

Global Markets Strategy Report

February 2011

Rank: From weakest to strongest in ascending order:

Strong Underweight Underweight Slight Underweight Neutral Slight Overweight Overweight Strong Overweight

Please note that the rank is indicative and may not balance when summed.

How to make the case for risky assets consistent with rising inflation

This report outlines Pioneer Investments' view on the current macroeconomic situation and specific asset classes. It covers the key markets of Europe, the US, Japan, Asia and Emerging Markets.

The case for risky assets has long been allowed by moderate economic growth and subdued inflation in most of the developed world. Renewed evidence of stronger US growth will not alter this picture for the time being.

Inflation seems more of a problem in most emerging countries, whose growth has by far outpaced that of developed countries since the recovery began. After enacting unnecessary stimulus packages to overcome a mild downturn, they now face the difficult prospect of restrictive policy tools.

We believe that mildly restrictive policies had a timely start and will prevent an inflation surge. If countries such as China managed to engineer a soft landing for the economy, the concerns over too much tightening eventually undermining global growth will prove overdone.

This belief does not hide the fact that market volatility will be mostly associated with rising inflation in major emerging countries. Our policy is to deal cautiously with areas of likely turmoil.

How we are positioned

While maintaining the case for global equities, we are switching part of our exposure to Asia, which accounts for a large part of emerging-market performance, into developed regions. The US is our market of choice as it enjoys stronger domestic prospects than Europe.

On the bond side we believe that corporate bonds still provide the best risk/reward ratio, although the room for spread tightening is small. Core government bond yields may rise as a result of increased inflationary expectations and also push up corporate yields. Selected corporate high-yield bonds may be less sensitive to rising core yields as the room for spread tightening is larger than for that of investment-grade issuers.

High-yielding opportunities also exist among peripheral government markets but should be handled with the same care as non-investment grade bonds. These countries' budgets are unlikely to become structurally better any time soon, as they are unable to restore decent economic growth and the risk of debt restructuring looms.

On the currency side, the move on equities strengthens our overweight in US dollars and we believe that the recent appreciation of the euro reflected premature expectations of a European Central Bank (ECB) tightening cycle. The sovereign debt crisis is far from over and conditions do not look ripe for a true normalisation of monetary policy.

Recovery in earnings per share and low inflation expectations favour cyclical assets

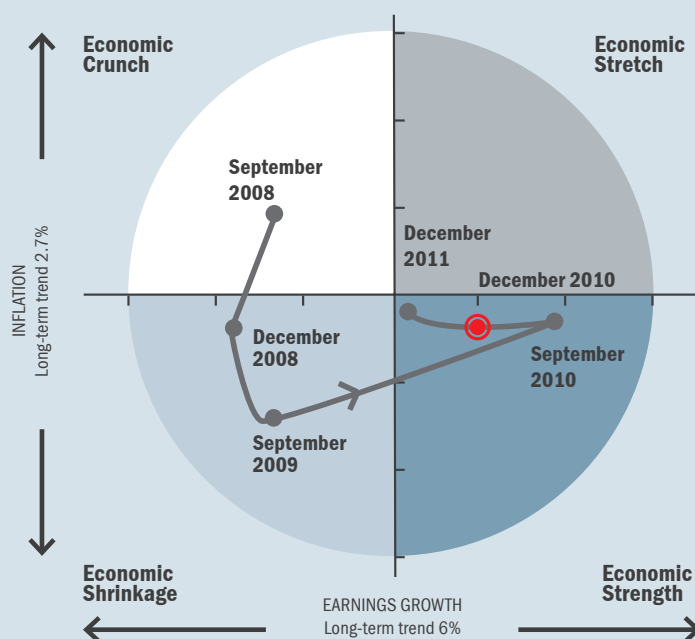
Economic Strength

The stabilisation and the progressive improvement of the Financial sector began in the second half of 2010 and is broadly confirmed by the latest available data from the United States. Inflation is not yet a threat in spite of GDP returning to trend growth, due to a lack of wage pressures. Upward price pressures are most visible in major emerging regions but inflation is not yet a matter of concern.

Profit Recovery

Earnings growth is again in focus. The next upgrade will be when sales revenues start to grow convincingly. This in turn should happen as the macroeconomic situation improves.

The Investment Phazer



(*) Data on US Earnings Growth and US Inflation are analysed by a proprietary statistical model to get four different economic phases. Source: Pioneer Investments Asset Allocation Research as of 28 January 2011

Implied Strategy

We name 'Economic Strength' a phase with above-trend operating earnings and below-trend inflation expectations. Over the last 30 years this environment has favoured risky assets. The current stance leads to an overweight of global equities and investment-grade corporate bonds.

Alternative Scenario

'Economic Shrinkage' has again become the main alternative scenario, while the case for 'Economic Stretch' has lost ground of late.

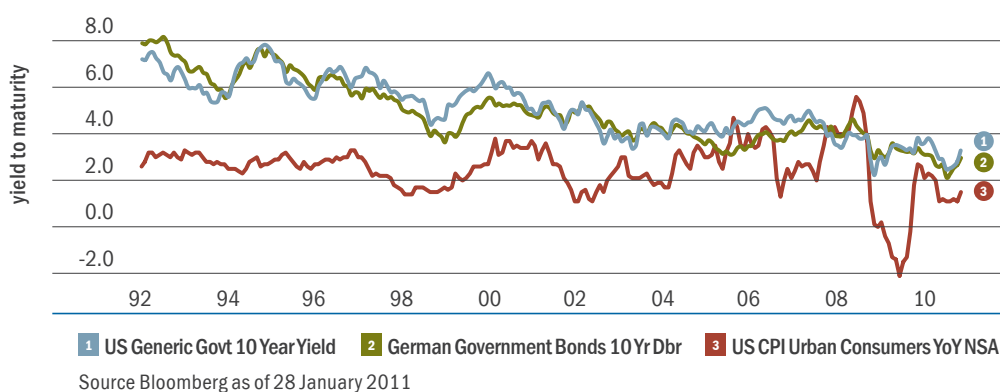
Asset class	Shrinkage	Crunch	Strength	Stretch
Equity			Buy	Buy
Government Bond		Buy	Sell	
Corporate Bond			Buy	
Cash	Buy		Hold	

How to deal with rising inflation expectations

The New Year started with the euro sovereign debt crisis still in the headlines. As government bondholders feel less and less secured against debt restructuring, every round of government debt refinancing in distressed countries fuels concerns about a bail-out plan if the sale fails to attract private investors (less so, for now, if the auction is successfully placed at prohibitively high yields).

