ECONOMIC AND MARKET REVIEW AND OUTLOOK
(As at January 31, 2014)

Overview and Outlook

The global investment landscape was shaped by several key trends during 2013, as the positive catalyst of a generally improving economic environment was offset by concerns over rising interest rates. In particular, the U.S. economy gained further strength over the course of the year, driven by an improving labour market, an expansion in household net worth and continued recovery of both the residential and commercial property markets. This positive momentum led the U.S. Federal Reserve to begin tapering its asset purchase program late in the year, in a move that had been widely discussed and debated in the marketplace for months. Indeed, anticipation of a tapering announcement weighed on investor sentiment for much of the year, leading to rising interest rates and capital market volatility. Fortunately, the Federal Reserve reiterated its commitment to maintaining a low interest rate environment for the foreseeable future and to providing sufficient support as needed. As a result, we believe implementation of tapering activity will serve to reduce uncertainty surrounding U.S. monetary policy and provide a meaningful vote of confidence in U.S. economic growth.

Over the course of the year, developed markets outperformed emerging markets, as developed markets tended to benefit from ongoing economic recovery and strong capital flows while emerging markets faced the challenges of elevated inflation, falling currency values and the overhang from reduced monetary stimulus in the U.S., in addition to uncertainty surrounding China's transition away from an investment-led economy. Although we expect short-term volatility to persist within emerging markets, we believe recent performance may lead to attractive investment opportunities over the medium term.

Looking ahead, we anticipate a period of normalizing interest rates and economic growth. Importantly, we expect accommodative monetary policy to continue in the U.S. and across many developed markets, providing further support for the global economic recovery. While the performance of yield-oriented asset classes may be challenged in a rising interest rate environment, we believe demand for assets offering current income and upside growth potential will continue to accelerate. In particular, real assets, such as property, renewable energy and infrastructure, should benefit from an improving economy and the eventual return of inflation, resulting in growing revenues and cash flow streams. Accordingly, we believe that real assets are well-positioned to benefit from a recovering global economy while offering attractive current income and capital preservation to guard against future market volatility.

United States

Following an upward revision of U.S. real GDP growth to 4.1% in the third quarter, growth slowed in the fourth quarter to 3.2%, due in part to the effect of the federal government shutdown in early October as well as to inclement weather in December. However, real GDP growth should rebound in 2014 as consumer confidence improves, private spending continues to increase and the effect of government spending cuts and tax increases diminish further. Many economists are now forecasting U.S. real GDP growth to exceed 3% over the next several years, which would mark the most robust pace of U.S. economic expansion since before the 2008/9 recession. Business confidence continues to strengthen and the ISM Manufacturing Index is pointing to a strong expansion, which should bode well for U.S. industrial production. Furthermore, capacity utilization is high across almost all sectors and corporate profits are strong, indicating that capital investment is poised to increase.

In terms of construction, a key driver of the U.S. economic recovery, housing starts exceeded one million units on an annual basis in November and December for the first time since the recession. We continue to expect a positive trend given the strength in homebuilders' confidence, further improvements in household balance sheets and the low level of unsold housing stock.

As the U.S. economy improved during 2013, the labour market continued to heal as well. The year as a whole produced average monthly job gains of 182,000, leading the unemployment rate to fall from 7.9% in December 2012 to 6.7% in December 2013. Importantly, this figure is nearing the 6.5% target rate set by the U.S. Federal Reserve as a key threshold of its forward monetary policy guidance. However, inflation remains low, averaging 1.1% during the first two months of the fourth quarter, down from 1.6% in the previous quarter. The lack of underlying inflationary pressure in this early stage of economic recovery suggests that short-term interest rates will remain low even as the Federal Reserve winds down its quantitative easing program. As a result, we expect relatively robust U.S. economic growth during 2014, as private consumption and investment advance further.

Canada

Canadian economic growth continues to moderate as household debt deleveraging has led to softer housing and labour market activity. Residential building activity slowed during 2013, with housing starts averaging 188,000 units, or 12.7% below the level recorded in 2012. Job growth slowed in 2013 as well, with employment increasing by approximately 100,000 jobs in the year, down from the 300,000 jobs created during 2012. The unemployment rate was essentially unchanged in 2013, ending the year at 7.2%. Given the general slowing of the overall economy, the inflation rate remained well below the Bank of Canada's target of 2.0%, suggesting that the central bank will maintain a low interest rate environment for the foreseeable future. Importantly, as the U.S. economy continues to gather momentum, Canada should benefit from increased exports, particularly given the recent depreciation of the Canadian dollar. We expect this implicit economic stimulus to provide support for modest economic growth near 2.0% in 2014.