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A more cautious Fed in 2019?

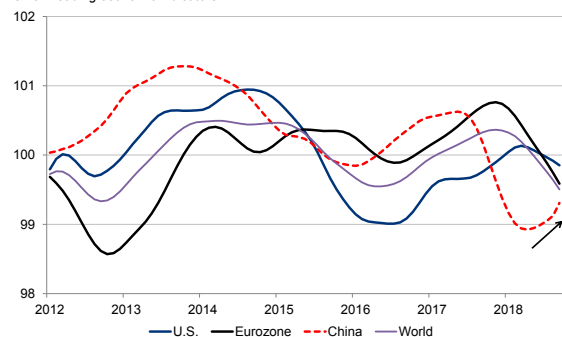
World

Economic downturn in several regions around the world marked 2018. The tightening of economic conditions in the United States, the Trump administration's many trade tariffs and the pervasiveness of geopolitical risks across Europe have created a more uncertain economic environment than in the last few years. However, we believe that the risks of recession are quite low for the next 12 months and that it is normal to see the economy slow down at this point in the cycle. In 2019, we will closely monitor China's economic momentum while several fiscal and monetary stimuli were implemented in 2018 and have already begun to be reflected in the OECD's advanced economic indicators.

Leading economic indicators:

Upside in China

OECD leading economic indicators

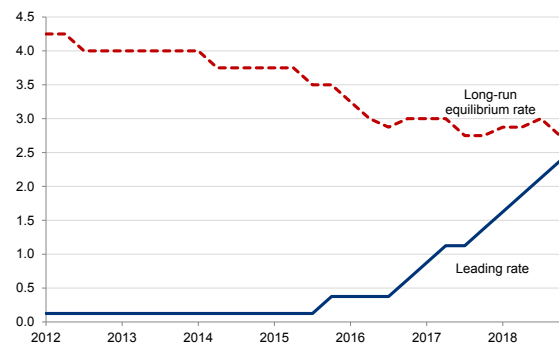


North America

In December, the Federal Reserve ("Fed") decided to raise its leading interest rate by a quarter of a point, from 2.25% to 2.5%. The Fed continues to point to the strength of the domestic economy and the strengthening of the labour market to justify the normalization of its monetary policy. However, the Fed indicates that it will closely monitor global economic and financial developments to assess its potentially negative impacts on the U.S. economy. Fed governors now expect two rate increases in 2019 (compared to three previous increases) whereas their estimate of the long-term equilibrium rate was reduced to 2.75%.

A more dovish Fed in 2019?

Fed's leading rate and estimated equilibrium rate, quarterly data



Financial markets

December was an eventful month for the stock markets. The S&P 500 dropped more than 9%, the largest monthly drop in the U.S. stock market in over 10 years! There are many reasons, but all are linked to a central theme: fear of the global economy dropping into a recession faster than anticipated. This fear is reflected in a marked flattening of the U.S. interest rate curve: the gap between two-year and ten-year interest rates is now less than 20 basis points. If we rely on previous economic cycles, this flattening suggests the U.S. economy is in the mature phase of the cycle but is still far from a recession. In our opinion, the current fear level currently reflected in the market is exaggerated. The current correction could turn out to be buying opportunities for investors with mid-term outlooks.

U.S.: Yield curve (10 years - 2 years)