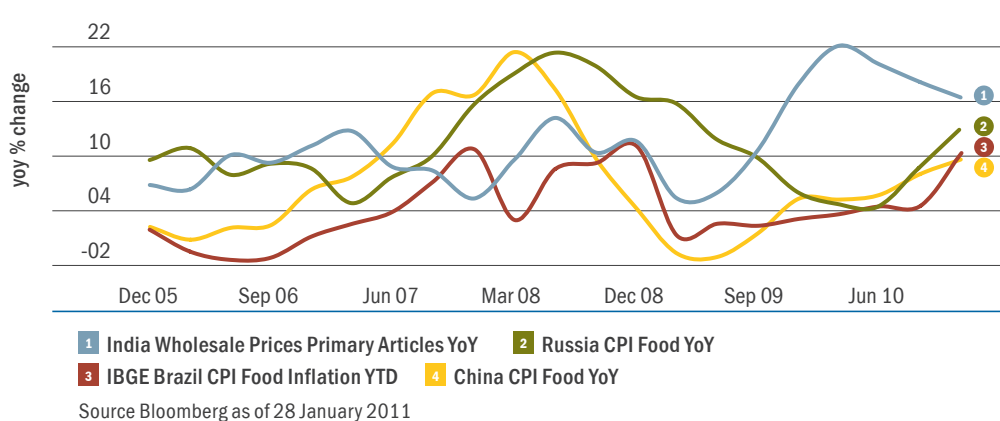
However, there is a different kind of risk which may take centre stage this year and is consistent with strong economic growth (rather than with a relapse into recession, as demonstrated by last year's euro debt crisis). Having been neglected throughout the recession, inflation is making a comeback as an investment topic. In fast-developing emerging markets, particularly in Asia and in Latin America, central banks are already tightening monetary policies in order to curb consumer price rises. Most of them joined the global action to beat the recession in 2008 and enacted unnecessary stimulus policies. Investors are now pondering whether China, India, Brazil and other countries with hectic growth rates will manage to avoid economic overheating.

Core bond yields are a lot more volatile than reported inflation



Central banks in the developed world, led by the US Federal Reserve (Fed), sound confident about the persistence of low inflation, as fragile labour markets are said to keep wage growth down. However, the Fed's thorough commitment to overly loose policies, such as quantitative easing, suggests that deflation is still the main enemy to fight. This complacency may be at odds with a growing perception that inflation is being allowed to rise without proper action. When policymakers appear to be unable (or unwilling) to preserve purchasing power, investors take over and trigger a bond sell-off. As yields rise sharply as a result, the Fed may heed the message of the bond market "vigilantes" sooner rather than later but still too late for investors' comfort.

BRIC countries take centre stage on the inflation front

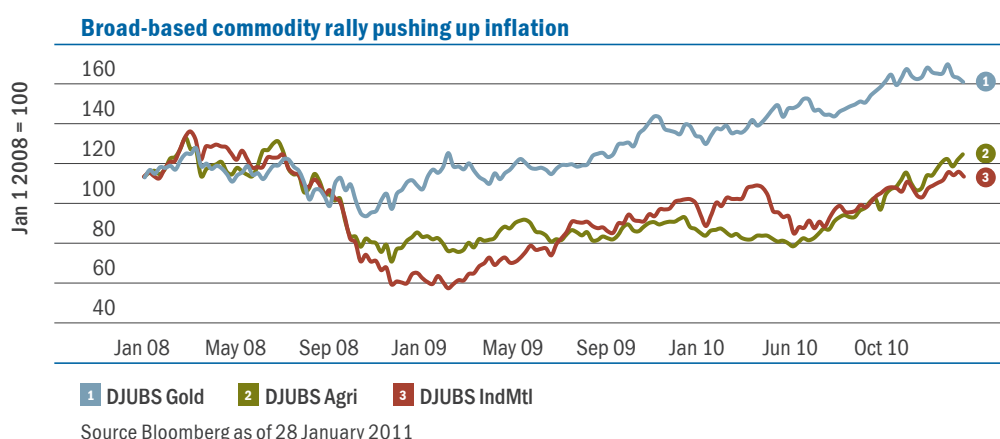


The first increase in policy interest rates, now at (or close to) zero in most of the developed world, may therefore come earlier than had been expected about two months ago. While the Fed may acknowledge the improving economic data (also in the labour market) and start unwinding quantitative easing, the ECB is more keen to get back to orthodox policies and is encouraged by an overperforming Germany to do it soon. For their part, the laggards in the euro periphery may add rising interest rates to their borrowing costs, which have already soared as a result of poor fiscal management.

With the exception of Japan, policy interest rates may start a rising trend in most of the developed world in order to avoid a repeat of the 1990s. At this time bond markets drove bond yields sharply up and prompted central banks to hike rates to placate them. A rise of 2%-3% in 10-year yields over the course of a year was a regular feature in the 1990s. We believe that a similar spike is unlikely to be repeated and a market-driven tightening will not impair the real economy. Nonetheless, borrowing costs would rise both for governments and most companies, and only those with the healthiest balance sheets will not suffer.

With yields at record lows at the start of the cycle, also due to unconventional policies such as quantitative easing, even a doubling (as we expect) of 10-year US Treasury yields from 2% to 4% would be a sign of normalisation (as the economy improves) rather than a sharp tightening, which undermines economic growth. The case for global equities is said to be made less compelling by higher bond yields, as dividend yields look less attractive. However, this is not the case if we believe that earnings will continue to grow steadily, albeit less steeply than last year.

To assess the impact of rising inflation, the focus should be on the new drivers of global growth. China's current efforts to stem inflationary pressures should remain under the spotlight, due to excess tightening risks slowing growth both domestically and (perhaps more sharply) in regions of the developed world which export extensively. **We will be closely watching consumer and house prices in the fast-growing economies,** not to mention **rising commodity prices,** which may speed up unnecessary tightening if genuine demand for raw materials and sheer speculation are not properly separated. However, **we believe that a timely start to these policies can engineer a soft landing** for the economy and keep investors calm along the way.

