



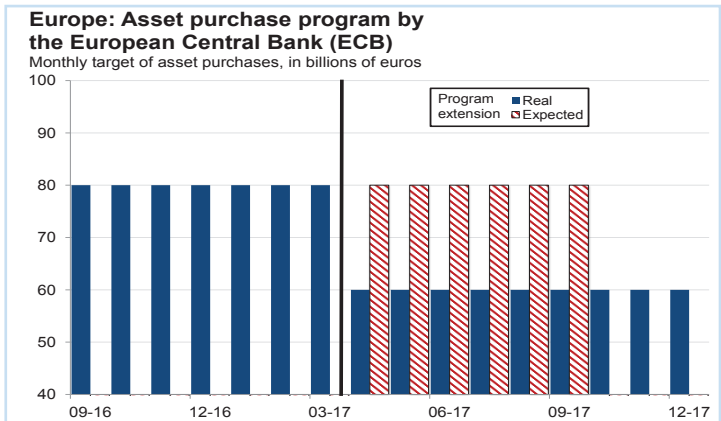
Sébastien Mc Mahon, MEcon., PRM, CFA
Frédéric Gagnon, MFin

economics@ia.ca or ia.ca/economy

Rise in expectations of the Fed

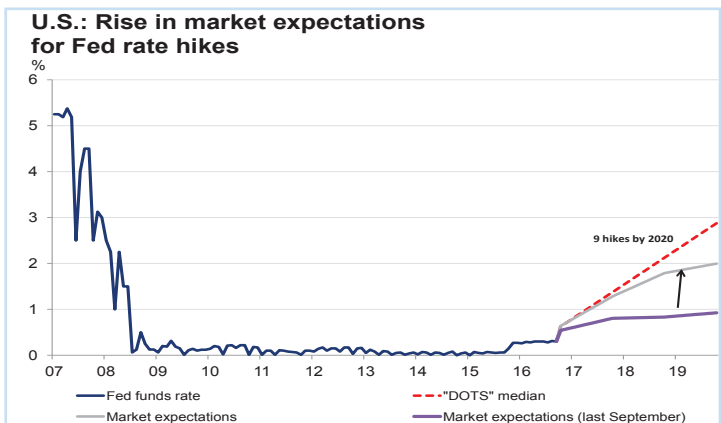
World

The ultra-accommodating monetary policy of the European Central Bank (ECB) is starting to have an impact on the economic data, as shown by the marked increase in retail sales in Europe. The ECB has nonetheless decided to prolong its asset-purchasing program until December 2017 (it had been slated to end in March 2017), but has reduced its bond purchase target from 80 to 60 billion euros per month. Note that inflation remains well below the ECB's targets, and that the central bank has said it is prepared to expand the program in both duration and size if necessary.



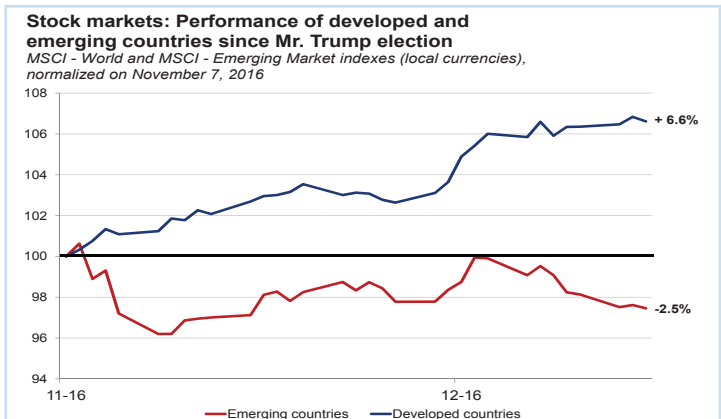
North America

In the United States, on December 14, the Federal Reserve raised its key interest rate 25 basis points. The Fed has recognized the progress the economy has made toward full employment and is expected to accelerate the pace of tightening its monetary policy in the coming years. Meanwhile, U.S. budgetary policy is likely to become more expansionist in the Donald Trump era, a fact that has pushed investors to significantly revise their expectations of the Fed over the last few months. The bond market is now anticipating five increases in the federal funds rate by 2020, including at least two in 2017.



Financial markets

Financial market liquidity seems to have migrated toward stocks over the last few weeks, to the detriment of bonds. Investors have reacted to president elect Donald Trump's promises of deregulation and budgetary stimuli. However, the rally in equities was concentrated in certain developed countries. In fact, the risks related to the rapid appreciation of the U.S. dollar and the possible application of protectionist measures in the United States weighed on the performance of the emerging countries; the latter lag nearly 10% behind the developed countries since the election of Mr. Trump.



