CIBC Asset Management

Market Spotlight

December 2014

Global Markets

Capital markets were unusually affected by volatility in the oil market, especially during the final week of the month of November. The OPEC decision to leave production quotas intact led to a dramatic decline in the price of oil and fallout ensued in global equity, currency and fixed income markets.

Emerging markets as a whole were lower, although the performance of individual countries diverged, partly based on the country's status as an oil importer or exporter. The Chinese equity market turned in positive monthly equity performance after a surprise rate cut by the Bank of China.

European equity markets led the global equity markets higher. Some economic readings reported during the month, especially from Germany, were surprisingly robust. There is speculation that the European Central Bank (ECB) may expand its asset purchase program to provide the eurozone with additional stimulus.

The U.S. market turned in positive performance, in line with most other developed global markets. The U.S. growth rate is outpacing most developed nations and its equity market has reflected this fact, especially over the past year. High valuation, lower profit margins and a stronger U.S. dollar will represent important headwinds for U.S. equities going forward. These factors reduce the probability that the U.S. will continue to outperform other markets and we reduced our U.S. equity exposure to market weight from overweight.

Canadian equities underperformed most global developed markets in November. Strength in the financials and materials sectors partially offset declines in the energy sector.

Current Asset Allocation*

Asset Class	Weighting
Canadian Bonds	Underweight
International Bonds	Underweight
Canadian Equities	Market Weight
U.S. Equities	Market Weight
International Equities	Overweight
Emerging Market Equities	Overweight

**For balanced portfolios, as at November 30, 2014.*

"Sound Bites"

Luc de la Durantaye

"As the Canadian dollar fast approaches our target (1.15 USD/CAD), investors may wonder if our projections for the loonie have changed. Our current view is that the Canadian dollar could very well be moving below target over the shorter term. This year, fluctuations in the Canadian dollar have been highly correlated with swings in oil prices, which hardly comes as a surprise.

We are not as upbeat as the Bank of Canada (BoC) about the U.S. housing recovery and prospects for U.S. and Canadian consumers. The BoC will eventually have to turn more dovish, exerting additional downward pressure on the Canadian dollar. Bottom line, our 12-month target for the USD/CAD exchange rate is unchanged at 1.15. However, a shorter-term move below target looks increasingly likely."

Fixed Income

Bond yields declined across all terms-to-maturity for the second consecutive month. Third quarter GDP in North America was stronger than in the first half of the year with results for both Canada and the U.S. better than anticipated. The sharp decline in the price of oil impacted bond, equity and foreign exchange markets.

Canadian Equity

The S&P/TSX Composite Index was up 1.1% as it recovered from a weak October. The major development during the month was the sharp correction in the energy sector. OPEC announced that it would not curb its oil production in an attempt to protect its global market share. The Canadian energy sector fell about 9% in November and is down 23% over the last three months. The rotation out of energy stocks was a contributing factor to the outperformance in consumer sensitive stocks.

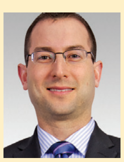
"Sound Bites"

Fixed Income Insight

Jeff Waldman

"The latest pronouncement on quantitative easing by a global central bank came from the ECB, which said it could begin to purchase sovereign bonds in the first quarter of 2015. As usual, the news sparked rallies in both bond and stock markets. Details of the program were not revealed, but it will have implications for global markets going forward. China took action to stimulate its economy by cutting its administered interest rate."

Equity Insight



Craig Jerusalim, *Canadian Equities*

"Buying high-quality companies as defined by defendable competitive advantages, strong financial positions and a track record of successful growth, can help smooth out the volatile short-term gyrations of equity markets. For example, despite the 40% crash in crude prices, low-cost producers such as ARC Resources and Crescent Point Energy can survive even if commodity prices fall further and will thrive once commodities eventually recover."

Jennifer Law, *Small Caps*

"In the near term, we see fewer investment opportunities within the commodity sectors. We favour small-cap growth stocks with market leadership and strong balance sheets. Sierra Wireless, a leading global pure play M2M (machine-to-machine) company, benefits from rising demand for device connectivity. Double-digit growth is anticipated, supported by its strong balance sheet. CCL Industries, a global leader in labels, generates strong free cash flows, trades at an attractive valuation, and continues to realize restructuring benefits."

Scott Vali, *Global Resources*

"Crude prices will likely remain in the US$70 to $80 range for the next two to three years. Below this level, production growth falls. Above this level, U.S. production growth will accelerate. We believe high-quality, low-cost producers with solid financial positions such as Suncor Energy and Canadian Natural Resources will be the biggest beneficiaries in the long term."