In %, recession periods represented by shaded areas



Table of net returns as at December 31, 2018

Ecoflex / My Education

	Unit Value \$	Net assets ¹ in millions \$	Simple returns ²			Compound annual returns				MER ³ %	Investment Advisor	
			1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %			
Focus Funds												
Focus Prudent	15.75	168.7	(0.7)	(2.6)	(4.1)	(4.1)	(0.3)	1.0	2.6	3.20	Various Managers	
Focus Moderate	16.70	246.2	(1.6)	(4.5)	(5.4)	(5.4)	(0.1)	1.2	3.3	3.24	Various Managers	
Focus Balanced	17.59	421.8	(2.6)	(6.3)	(6.7)	(6.7)	0.2	1.3	3.9	3.26	Various Managers	
Focus Growth	18.42	139.1	(3.6)	(8.2)	(8.1)	(8.1)	0.4	1.3	4.6	3.29	Various Managers	
Focus Aggressive	19.20	52.3	(4.6)	(10.1)	(9.5)	(9.5)	0.6	1.4	5.1	3.33	Various Managers	
Selection Funds												
Selection Prudent	10.90	82.4	(1.3)	(3.0)	(3.8)	(3.8)	0.8	1.7	-	2.98	Various Managers	
Selection Moderate	10.94	168.5	(2.3)	(4.8)	(4.9)	(4.9)	0.8	1.7	-	3.13	Various Managers	
Selection Balanced	11.15	218.4	(3.3)	(6.6)	(6.1)	(6.1)	1.3	2.0	-	3.28	Various Managers	
Selection Growth	11.24	94.7	(4.4)	(8.4)	(7.2)	(7.2)	1.4	2.1	-	3.46	Various Managers	
Selection Aggressive	11.23	28.8	(5.1)	(10.0)	(8.5)	(8.5)	1.2	2.0	-	3.63	Various Managers	
Income Funds												
Money Market	17.16	358.8	0.1	0.1	0.5	0.5	0.3	0.2	0.2	1.66	Industrial Alliance	
Short Term Bond	15.15	175.7	0.6	0.7	(0.2)	(0.2)	(0.8)	(0.2)	0.8	2.40	Industrial Alliance	
Bond	28.33	2,765.6	1.1	0.9	(1.1)	(1.1)	0.0	1.5	2.1	2.42	Industrial Alliance	
Tactical Bond	10.62	61.3	(0.2)	(1.5)	(2.3)	(2.3)	(0.3)	(0.2)	-	2.77	iA Clarington	
SPECIALIZED	Strategic Corporate Bond ⁶	12.61	206.3	(1.1)	(3.2)	(2.3)	(2.3)	4.7	2.1	-	2.72	iA Clarington
	Real Return Bond	8.72	6.8	1.2	(2.0)	(2.9)	(2.9)	(1.6)	0.9	2.2*	2.71	Industrial Alliance
Diversified Funds												
Diversified Security	20.37	675.3	(1.0)	(3.3)	(4.4)	(4.4)	(0.5)	1.9	3.5	3.17	Industrial Alliance	
