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Some political respite in Europe

A provisional agreement has finally been reached in Greece. After having won the last elections promising to put an end to the austerity measures imposed by previous bailout plans, the new Greek government had to yield before increasing pressure from European finance ministers who were maintaining a hard line. It should be said that Greek banks were seeing significant cash outflows and were in danger of facing shortfalls in liquidity, a determining factor in the about-face of the new Greek government, which was forced to give in and agree to renew the rescue package in its entirety, austerity included. Greece nonetheless made some gains, since it was able to propose its own reform measures rather than have them imposed by the International Monetary Fund, the European Central Bank, and the European Commission. This conclusion to the crisis comes at a time when European economic data are rapidly improving, marking a change of guard in the economic surprise indices to the detriment of the United States (see graph); this illustrates the profound dichotomy between the improvement in the economic situation and the gloomy tone of the political issues making headlines.

Canada: Eyes on monetary policy

- The question on everyone's lips in February was: will the Bank of Canada lower its key rate again in March? In a statement at the end of the month, Governor Stephen Poloz reminded everyone that January's unexpected rate cut was a form of "insurance" against the negative effects of the oil price drop on the Canadian economy. He also pointed out that changes in oil prices have been in keeping with the Bank's expectations and that the BoC is now more confident in its ability to get the economy back to full capacity by the end of 2016. The bond market went from optimistic to pessimistic toward a new rate cut next month, but the majority of economists are anticipating at least one more rate cut in 2015.
- More jobs were created than expected in January, with 35,400 jobs added compared to expectations of only 5,000. It should be mentioned, however, that this result hides a jump of 47,200 part-time jobs and a loss of 11,800 full-time jobs. The natural resource sector shed 8,800 jobs in all, but Alberta still managed to play its game well with a gain of 13,700 positions.

United States: Q4 growth revised downward

- U.S. economic growth was revised downward in the fourth quarter of 2014, from 2.6% to 2.2%. The revisions primarily concerned the build-up of inventory, which added only 0.1% to growth as opposed to 0.8% previously estimated, as well as net exports, which subtracted 1.2% from growth compared to the 1.0% previously estimated. Despite all this, the overall story remains the same: consumer spending jumped more than 4.0% in the last quarter of 2014, a four-year high, propelled by the strength of the labour market and the weakness in prices at the pump. These factors should continue to benefit the U.S. economy in 2015, while the strength of the U.S. dollar will most likely continue to weigh on the external sector.
- Some 257,000 jobs were added in the U.S. in January, exceeding expectations. The biggest surprise, however, was the scope of the revisions to previous months. It is now estimated that 423,000 jobs were created in November and 329,000 in December, for a total of over one million new jobs in the last three months alone. Another major surprise was the number of Americans rejoining the active population, which exceeded one million in January alone, testifying to the public's high level of confidence in the country's economic future.
- Total annual inflation dipped into negative territory in the U.S., pulled down by the plunge in energy prices. Prices fell 0.7% in January, the biggest drop in six years. Core inflation, however, which excludes the most volatile components such as energy, remained stable at 1.6%.

Europe: Dichotomy between economic and political news

- While the international media have been focusing on the political situation in Greece and the conflict in Ukraine, the economic data have been surprisingly positive. The beginning of the quantitative easing program in March should further the situation by having a positive impact on the credit cycle. It is too soon to declare that political concerns have been removed from the euro zone scene, but the economic picture is looking promising for European stock markets in 2015.

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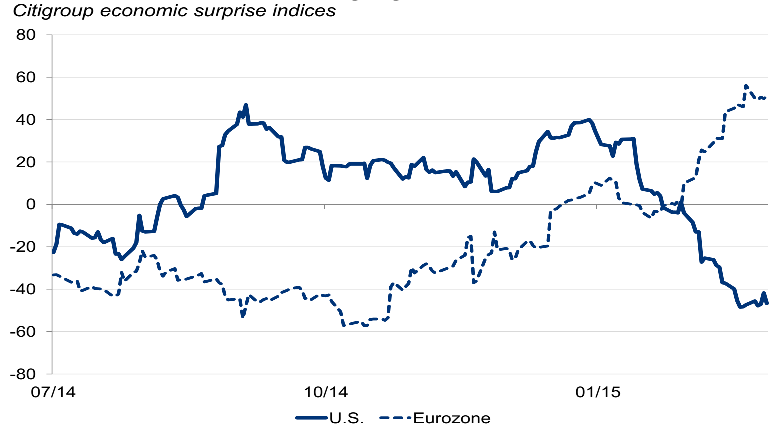
Economic and Financial Statistics

