Perspectives Executive Summary

For the 12-month period, beginning January 1, 2015

The impact of lower oil prices

- We expect lower oil prices to mildly boost global growth and materially depress headline inflation over the coming year.
- Although the positive growth impact from an oil price decline could be small, it is widespread across larger economies and outweighs the negative impact, which is concentrated across a smaller group of oil exporters.
- The outlook for energy prices is complicated by issues on both the supply and demand sides. For example, lower prices may not trigger the strong demand response of the past, especially in the U.S. where oil dependence has diminished.

Equities versus fixed income

- We continue to favour equities, which will be supported by very loose monetary policy conditions. However, we also expect sluggish earnings growth, less attractive equity valuations and increased volatility as we enter a more mature stage of this bull market.

What are your top-ranked equity markets in this disjointed global recovery?

- The right conditions are moving into place for emerging markets to start to outperform.
- A weaker euro could restore competitiveness to the eurozone while alleviating deflationary forces. The European Central Bank's (ECB) aggressive balance sheet expansion should achieve this objective.
- We score Canada as neutral. Declining oil prices have led to a sharp correction in Canada's energy sector that is also spreading to the rest of the market.

Interest rates and the bond market

- Given the deflationary impact of the negative oil shock, we are working with lower 12-month targets for interest rates.
- The Canadian bond market should slightly outperform the U.S. Despite some obvious challenges in sectors like energy, the recent widening in spreads of credit securities has created opportunities.

Canadian dollar

- The U.S. Federal Reserve seems more determined to hike rates in 2015 but the Bank of Canada shows no intention of following suit, a negative for the Canadian dollar. Continued weakness in energy prices adds to the loonie's woes.
- The USD/CAD exchange rate could decline further to 1.19, assuming oil prices remain depressed.

THE OVERALL TRENDS

- The growth benefits of lower energy prices combined with aggressive monetary policy initiatives, led by the ECB, should keep the global expansion alive.
- Lower energy prices will likely mean that many developed and emerging central banks will undershoot their inflation targets.
- This out-of-sync global economic expansion is generating important benefits, as central banks can be more aggressive with monetary policy or more patient before raising interest rates.

CIBC Asset Management

Expected Returns

Expected returns for the 12-month period, beginning January 1, 2015	In Canadian Dollars			In Local Currency		
	Global Renormalization	Sluggish Expansion	Global Slowdown	Global Renormalization	Sluggish Expansion	Global Slowdown
Probabilities	15.0%	55.0%	30.0%	15.0%	55.0%	30.0%
Canada Money Market	1.1%	1.0%	0.7%	1.1%	1.0%	0.7%
Canada Bond	-1.0%	1.0%	4.3%	-1.0%	1.0%	4.3%
Canadian Federal Government Bond	-2.5%	0.0%	5.9%	-2.5%	0.0%	5.9%
Canada Corporate Bond	1.3%	2.4%	1.5%	1.3%	2.4%	1.5%
Canada RRB	-1.1%	0.0%	4.6%	-1.1%	0.0%	4.6%
Canada High Yield Bond	9.0%	6.5%	-3.3%	9.0%	6.5%	-3.3%
International Government Bond	-5.7%	-1.5%	12.3%	-4.6%	-1.4%	1.8%
Canada Equity	14.5%	6.8%	-10.5%	14.5%	6.8%	-10.5%
United States Equity	6.7%	6.3%	-6.4%	12.4%	3.5%	-12.6%
International Equity	13.8%	8.8%	-4.4%	13.7%	9.8%	-11.3%
Emerging Equity	11.6%	10.9%	-10.2%	12.4%	10.0%	-12.6%

Current Asset Allocation

Asset Class	Underweight		Neutral	Overweight	
	Significant	Moderate		Moderate	Significant
Equity Relative to Fixed Income				✓	
Fixed Income					
Canadian Money Market	✓				
Canadian Government Bond		✓			
Canadian Corporate Bond				✓	
International Government Bond		✓			
Equity					
Canadian Equity			✓		
U.S. Equity			✓		
International Equity (Developed Markets)					✓
Emerging Markets					✓
Currency (versus U.S. Dollar)					
Canadian Dollar		✓			
Euro	✓				
Japanese Yen		✓			
British Pound			✓		
Swiss Franc			✓		
Australian Dollar		✓			
Emerging Markets				✓	

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