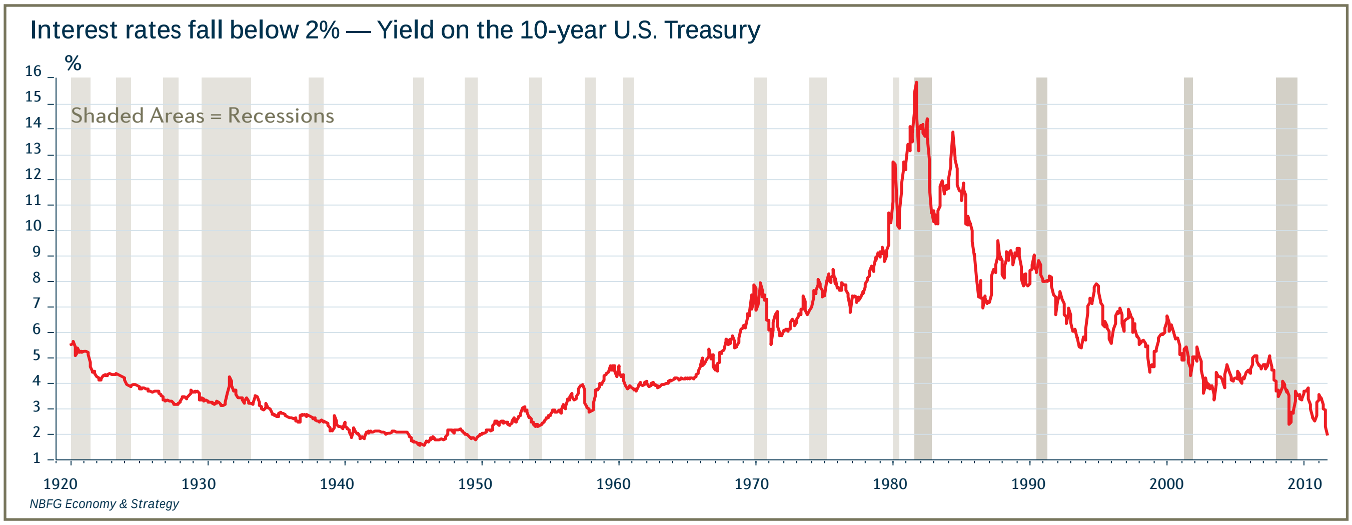
Building your financial future

Investment Strategy

October 2011

Financial Markets



Interest rates fall below 2% — Yield on the 10-year U.S. Treasury

Equity markets have been on a roller coaster for the past several months. On August 8 the S&P/TSX sank to a low of 11,744, down 18% from peak. It was the sharpest correction of Canadian equities since the 49.7% slide of 2008, and close to the 20% decline that is widely accepted as the definition of a bear market. Though equities have since recovered some of their losses, downward revisions of growth forecasts combined with the crisis of public finances in some euro countries remain a source of major uncertainty. In September the yield of 10-year U.S. Treasuries fell to its lowest level since World War II, below 2%. Its decline is without doubt due in part to anticipation of further Treasury purchases by the U.S. Federal Reserve, since market expectations of long-term inflation are far from the near-zero readings of 2008. In other words, investors see a deflationary environment as unlikely at this time. Also, credit markets remain functional despite a recent rise of uncertainty about financial institutions. In contrast to 2008, therefore, central banks remain proactive in promoting an environment favourable to economic expansion. However, political uncertainty arising from the sovereign-debt problem will not soon dissipate. It will most likely remain a key consideration in investment strategies for years to come.

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