Perspectives Executive Summary

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

Negative interest rates—a recent development

- In Europe, major central banks have all implemented negative policy rates.
- When confronted with negative interest rates, consumers and businesses could feel the need to save more rather than borrow and consume more. We will continue to evaluate whether negative yields can stimulate economic activity in the long run.
- The search for yield could benefit North American sovereign bond markets and possibly extend to corporate and high-yield bonds or high-paying dividend stocks.

Equities versus fixed income

- Cyclical forces may continue to support higher-than-average equity valuations a little longer, making equities more attractive than fixed income.
- With a rally in both equity and bond markets already this year, our capital market forecasts predict lower returns for both asset classes than at the start of the year.

The relative appeal of regional equity markets

- The non-commodity sectors in emerging Asia have been resilient and actually stand to benefit from lower commodity prices.
- Short-term economic prospects in Europe are rosier than they were just a few months ago, not as bright for the longer term.
- The risk is for more Canadian growth disappointments in the second half of 2015.
- The U.S. equity market remains one of the more expensive equity markets and profit margins are starting to show signs of peaking.

Interest rates

- Foreign central banks are still in the midst of deploying quantitative easing policies and the Fed is expected to remove its accommodation with extreme caution.
- The BoC's concerns over the domestic economy, along with prudent renormalizing by the Fed, should help keep Canadian yields low and prevent further selloff of credit securities.

Canadian dollar

- With a very dovish Canadian central bank and oil price weakness, the Canadian dollar is expected to consolidate around current levels for some time— possibly well into the summer.
- The risk is for a deeper short-term undershoot of our Canadian dollar fair value, with a possible retest of the cyclical lows reached in late 2008, early 2009.

THE SUB-ZERO EFFECT

- We are worried about the unintended consequences of negative interest rates, a recent development in many parts of the global sovereign bond market.
- The continuing recovery in developed markets will be offset by a slowdown in some emerging economies, particularly China.
- More aggressive monetary policy actions in recent months, combined with declining oil prices, provide some upside risk to our estimates.

CIBC Asset Management

Expected Returns

Expected returns for the 12-month period, beginning April 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	0.9%	0.5%	0.4%	0.9%	0.5%	0.4%
Canada Bond	-2.7%	0.5%	3.2%	-2.7%	0.5%	3.2%
Canadian Federal Government Bond	-4.0%	-0.3%	3.7%	-4.0%	-0.3%	3.7%
Canada Corporate Bond	-0.1%	1.5%	1.8%	-0.1%	1.5%	1.8%
Canada RRB	-6.5%	-2.6%	1.5%	-6.5%	-2.6%	1.5%
Canada High Yield Bond	7.5%	4.4%	-6.4%	7.5%	4.4%	-6.4%
International Government Bond	-11.4%	-1.8%	11.8%	-6.5%	-0.4%	4.6%
Canada Equity	19.4%	0.4%	-10.6%	19.4%	0.4%	-10.6%
United States Equity	11.0%	5.4%	-9.7%	16.6%	3.5%	-13.4%
International Equity	13.3%	6.2%	-7.7%	17.8%	9.0%	-12.2%
Emerging Equity	15.9%	9.6%	-13.5%	17.7%	10.2%	-12.3%

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				✓	

For our complete economic views and forecasts, please request the full *Perspectives* report.