

ECONOMIC AND CAPITAL MARKETS MONTHLY UPDATE

THE ECONOMY

Canada

The Canadian economy contracted at a 0.1% rate in February, the smallest monthly decline in the last four months, but is estimated to have contracted at a 6.0% - 7.0% rate in the first quarter. A 19% jump in motor vehicle and parts production in February from depressed January levels provided a lift to overall output, but was not enough to offset weakness in construction and manufacturing. The construction sector had been posting solid gains as recently as last October but has fallen at an annual rate of 23% since then. However, there is some good news. Early reports for March are mixed but generally positive. Automobile and home sales recorded strong gains in the month and automakers have further increased production.

While the worst of the recession is likely behind us, it is premature to conclude that an economic recovery is just around the corner. As long as the U.S. and global economies remain in recession it will be difficult for trade and commodity-dependent Canada to perform much better. Also, the restructuring issues at Chrysler and General Motors and the H1N1 flu virus have potential negative economic implications.

United States

The initial estimate for first quarter 2009 U.S. GDP is -6.1% annualized. The U.S. economy has now contracted for three consecutive quarters with widespread weakness. Business spending has been particularly weak with a significant drop in commercial construction. On a positive note, consumer spending increased for the first time since the third quarter of 2008, lifted by falling energy prices, higher government transfers and lower tax payments.

Looking ahead, downside risk remains. Some economic stability is likely in the second half of the year as inventories are cut and the massive economic and financial stimuli gain traction. However, this is expected to be the beginning of an extended period of economic adjustment, comprised of modest economic growth and high unemployment.

International

Despite some tentative signs of an imminent economic bottoming out, the continuing downsizing of private sector investment plans for 2009 and worse-than-expected export performance in the first quarter point to weaker growth for many major overseas economies. The exception is China where government stimulus plans appear to be taking hold. Conditions in money and credit markets continue to be extremely difficult with business and consumer confidence falling sharply during this severe economic downturn.

Canadian Economic Indicators

	2008	2009 Forecast	2010 Forecast
<i>Annual % change</i>			
<i>Unless otherwise indicated</i>			
G.D.P. (real)	0.6%	-2.1%	2.1%
Exports	-5.5	-8.6	2.3
Consumer spending	3.1	-0.9	1.6
Business Investment	3.0	-9.2	-1.8
Corporate Profits (pre-tax)	9.9	-20.8	4.6
Unemployment rate (%)	6.1	8.5	8.9
Inflation Rate (all items)	2.4	0.3	1.9

Interest Rate Trends

	Apr. 2009	Dec. 2008	Dec. 2007
Canadian Bank Prime	2.25%	3.50%	6.00%
U.S. Bank Prime	3.25	3.25	7.25
30-Day Commercial Paper			
Canada	0.70	2.24	4.61
U.S.	0.28	0.38	4.78
5-Year Bonds			
Canada	2.02	1.69	3.87
U.S.	2.05	1.55	3.44
30-Year Bonds			
Canada	3.84	3.46	4.10
U.S.	4.03	2.68	4.45
Cdn./U.S. dollar	83.86¢	82.05¢	100.17¢

Market Index Returns

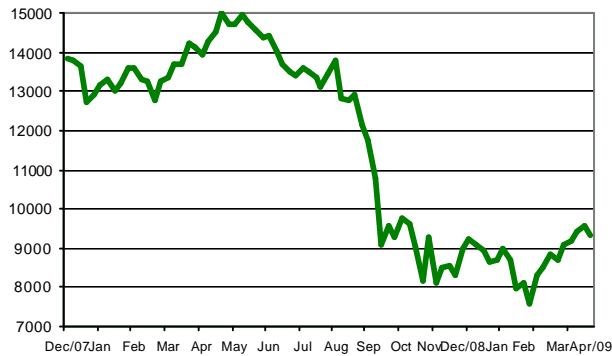
	Apr.	YTD	2008
S&P/TSX Composite Index	7.26%	5.11%	-33.00%
S&P 500 Composite	3.81	-4.93	-21.92
MS EAFE (net)	6.88	-5.34	-29.83
MS Japan	3.87	-10.82	-12.15
MS Pacific (ex Japan)	7.22	7.94	-38.07
MS Europe	8.19	-4.75	-33.18
MS Emerging Markets	10.53	14.91	-41.98
DEX Universe Bond	0.02	1.55	6.41
GWL Real Estate Fund (Gross)	0.49	1.32	-0.49

All returns are in Canadian dollars and include income.

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S&P/TSX COMPOSITE INDEX



STANDARD & POOR'S 500 INDEX



MS EAFE INDEX



DEX UNIVERSE BOND INDEX*



* Formerly the SC Universe Bond Index

EQUITY MARKETS

Global equity markets continued their rally off the lows of March, with the S&P/TSX Composite Index posting a 7.3% total return for the month of April. The Canadian equity market is now positive on the year with a 5.1% total return to the end of April. Strength was primarily seen in the Information Technology, Financials and Industrial sectors. Weakness was posted by the Materials (gold stocks), Telecom and Healthcare sectors as investors moved to sell the more defensive areas of the market in favour of higher-beta investments. Economic data being reported in recent weeks continues to point to the likelihood that the bottom of the recession has been seen – we're past the point of maximum deceleration within the economy. Equity markets have begun pricing in a recovery beginning late in 2009. Commodity markets have begun to recover which is very beneficial for Canadian equities. The Canadian equity market has risen sharply off the bottom seen in early March. It appears poised to work higher. Thereafter, we would not be surprised to see a consolidation/correction period before further gains are posted into the Fall.

US equity markets continued to rally sharply in April, with the S&P 500 ending the month up 9.4%, following a solid 8.8% return in March. The strongest sectors in the Index were Financials and Consumer Discretionary, up 22.2%, and 18.5% respectively. Both sectors rebounded strongly from deeply oversold levels. The rotation into less defensive sectors that we saw in March continued through April as the non-cyclical groups lagged the market. The Healthcare and Utilities sectors were the worst performers, returning -0.9% and 0.4% respectively. Credit remains tight, housing continues to be weak and concern over commercial real estate values are increasing, all of which are creating headwinds for US corporate profits. Despite this, sentiment is improving. Recent economic data, such as jobless claims and consumer confidence, have been better than expected, signaling that the worst of the economic downturn may be behind us.

FIXED INCOME MARKETS

The DEX Universe Bond Index returned 0.02% in April as the losses generated in the government sector virtually offset the strong returns in the corporate sector. The 1.00% loss incurred by government bonds was caused by rising Government of Canada yields. For example, the 10 year Government of Canada yield increased from 2.80% to 3.10% in the month as very strong stock markets and numerous signs of a stabilizing economy caused investors to sell government bonds and replace them with higher yielding corporate bonds. This shift to corporate bonds sent their yields lower resulting in a return of 1.70% in the corporate sector. Long term financial bonds performed extremely well, returning 6.4%. Year-to-date, corporate bond returns were 5.25%, substantially higher than government bond returns of only 0.20%. Going forward we expect Government of Canada yields to remain relatively stable over the next few months as investors continue to look for opportunities in corporate bonds.