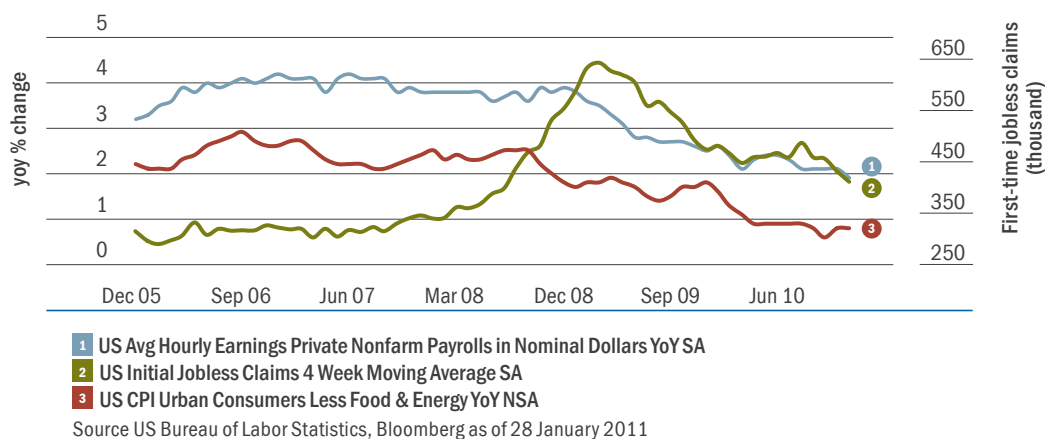


The Economy United States

Stronger employment growth helps consumer spending

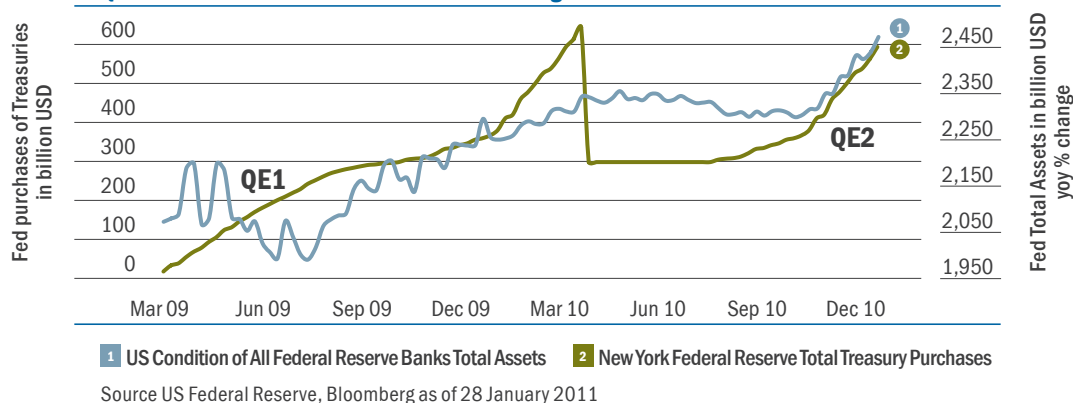
The return to GDP trend growth - approximately 3% year-on-year - has been confirmed by the recently-released fourth-quarter data. However, compared to previous releases, analysts seem more confident that this pattern will be sustainable rather than being overly reliant on policy stimulus.

Employment grows but secular decline in wage growth keeps core inflation down



Evidence of an improving labour market explains this renewed confidence. According to government figures, the non-farm payroll at private companies has increased for 12 consecutive months and moving averages, which smooth out the volatility of monthly data, are also rising steadily towards the 100k mark. Admittedly, there are 7.5 million jobs to fill the recession-induced losses and temporary workers are still added at a faster pace as they are just halfway between the after-recession trough and the previous peak (about four years ago). However, this may be part of a corporate commitment to enhanced productivity and job savings. Other evidence of a healthier labour market comes from a recent decline in jobless claims, whose four-week moving average is close to 400k. Below this mark we would be back to mid-2008 levels just before the autumn of high-profile bankruptcies and pretty close to the “expansionary” 350k area. Nevertheless, wage growth remains very subdued in what seems to be a long-term decline.

QE2 takes Fed's total assets to fresh record highs



Against this backdrop the Federal Reserve can afford to maintain an overly loose policy as core inflation remains under control. The second round (QE2) of quantitative easing officially began last November and is duly boosting the Fed's total assets to record highs. Keeping this policy going suggests that there are still downside risks to economic growth and that low inflation is a sign of economic weakness. According to this

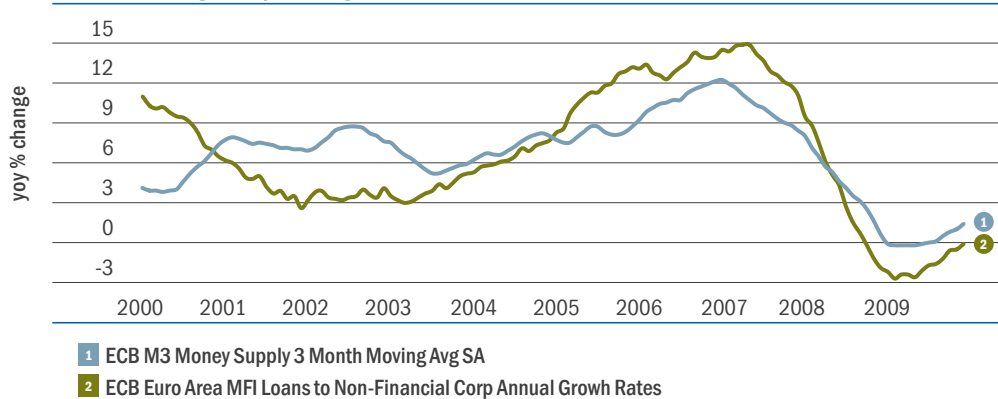
Europe

position, without proper policy action, deflation would grip the economy as it did in Japan. As consumer spending grows even without incentives, the Fed may be looking at a sickly real-estate market when it sees lingering risks. In November home prices dropped significantly and a key index is showing a decline from a year earlier. The residential housing market was revived by tax breaks but did not prove resilient when they expired last April.

Inflation above the ECB comfort zone

The ECB has a reference inflation rate that does not spin off the effect of rising raw-material prices but takes everything into account. This “headline” Index has just passed the 2% threshold and should, by the book, prompt the ECB to raise interest rates to preserve price stability. This orthodox view seems misguided in the current climate of sovereign-debt crisis and divergent economic prospects within the euro area, but Germany’s pressure to start a tightening cycle could win the day according to an increasing number of analysts. The expected timing of the first rate increase has therefore been brought forward to the first half (some say even the first quarter).

Bank lending slowly reviving, but still weak

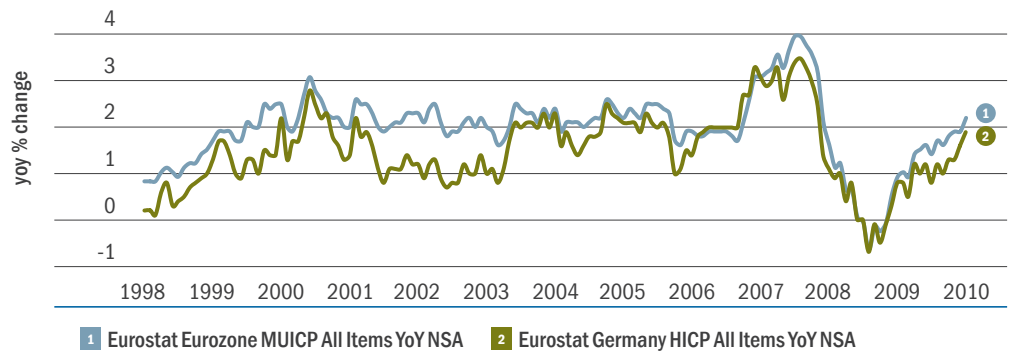


Source European Central Bank, Bloomberg as of 28 January 2011

The problem with this desire for policy normalisation is that the ECB is still actively involved in operations dealing with the sovereign-debt crisis and this may keep it from shifting its focus to inflation. Purchases of government bonds have resumed in the wake of Ireland’s bailout. Although the size has diminished of late, amid reduced tensions in euro bond markets, renewed intervention may be needed whenever a member of the distressed euro periphery sparks concerns about its financial health.

