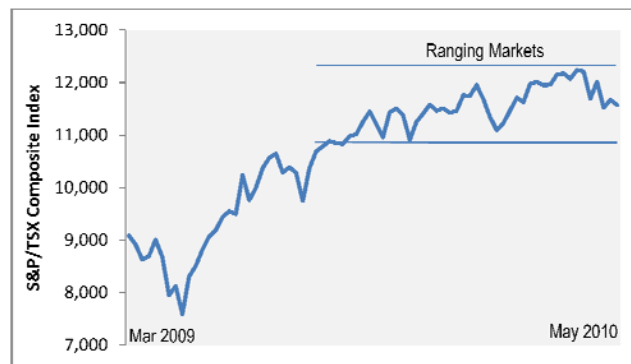
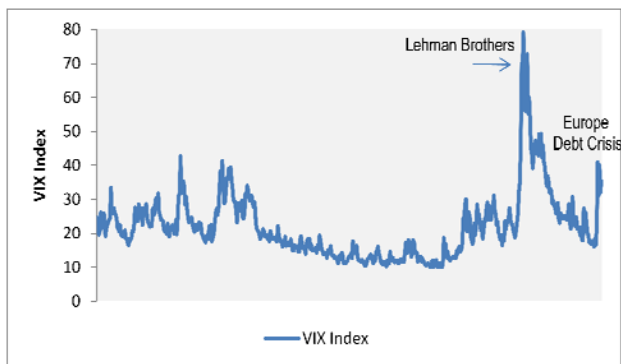


Economic Update

June 2010

Volatility Returns to the Markets



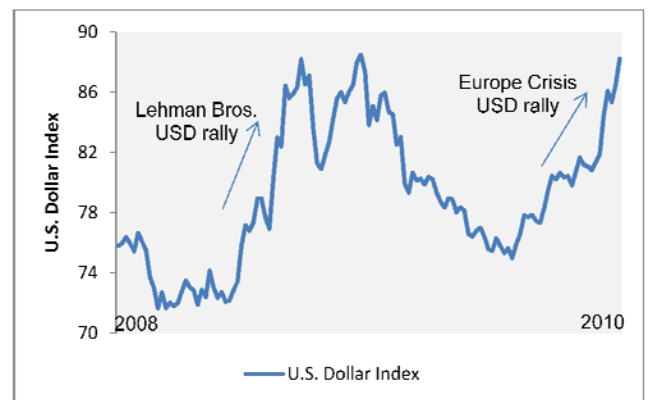
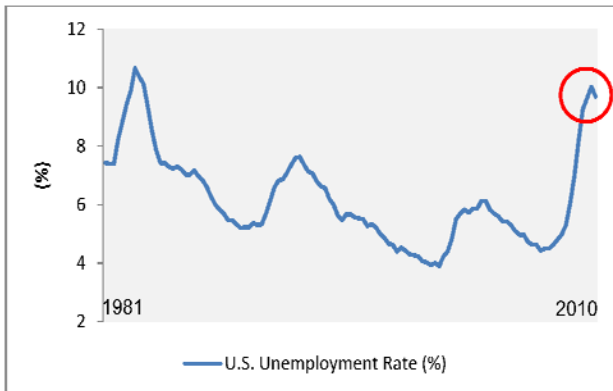
- The month of May was a difficult one for equity investors as the markets reacted to the on-going concerns of Europe's sovereign debt crisis. The S&P 500 Index had its worst one-month performance since May 1962
- Volatility measured by the VIX Index spiked accordingly, however it remains far below the record levels exceeded during the fall of 2008
- For the market rally to continue the VIX will likely have to retreat to lower levels which indicate a less "fearful" market environment
- The S&P/TSX Composite Index remains range-bound with no clear trend direction since first reaching 11,000 back in September 2009
- Good economic news and strong earnings have been offset by the continued concerns about sovereign debt defaults in Europe
- IAIM's asset allocation for our balanced fund mandates remains slightly overweight equities as earnings should continue to improve and our belief that central banks monetary policy will remain accommodative

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U.S. Not Ready to Raise Interest Rates



- The U.S. Federal Reserve's mandate remains the achievement of full employment, price stability and moderate long-term interest rates
- While job creation has improved, the U.S. unemployment rate remains high placing a restriction on the U.S. Federal Reserve to raise interest rates
- There has been modest improvement in U.S. payrolls however the majority of growth has come from the public sector. Private employment growth remains weak.
- The sovereign debt crisis unfolding in Europe has resulted in a strong rebound of the U.S. Dollar versus other currencies
- Despite concerns over ballooning government debt, the U.S. dollar is still regarded as a "safe haven" asset when market volatility increases
- The current strength of the U.S. Dollar should help keep inflationary pressures under control in the short-term, providing additional support for the Federal Reserve to keep interest rates low

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