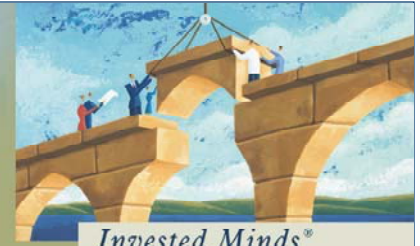




Global Asset Management Inc.

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Quarter ending September 30, 2005

Expected Returns

Expected returns for the period ending September 30, 2006

	In Canadian Dollars			In local currency		
	Stagflation	Economic Rebalancing	Disinflation	Stagflation	Economic Rebalancing	Disinflation
Probabilities	30.0%	50.0%	20.0%	30.0%	50.0%	20.0%
Canada Money Market	3.0%	3.1%	2.7%	3.0%	3.1%	2.7%
Canada Bond	-0.2%	4.7%	8.9%	-0.2%	4.7%	8.9%
United States Bond	-4.1%	-1.4%	11.8%	-0.4%	2.4%	10.6%
European Bond	-1.3%	-3.1%	18.3%	-2.7%	2.1%	8.7%
Asian Bond	-7.4%	-6.5%	8.4%	-2.6%	-2.5%	4.1%
Canada Equity	-3.3%	6.3%	-6.6%	-3.3%	6.3%	-6.6%
United States Equity	-8.9%	3.4%	2.6%	-5.4%	7.3%	1.5%
European Equity	2.2%	2.8%	2.6%	3.9%	9.5%	-2.0%
Asian Equity	-0.1%	6.7%	-1.5%	4.5%	10.3%	-4.3%

In this Issue

Global Environment

We believe the global economy is moving toward rebalancing.

Fixed Income vs. Equity

Return expectations are modest but show equity markets outperforming bond markets over the next 12 months.

Regional Outlook

We remain favourable on emerging market equities, and expect further improvement from Japan as Canada is neutral and the U.S. continues to lag.

Currencies

Commodity-sensitive currencies continue to fare well while the U.S. dollar remains relatively flat.

Global Environment

The oil shock of 2005 continued in the third quarter, but we do not expect it to jeopardize the global economic expansion. With the U.S. seeing labour market conditions tighten and unit labour costs rise, productivity decline and energy prices soar; the U.S. Federal Reserve continued to raise rates over the quarter and equity markets in the U.S. lagged the rest of the world.

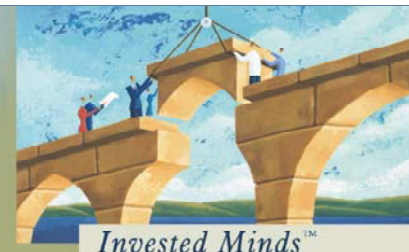
As we expected, emerging markets have been the best performers due to the attractive fundamentals that support them. The microeconomic stories in Japan and Europe have been more relevant than the macroeconomic ones over this quarter. Both markets are discovering improved corporate profitability despite the challenges that remain in their local economies and their equity markets performed extremely well. Canada saw continued improvement during the quarter, primarily due to lower market rates and the strong, energy-concentrated gains of its equity market. The commodity-sensitive Canadian dollar has continued its ascent, and we do not expect it to reverse this path over the forecast horizon.

We believe the global economy is moving toward rebalancing, as global growth decelerates but remains stable. The world ex-U.S. should grow at a faster pace than the U.S., and the secular uptrend in commodity prices should continue, thanks to the ongoing strength in global demand. While a short-term price correction of some commodities in the -20% range can hardly be ruled out, we believe the decline will prove to be temporary. The price of oil should stay in the US\$60 to US\$70 range for 2006. Long-run inflation expectations remain well-anchored in our scenario.



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Fixed Income vs. Equity

The divergence in equity market performance between the U.S. and its related markets and Europe, Japan and emerging markets is explained by a review of the fundamentals:

1. The U.S. equity market remains one of the most expensive markets, despite its underperformance year-to-date.
2. The U.S. equity market is facing the most aggressive central bank in the world at this point in the economic cycle.
3. Prospects for corporate restructuring are not as exciting in the U.S. as in other parts of the world.

In addition, U.S. profit margins are at historical highs, and with their strong tendencies to revert to the historical mean, we are doubtful that higher margins could materialize at this stage, particularly when labour cost pressures are starting to surface.

On the other hand, accelerating reforms in Japan show signs of promise. With newly elected premier Koizumi's LDP majority government, the population of Japan seem to have given a clear mandate for macroeconomic reform and leave old "pork barrel" politics behind. Corporate Japan's microeconomic reform has brought corporate profitability back to pre-1990 bubble era levels -- return on equity has grown from 2% three years ago to close to 10% today. Japanese banks are moving out of their bad loan problems faster than many had anticipated, boosted by rising real estate prices as Japan finally creeps out of its long-suffering deflationary environment.