If we stuck to the Central Bank’s official pillars, monetary growth should be added to the Consumer Price Index as a leading indicator on inflation. Its recovery still looks very subdued and is kept down by weak growth in bank lending. The ECB used to sound the alarm on inflation when broad-money growth exceeded 8% year on year and the pace was well above 10% before the downturn. The latest update, as of November 2010, shows a mild 1.5% gain instead and this can be blamed on banks’ weak balance sheets. The stress tests are likely to be repeated with more stringent criteria so that distressed banks cannot pass (as the main Irish banks were able to just a few months before being bailed out). Tougher new requirements on capital ratios, imposed by domestic as well as by international regulators, may take more funds away from credit markets. The extension of ECB emergency lending to banks well into 2011 suggests that it will take longer for normality to be restored.

Euro average inflation rises above the ECB target of 2%



Source Eurostat, Bloomberg as of 28 January 2011

Asia

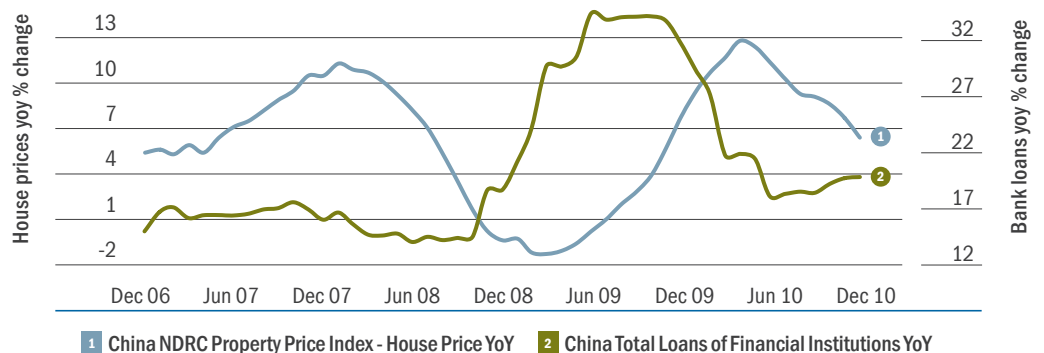
Building fences against inflation

China's GDP growth remained strong in the fourth quarter of 2010 and around 10% year-on-year for the fifth consecutive quarter. The Central Bank is clearly committed to preventing economic overheating, with consumer prices expected to rise above 5% in the year to January. The government's unwillingness to let the currency freely float (and therefore strengthen across the board) removes a powerful tool to hold inflation in check and leaves the onus on other measures, such as higher bank reserve requirements and moral suasion. The case for higher interest rates has long been shelved for fear that it could prompt massive capital inflows and put further upward pressure on the currency, but officials have increasingly resorted to it of late. The Shanghai interbank 1-year rate has almost doubled from 2.5% to 5% over the past three months and is back to levels last seen in early 2008 when inflation was indeed twice as much.

We believe that rising consumer prices are a by-product of strong economic growth. The governments of major emerging countries could be blamed for enacting stimulus packages to overcome a slowdown (as sharp as it was in 2008) rather than a deep recession. Most of them have also pegged their currencies to the US dollar for a long time and the Federal Reserve's overly loose monetary policy with it. In China's case, this stance led to hectic growth in bank lending and house prices from the early stages of the economic upturn, however, a reversal since early last year may have been timely enough to rein in both excesses.

Other emerging countries in Asia (but also outside Asia) face similar hardship and have already raised interest rates several times in order to cool down inflation. Unlike China, most of them let their currencies strengthen significantly against the US dollar, although they seem less and less comfortable with losing export competitiveness. A "currency war" is being led by Brazil, which imposed a tax on foreign investment inflows and this

China's curbs lowering excess growth, first in bank loans and then in house prices



Source Bloomberg as of 28 January 2011

was subsequently copied by other Asian governments. On the other side, both Brazil and India have less room for manoeuvre because of loose fiscal policies. Government budget deficits are much higher than in China and central banks have often offset a lack of commitment towards fiscal consolidation by posing as inflation hawks and forcefully raising interest rates. All of these efforts should prevent a surge in inflation but they are worth watching closely as the economy grows strongly.

China's policy toolbox to curb bank lending: raising reserves and rates

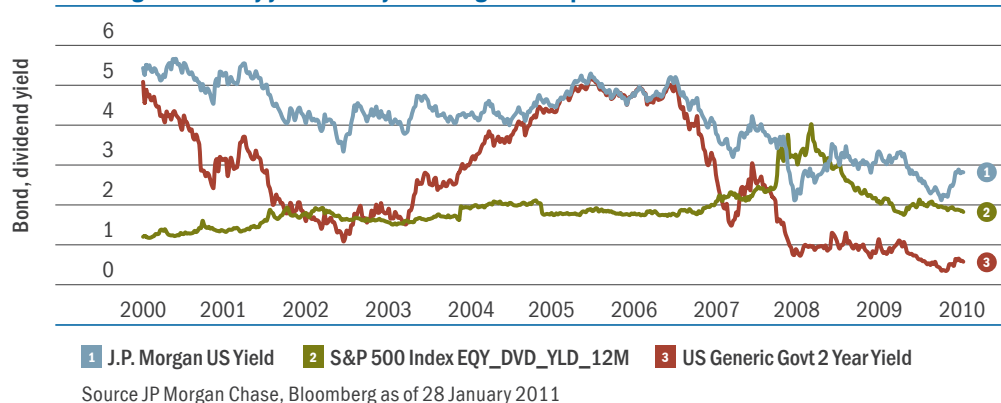


The Markets US Equities

Stronger domestic growth as an additional support

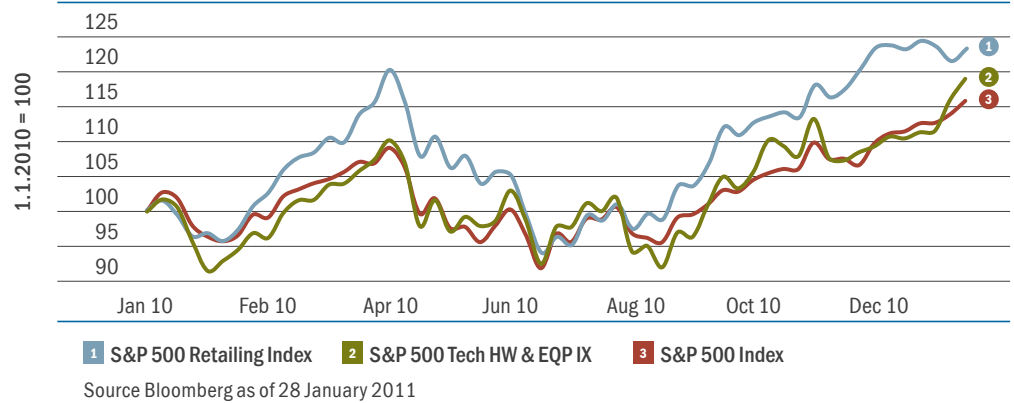
The US stockmarket has been at the centre of our global equity allocation for a long time and we believe it is worth an upgrade due to improving economic data. Domestic demand may provide a solid contribution to overall growth, as shown by the latest fourth-quarter GDP estimate. Even before GDP data were released, we heard evidence of an improving labour market, which can support consumer confidence over time.

