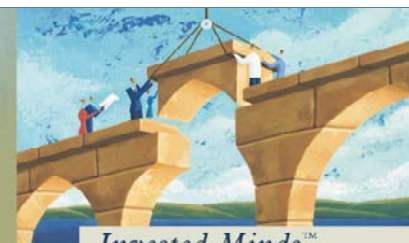




Global Asset Management Inc.

Perspectives



Quarter ending March 31, 2005

Expected Returns

Expected returns for the period ending March 31, 2006

	In Canadian Dollars			In local currency		
	Global Transition	Global Slowdown	Building Imbalances	Global Transition	Global Slowdown	Building Imbalances
Probabilities	50.0%	20.0%	30.0%	50.0%	20.0%	30.0%
Canada Money Market	2.8%	2.5%	2.3%	2.8%	2.5%	2.3%
Canada Bond	0.3%	4.7%	5.3%	0.3%	4.7%	5.3%
United States Bond	-0.6%	12.5%	2.9%	0.3%	6.4%	3.8%
European Bond	-4.0%	4.1%	6.6%	-0.7%	3.6%	5.3%
Asian Bond	-7.2%	3.8%	-3.5%	-3.9%	3.5%	-4.6%
Canada Equity	5.8%	-9.4%	-1.6%	5.8%	-9.4%	-1.6%
United States Equity	5.7%	0.0%	3.9%	6.6%	-5.5%	4.8%
European Equity	3.5%	1.0%	-3.5%	7.4%	1.1%	-3.1%
Asian Equity	9.0%	-10.2%	3.9%	12.1%	-10.8%	3.3%

In this Issue

Global Environment

Continued transition towards a neutral monetary policy is taking place.

Fixed Income vs. Equity

Single-digit equity returns and a modest pullback in bonds expected.

Regional Outlook

Japan roaring back to life while Canadian dollar strength is going to put our GDP growth into hibernation for a while.

Currencies

No more decline foreseen for the U.S. dollar.

Global Environment

During the first quarter of 2005, we've seen new yearly highs for equity markets while bond yields have been low in a flattening curve environment. The key assumptions behind our Global Transition scenario that we discussed three months ago are still relevant. Global economic growth is still very solid at 5% and above historical trends. Corporate earnings are also growing at above trend rates.

The resumed secular uptrend in commodity prices remains in place. However, the sharp increases that we have seen recently are not sustainable. This will most likely translate into some short-term downside movement in the price of oil to a range of \$40 to \$45 per barrel.

Our baseline forecast is that the global transition toward a relatively neutral monetary policy will continue to unfold. Over the 12-month forecast horizon, we expect global growth to register a decent 4.4%, assuming China will still experience solid growth.

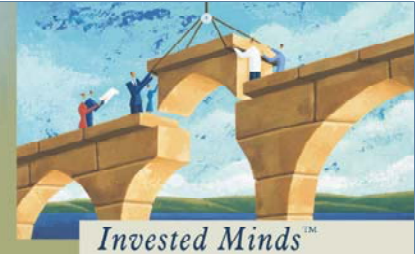
The uptrend in inflation should remain intact – we expect to see a 3.5% global inflation rate over the next 12 months. Our forecast calls for a slow and gradual increase in inflation.

Corporate earnings growth has been running above trend but will eventually slowdown, falling in line with the trend rate. Looking forward, we expect a modest decline in price-to-earnings ratios, as the trade off between growth and inflation deteriorates.



