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"Our real objective is not just jobs but productive jobs – jobs that will mean more goods and services to consume." ~ Milton Friedman

North American equities have rebounded strongly since the lows of last October. Since each index's low from October, the S&P/TSX Composite Index has gained 11.52 per cent and the S&P 500 Index is up 19.75 per cent through last week. More impressively perhaps are the index returns for January. For the month ended the S&P 500 Index advanced 4.48 per cent and the S&P/TSX Composite Index gained 4.37 per cent on a total return basis. According to the January Effect, which puts forth the premise that as January goes, so goes the year, then 2012 is shaping up to be a good one.

The good news wasn't limited to just the equity markets either during the week as economic data are showing resiliency. The January U.S. Nonfarm Payrolls report was nothing short of stellar with 243,000 jobs created in the first month of the year - well above consensus forecast of 155,000. Moreover, December and November results were revised upwards to 203,000 from 200,000 and 157,000 from 100,000 respectively. Over the last three months job growth averaged 201,000/month. These results are alongside gains in the Institute for Supply Management (ISM) Index to 54.1 in the United States and China's Purchasing Manager's Index (PMI) for January which was reported at 50.5, up from 50.3 in December (results above 50 indicate expansion). With the help from the Federal Reserve (the "Fed") and its interest rate policy, the momentum appears to be sustainable, for the time being at least.

Last week marked a turning point for the Federal Reserve. In Ben Bernanke's efforts to institute greater transparency, the Fed announced for the first time, a specific inflation target of 2 per cent for the annual change in the price index for personal consumption expenditures (PCE Index). In addition to an explicit



inflation target and in consideration of the dual mandate of the Fed - price stability and maximum employment - Bernanke extended the pledge for the zero-interest rate policy through to the end of 2014.

Insight into the dual mandate of the Fed provides some explanation as to how the Fed can support zero-interest rates when the economy continues to show positive growth (2.8 per cent last quarter) with upside potential. It comes down to jobs. At the current pace of job creation the U.S. is years away from the Fed's target for unemployment of 5-6 per cent over the medium-term. And as such, potentially years away from any tightening measures.

Assuming the Civilian Non-institutional Population (or available labour force) expands at the pace of population growth of 0.9 per cent, the participation rate remains at the current 64 per cent, and job creation continues at the current pace of 200,000/month, unemployment will not fall below 6 per cent until 2015. Even if job growth grew at a very robust pace of 250,000/month the unemployment rate wouldn't fall below 6 per cent until 2014. And while strong job creation is a possibility, the U.S. economy hasn't created an average of 250,000 jobs a month in any year since 1999 (since 1971 job growth in the United States has averaged 124,000/month).

		2011	2012e	2013e	2014e	2015e
Civilian noninstitutional population	0.9% growth rate	240584	242749	244934	247138	249363
	64% participation rate	153887	155360	156758	158169	159592
Employed	Job growth of 250k/mo	140790	143790	146790	149790	152790
	Unemployment rate	8.5%	7.45	6.4%	5.3%	4.3%
	Job growth of 200k/mo	140790	143190	145590	147990	150390
	Unemployment rate	8.5%	7.8%	7.1%	6.4%	5.8%
	Job growth of 100k/mo	140790	141990	143190	144390	145590
	Unemployment rate	8.5%	8.6%	8.7%	8.7%	8.8%

Source: U.S. Department of Labour and Manulife AM estimates and calculations. For illustration purposes only.

According to Tom Goggins, Senior Portfolio Manager for the Manulife Strategic Income Fund, "The Fed verbally eased last week by reducing speculation of a rate increase from after mid-2013 to after 2014. The comments and actions were surprisingly dovish in light of the better economic data. This decision was by no means unanimous however, as Charles Plosser, President of the Federal Reserve Bank of Philadelphia has publicly disagreed with the Fed's decision over the past week. Regardless, with inflation coming down - the PCE Index was reported at 1.8 per cent this week - and unemployment high at 8.3 per cent, the Fed has it within its mandate to provide additional stimulus over and above the zero-interest rate policy. Despite stronger economic growth, Quantitative Easing (QE3) is a definite possibility. That coupled with the more accommodative monetary policies emanating from many emerging market countries bodes well for high yield, emerging market and investment grade corporate debt."



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