Rising US Treasury yields barely affecting the comparison to dividends



We have often pointed out that a number of S&P 500 companies mainly benefit from foreign demand. Last year foreign demand provided the main support to the broad market, as fast-developing regions such as China and other emerging Asian economies become the most powerful engines of global growth. Most of these stocks gained nicely in the economic upturn. However, valuations have become less compelling as a result and may barely reflect less favourable scenarios, such as a rise in inflation, which could trigger aggressive policy tightening and slow down economic growth in those regions. We maintain our exposure to US equities in spite of this caveat, as renewed evidence of sustainable growth in domestic demand is playing an offsetting role.

Sales of consumer products still buoyant as incentives expire



Loose policies remain in place, both on the monetary and fiscal side and that should act as an ongoing support. Admittedly, bond yields have been rising sharply recently but stock dividend yields remain attractive for a couple of reasons: to start with, bond yields rose from record lows, which were more consistent with a recession than with renewed economic growth; moreover, a proper comparison should be made between dividend yields and a combination of short and long-bond yields, and stocks retain good value by using this gauge.

European Equities

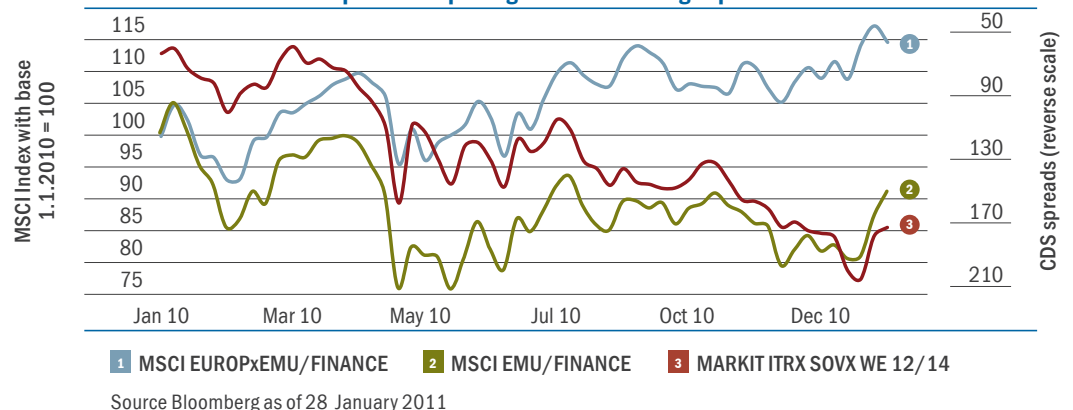
Cheap valuations on banks

As an asset class, European stocks should remain highly correlated with US and global trends also, amid evidence of an improving economy. The sovereign-debt crisis will not leave the spotlight soon but plans for fiscal austerity are very unlikely to lead to a double-dip recession. The problem with analysing European stocks is the wide performance spread, which is evident particularly in the euro area between Financial and Non-Financial sectors.

Euro bank stocks played no active role in last year's market rally and have even bucked the overall trend with a double-digit loss, which ranked them as the worst-performing industry group. The lowest performance quartile is made up of banks based in countries hit hard by the sovereign-debt crisis such as Greece, Ireland, Spain and Portugal. Some French banks, however, also rank on the weak side of the table for their exposure to distressed countries through local subsidiaries.

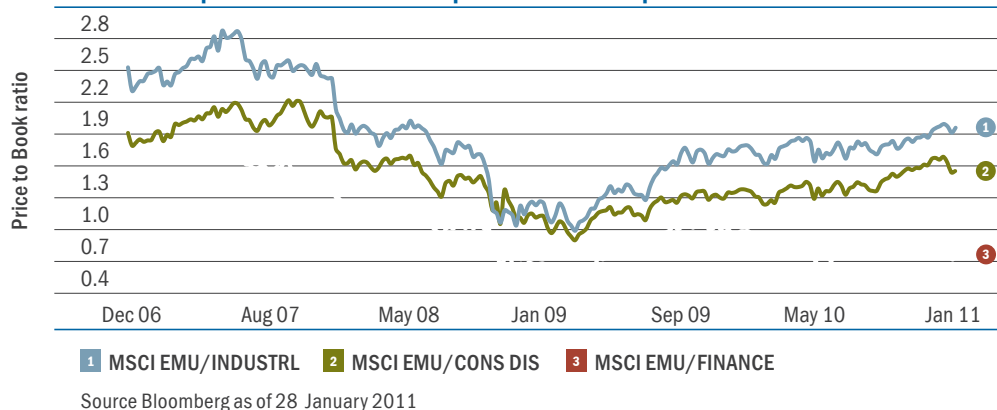
After barely recouping the recession-induced record lows of two years ago, euro bank stocks are attempting another rebound, and their sustainability is a matter of debate. A material difference with previous occurrences last year is that the current rebound is bucking a mixed pattern in the broad market, with last year's top performers struggling to retain gains.

Euro bank stocks attempt to recoup lost ground as sovereign spreads decline



It looks consistent with this year's new theme of a global inflation risk originating in emerging countries. The efforts to stem inflation may lead to overly restrictive policies and undermine the growth outlook. China is clearly the most closely watched and in the worst-case scenario it may suffer a sharp slowdown rather than a recession. However, the stocks of companies conveniently exposed to these regions may have priced many years of growth in earnings at current valuations and for them even the prospect of a mild slowdown in China could be enough to spark concerns. The long-term story retains all its credibility but profit-taking may become more frequent and turn into a sell-off.

Euro banks' price-to-book ratio below par stands for cheap valuations



We stop short of recommending a lower exposure to European stocks, however, as valuations look cheaper for sectors such as euro bank stocks, whose average price-to-book ratio has been pushed below par by the sovereign-debt crisis. It was even lower when the recession was at its worst two years ago but the gap with Non-Financial sectors has sharply widened since then. As a result of building the worst-case scenario into prices, fourth-quarter results are less likely to disappoint investors compared to Industrial, Consumer-Goods and other cyclical sectors.

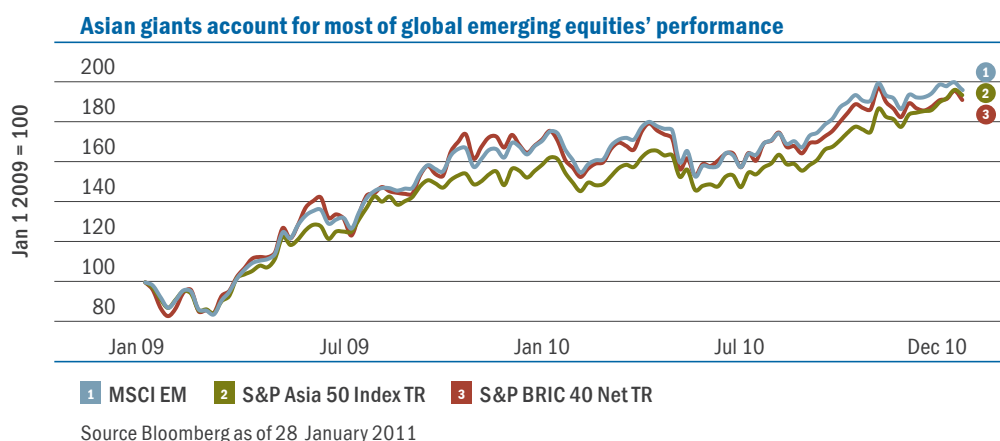
Asian and Emerging Equities

The rationale behind our move to cut the exposure to Asia stems from our risk case for higher inflation in the fastest-developing regions. In China the efforts to contain consumer-price pressures have succeeded in cooling down growth in bank lending. House prices are also growing less than they were a year ago. However, inflation is set to rise to 5% in the 12 months to January and that will call for further tightening measures. Overall, we should not yet define the current policy as overly restrictive. But, less available liquidity may be a negative for stockmarket performance although China's local markets may be pressured more than elsewhere and should continue to adjust excess valuations down to fairer levels.

