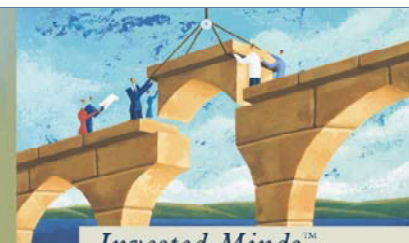




Global Asset Management Inc.

Perspectives



Quarter ending December 31, 2004

Expected Returns

Expected returns for the period ending December 31, 2005

	In Canadian Dollars			In local currency		
	Global Transition	Global Slowdown	Building Imbalances	Global Transition	Global Slowdown	Building Imbalances
Probabilities	60.0%	20.0%	20.0%	60.0%	20.0%	20.0%
Canada Money Market	2.7%	2.5%	2.3%	2.7%	2.5%	2.3%
Canada Bond	1.2%	4.9%	5.5%	1.2%	4.9%	5.5%
United States Bond	-3.1%	13.4%	6.3%	-1.3%	4.8%	2.3%
European Bond	0.5%	8.6%	2.6%	0.2%	4.2%	5.9%
Asian Bond	-2.4%	5.4%	-2.2%	-3.0%	4.4%	-3.7%
Canada Equity	3.6%	-5.3%	-0.4%	3.6%	-5.3%	-0.4%
United States Equity	3.4%	2.5%	9.8%	5.3%	-5.2%	5.6%
European Equity	5.2%	3.1%	-8.8%	6.9%	0.5%	-3.7%
Asian Equity	8.2%	-6.3%	1.9%	8.2%	-7.8%	0.8%

In this Issue

Global Environment

Equity markets hit new yearly highs but growth begins to slow.

Fixed Income vs. Equity

An uninspiring picture for financial markets in 2005: on a risk-adjusted basis, cash appears attractive.

Regional Outlook

Regional divergences widen with good news expected from the U.S. and Japan, Canada to disappoint.

Currencies

The U.S. dollar finds a bottom and China is not expected to revalue its currency in 2005.

Global Environment

During the final quarter of 2004, the global economy began to transition into the next leg of the expansionary cycle. Economic growth and corporate earnings remained above the long-term average trend, but began to show signs of slowing. Inflation accelerated moderately, which encouraged further tightening of global monetary policy.

The dominant macroeconomic factor for the quarter, and indeed for all of 2004, was movement in foreign exchange rates. The U.S. dollar continued its downtrend, and by year-end had fallen 30% from its peak in early 2002, on a trade-weighted basis, against a basket of foreign currencies.

The appreciation of major currencies against the U.S. dollar has restricted growth and inflationary pressure outside of the U.S., putting downward pressure on bond yields, despite the expansionary environment. Central banks in Canada and Europe cited the impact of currency strength as rationale for leaving their key overnight rates unchanged.

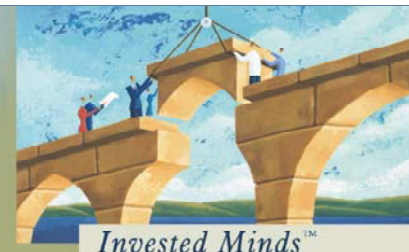
Equity markets hit new yearly highs in the fourth quarter, encouraged by some interim relief in oil prices, positive earnings reports and strengthening commodity prices.

In local currency terms, most major markets were up overall for the fourth quarter, although Japan, Canada and Hong Kong lagged somewhat. Australia and European markets such as Germany, Spain and Italy fared well.



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Fixed Income vs. Equity

Our baseline forecast is that the global transition toward a relatively neutral monetary policy environment will continue to unfold in the midst of a global adjustment to the major foreign exchange market developments that have characterized the last two years. Over the 12-month forecast horizon, we expect global growth to register a decent 4.4% annual rate, which is above trend but slower than last year's pace.

Corporate earnings have been growing above trend and eventually we expect them to come down in line with the trend rate. We also expect a modest decline in price-to-earnings ratio, as the trade off between growth and inflation deteriorates. The uptrend in inflation should remain intact – we expect to see a 3.5% global inflation rate over the next 12 months as increasing unit labour costs are transferred to consumers.