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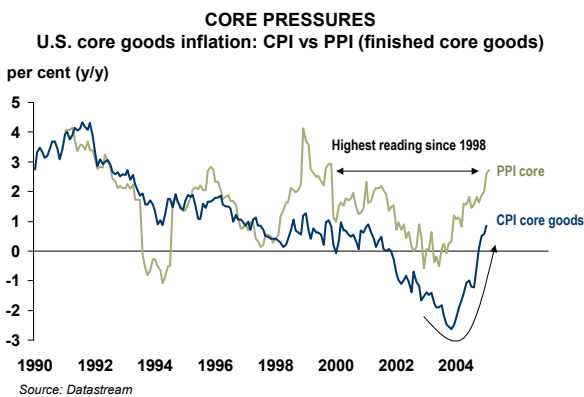
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Quarter ending March 31, 2005

Fixed Income vs. Equity

Continued acceleration in inflation is a key assumption underlying our forecast. Currently, global monetary policy is stimulative and the consensus view holds that few rate hikes are required since inflationary pressure is not generally anticipated. This is where our forecast diverges from the consensus view. We believe that inflationary pressure will be stronger than what is currently expected.



With inflation creeping higher, the Fed will have to stay in tightening mode longer than generally believed, adding another 150 basis points to its key-lending rate in 2005. This should bring real rates closer to a neutral position. Since such an outcome is not fully priced in, bond yields are expected to continue rising over the forecast horizon. The bear market in bonds has been very slow to unfold globally and we believe there is more pain ahead.

Central banks around the world will eventually have to follow the Fed's lead. Most of them will stay on the sidelines for the first half of 2005, but sooner or later will have to tighten their policy stance

While the outlook for corporate profits remains bright, the prospect of higher interest rates will increasingly offset it. The strength of the economy will increasingly be tied to rising inflation and the need for additional rate hikes. As a consequence, we expect most equity markets will trade within a relatively tight range over the next 12 months, offering single-digit returns.

All in all, our outlook for financial markets is neither positive nor dismal, justifying more prudent strategies.

(●) Risks:

Global Slowdown: A hard landing in China causes Asian markets to slow significantly from 7.5% to 6.2% growth. Earnings decelerate sharply below trend, which would instantly generate negative returns of equity markets due to downgrades in earnings estimates. However, this environment would be very positive for global bond markets.

Building Imbalances: While earnings, equity and bond markets would generally be impacted the same way as stated under the Global Transition scenario; U.S. equity markets would outperform other regions by a significant margin.



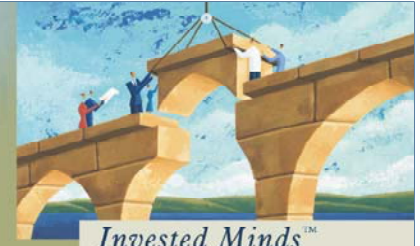
Signposts:

- U.S. trade deficit
- U.S. job market
- U.S. yield curve
- U.S. PPI inflation index
- China money growth
- China industrial production
- Japan consumer confidence
- Japan job market



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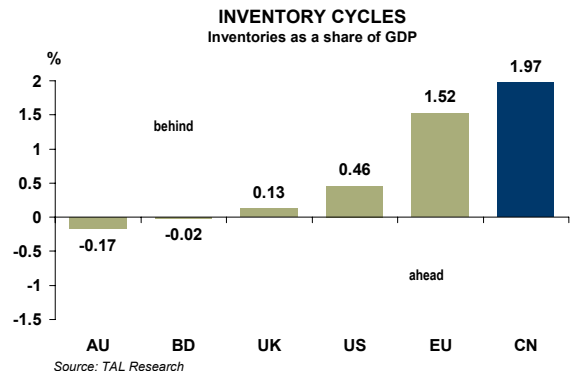
Quarter ending March 31, 2005

Regional Outlook

Canadian stagflation?

When it comes to GDP growth over the next 12 months, the largest negative surprise could very well be Canada. We are well below consensus with our 2.1% forecast for growth. The reason for our bearishness on Canadian GDP growth is our outlook on exports and inventories. Canada is too far ahead in the inventory cycle, meaning that production will have to slowdown until inventories are thinned out. We expect export growth to slow markedly owing to the past appreciation of the Canadian dollar. This will keep Canada in its a two-speed economic mode, since its domestic economy remains strong, but its export sector is hurting.