China's local markets bringing valuations down to fair levels



The outlook for Japan is closely tied to the rest of Asia, as most earnings come from export revenues. Stronger data on US consumer spending, along with a more settled currency market, may improve estimates for exporters of durable consumer goods, such as cars and electric appliances. However, exports to Asia are worth three times as much as towards the US (with China alone accounting for more) and orders for highly-cyclical industrial equipment play a major role. The TOPIX Machinery Index has performed much better than both Auto and Consumer Electronics, and this suggests that valuations have entered expensive territory.



China is a proxy for emerging-market performance and also outlook outside Asia. Brazil accounts for about 80% of Latin America's capitalisation and a large part of Brazil's market is made up of resource-related stocks for which Chinese demand is a key source of earnings. The most domestically-oriented Brazilian stocks have benefited from booming consumer demand, which the Central Bank is holding in check by raising interest rates in order to counter a rise in inflation. The Banking sector is probably where the current sell-off provides the best buying opportunities and that is the reason why we are maintaining our overall exposure to emerging markets.

Bonds

Inflation risk in core markets

Core markets have stabilised, but the trend toward higher yields cannot be denied both in the US and in Germany. The US monetary policy provides the main risk, as the Federal Reserve is still deeply committed to a very loose policy which is aimed at stimulating economic growth and fighting deflation rather than curbing inflation. The ECB seems more anxious to restore an orthodox stance by unwinding emergency credit lines and letting key policy rates rise gradually as inflation overshoots the official target. This policy aims to preserve purchasing power but German government bond yields also rose as a result of a less risk-averse environment, as tensions eased in euro peripheral markets in January.

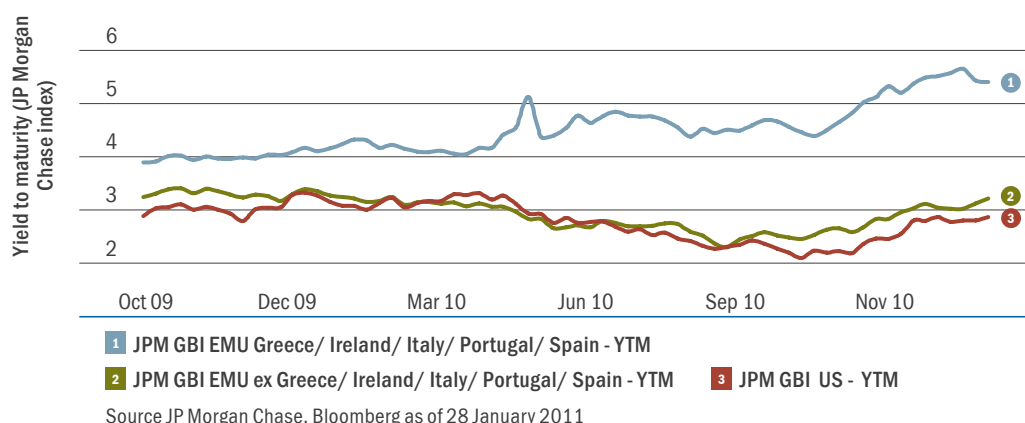
Credit. Relief on peripherals

Portugal's sale of government bonds was deemed successful if only because it did not end in outright failure. Had it occurred, Spain would have been next in the firing line of speculation with a dramatic increase in turbulence. In fact, Spain is not a marginal member of the euro area as it accounts for more than Portugal, Ireland and Greece combined.

Speculation about an impending EU bailout to keep Portugal out of credit markets was premature, but being able to raise new funds from private investors is unlikely to dispel fears about its imbalances. The sensitive credit-default swap (CDS) market suggests that the worst is over for the time being, as the cost of insuring debt issued by euro

peripheral governments fell by some 50 basis points so far this year. However, this could just be a temporary respite: to access credit markets, peripheral countries pay increasingly expensive borrowing costs. Portugal's 7% cost of 10-year debt (as of the latest auction) is at its highest since joining the euro and would be made more expensive by rising benchmark (core) yields going ahead. If it cannot fall, a bailout package may eventually be needed.

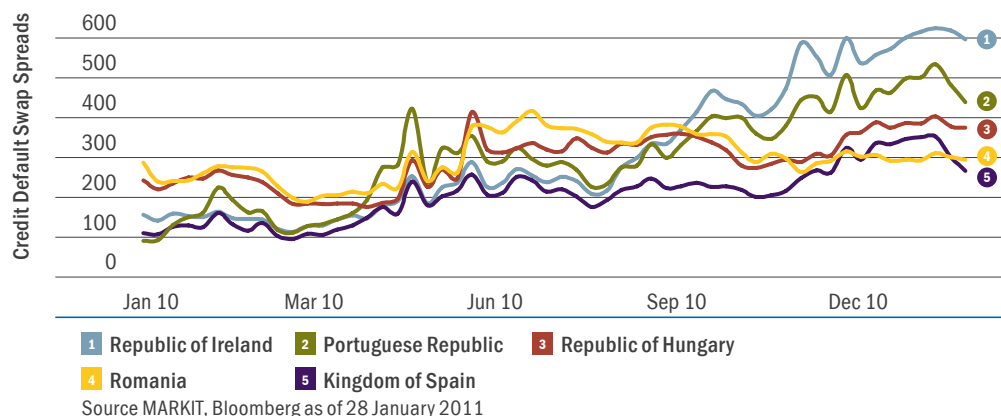
Rising core yields adding to peripherals' borrowing costs



Assuming that Portugal joins Greece and Ireland in the list of rescued governments, the trio accounts for less than 6% of euro GDP and their woes should not prompt a full-blown euro crisis on fundamental terms. Spain is a much larger economy (accounting alone for about 10% of overall GDP) and its efforts for fiscal consolidation will be closely watched. There is encouraging evidence of a declining external deficit, but the Irish crisis brought fears that the cost of bailing out distressed banks may weigh considerably on government budgets. The number of Spanish (mostly regional) banks in such conditions is not negligible. Most of them had passed the stress tests carried out last summer, which may have painted too bright an image of banks' overall health. If another round of stress tests was based upon more stringent criteria, the outcome should be less flattering and prompt additional efforts to replenish capital buffers to safe levels. If private investors were unwilling to take part in rights issues, the public purse would fill the void with further strains on government finances.