“Most equity markets will trade within a relatively tight range, offering low single digit return opportunities.”

In this scenario, commodity prices remain flat with the exception of oil, which we expect to fall in the near term and trade in a range between US\$35 and US\$40.

The cyclical backdrop will be different in 2005 as regional divergences are expected to widen. The largest positive surprises are likely to come from Japan and the U.S., with Canada turning in the most disappointing performance economically.

We expect most central banks to stay on the sidelines in 2005, except for the U.S. Federal Reserve (the “Fed”). We expect the Fed to drop their “measured pace” stance and add another 150 basis points to its key lending rate in 2005. This should bring real rates close to a neutral position. We also expect to see some fiscal improvements in the U.S. as the Administration addresses its deficit position.

The elements of this scenario paint an uninspiring picture for financial markets in 2005. A decent earnings outlook is clouded by the interest rate environment, which could trigger a correction in equity markets. The uncertainty of how far the Fed will go with its tightening cycle is adding a risk premium to equity valuations. Most equity markets will trade within a relatively tight range, offering low single digit return opportunities.

We expect to see a modest pullback in bond markets and a flattening yield curve. This situation will likely be most pronounced in the U.S. On a risk-adjusted basis, cash appears to be an attractive asset class at this stage of the economic cycle. Given the level of uncertainty reflected in global economies today, we will monitor the sequence of events carefully, seeking opportunities to add value.

(●) Risks:

Global slowdown: A hard landing in China causes Asian markets to slow significantly. Earnings decelerate sharply and P/E ratios fall, generating negative returns for equity markets. This scenario would provide a very positive outlook for bond markets.

Building Imbalances: While earnings, equity and bond markets would generally be impacted the same way as described under Global Transition, the U.S. would outperform other markets by a larger margin. Regional disparities could widen further than expected if the U.S. is significantly stronger than its industrialized counterparts around the world.



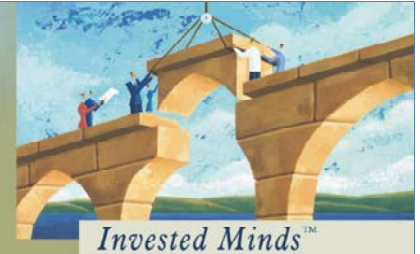
Signposts:

- U.S. trade deficit
- U.S. job market
- U.S. yield curve
- Chinese money growth
- Chinese industrial production
- Japanese consumer confidence
- Japanese job market
- Commodity prices
- Inflation



Global Asset Management Inc.

Perspectives



Quarter ending December 31, 2004

Regional Outlook

Canada could stumble over currency hurdle

When it comes to GDP growth for 2005, the largest negative surprise could be Canada. We are well below consensus with our 1.6% forecast, which is driven by concerns about the impact of the Canadian dollar's appreciation. Being a small, open economy geared to the U.S., Canada is highly sensitive to exchange rate fluctuations.

Since 2002, monetary conditions have tightened by 750 basis points – the combined effect of the Bank of Canada's (BoC) tightening cycle and the rise of the loonie. The severity of this squeeze is unmatched by any other country, and has not been seen in Canada since the late 1980s. We do not expect any further activity from the BoC – they will likely remain on the sidelines throughout the next year.

In 2005, we expect Canada to operate in a "two-speed economy," that is, the external sector will suffer under the weight of the strong currency while the rest of the economy remains relatively healthy. However, since Canada is particularly vulnerable to a slowdown in export growth, the overall impact will weaken economic growth. Domestic demand is expected to remain strong, thanks to healthy labour market conditions. Overall inflation will not accelerate significantly owing to downward pressures coming from import prices.

More Tightening Ahead for the U.S.

A balanced mix of contributors will keep U.S. GDP growth in positive territory, although we expect a slightly slower pace in 2005 compared to 2004. We believe the U.S. will be stronger than the consensus estimate would suggest – we are forecasting a 4% annual growth rate.