Our most significant revision to this forecast from last quarter is our view on Canadian inflation. We expect inflation to reach 2.6% over the next 12 months. Consensus is calling for only half of that. A combination of rising domestic capacity pressures, energy-led pressures and the fading deflationary impact of the Canadian dollar are all driving our inflationary outlook. Currently CPI is at 2.1%.



Inflationary pressure will force U.S. interest rates higher

The starting premise to our Global Transition scenario begins with the U.S. Since the Fed started increasing rates, U.S. financial conditions have continued to ease. Under these conditions, a significant slowdown in consumer spending is hard to envision. Our U.S. economic forecast has not changed much from last quarter. We are forecasting a 4% growth rate over the next 12 months.

We expect U.S. inflation to reach 3.3% in 12 months. Inflationary pressures are intensifying internally (capacity constraints) but are also coming from abroad via rising import prices.

Europe faces export declines

Similar to Canada, Europe now has to deal with the impact of the strong appreciation of its currency. This will put a strain on the export sector and is the main motivation behind our forecast for slowing GDP growth for the Europe region. Over the next 12 months, we are forecasting 1.5% GDP growth for the Euro zone.

Offsetting inflation will be lower import prices, the reverse side of the strong currency coin. We expect inflation to drop in France and Germany to 2.0% while rising sharply in the United Kingdom to 2.5%.

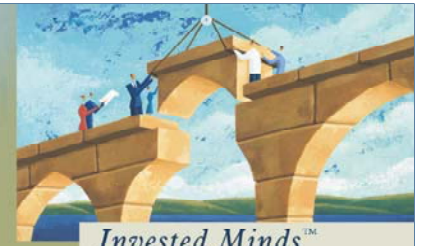
Rising prices of Chinese food accelerate inflationary pressure

Chinese inflation has begun to reaccelerate. Headline CPI now runs at 3.9%, which is up from 1.9% in January. This acceleration is different than the one witnessed in 2003-2004. That time, it was concentrated in food prices due to a sharp increase in the price of grain. This time around, deflation is observed in grain prices but ex-grain food inflation is accelerating. This is important since food accounts for the largest chunk of the Chinese CPI. Overall, food prices are rising at an 8.8% rate. Ex-food inflation is also accelerating, albeit from low levels. Finally, service inflation is running at 3.3%, which is the highest reading in more than four years.



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CHINA: INVESTMENT GROWTH FORECAST
Chinese investment growth & TAL forecast



Overall, we expect 8.5% GDP growth but the growth mix will be different. Investment, the largest segment, will begin a multi-year growth slowdown. We see it moving from 30% growth, down to 20% next year then down to single-digit growth over the following five years. Inflation in the economy and the changing mix of GDP growth will create a need to tighten monetary policy.

Finally, it is worth noting that we do not foresee a revaluation of China's currency within the next 12 months in our main scenario.

Japan is still resilient

The fundamentals for the Japanese economy are much better than what is being depicted in the data. We are above consensus on the economy with our call for 2.5% GDP growth over the next 12 months, and we have revised down our CPI index forecast slightly from last quarter.

There are two bits of good news for Japan's banking sector. The first is that real estate prices are rising again. The second is that the banks' objective of reaching a 4% level of non-performing loans is actually going to be reached. This is half of the level it was at a few years back. With both of these bits of good news arriving at the same time, the capital ratios of the banks will improve and they will start to see better lending margins. This is why we have seen better equity performance from the banking sector as of late.

Japan is actually one of our favourable equity markets going forward, but only from a local currency standpoint. Underweighting the Yen will be essential to achieving superior returns in Japan.

(●) Risks:

Global Slowdown: China cannot avoid a hard landing and growth decelerates, led by Asian markets. A sharp deceleration in earnings takes place generating negative returns for equity markets due to earnings estimate downgrades. Commodities hit new price highs and then downtrend. We see less Fed tightening as nominal tightening is amplified by the inflation decline. This scenario paints a rosy picture for bond markets.