"...2006 is not expected to be a vintage year – projected returns are generally modest..."

Microeconomic reform is echoing quietly in Europe, reflected in the prospects of its equity markets. Germany disappointed us by achieving a political and reform program stalemate, which will not only slow economic reform in Germany but put less reform pressure in the rest of old Europe. But we are not at a loss. First, under a German grand coalition, there may still be potential for a reduction of corporate taxes. On the labour front, the two major parties (the CDU and SPD) are in opposite camps, so a compromise to reduce the cost of labor might not be attainable. Nevertheless, with corporations in control of where they produce their products and provide their services, downward pressure on German labour cost will continue to intensify. These micro developments show in the cost of labour, which in relative terms has progressed at a slower pace than in the U.S. European firms have are also nearing similar profitability levels to their U.S. competitors, as return on equity measures are reflecting the sharper focus.

We also remain favorable to emerging markets despite their strong recent outperformance. The fundamentals underpinning this asset class remain strong with stable to declining inflation, falling interest rates, lower debt servicing and positive current account balances. In our view, it would take a strong deterioration of the global economic outlook to derail these markets, which is not in our main scenario at this stage.

Overall, 2006 is not expected to be a vintage year – projected returns are generally modest in comparison with recent years. We think that international equity markets will outperform Canadian equity markets, which will in turn be stronger than the laggard – U.S. equity markets.

We are underweight fixed income since we expect global bond markets to pull back modestly over the next 12 months, and yield curves to continue to flatten. More precisely, Japanese bonds are expected to significantly underperform the rest of the world. The best performing markets are expected to be those of Australia and the United Kingdom. The Canadian market is also expected to do relatively well.

(••) Risks:

Stagflation: The acceleration in inflation could be accompanied by a more pronounced slowdown in economic activity. This qualifies as a "stagflation" environment. In this scenario, the slowdown in activity is widespread. In particular, emerging Asia gets hit hard. Under such circumstances, the end of the tightening campaign is closer than we think. Rising inflation concerns trigger a substantial pullback in bonds.

Disinflation: Another possibility is that the slowdown in global economic activity will be significant, enough to translate into downward pressure on inflation. In such an environment, central bankers will be inclined to either stay on hold or to consider lowering interest rates. This would be a perfect environment for bondholders.



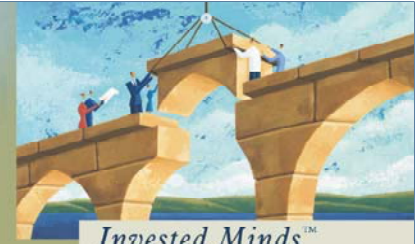
Signposts:

- Labour conditions and unit labour costs
- Corporate profit margins
- Monetary policy
- Commodity prices



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Regional Outlook

Canada

A quick review of Canadian fundamentals show significant improvement in 2005: the central bank is dealing with easy financial conditions as real short rates remain below 1%, equity markets have appreciated, home prices climbed, the employment growth has been solid and the currency has appreciated.

However, as the global rebalancing scenario unfolds, Canada becomes a victim of its own success. The continued rise in energy prices will continue to fuel the currency, which tightens monetary conditions.

Labour productivity is weakening and unit labour costs are exceeding those in the U.S., which will rapidly erode any competitive edge Canada has held over the U.S. in the past. This leaves the central bank in a difficult position, and we expect only two more rate hikes of 0.25% each before the Bank of Canada (BoC) halts its tightening campaign.

Our Canadian GDP growth forecast stand below consensus at 2.5% since we expect consumers to spend less, investment growth to dwindle and inventories to act as a substantial drag. Thanks to currency appreciation, inflation should stay below the BoC's target. We think the headline number will reach 2.75% and the core 2.0% over the forecast horizon.

As for capital markets, we expect the Canadian yield curve to flatten further, with the 10-year bond yield reaching 3.85% 12 months from now. In other words, we expect Canada's bond market to outperform.

United States

The devastation that has ravaged the Gulf Coast is unlikely to throw the U.S. economy far from its course. While it may reduce growth at an annual rate in the third and fourth quarters of this year, we expect to see a rebound effect in the first half of 2006. It does represent a supply shock, and timing is not good – the output gap is already closed, productivity is slowing and wage pressures are intensifying. In short, the shock is inflationary.

We are close to consensus with our 3.5% forecast for U.S. GDP over the next 12 months. This represents a mix of slower consumer spending and investment growth and a continued drag from trade. We think the U.S. consumer will struggle but not collapse.

