

## TWO NEIGHBOURS, TWO WORLDS

The U.S. economy is in the throes of a historical financial crisis and economic slowdown. Investors are thus rightly concerned about the state of Canada's economy. In this week's edition of the Marker, we analyze the differences between the two neighbouring economies.

### CLICHÉS GET TURNED ON THEIR HEAD

Everyone has heard the popular saying that when the U.S. economy sneezes, Canada's catches a cold. The current situation may well be the exception that proves the rule. Employment trends in both countries are moving in opposite directions... to Canada's benefit. From the west's oil sands and marching eastward, Canadians are employed, enjoying tax breaks, and have avoided the real estate speculation problems affecting their economic cousins south of the border.

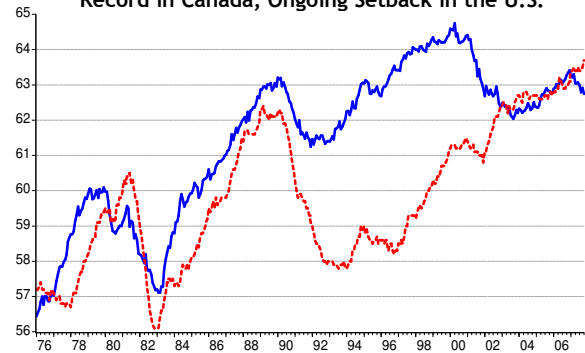
### HARD WORK TRANSLATES INTO GREATER WEALTH

Having controlled their appetite for debt, Canadians' balance sheets are now in much better shape relative to the U.S. With higher relative levels of net worth, a stronger currency, and healthier government finances, Canada is truly outperforming America at present.

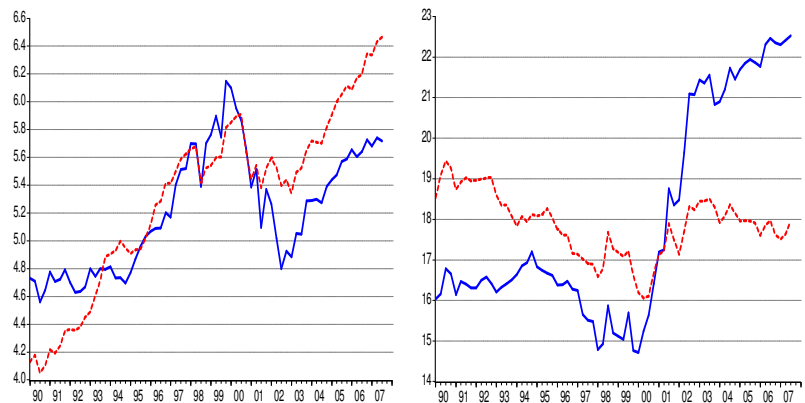
### ARE GAINS PERMANENT OR TRANSITORY?

Of course one could argue it is only a matter of a few months before the situation in Canada deteriorates along with the neighbourhood. Canada's economy is one of the most open in the world, and global trade is critical to its long-term health. A vast majority of the country's exports are evidently headed to the U.S. These factors will not change and as such, do represent elements of risk to the status quo. Yet, one cannot ignore the fundamental advances that have taken place in Canada, starting with NAFTA, followed by the cleansing of public finances, and abetted by the strength in global demand for commodities. While economic cycles will always prevail, Canada is now in a much stronger position to tackle the challenges inherent to the current environment.

**Employment Rates**  
Record in Canada, Ongoing Setback in the U.S.\*



**Households: Wealth Effect Remains Positive in Canada\***  
Net Worth Ratio Debt vs. Net Wealth



\* Sources: NBF Economic Research, Statistics Canada, Federal Reserve

## NATCAN WEEKLY MARKER

By now, investors are painfully aware of the difficulties challenging the U.S. economy and financial markets. Fears that Canada might be next appear unjustified where the economy is concerned. Equity markets in Canada face the double challenge of a U.S. financial crisis spreading to our players and a global economic slowdown impacting the all-important commodity sectors. One fact appears undeniable: Canada enters this volatile period from a position of great strength. Diversification and risk management will serve investors well in the coming months.

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## FINANCIAL MARKETS

RETURNS AS AT MARCH 28, 2008 (%)	MTD	QTD	YTD	RATES AS AT MARCH 28, 2008
S&P/TSX	-2.29	-3.70	-3.70	CAD/USD
S&P 500	2.73	-7.46	-7.46	CAD/Euro
S&P/TSX Small Cap	-2.73	-4.07	-4.07	US Treasuries yield 10-yr/30-yr
Russell 2000	3.48	-8.04	-8.04	GOC bond yield 10-yr/30-yr
MSCI EAFE	3.19	-5.73	-5.73	Fed Fund Rate (target)
MSCI World	2.82	-6.31	-6.31	
DEX Universe Bond	0.88	2.87	2.87	

Note: Returns in Canadian dollars, London 4h exchange rates. Source: Datastream, PC Bond, MSCI-Barra, and Bloomberg. PC-Bond, a business unit of TSX Inc. Copyright © TSX Inc. All rights reserved.

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