Building Imbalances: Regional disparities could widen further than expected if the U.S. is significantly stronger than its industrial counterparts around the world. Inflation stabilizes, leading the Fed to maintain its measured pace with another 100 basis points of additional tightening as the U.S. dollar depreciates moderately, especially against European currencies. Other central banks would be forced to ease their policies as well in this scenario.



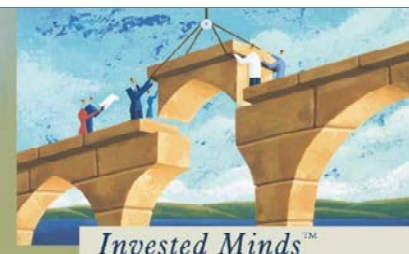
Signposts:

- 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



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Currencies

Under the main scenario of Global Transition, very little has changed in our currency outlook from last quarter. The Euro and Canadian dollar should underperform relative to the U.S. dollar. Domestic demand in the U.S. should outpace that in Canada, leading to a forecast of CAD\$1.20 per US\$ over the next 12 months - not much different from the current rate of CAD\$1.21. Underlying this forecast is the spread between interest rates in the U.S. vs. Canada. With the Fed leading global central banks in rate increases, we will see U.S. interest rates rise faster than Canadian ones. It is difficult to see a weak Canadian dollar in this scenario.

In the U.S., the growing trade account deficit's negative impact on the American fiscal situation is the major weakness for the U.S. dollar, and a key theme supporting the strength in other currencies, including the Canadian dollar.

"We do not expect further decline in the U.S. dollar over the next 12 months."

However, we do not expect further decline in the U.S. dollar over the next 12 months -- we expect to see positive, shorter-term factors at play. All the negative news are already priced in, and unaccounted and unpriced positive cyclical conditions in the U.S. could present positive surprises that will boost the U.S. dollar.

Widening interest rate differentials and relatively strong domestic demand in the U.S. are the key cyclical factors that will keep the greenback from declining further until the rest of the world starts to tighten policy.

Currently, our strategy favours - in addition to the U.S. dollar - the Canadian dollar and the British pound (strong growth, a large energy sector, and the likelihood of rising interest rates) and the Swiss franc (a good refuge in times of capital market turbulence). On a cyclical basis, the Australian and New Zealand dollars may be at their apex, whereas the euro and the Japanese yen are straining valuation against the backdrop of relatively weak domestic demand and inflation. The policy bias in these countries could remain focused on preventing a further slowing economic activity rather than fighting inflation, in contrast to the U.S.

We do not see a revaluation in the Chinese currency over the next 12 months in our main scenario. China's policy makers have chosen a gradual route of structural reform and financial market deregulation. Only once these reforms are in place will a measure of flexibility be introduced in the exchange rate. As long as the Chinese economy is cooling and the dollar is firm, calls for a renminbi revaluation will remain muted.

(●) Risks:

Global Slowdown: Of our three scenarios, the Asia-led global slowdown is best for the U.S. dollar. Be it domestic or external demand, or interest rate differentials, these are all positive for the U.S. dollar against other global currencies.

Building Imbalances: Here we see a continuation of the U.S. dollar downtrend largely because of the negative structural backdrop starting to weigh on the U.S. dollar. However the interest rate differential between the U.S. and other countries is not going to be supportive enough to boost the dollar like it is in our main scenario. Here, the euro will outperform the U.S. dollar.



Signposts:

- Forward premia on the Chinese currency (this is the number one signpost for Chinese revaluation)
- Energy prices
- U.S. real short term interest rates and slope of the yield curve
- U.S. trade balance with major partners
- U.S. fiscal policy
- Slope of global yield curve
- Composition of capital flows to the U.S.
- G7 coordination and possible protectionist measures against China

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