Diversified	39.21	2,191.8	(2.8)	(6.4)	(6.7)	(6.7)	0.1	2.1	4.6	3.19	Industrial Alliance	
Diversified Opportunity	24.43	564.0	(4.1)	(8.7)	(8.6)	(8.6)	(0.1)	2.0	5.2	3.23	Industrial Alliance	
Canadian Balanced (QV)	12.91	135.3	(3.0)	(6.6)	(10.0)	(10.0)	(1.0)	(0.8)	4.0*	3.59	QV Investors Inc.	
SRI Balanced (Inhance)	13.77	37.9	(2.8)	(5.8)	(5.0)	(5.0)	0.9	1.8	-	3.68	Vancity	
Diversified Income	25.07	410.9	(4.0)	(8.3)	(8.3)	(8.3)	0.8	2.6	7.2	3.07	Industrial Alliance	
Strategic Income	13.00	118.7	(4.1)	(5.6)	(4.6)	(4.6)	3.7	1.9	-	3.65	iA Clarington	
Global Diversified (Loomis Sayles)	13.41	182.3	(3.4)	(6.3)	(1.8)	(1.8)	3.8	2.7	5.9	3.39	Loomis Sayles	
Tactical Income	17.47	18.3	(2.9)	(4.5)	(4.3)	(4.3)	2.7	0.4	4.9*	3.60	iA Clarington	
Canadian Equity Funds												
Strategic Equity Income	15.90	191.5	(5.5)	(6.8)	(5.3)	(5.3)	3.4	3.4	6.5	2.64	iA Clarington	
Dividend Growth	18.69	822.6	(5.9)	(9.1)	(8.2)	(8.2)	4.6	3.4	7.1	2.89	Industrial Alliance	
Canadian Conservative Equity	17.66	120.3	(5.8)	(7.6)	(6.3)	(6.3)	5.1	(0.1)	5.0	3.23	iA Clarington	
Canadian Equity Index	20.69	352.7	(5.7)	(9.4)	(10.0)	(10.0)	4.1	1.9	4.7	3.01	Industrial Alliance	
Select Canadian ⁵	25.81	15.3	(5.3)	(10.7)	(11.8)	(11.8)	2.6	(0.6)	4.4	3.08	Industrial Alliance	
Canadian Equity Value	41.51	197.6	(5.3)	(11.4)	(11.2)	(11.2)	1.5	0.5	4.1	3.13	Industrial Alliance	
Canadian Equity (Taylor AM)	17.56	206.9	(4.4)	(15.6)	(15.9)	(15.9)	4.4	(0.5)	4.0	3.40	Taylor AM	
Fidelity True North [®]	32.27	253.7	(4.1)	(6.9)	(6.4)	(6.4)	1.6	2.6	6.7	3.70	Fidelity	
Canadian Equity Growth	27.42	606.1	(5.7)	(11.8)	(11.1)	(11.1)	3.2	2.3	6.9	3.02	Industrial Alliance	
Fidelity Canadian Opportunities	37.37	112.8	(2.7)	(3.7)	(2.4)	(2.4)	6.8	3.4	9.9	3.71	Fidelity	
Canadian Equity Small Cap (QV)	19.70	131.9	(5.4)	(13.8)	(13.2)	(13.2)	1.9	0.5	8.6*	3.96	QV Investors Inc.	