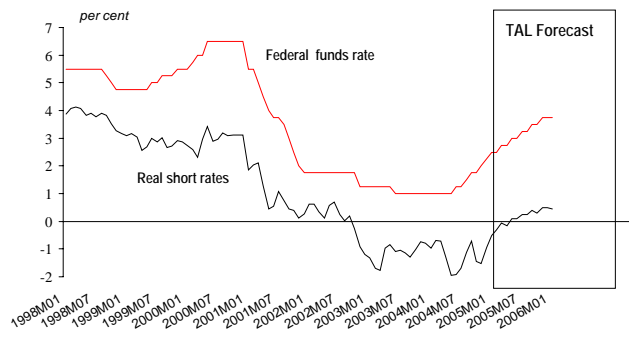
Steady job growth has been sufficient to support the consumer for 2005, and we expect to see continued improvement on the labour front. Consumers have also found an alternative to the stimuli of tax cuts and mortgage refinancing – they are borrowing against their home equity in record numbers.

The weak U.S. dollar will help the export sector, but will also contribute to the building inflationary pressure, and we expect inflation in the U.S. to reach 3.3% by the end of 2005. The deflation that was concentrated in the goods sector is now in positive territory for the first time since 2001.

We expect the Fed to respond with continued rate increases – we are forecasting another 150 basis points of tightening over the next 12 months. Rising interest rates will increasingly offset corporate profits, dulling the outlook for the U.S. equity market. We expect a 3.4% return over the next 12 months.

FED: MORE TIGHTENING AHEAD

U.S. federal funds rate: nominal & real



Source: Datastream

Europe

As in Canada, Europe will spend 2005 dealing with the impact of a strong domestic currency. It is also vulnerable to strain on its external sector, and as such we expect growth to slow, although it should remain in positive territory. Our forecast calls for 1.5% GDP growth over the next 12 months.

Low import prices will help curb inflation, which is expected to rise marginally to an overall 2.0% annual rate. We expect the European Central Bank to remain on the sidelines for another year, leaving its overnight rate at 2.0%.

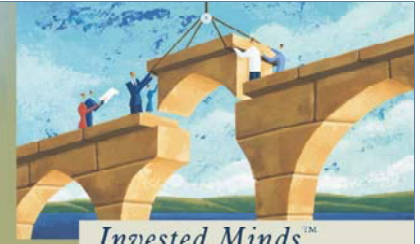
The European earnings cycle lags the U.S., so we expect to see improving growth on this front. Valuations in Europe are also relatively inexpensive compared to the U.S., and European companies continue restructuring and reestablishing production lines in Central and Eastern Europe, improving their efficiency. We expect a 5.2% return from European equity markets over the next 12 months.

In the U.K., we believe the Bank of England has reached the end of its tightening cycle. Inflation will trend moderately upward and growth is expected to slow slightly. We expect a 2.6% GDP growth rate for 2005.



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A Soft Landing for China

The ability of Chinese authorities to engineer a soft landing for their economy will largely depend on their ability to drain liquidity from their system. In recent years, investment spending has been the engine of Chinese economic growth, and in 2003 it accounted for more than half of GDP growth – an unsustainable level. If investment slows dramatically, it will be very difficult to avoid a hard landing.

Authorities will have to effectively manage their administrative controls, increase interest rates and curb money supply growth, and we believe they will be able to do so. Over the next 12 months, we expect the contribution from investment to slow, but we expect the contribution from consumers to compensate for this change. Overall, we expect 9% growth from China in 2005, with a changing mix of contributors. We expect moderately increasing inflation – not accelerating significantly from current levels.

A Positive Surprise in Japan

The recent string of economic indicators for Japan has been disappointing and leading indicators point to further weakening – in fact, it’s the worst sequence since the start of 2001, the last Japanese recession. However, we’re forecasting improving growth in Japan for 2005 with our 3.0% projection, which is significantly higher than the consensus expectation.

“We believe consumer confidence will make the difference this time around for Japan.”

We believe consumer confidence will make the difference this time around for Japan – it has been registering the highest readings seen since the early 1990s. Business sentiment is also hitting record highs. Although both consumption and investment growth are projected to weaken, exports will continue to be Japan’s main source of growth in 2005.

Given our optimistic forecast for Japan, we expect to see excess demand and inflation in this economy over the next 12 months. Our inflation forecast calls for a 0.75% rate of inflation.

