

U.S. Market Outlook

The S&P 500 Index fell a total of 22.5% over the fourth quarter of 2008. This was the index's fifth consecutive quarterly decline, and the steepest quarterly loss since the start of the economic downturn in late 2007. The index declined 38.5% over the 12-month period ending December 31, 2008, and closed 2008 42.3% off its October 2007 high.

Some analysts fear the current recession will continue through 2009. Our belief, however, is that the aggressive monetary and fiscal stimulus introduced by the U.S. government and the U.S. Federal Reserve Board will take effect by mid-year and result in positive, if below average, gross domestic product growth in the second half of 2009. Lower gasoline prices should also help by increasing consumers' earnings power by well over US\$100 billion. And inventories should be drawn down enough by mid-year to ensure that rebuilding these inventories will contribute to economic growth. Finally, we believe housing should stabilize in 2009, given housing affordability has hit levels not seen in decades.

The duration and depth of the recession will determine the equity market's direction in 2009. Typically, equities bottom about 60% to 80% through

a recession. If this recession continues through 2009, the stock market will likely drop further and bottom some time later in 2009. If the recession is 19 months in duration and ends mid-year as we expect, this would suggest equity prices either bottomed in November 2008 or will bottom in early 2009 (at a similar level to its November low).

There are many reasons to expect equity prices to strengthen in 2009, but there are also many risks still associated with equity investments, particularly in the short term. While improved, credit conditions are not yet back to normal. The recession is in full force and job losses are mounting. Consumers are more interested in saving than spending, a condition that will likely impact economic growth for at least a year. And the impact of the recession on earnings is still being felt, which means there may be more earnings downside risk than the market is currently discounting.

These risks notwithstanding, the duration and depth of this bear market has been dramatic. Investor pessimism is extraordinarily high and the valuations of many outstanding companies are at exceptionally low levels. We believe investors are likely to be rewarded over the coming year.

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. 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 January 2009, 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.