but favored 2011 equity class on positive cyclical, currency trends
Commodities	Neutral
REITs	Neutral
Currencies	Positive on U.S. dollar, negative on euro, yen

Don Rich
Head of Tactical Asset Allocation

The Tactical Asset Allocation Team is cautiously optimistic about the outlook for returns on risk assets in 2011. In the short term*, though, improving fundamental data must be balanced against indicators that markets are overbought and the expectation that the global monetary accommodation that is currently so supportive will begin to be less supportive in the second half of the year.

The deceleration in global growth tracked since early last year by our monthly global output composite is easing. We expect the broader global economic down cycle to persist through April, though, and will remain cautious until then. Supporting our stance, broad market beta remains a more significant driver of risk asset returns than alpha. Our indicator on this is now signaling levels of investor complacency last seen in early 2010 before the sharp pullback that ended last May.

Despite huge negatives of high unemployment and depressed home values, U.S. consumer spending was surprisingly strong last year, particularly over the holidays. Inventory restocking also remained surprisingly high, though. Although this presents a risk that excess inventories will be a drag on future growth, we expect an improving jobs market will spur continued robust consumption and buffer this risk. Only housing is expected to remain a net negative for the economy in the short term.

As the market cycle matures, differentiation among countries, sectors and securities will become a more important determinant of returns. Countries first out of the gate will be those best poised for renewed economic momentum; the economic cycles in China, Mexico, Indonesia and Norway have already turned up.

An expected ratcheting down of anxiety about the fiscal crises in peripheral Eurozone member states like Portugal should also boost risk appetites, although the problem won't go away. The European Financial Stability Facility can't fully meet rollover demand on at-risk Eurozone sovereign bonds, so until the region's political leadership acts to reassure markets, the euro will remain volatile.

After plunging against a basket of trade partner currencies due to relatively loose U.S. monetary policy,

*"Short term" </= 6 months, "Long term" > 6 months

the U.S. dollar is now rebounding – behavior more consistent with a correction. This is negative for risky assets in the short term, but is expected to have run its course by the second half.

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