Total Return Reference indexes²

Returns as at December 31, 2016

	Simple returns ¹			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	0.1	0.1	0.5	0.5	0.7	0.8	1.4
FTSE TMX Canada Short Term Bond Index	0.0	(0.5)	1.0	1.0	2.2	2.1	3.6
FTSE TMX Canada Universe Bond Index	(0.5)	(3.4)	1.7	1.7	4.6	3.2	4.8
S&P/TSX Capped Income Trusts (Total Return)	3.2	0.2	15.1	15.1	9.4	8.4	10.1
SB - World Government Bonds (Can. \$)	(0.7)	(6.4)	(1.4)	(1.4)	7.2	4.7	4.5
Indexes related to Canadian Equity Funds							
S&P/TSX 60	1.6	5.6	21.4	21.4	7.9	9.0	4.9
S&P/TSX Completion Index	1.7	1.5	20.5	20.5	4.7	6.2	4.5
S&P/TSX Composite Index	1.7	4.5	21.1	21.1	7.1	8.2	4.7
S&P/TSX Capped Composite Index	1.7	4.5	21.1	21.1	7.1	8.2	4.7
S&P/TSX SmallCap. Index	3.9	3.1	38.5	38.5	5.4	4.3	2.2
Indexes related to U.S. & International Equity Funds							
S&P 500 (Can. \$)	2.0	6.3	8.6	8.6	17.7	21.2	8.5
S&P 500 (Can. \$) (Reuters)	1.7	5.9	8.1	8.1	17.7	21.2	8.5
MSCI - World (Can. \$)	2.4	4.3	4.3	4.3	12.2	16.7	5.3
MSCI - EAFE (Can. \$)	3.4	1.6	(2.0)	(2.0)	6.3	12.6	2.2
MSCI - EAFE (Can. \$) (Reuters)	3.1	1.3	(2.5)	(2.5)	6.3	12.6	2.2
MSCI - Europe (Can. \$)	5.3	2.0	(2.8)	(2.8)	5.2	13.0	2.4
Index related to Specialty Funds							
MSCI - AC Asian Pacific Free (Can. \$)	(0.2)	(0.7)	2.1	2.1	9.4	12.5	3.7
MSCI - Emerging Markets (Can. \$)	0.3	(1.8)	8.3	8.3	5.7	7.5	3.6
MSCI - World Health Care (Can. \$)	1.5	(3.4)	(11.0)	(11.0)	12.3	17.9	7.0
NASDAQ 100 (Can. \$)	1.1	2.1	2.7	2.7	19.6	23.0	12.3
S&P/TSX Capped REIT Index	3.7	0.6	17.6	17.6	7.4	6.5	6.3
Exchange Rate (Can. \$ / US \$)							
As at December 31, 2016: 1.3427	0.0	2.4	(3.0)	(3.0)	8.1	5.7	1.4
Exchange Rate (US \$ / Can. \$)							
As at December 31, 2016: 0.7448	0.0	(2.3)	3.1	3.1	(7.5)	(5.4)	(1.4)

¹ The rates for the period are non-annualized.

² Please refer to the Legal Notices on page 3 for more information about these Indexes.

Industrial Alliance, Investment Management Inc. ("IAIM") is an affiliate of iA Financial Group¹ and is authorized by the Index Providers (as defined below) to use the indexes and trademarks referred to in iA Financial Group's publications. All rights in the indexes vest in the Index Providers and/or their respective licensors.

S&P Dow Jones Indices LLC, FTSE International Limited, FTSE TMX Global Debt Capital Markets Inc., Frank Russel Company, MSCI Inc., Citigroup Index LLC and Nasdaq OMX Group Inc. is each an "Index Provider." The funds offered by iA Financial Group are not sponsored, endorsed, issued, sold or promoted by the Index Providers and/or their respective licensors. The latter shall bear no liability whatsoever with respect to any such funds and underlying data contained herein. Index Providers and/or their licensors make no express or implied warranties with respect to the funds, nor do they make any representation regarding the advisability of investing in the funds. No further distribution or use of the Index Providers' Data is permitted without their express written consent.

Financial and economic publications of iA Financial Group are not written, reviewed or approved by the Index Providers. Holders should refer to the relevant documents of each Index Provider for more information on any index.

Attributions

FTSE

Where FTSE indexes are used or referenced: FTSE International Limited ("FTSE")[®] FTSE [2016]. FTSE[®] is a trade mark of the London Stock Exchange Group companies and is used by FTSE under licence. "NAREIT[®]" is a trade mark of the National Association of Real Estate Investments Trusts and "EPRA[®]" is a trade mark of European Public Real Estate Association and all are used by FTSE under licence. "TMX" is a trade mark of TSX Inc. and is used under licence.

Global Industry Classification Standard

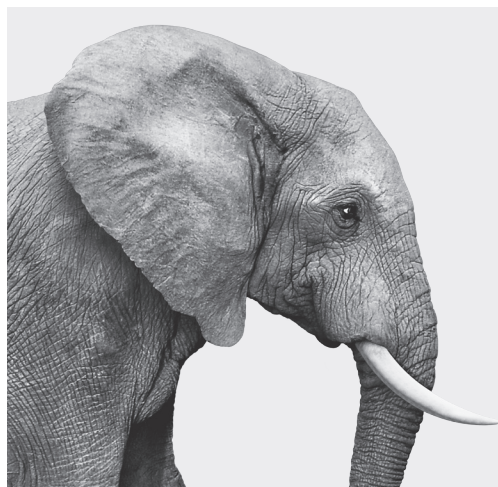
Where the Global Industry Classification Standard ("GICS") is used or referenced: the GICS was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by IAIM. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

¹ iA Financial Group is a business name and trademark of Industrial Alliance Insurance and Financial Services Inc.

Economic and Financial Statistics as at December 31, 2016

	As at 2016-12-31 ¹	As at 2015-12-31
Canada - Unemployment rate	6.8%	7.1%
Canada - CPI (year/year variation)	1.2%	1.4%
Canada - GDP (year/year variation)	1.5%	-0.2%
U.S. - Unemployment rate	4.6%	5.0%
U.S. - CPI (year/year variation)	1.7%	0.5%
U.S. - GDP (year/year variation)	1.7%	2.1%
2-year Canada Bonds	0.75%	0.48%
10-year Canada Bonds	1.72%	1.40%
Oil (West Texas) (US \$)	53.7	37.2
Gold (US \$)	1,157.5	1,062.4
CRB Commodities Index (US \$)	192.5	176.1
Exchange rate Can. \$/US \$	1,3433	1.3841

¹ Most recent data available at such date



ia.ca

iA Financial Group is a business name and trademark of
Industrial Alliance Insurance and Financial Services Inc.

INVESTED IN YOU.