Table of net returns as at December 31, 2018

Ecoflex / My Education

	Unit Value \$	Net assets ¹ in millions \$	Simple returns ²			Compound annual returns				MER ³ %	Investment Advisor
			1 month %	3 months %	YTD %	1 year %	3 years %	5 years %	10 years %		
U.S. & International Equity Funds											
Global Equity Index ACWI (BlackRock)	22.33	155.6	(4.8)	(8.4)*	(4.3)*	(4.3)*	2.5*	6.1*	6.7*	3.46	BlackRock
Global Dividend (Dynamic)	20.46	398.9	(4.4)	(8.4)	3.6	3.6	7.2	10.1	9.6	3.54	Dynamic
Global Equity	16.32	27.1	(5.6)	(13.1)	(9.9)	(9.9)	(1.0)	4.9	7.7	3.54	Industrial Alliance
Global Equity (Templeton)	15.87	303.6	(6.1)	(10.9)	(10.0)	(10.0)	(1.0)	2.8	6.1	3.68	Templeton
Global Opportunities (Radin)	14.50	23.4	(5.2)	(9.1)	(14.5)	(14.5)	(3.0)	1.2	-	3.95	Radin Capital Partners
Fidelity NorthStar®	18.10	213.0	(1.7)	(3.7)	(6.5)	(6.5)	(2.4)	5.1	9.2	3.75	Fidelity
International Equity Index (BlackRock)	9.61	71.6	(2.4)	(8.3)	(8.6)	(8.6)	(0.6)	2.8	4.5	3.02	BlackRock
International Equity	17.85	439.9	(3.4)	(11.4)	(12.9)	(12.9)	(2.4)	2.3	4.2*	3.69	Industrial Alliance
International Equity (Templeton)	16.34	55.4	(3.9)	(9.2)	(10.8)	(10.8)	(1.9)	1.0	3.8	3.70	Templeton
Fidelity European Equity	12.05	68.9	(2.9)	(9.8)	(10.0)	(10.0)	(3.3)	0.2	4.7	3.77	Fidelity
U.S. Equity Index (BlackRock)	18.28	181.0	(6.7)	(9.3)	0.8	0.8	5.1	10.4	10.6	3.04	BlackRock
U.S. Dividend Growth	16.72	192.7	(7.3)	(14.7)	(8.4)	(8.4)	(0.7)	6.8	7.4	3.54	Industrial Alliance
U.S. Equity ⁴	10.95	38.5	(7.5)	(15.2)	(8.9)	(8.9)	(1.3)	6.9	9.4	3.41	Industrial Alliance
U.S. Equity (Sarbit) - Currency Neutral	17.52	62.5	(6.6)	(14.9)	(17.0)	(17.0)	(3.8)	(1.6)	-	3.98	Sarbit
Specialty Funds											
Asian Pacific (Dynamic)	8.03	68.4	(0.6)	(5.8)	(12.1)	(12.1)	1.2	4.6	9.8	3.34	Dynamic
Emerging Markets (Mackenzie)	12.08	30.3	(1.3)	(7.1)	(18.3)	(18.3)	1.1	(2.7)	3.8	4.44	Mackenzie Cundill
Global Health Care (Renaissance)	33.24	150.5	(6.5)	(8.1)	5.5	5.5	(1.8)	10.5	11.9	3.81	CIBC
Real Estate Income	32.12	42.8	(3.7)	(5.4)	0.8	0.8	6.3	4.7	10.9	2.95	Industrial Alliance
U.S. DAQ Index	14.10	160.5	(6.3)	(12.6)	5.6	5.6	8.5	15.3	16.7	3.20	Industrial Alliance
Education Savings Plan											
Diploma Elementary	15.97	856.6	(2.9)	(5.3)	(4.8)	(4.8)	1.5	2.8	4.2	3.61	Industrial Alliance
Diploma Secondary	11.38	232.0	(0.4)	(1.3)	(2.8)	(2.8)	(1.0)	(0.1)	0.5	3.59	Industrial Alliance
Not offered to new contract subscribers											
Diploma	13.59	180.5	(3.0)	(5.4)	(4.4)	(4.4)	1.5	3.2	4.4	3.63	Industrial Alliance
Dividend	47.32	898.5	(5.9)	(9.4)	(8.8)	(8.8)	4.7	3.8	7.6	2.40	Industrial Alliance

Returns after deduction of MER (Management expense ratio). Past performance is not a guarantee of future returns.

The *EcoStrategist in Brief* | Ecoflex / My Education economic and financial bulletin, produced monthly, and its more exhaustive quarterly version, are available at ia.ca, under Individuals, Savings and Retirement, Economic and Financial Publications.

¹ Total net assets of the fund including individual and group contracts.

² The rates for the period are non-annualized.

³ Management expense ratio (GST and HST included).

⁴ Industrial Alliance has managed this fund since March 2010. Prior to that date, it was managed by Legg Mason.

⁵ Not offered in registered contracts and TFSA's

⁶ Fund closed to new investments as of June 30th, 2015.

* Simulation of past returns as if the fund had been in effect for these periods.

Index funds: Simulation of past returns from the return of the index that the fund aims to reproduce.

