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MAINTAINING COMPOSURE IN THE MONEY MARKET PORTFOLIOS

Questions continue about the impact the sub-prime mortgage crisis in United States is having on global financial markets. It has created a difficult credit environment where liquidity is at a premium and has had an impact on some money market portfolios. CIBC Global Asset Management First Vice-President of Global Fixed Income and Money Markets, Steven Dubrovsky, and his team have, through conscientious credit analysis, managed to avoid excessive exposure to asset-backed commercial paper (ABCP) in their money market portfolios.

This is Steven Dubrovsky's outlook for money markets in these turbulent times and his strategy for addressing them:

CIBC Global Asset Management's credit team carefully reviews all the corporate holdings in the fixed income portfolios, including ABCP, before considering them as potential investments. Currently, all of our ABCP holdings are bank-sponsored and are not sponsored by third parties. The major bank-sponsored ABCP issues now contain a global-style liquidity provision that requires the bank to provide liquidity in the event there is any difficulty rolling over maturities. In addition, the bank-sponsored ABCP doesn't currently contain any structured products.

Credit spreads have widened significantly recently and are now, we believe, at the most attractive level they have been in twenty years. Where possible, we are investing in good-quality, well-diversified holdings, including major banker acceptances, commercial paper and major bank-sponsored ABCP to potentially enhance the running yield of the portfolio.

Global financial pressures and the compromised U.S. credit market might act as a headwind for the U.S. economy in the near future. Fears about lingering U.S. inflation pressure seem to be overshadowed by a concern about a weakening economy. The U.S. Federal Reserve (the Fed) will likely continue to cut interest rates until the environment improves.

The Canadian economy is holding up relatively well currently, although a weaker U.S. economy, a rising Canadian dollar and a difficult credit environment could eventually take its toll. The Bank of Canada (BoC) cut interest rates by 25 basis points on December 4, 2007 and highlighted the following:

- Inflation was below BoC expectations in October and the BoC expects inflation to decline over the next several months.
- Bank funding costs in Canada and globally have increased and credit conditions have tightened in response to fears over the valuation of structured products and expected losses in the U.S. sub prime mortgage market.
- There is increased risk in the demand for Canadian exports as the outlook for the U.S. economy and the US housing market has weakened.

We have increased the average term-to-maturity in our portfolios on the expectation that the BoC could be forced to cut interest rates given the deteriorating economic and financial conditions. We are maintaining our longer term-to-maturity in order to lock in current market yields for as long as possible.

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