The impact of higher energy prices will increasingly be felt on CPI inflation. We think headline inflation could move above 4.0% and stay there. However, the acceleration in core inflation is likely to be a lot slower, and we think it will remain below 3.0% over the forecast horizon.

With tightening labour market conditions, falling productivity, rising unit labour costs and stubbornly high oil prices, the Fed will continue to hike rates. We expect the fed funds rate to reach 4.75% over the next 12 months, leaving real short-term rates close to 2% for the first time since 2001.

The U.S. trade balance continues to deteriorate as rising energy prices hamper America's competitiveness, and the trade deficit is only expected to widen further. The deterioration will continue to be concentrated in consumer goods, oil and autos. Meanwhile the fiscal situation is also likely to deteriorate significantly. There are no official estimates for the impact of Katrina, however it seems safe to assume that it will add at least \$100 billion to the U.S. deficit in 2006. This means that the U.S. twin deficit will reach unprecedented levels, climbing from \$1.02 trillion now to more than \$1.27 trillion next year.

China

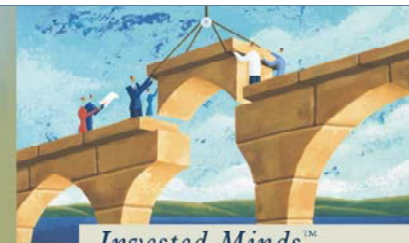
We do not expect to see a significant slowdown in China over the forecast period. Higher oil prices are not slowing China's economy. On the production side, energy consumption is concentrated in coal not oil, and oil imports account for only 6% to 12% of China's oil consumption. More importantly, China is protected from fluctuations in the international price of energy because it is self-sufficient – its domestic production meets its domestic demand.

We think growth in China will be approximately 9% over the next 12 months, but the growth mix will be different. Consumer spending will increase as foreign investment decreases in terms of GDP growth contributions. A comparison between the U.S. wage bill and the Chinese one shows that next year Chinese consumers will – on aggregate - have more money to spend than U.S. consumers. In China,

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average per capita incomes are still low but wages increase by about 15% per year. One also has to consider that employment grows about 1% per year – while that doesn't seem to be a lot, it represents a little more than seven million new workers per year.

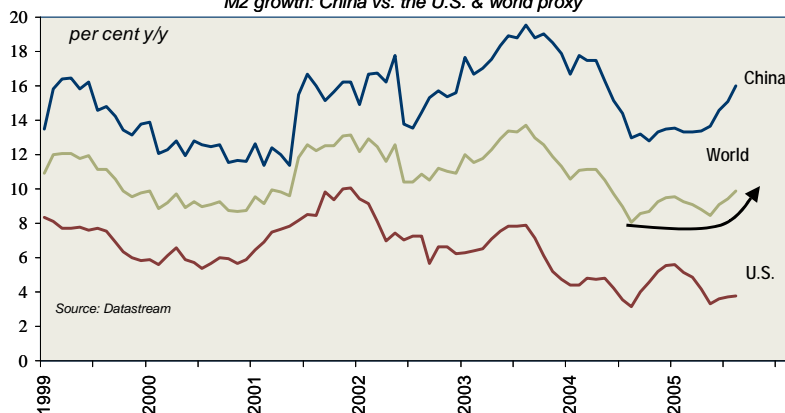
However, Chinese consumers are big savers, not big spenders. The Chinese authorities would like to see consumption pick-up and so will have to start focusing more on consumer credit and less on business investment lending.

The improvement in liquidity conditions is already apparent and suggests that global liquidity conditions are not deteriorating. Global liquidity conditions are essentially driven by what happens in two countries: China and the United States. In our view, the improvement in Chinese liquidity conditions more than offsets the U.S. Federal Reserve's timid efforts to drain liquidity out of the system.

Our inflation forecast of 3.5% for China implies that there will not be a significant tightening in liquidity conditions there over the forecast period. The ongoing tug-of-war between deflationary forces (tradable goods) and inflationary ones (non-tradable goods) should result in a low inflation environment. Strong productivity is keeping a lid on potential wage pressures and unit labour costs are still falling.

CHINA: OFFSETTING THE FED'S EFFORTS

M2 growth: China vs. the U.S. & world proxy



Japan

Our outlook for Japan's economy remains bright, and is supported by the projected reacceleration in Chinese economic activity. However, China is not the whole story. Our forecast calls for 2.7% real GDP growth in Japan over the forecast horizon, which is above consensus. Both net trade and government spending will act as a drag, but this will be more than offset by consumer spending, housing investment, and other private sector demand, as unemployment continues to decline and consumer confidence remains high.

In terms of inflation, Japan is moving out of chronic deflation and into a mildly inflationary environment. We think inflation will reach 0.6% on a yearly basis, which is also higher than consensus. While this should mark the end of the ultra-accommodative monetary policy stance, we see no rate hikes on the agenda for the Bank of Japan.

