Industrial Alliance
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Tapering time has come

Two major risk sources were removed from the picture this month south of the border. Number one, for the first time since 2011, the U.S. government will be operating with a budget; it is in fact the first time since 1986 that a budget agreement has been reached in a divided Congress (Republican House, Democrat Senate). This agreement eliminates any possibility of a government shut-down for the next two years, and considerably reduces the level of fiscal risk that was hovering over the economy and the markets. Number two, the U.S. Federal Reserve announced on December 18 that it will begin tapering its quantitative easing program starting in January. Monthly purchases will go from $85 billion to $75 billion, and any subsequent reductions will be announced at future Federal Open Market Committee (FOMC) meetings, according to the quality of the economic data. The withdrawal of these two major sources of uncertainty should have a positive impact on stock markets in 2014, even after a year where S&P 500 returns exceeded 30%.

Canada: job and housing markets stagnant

- The country's unemployment rate remained at 6.9% for a third consecutive month as 21,600 jobs were added in November against expectations of 12,000. However, almost all of the jobs created were part-time. Moreover, average monthly job creation for the first 11 months of the year fell sharply from 25,400 in 2012 to 13,400 in 2013. This year, full-time jobs accounted for just 54% of all jobs created, while in 2012, 99% of jobs created were full time (see graph). The participation rate remains at a 10-year low of 66.4%.
- The real estate market is also stagnating. Construction starts slowed in November, led by the drop in the construction of multi-family units. Lack of growth in the real estate sector suggests that it will not contribute much to the economy in the fourth quarter. House prices are also stagnating, having remained stable for the last three months and even trending down in 7 of the 11 regions making up the Teranet–National Bank index. The soft landing therefore continues, but we will have to see what 2014 brings.

United States: strongest growth since 2011

- The latest revision of U.S. economic growth in the third quarter brings us to an annualized rate of 4.1% (it has gone from 2.8 to 3.6 to 4.1%, fueling our optimism for 2014!). Most of this upward revision came from spending on services, which was much stronger than previously estimated. Inventory accumulation now accounts for one third of third-quarter growth, but it seems this may be symptomatic of a wave of optimism among businesses and not of disappointing demand. Most of this inventory accumulation is concentrated in car-related sectors (which are recording high sales and heading toward pre-crisis levels), and the latest ISM report indicates that businesses do not think their inventory levels are at all excessive.
- The real estate sector is holding up well in the face of interest rate hikes, at least in the areas of construction and new home sales. After a disappointing reading of new home sales the previous month, we were treated to the strongest rebound in thirty years this month as sales jumped 25% to a seasonally adjusted annual rate of 444,000 units.
- Job creation continued to exceed expectations and the 200,000 mark for a second consecutive month, with 203,000 jobs added in November. This was the best two-month performance since February-March. This acceleration in hiring, combined with gains in salaries and hours worked, is giving U.S. consumers more resources and confidence and should, consequently, encourage businesses to step up their investments.

Europe: is France heading into a new recession?

- All signs suggest that the recovery in Europe will be slow, fragile and, especially, uneven. Germany continues to quicken the pace, propelled by vigorous domestic consumption and a good performance on the export market, while France is headed in the opposite direction. Growth of the French economy slid back into the red in the third quarter, and fourth-quarter readings confirm that the contraction is continuing into the fourth quarter. The risk of France chalking up two consecutive declining quarters, the very definition of a recession, is therefore growing each month.
- The European Central Bank (ECB) ended the year on a dovish tone, reducing its growth and inflation targets for 2014 to 1.1% each. Everything suggests that the key rate, which was lowered last month, will remain low for quite a while now. The unemployment rate is still at a record high and there is a sustained downward trend in inflation.

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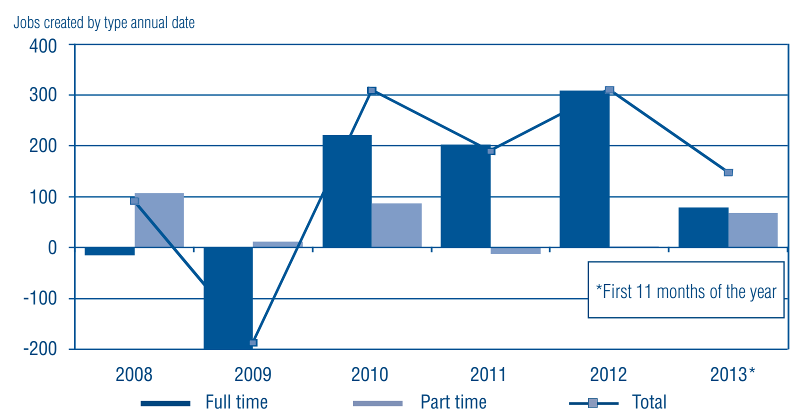
Economic and Financial Statistics