	As at 2015-02-28[1]	As at 2014-12-31
Canada - Unemployment rate	6.6%	6.6%
Canada - CPI (year/year variation)	1.0%	2.0%
Canada - GDP (year/year variation)	1.9%	2.3%
U.S. - Unemployment rate	5.7%	5.8%
U.S. - CPI (year/year variation)	(0.1%)	1.3%
U.S. - GDP (year/year variation)	2.4%	2.7%
2-year Canada Bonds	0.47%	1.01%
10-year Canada Bonds	1.30%	1.79%
Oil (West Texas) ($US)	48.9	53.8
Gold ($US)	1,216.6	1,186.3
CRB Commodities Index ($US)	224.1	230.0
Exchange rate $CA/$US	1.2508	1.1621

Source: IAIM

[1] Most recent data available at such date

Economic surprises diverging
Citigroup economic surprise indices



Source: IAIM

Reference indexes[1] - Returns as at February 28, 2015

	Simple returns[2]			Compound annual returns			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
INDEXES RELATED TO INCOME FUNDS							
FTSE TMX Canada 91 Day T-Bill Index	0.0	0.3	0.2	0.9	1.0	0.9	1.9
FTSE TMX Canada Short Term Bond Index	0.0	2.1	1.9	3.9	2.9	3.1	4.0
FTSE TMX Canada Universe Bond Index	(0.1)	5.1	4.5	10.4	5.1	6.0	5.7
S&P/TSX Capped Income Trusts (Total Return)	(0.2)	7.2	10.0	19.8	10.8	16.3	11.4
SB - World Government Bonds (Can. $)	(2.8)	7.2	6.3	7.8	6.5	4.9	3.2
INDEXES RELATED TO CANADIAN EQUITY FUNDS							
S&P/TSX 60	4.0	3.9	4.6	12.7	10.7	8.6	8.1
S&P/TSX Completion Index	3.9	4.6	4.4	3.8	6.7	8.8	7.0
S&P/TSX Composite Index	4.0	4.1	4.5	10.3	9.7	8.6	7.6
S&P/TSX Capped Composite Index	4.0	4.1	4.5	10.3	9.7	8.6	7.6
S&P/TSX SmallCap Index	3.2	3.4	3.7	(5.9)	(1.5)	3.5	2.1
INDEXES RELATED TO U.S. & INTERNATIONAL EQUITY FUNDS							
S&P 500 (Can. $)	4.0	12.0	10.6	30.5	27.7	20.3	8.2
S&P 500 (Can. $) (Reuters)	4.1	12.0	10.6	30.3	27.7	20.1	8.2
MSCI - World (Can. $)	4.1	11.9	12.1	21.8	22.6	15.6	6.5
MSCI - EAFE (Can. $)	4.2	12.5	14.8	12.9	18.4	11.6	5.0
MSCI - EAFE (Can. $) (Reuters)	4.4	12.6	14.8	12.8	18.4	11.4	5.0
MSCI - Europe (Can. $)	4.5	11.4	14.6	9.7	19.9	12.8	5.7
INDEXES RELATED TO SPECIALTY FUNDS							
MSCI - AC Asian Pacific Free (Can. $)	2.6	14.2	14.6	23.1	16.0	11.0	6.3
MSCI - Emerging Markets (Can. $)	1.4	8.4	11.8	19.0	8.2	7.6	8.4
MSCI - World Health Care (Can. $)	2.6	13.7	15.0	30.6	32.7	19.8	8.5
NASDAQ 100 (Can. $)	5.3	12.1	13.0	35.7	29.0	23.7	11.6
S&P/TSX Capped REIT Index	0.0	6.0	9.4	16.0	8.2	14.0	10.4

	Variation			Compound annual variation			
	1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %
EXCHANGE RATE (Can. $ / US $) As at February 28, 2015: 1.2508	(1.6)	9.5	7.8	12.9	8.2	3.5	0.2
EXCHANGE RATE (US $ / Can. $) As at February 28, 2015: 0.7995	1.7	(8.6)	(7.3)	(11.5)	(7.6)	(3.4)	(0.2)

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World: China stimulating its credit market

- China's credit market stimulus measures are bearing fruit, with the largest credit market indicator rising for a third consecutive month. While 2014 saw fears of a collapse, or more simply of a domino effect within the non-banking sector, we are now seeing the effects of the cash injections and regulatory changes put in place by the Chinese administration. Another positive observation: increasingly, new loans are being issued by the banks instead of through the non-banking system, making the work of regulators easier and reducing the risks of contagion in the case of a financial system collapse.

Financial markets: Strong month for equities

- February was a good month for the S&P/TSX. The Canadian index climbed 4.0%, led by the health, information technology, and consumer discretionary sectors.
- The U.S. S&P 500 Index delivered one of the best monthly returns of the last few years, with a total return of 5.7% (a 4.0% gain in Canadian dollars). The rise of the loonie thus subtracted a few percentage points for Canadian investors.
- World indices MSCI - EAFE and MSCI - World were up 6.2% and 5.9% respectively (+4.2% and +4.1% respectively in Canadian dollars). The emerging markets, measured by the MSCI - Emerging Markets Index, gained 3.3% (+1.4% in Canadian dollars).
- The Canadian bond market, measured by the FTSE TMX Canada Universe Bond Index, was down 0.1% in February.

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