In capital markets, we are optimistic that corporate profitability will continue to improve as the country moves further down the reform path. We expect Japanese bond yields to move higher, with 10-year bond yields reaching 2.0% over the next 12 months.

(●) Risks:

Stagflation: With high commodity prices, a tight U.S. labour market and reduced capacity due to hurricane damages, inflation could surprise, forcing the hand of the Fed to extend its tightening efforts beyond what is currently expected in the capital markets. This would be a challenging environment for all asset classes, as risk premiums would rise for both stocks and bonds.

Disinflation: Rising interest rates pushes home prices down forcing the consumer to retrench from its borrowing/spending binge of the last few years. This would run against our current strategy, as it would be positive for fixed income assets and negative for equity markets. In this case, profits would disappoint which would lead to weak economic sensitive markets.



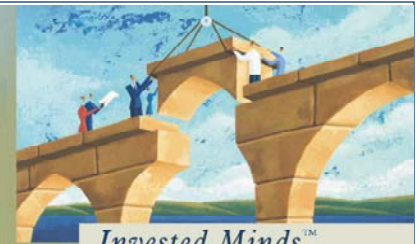
Signposts:

- U.S. corporate profit margins
- Commodity prices
- U.S. housing market



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Currencies

Over the 12 month forecast horizon, our baseline scenario calls for a relatively flat U.S. dollar but a stronger Canadian dollar. We expect to see the Canadian dollar reach US\$0.89, and other commodity-sensitive currencies to also fare well, such as the Australian and New Zealand dollars. We expect the euro and the yen to decline.

A consistent "buy-and-hold" strategy is not appropriate in the non-trending market that we anticipate. However, our bias will be to sell the U.S. dollar on strength and to buy other currencies on weakness. In the near term, the currencies we find attractive are the commodity-sensitive currencies, the Swedish krona and the euro. The uptrend in the Canadian dollar is getting long in the tooth, but little as of yet stands in the way of further appreciation. Here are the premises that support our currency management strategy:

Valuation not an issue

Major currencies are close to their fair value according to our models, unlike last year when the U.S. dollar was clearly still expensive. As a result, we do not believe that currency fluctuations will be dictated by valuation over the near term.

However, the equilibrium value for the greenback will continue to slide so that, over time, it will need to depreciate. Fair value for the Canadian dollar now is estimated at US\$0.84, and is rising. We continue to forecast parity between the Canadian and U.S. dollars by the end of this decade. However, the uptrend in fair value will be influenced by commodity prices.

Bullish Cyclical Trend for U.S. Dollar is Well Advanced

The U.S. dollar has been supported by strong economic growth and tightening monetary policy. However, these trends are well advanced and their positive impact on the currency could peak out by early 2006.

At that point, it is unclear whether the U.S. dollar would return to a moderate downtrend or a sharper correction. The path of adjustment will be dictated by how gradually a number of imbalances unwind. Key imbalances to watch are: the U.S. housing market, the Federal budget deficit and the current account deficit. A gradual unwinding of imbalances should benefit the commodity-sensitive currencies, including the Canadian dollar.

Asian Currencies Could Surprise by their Weakness

Asian currencies are not expected to appreciate significantly. Most policy makers in Asia are focused on sustaining growth and inflation, and a weak currency remains an attractive short-term policy alternative. Furthermore, the competitive position of Asia is starting to erode and a cheap currency will help preserve market share. Finally, China has adopted a more flexible exchange rate, but the changes are cosmetic and designed to placate U.S. trade relations.

Global Energy Shock Creates Downside Risk for the Greenback

Higher energy prices shift global savings away from East Asia toward net energy producers both inside and outside OPEC. East Asia has been the primary source of financing for the U.S. current account deficit (mostly through official purchases of U.S. debt). It is less clear that net energy producers will be equally interested in purchasing U.S. bonds. The capital flow disruption could benefit European currencies.

(••) Risks:

The risks in our outlook are skewed toward disappointment on the U.S. dollar, with a premature end to its cyclical recovery. Dollar weakness would be mostly felt against European currencies and, if raw material prices hold up, the commodity-sensitive currencies. In these scenarios, emerging market currencies generally fare poorly, and the worst-case scenario for the Canadian dollar is for it to be flat.

Stagflation: Commodity-sensitive currencies do fairly well along with the rest of non-dollar currencies.

Disinflation: Only Euro-bloc currencies do well versus the U.S. dollar. The rest are either flat or lower.



Signposts:

- Energy and non-energy commodity prices
- U.S. monetary stance versus other developed markets
- External surpluses in East Asia
- Foreign exchange intervention by Asian central banks
- Different measures of risk-aversion in global capital markets

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