	As at 2013-12-31[1]	As at 2012-12-31
Canada - Unemployment rate	6.9%	7.2%
Canada - CPI (year/year variation)	0.9%	0.8%
Canada - GDP (year/year variation)	2.7%	1.3%
U.S. - Unemployment rate	7.0%	7.8%
U.S. - CPI (year/year variation)	1.2%	1.8%
U.S. - GDP (year/year variation)	2.0%	1.6%
2-year Canada Bonds	1.14%	1.14%
10-year Canada Bonds	2.78%	1.80%
Oil (West Texas) ($US)	99.2	91.8
Gold ($US)	1,207.9	1,675.4
CRB Commodities Index ($US)	280.2	295.0
Exchange rate $CA/$US	1.0623	1.0079

Source: IAIM

[1] Most recent data available at such date

Canada: Jobs creation slowed in 2013 and the share of full time jobs is lower



Source: IAIM

Reference indexes[1] - Returns as at December 31, 2013

	Simple returns[2]			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
DEX 91 day Tbill Index	0.1	0.2	1.0	1.0	1.0	0.8	2.1
DEX Short Term Bond Index	(0.1)	0.8	1.7	1.7	2.8	3.3	4.0
DEX Universe Bond Index	(0.4)	0.4	(1.2)	(1.2)	3.9	4.8	5.2
S&P/TSX Capped Income Trusts (Total Return)	2.0	3.2	(2.4)	(2.4)	12.2	20.5	12.5
SB - World Government Bonds (Can. $)	(0.6)	2.3	2.6	2.6	3.5	(0.6)	2.1
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	1.8	7.7	13.3	13.3	3.6	10.8	8.2
S&P/TSX Completion Index	2.5	6.1	12.2	12.2	2.7	15.8	8.6
S&P/TSX Composite Index	2.0	7.3	13.0	13.0	3.4	11.9	8.0
S&P/TSX Capped Composite Index	2.0	7.3	13.0	13.0	3.4	11.9	8.0
S&P/TSX SmallCap Index	2.7	6.9	7.6	7.6	(4.2)	14.0	3.4
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	2.9	14.3	41.5	41.5	18.8	14.7	5.3
S&P 500 (Can. $) (Reuters)	2.9	14.2	41.3	41.3	18.8	14.5	5.3
MSCI - World (Can. $)	2.5	11.7	35.4	35.4	14.0	11.8	4.9
MSCI - EAFE (Can. $)	1.9	9.3	31.3	31.3	10.6	9.3	4.8
MSCI - EAFE (Can. $) (Reuters)	1.9	9.3	31.0	31.0	10.6	9.1	4.8
MSCI - Europe (Can. $)	2.6	11.6	34.7	34.7	13.1	10.9	5.8
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	(0.1)	5.8	19.9	19.9	6.1	9.4	5.5
MSCI - Emerging Markets (Can. $)	(1.1)	5.3	4.5	4.5	0.5	11.9	9.4
MSCI - World Health Care (Can. $)	1.3	12.3	43.1	43.1	20.9	10.9	4.4
NASDAQ 100 (Can. $)	3.3	15.4	44.3	44.3	20.1	20.8	7.3
S&P/TSX Capped REIT Index	2.0	3.2	(5.5)	(5.5)	10.4	20.7	10.3

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at December 31, 2013: 1.0636	0.3	3.4	6.9	6.9	2.3	(2.8)	(1.9)
EXCHANGE RATE (US $ / Can. $) As at December 31, 2013: 0.9402	(0.3)	(3.3)	(6.5)	(6.5)	(2.2)	2.9	2.0

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World: Chinese growth raises doubts

- The Chinese manufacturing Purchasing Managers' Index (PMI) registered 51.4 in October, signalling the fastest expansion in manufacturing activity in 18 months (a reading above 50 points indicates an expansion). Yet there have been weaknesses with respect to small businesses and unemployment, enough to cause concern at a time when the Chinese government is about to implement the largest wave of structural reforms in recent history.
- The Tankan survey, carried out among more than 10,000 Japanese businesses, indicates that confidence in Japan is very high. The latest reading was 16, a six-year peak, as the third and last phase of the Abe plan involving structural reforms is about to be implemented. However, the survey's results also show a downward revision of investment plans by large companies for the fiscal year underway, casting a shadow over the picture on the eve of 2014. Another sign that the plan is producing results for the moment: inflation is now 1.5%, its highest level since 2008.

Financial markets

- The year 2013 ended with a fourth positive month in a row for the S&P/TSX Composite Index, with a total return of 2.0% carried by health care, information technology and energy.
- It was another very good month for the U.S. stock market, as measured by the S&P 500 index, which closed the year up 2.5% (2.9% in Canadian dollars).
- World indices MSCI - EAFE and MSCI - World continued their momentum, with returns of 1.4% for the EAFE index and 2.1% for the World index (1.9% and 2.5% respectively in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets index, were down once again, by 1.0% (down 1.1% in Canadian dollars).
- Finally, the Canadian bond market, measured by the DEX Universe Bond Index, declined 0.4%.

1 Indexes presented in this document are total return index.
2 The rates for the period are non-annualized.