(●) Risks:

Global Slowdown: China is unable to avoid a hard landing and Asian markets lead growth deceleration. Earnings decelerate sharply and P/E ratios fall, generating negative returns for equity markets. Commodity prices hit new highs before trending downward. The Fed tightens less, as nominal tightening is amplified by a decline in inflation. This scenario would generate a very positive outlook for bond markets.

Building Imbalances: Regional disparities could widen further than expected if the U.S. is significantly stronger than its industrialized counterparts around the world. U.S. earnings, equity and bond markets would outperform other markets by a larger margin. Inflation stabilizes, leading the Fed to maintain its measured pace with only 100 basis points of additional tightening as the U.S. dollar would appreciate, particularly against European currencies. Other central banks may be forced to ease monetary policy.



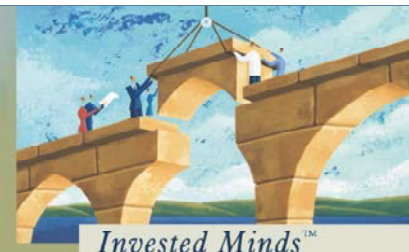
Signposts:

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Currencies

We expect the U.S. dollar to find a bottom in 2005, and we believe that level is not much further from where the greenback stands today. Strong domestic demand and improving external demand in the U.S. will support the U.S. dollar. The Fed remains committed to raising interest rates, whereas Europe, Japan, Canada and Australia remain under pressure to keep interest rates low as the strength of their local currencies poses risk to their growth and inflation outlooks. This will cause further divergence in nominal interest rates, attracting support for the U.S. dollar. We expect the greenback to undergo some short-term counter-trend rallies throughout the year.

Most currencies will still appreciate against the U.S. dollar over the next 12 months, except for the British pound and the Australian dollar. The British pound is now close to an overvalued extreme, and with significant deterioration in the U.K.'s current account balance and housing market, we expect it to depreciate over the year.

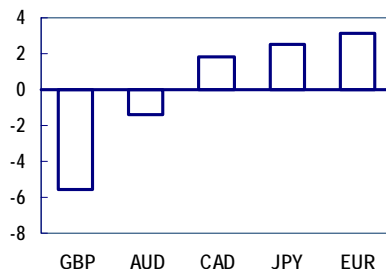
We expect the Canadian dollar to strengthen marginally versus the U.S. dollar over the next 12 months, to end the year at CAD\$1.18 per U.S. dollar. The New Zealand dollar has the most ground to gain over the greenback, and currencies in Singapore, Japan, Sweden, Denmark, Switzerland and Euroland should also outperform moderately.

Although speculative money is betting on the imminent revaluation of the Chinese currency, we do not believe this will happen in 2005. China's economy does not need the additional cooling effect of a stronger currency, nor has China completed the necessary financial reforms that act as a prerequisite for a flexible exchange rate.

We expect postponed action on this front to have three currency-related consequences:

1. Asian currencies may not have as much upside potential as originally anticipated, having already outstripped their cyclical fundamentals.
2. Speculative and central bank capital may flow back to the U.S. dollar, which could be positive for the greenback and provide gentle support for the U.S. bond market.
3. It will be much harder to slow demand in East Asia, which could support industrial commodity prices. This is a silver lining for commodity sensitive currencies, such as Canadian and Australian dollars.

Percent Change vs. USD
End 2004 - End 2005



Risks:

Global Slowdown: The U.S. dollar would appreciate significantly and cyclical currencies would underperform if China fails to achieve a soft landing. Asian growth would decelerate with the rest of the world following suit.

Building Imbalances: The U.S. dollar would appreciate if U.S. growth is much stronger than in other industrialized countries. This would help inflation to stabilize, leading the Fed to maintain its measured pace with only 100 basis points of additional tightening. European currencies would underperform.



Signposts:

- Energy prices
- Real short-term interest rates in the U.S.
- U.S. trade balance with major partners
- U.S. fiscal proposal
- Slope of global yield curve
- Mix of public and private capital flows to the U.S.
- G-7 coordination with and possible protectionist measures against China

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