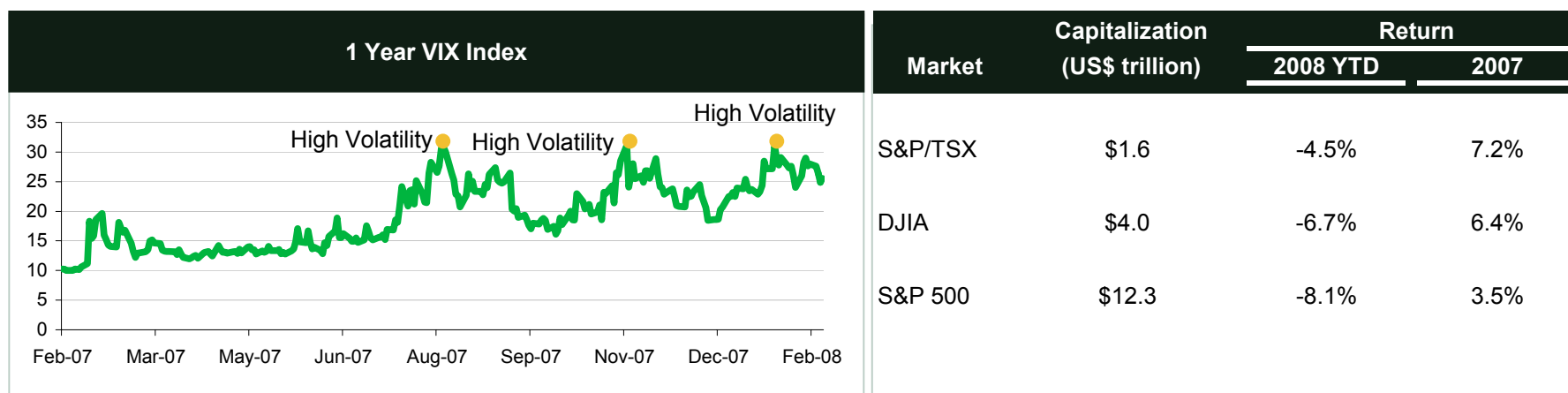


## Current State of Canadian Equity Markets

- Global Equity Markets are experiencing high levels of volatility due primarily, though not exclusively, to issues related to sub prime and debt structured products, which have caused significant write-downs
- Market volatility as measured by the VIX Index is high due to uncertainty caused by the following questions:
  - Will global economic growth compensate for U.S. housing-induced weakness
  - Will high oil prices cause a U.S. recession or will the U.S. experience an export-led recovery



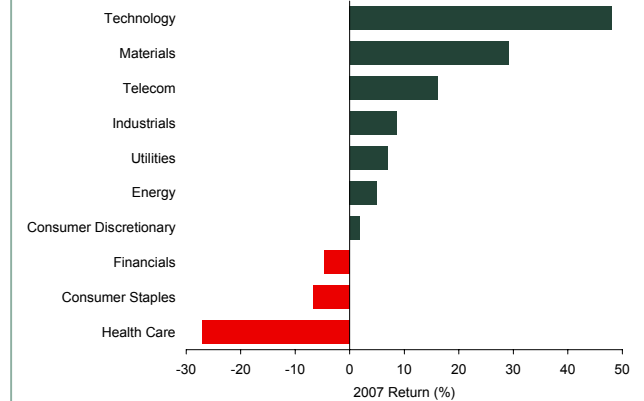
**Market volatility to continue as the U.S. housing recession continues to impact credit markets with the potential negative impact on the consumer.**

# Market Update

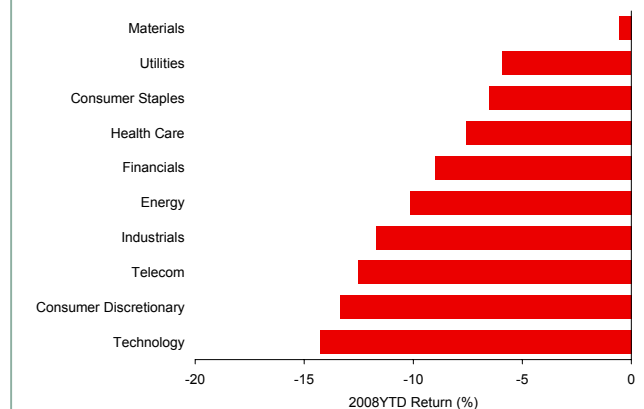
## Credit Market Concerns Morph into Recession Worries

- What initially began in August as credit market concerns emanating from the sub-prime market has transcended into a view that the U.S. economy is in recession
- Recent key economic news have been worse than expected, which has led investors to believe a recession is all but confirmed:
  - Poor employment growth and a subsequent increase in the unemployment rate (18K & 5% respectively)
  - Weak ISM manufacturing and services at levels which depict economic contraction
  - Weak housing news i.e. pending sales, housing starts, building permits, etc.
  - Weak U.S. retail
- Globally investors have been seeking liquidity as fear has replaced economic rationale; consequently all major North American indices have, in approximately 14 trading days, given up all of the 2007 gains and more. International exchanges are all negative and experiencing double digit losses
- Equity markets will look to central banks for continuing leadership in ensuring stability within the financial system

## S&P/TSX Subgroup 2007 Performance



## S&P/TSX Subgroup 2008 Performance



## Market Update (cont'd)

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### What Next?

- The Fed's rate cuts suggest the Fed is very concerned with financial market conditions and equally important, that it may be behind the "curve"
- The Fed stated that "it will act in a timely manner as needed" implying further cuts will come contingent on economic news and the health of financial markets
- On average recessions last 10-11 months and stocks typically peak 6 months prior to a recession and bottom approximately 50-60% through a recession, with an upturn beginning well into a recession
- History provides some guidance
  - There have been 41 months since 1950 where the S&P 500 has seen a sharp decline of a minimum of 12% from previous month's high. In all cases except three, the median return from the liquidation low to closing price 12 months later was 25.5%
  - There are three periods since 1950 when a market liquidation was not followed by recovery within 12 months: 1969, 1973 and 2000-2002
- TSX earnings have declined between 10% to as much as 70% during past U.S. recessions with the degree of commodity price weakness a key determinant of the downside risk. The expectation is that the 2008 recession will be mild and brief, therefore the TSX earnings might be down 10% to 15%
- While predicting markets is impossible, history offers the following guidance for issuers
  - Expect more volatility particularly on the downside until fear subsides
  - On average markets begin a recovery about half-way into a recession
  - Be ready to proceed ASAP