Against this backdrop government bond markets are unlikely to restore a path of convergence any time soon. High-yielding opportunities among peripherals should be handled with the same caution as any non-investment grade bond. We acknowledge that valuing the debt of some euro peripheral countries at such distressed levels may overstate

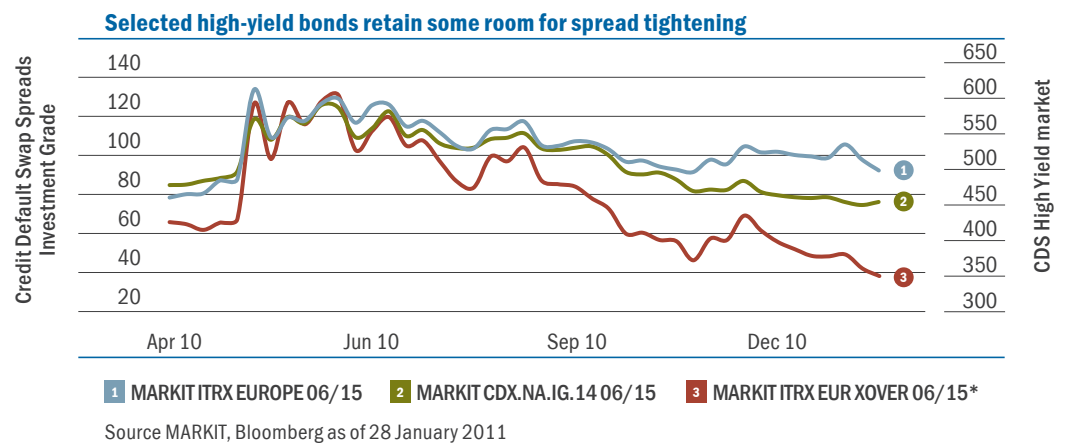
Country risk of some Western Euro peripherals tracking Eastern Europe



the risk,. However, their finances are unlikely to get structurally better as long as they are unable to restore decent economic growth and the risk of debt restructuring looms.

Better risk/reward on corporate bonds

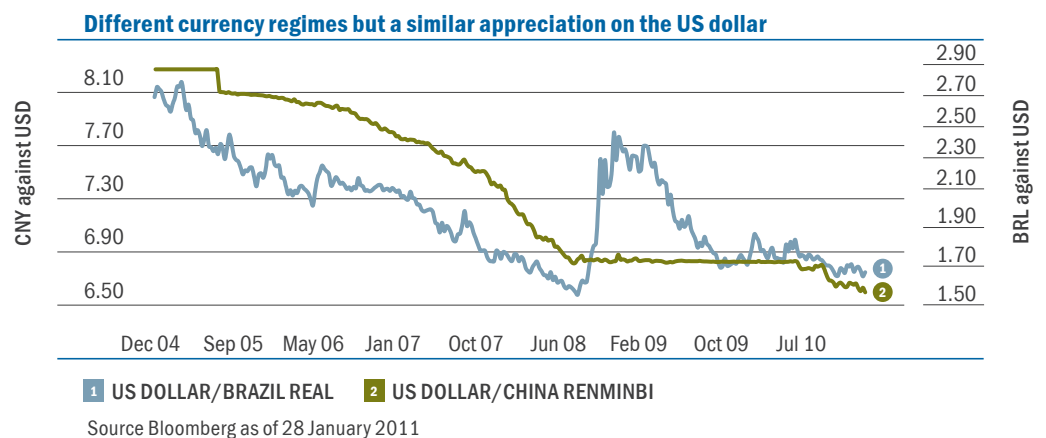
We continue to believe that the best trade-off of risk and reward can be reaped with corporate bonds, as companies remain committed to sound budget policies centred on cost savings. Credit spreads for Non-Financial companies are unlikely to rise, after being resilient when the sovereign debt crisis increased risk aversion. What may negatively affect the performance is a sharp rise in core government bond yields, as inflation expectations gather pace. Credit spreads may not rise but there seems to be much less room for spread tightening at current levels. As a result, significantly higher government bond yields may push corporate yields up in the Investment-grade sector, while selected high-yield issuers may still benefit from a reduced risk of default and would be somewhat sheltered from a rising trend in global bond yields.



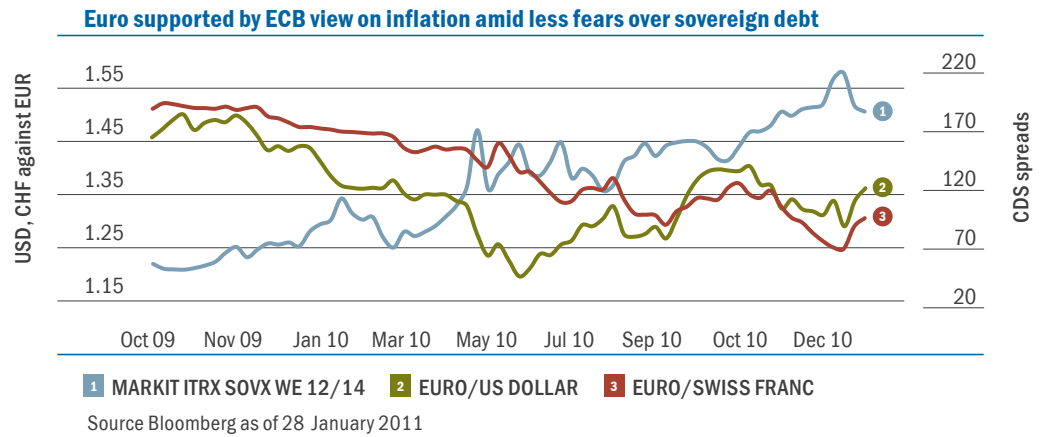
Currencies

Euro supported on expectations of higher ECB rates

The January gain of the euro against major currencies should not be explained only by fewer concerns over another EU bailout. There is always a close correlation between the euro and sovereign credit spreads, and they are still close to last November's highs when Irish banks had to be rescued. However, the main support is likely to come from the ECB and its penchant for policy normalisation. If a full-blown sovereign debt crisis can be overcome, with the help of a more buoyant economy, many emergency credit facilities will be removed. Unlike the Federal Reserve, the ECB is seen as an inflation watchdog and will not wait too long before raising policy rates as inflation overshoots the official target.



Our latest moves on equities strengthen our overweight in US dollars. We are aware of that and we believe that the recent appreciation of the euro reflects premature expectations of an ECB tightening mode. The sovereign debt crisis is far from over and conditions do not look ripe for a true normalisation of monetary policy, as eager as the ECB may be to shift its focus back to its core mission of preserving price stability.



For its part, the US dollar is unlikely to regain more fundamental support as long as the Federal Reserve maintains an overly loose policy. The latest council on 26 January reiterated the view that the pace of recovery is “insufficient to bring about a significant improvement in labour market conditions” and remarkably this statement met no dissenting opinions within the Fed council. As emerging countries raise rates to stem the rise of inflation, the yield gap between their currencies and the US dollar will widen further and prompt more investment inflows, which new barriers (in the form of taxes on foreign capital) are unlikely to dampen.