Total Return Reference indexes²

Returns as at December 31, 2018

	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 Canada 91 Day T-Bill Index	0.2	0.5	1.4	1.4	0.8	0.8	0.8
FTSE Canada Short Term Bond Index	0.9	1.4	1.9	1.9	1.0	1.7	2.5
FTSE Canada Universe Bond Index	1.4	1.8	1.4	1.4	1.9	3.5	4.2
SB - World Government Bonds (Can. \$)	5.2	7.5	8.1	8.1	2.2	5.9	2.6
Indexes related to Canadian Equity Funds							
S&P/TSX 60	(5.5)	(8.9)	(7.6)	(7.6)	7.2	5.0	7.9
S&P/TSX Completion Index	(4.9)	(13.7)	(12.9)	(12.9)	4.0	1.4	8.3
S&P/TSX Composite Index	(5.4)	(10.1)	(8.9)	(8.9)	6.4	4.1	7.9
S&P/TSX Capped Composite Index	(5.4)	(10.1)	(8.9)	(8.9)	6.4	4.1	7.9
Indexes related to U.S. & International Equity Funds							
S&P 500 (Can. \$) (Reuters)	(6.5)	(8.6)	4.2	4.2	8.6	14.1	14.3
MSCI - World (Can. \$)	(5.1)	(8.5)	(0.5)	(0.5)	5.8	9.9	10.9
MSCI - World Small Cap. (Can. \$)	(6.7)	(13.0)	(5.7)	(5.7)	6.0	9.7	13.7
MSCI - EAFE (Can. \$)	(2.2)	(7.6)	(6.0)	(6.0)	2.4	5.7	7.5
MSCI - EAFE (Can. \$) (Reuters)	(2.2)	(7.6)	(6.0)	(6.0)	2.3	5.7	7.4
MSCI - Europe (Can. \$)	(2.0)	(7.7)	(6.6)	(6.6)	2.3	5.1	8.0
Index related to Specialty Funds							
MSCI - AC Asian Pacific Free (Can. \$)	(1.6)	(5.9)	(5.4)	(5.4)	5.9	8.8	9.1
MSCI - Emerging Markets (Can. \$)	0.1	(2.2)	(6.5)	(6.5)	9.2	7.3	9.6
MSCI - World Health Care (Can. \$)	(5.5)	(4.2)	12.3	12.3	4.7	13.7	13.8
NASDAQ 100 (Can. \$)	(6.4)	(12.3)	7.9	7.9	10.8	17.7	19.3
S&P/TSX Capped REIT Index	(3.4)	(3.2)	6.3	6.3	11.2	7.6	14.0
Exchange Rate (Can. \$ / US \$)							
As at December 31, 2018: 1.3658	2.8	5.7	9.0	9.0	(0.6)	5.2	1.0
Exchange Rate (US \$ / Can. \$)							
As at December 31, 2018: 0.7322	(2.7)	(5.4)	(8.3)	(8.3)	0.6	(4.9)	(1.0)

¹ The rates for the period are non-annualized.

² Please refer to the Legal Notices on page 5 for more information about these indexes.

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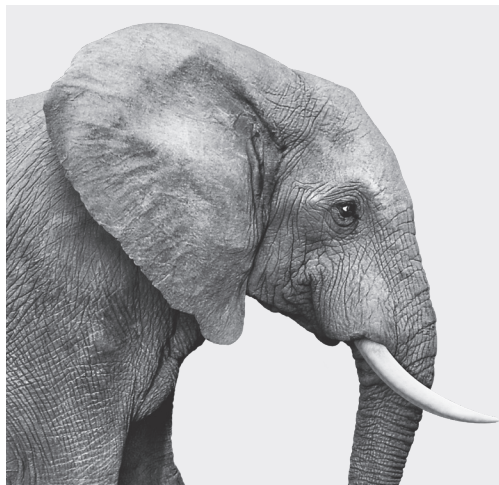
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Economic and Financial Statistics as at December 31, 2018

	As at 2018-12-31 ¹	As at 2017-12-31
Canada - Unemployment rate	5.6%	5.9%
Canada - CPI (year/year variation)	1.7%	2.1%
Canada - GDP (year/year variation)	2.2%	3.4%
U.S. - Unemployment rate	3.7%	4.1%
U.S. - CPI (year/year variation)	2.2%	2.2%
U.S. - GDP (year/year variation)	3.0%	2.3%
2-year Canada Bonds	1.86%	1.69%
10-year Canada Bonds	1.96%	2.04%
Oil (West Texas) (US \$)	45.41	60.42
Gold (US \$)	1281.3	1303.5
CRB Commodities Index (US \$)	169.8	193.9
Exchange rate Can. \$/US \$	1.3658	1.2579

¹ Most recent data available at such date.



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