Tactical Asset Allocation Summary

Global Equities: Overweight

The base case of economic strength favours the cyclical asset classes and equities among them, as evidence of strong earnings growth overcomes any risk factors. The latest threat originates in fast-developing emerging countries, whose mild tightening may not succeed in curbing inflation and require more restrictive measures in order to cause a slowdown in growth. The earnings estimates would be reduced, especially for companies and sectors exposed to these regions, which have accounted for a large part of the stockmarket rally over the past two years. This risk case should prompt a downgrade of global equities, but we believe that evidence of a stronger economy in developed countries will support the earnings of companies selling goods and services mostly to domestic households.

USA: (upgraded) Overweight

The recovery in consumer spending helped GDP to regain a normal growth trend, and there are reasons to believe that the earnings of companies selling goods and services (mostly to domestic households) will grow nicely this year amid evidence that the recovery has become self-sustainable rather than being overly reliant on stimulus policies. This is helped by improved employment growth, although still at a slower pace than in past recovery stages. For its part, the Federal Reserve's commitment to an expansionary policy is also supportive, as it still makes dividend yields attractive compared to low-risk government bonds.

Europe: Overweight

The outlook for the European economy remains uncertain because of fiscal austerity that would curb domestic consumption in peripheral countries. However, valuations have become cheap for the market as a whole and even moderate signs of strengthening of the economy would prompt a quick upgrade. This applies particularly to the Banking sector in the euro area, which has long suffered from the sovereign debt crisis due to concerns about asset write-downs (notably on holdings of government securities). Companies with a strong exposure to foreign demand, especially to Asian economies at risk of overheating, may suffer a downgrade of earnings estimates from a slowdown caused by inflation-curbing policies.

Japan: (downgraded) Underweight

Foreign demand has long made up for weakness in domestic spending, a feature shared by most of Europe. An additional risk, however, is a strong trade-weighted currency, which may make it hard to replace falling exports to the rest of Asia (caused by policies to curb inflation in those countries) with increased sales to the United States where evidence of a recovery in consumer spending would be helpful.

Pacific ex Japan: (downgraded) Underweight

Markets overly reliant on China's growth may be concerned about early policy tightening aimed at keeping the economy from overheating and a surge in inflation. Commodity-related sectors play a key role in this region and their valuations look demanding in spite of the latest sell-off.

Emerging Markets: (downgraded) Neutral

Most of these regions retain a strong potential for domestic growth, with Asia standing first (followed by Latin America). The effects that measures to curb inflation may have on overall growth are worth watching as they could weigh not only on domestic markets but also on exporting countries in the developed world (which have relied on demand from these regions to quickly regain economic growth). A radical departure by China from the current exchange rate policy would help, but it seems unlikely that it will let the currency appreciate faster.

Global Bonds: Underweight

Government bond yields in core markets, such as Germany and the US, are up from record lows, which were barely consistent with an improving economy. The sovereign debt crisis in the euro area prompted investors to seek a safe haven in Germany, while the Federal Reserve's policy of purchasing bonds and expanding money supply provided an artificial support for US Treasuries. This policy would be inadequate if inflation expectations gathered pace and room for a further rise in yields would be significant, causing ripples across other core markets (not affected by credit risk).

Euro Government: Underweight

As inflation in the euro area rises above 2% year-on-year, the ECB seems ready to shift its focus from the sovereign debt crisis to price stability and thus normalise its policy. The timing of the first increase in interest rates is uncertain, but expectations of this rarely provide support for core bond markets, such as Germany. Opportunities are worth playing on peripheral markets as yield spreads rose sharply, but they should be picked as selectively as with corporate (also high-yield) bonds.

Euro Corporate: Neutral

Companies remain mostly committed to cost cutting despite ongoing earnings growth. In this environment credit risk is unlikely to rise and may even decline for selected issuers. In the euro market a significant proportion of issuers is made up of banks, whose losses in relation to the sovereign debt crisis have greatly increased the perceived risk of default. Therefore, cheap picks open up in this sector group, although selection remains key as many banks are still far from holding a safe capital cushion.

US Government: Underweight

Evidence of stronger economic growth may increase the risk of inflation. The Federal Reserve's policy remains loose and possibly in stark contrast to investor perceptions. We believe that the increase in yields from the lows of last year is consistent with an improving economy with domestic consumption (the harbinger of inflation) becoming a key driver again. Politics can also be a negative, as a lack of commitment to budget consolidation adds to inflation concerns.

US Corporate: Overweight

Most businesses are still thoroughly committed to cost cutting despite ongoing earnings growth. In this climate, risk premiums are unlikely to rise and may even decline further for selected issuers. The high-yield segment should be less sensitive to probable rising benchmark (Treasury) yields than the investment-grade market, so a decline in credit risk is more likely to translate into absolute gains.

Emerging Markets: Neutral

Economic policies have structurally improved in most developing countries, notably on the budget side. The increase in country risk premiums related to the debt crisis in the euro area impacted this asset class only when it broke into financial markets. However, fundamentals later took over and major emerging countries are now less risky than most peripheral euro countries. Valuations are still attractive for issues in local currencies, whose volatility also tends to be lower than in the hard-currency segment.

Tactical Asset Allocation Summary

Global Summary Table	
Asset Class	Recommendation
Equity	Overweight
Government Bonds	Underweight
Corporate Bonds	Overweight
Liquidity	Overweight

Regional Summary Table	
Asset Class	Recommendation
Euro Cash	Underweight
2yr Euro Corp	Overweight
Total Liquid Assets	Overweight
Euro Bond	Underweight
US Bond	Underweight
Japan Bond	Underweight
Government Bonds	Underweight
US Corporate	Overweight
US High Yield	Overweight
Euro Corporate	Neutral
Euro High Yield	Neutral
Emerging Market Bonds	Neutral
Corporate Bonds	Overweight
North America Equity	Overweight
Europe Equity	Overweight
Japan Equity	Underweight
Global Emerging Mkts	Neutral
Pacific Ex Japan	Underweight
Equity	Overweight

Foreign Currency Exposure	
US Dollar	Overweight
Euro	Underweight
Yen	Underweight
Other	Neutral

FROM WEAKEST TO STRONGEST IN ASCENDING ORDER:						
Strong Underweight	Underweight	Slight Underweight	Neutral	Slight Overweight	Overweight	Strong Overweight

Please note that the rank is indicative and may not balance when summed.

Important Information

Unless otherwise stated all information contained in this document is from Pioneer Investments and is as at 10 February 2011.

Past performance does not guarantee and it is not indicative of future results. Unless otherwise stated, all views expressed are those of Pioneer Investments. These views are subject to change at any time based on market and other conditions and there can be no assurances that countries, markets or sectors will perform as expected.

Investments involve certain risks, including political and currency risks. Investment return and principal value may go down as well as up and could result in the loss of all capital invested.

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