CIBC Asset Management

Market Spotlight

May 2015

Global Markets

Global equity markets gained 2.35% in U.S. dollar terms in April (-2.12% in CAD). A number of equity markets reached or neared their all-time highs during the month, including the U.S., Germany and Canada. Oil prices rebounded, rising about 20%.

Emerging markets were the star performers in April. The Chinese equity market jumped as the People's Bank of China moved aggressively to remedy overly restrictive financial conditions with a 1% reduction in the bank reserve ratio. Additional stimulus measures are expected.

International equity markets had a good month, with both European and Japanese equities registering stronger performance than North American markets. Investors are hopeful that European quantitative easing will boost exports and economic prospects. The same optimism is evident for Japan, with additional easing from the Bank of Japan possibly on the agenda sometime later this year.

U.S. equity markets ended the month with small gains, although many major U.S. indices approached or surpassed all-time highs. Investors are understandably cautious at these lofty levels, especially with economic data still disappointing and timing uncertain on interest-rate increases.

Canadian equities gained 2.43%, with the rebound in energy prices improving prospects for the energy sector. The Canadian dollar also had a strong month, rising to almost 0.83 USD following a Bank of Canada (BoC) decision to stand pat on interest rates. Canadian GDP for the first quarter will likely be flat, but steadier oil prices could help to stabilize the outlook.

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 April 30, 2015.*

"Sound Bites"

Luc de la Durantaye

"The fate of the Canadian energy sector is closely related to the price of oil and earnings growth is strongly correlated with oil-price changes. Because earnings growth represents what companies earn during a year compared to the previous year, our calculations use the average price of oil received during the year compared to the year before. As such, our forecasts predict another 20% decline in earnings.

The negative impact of the decline in oil prices should slowly dissipate from headline inflation numbers as energy prices are expected to stabilize. However, global inflation is expected to pose no obstacle to continued easy monetary policy over the next 12 months in most regions, with the possible exception of the U.S."

Fixed Income

North American bond yields rose modestly for the third month in a row, but remain lower than in December. Despite the negative impact of oil prices on the Canadian economy, economic data were better than expected. This led to Canadian yields rising more than the U.S., where economic data disappointed. The BoC left its rate unchanged as it believes the economy will rebound from the oil-price decline this year. The U.S. Federal Reserve expressed a more cautious outlook. While it left the door open to a future rate hike, markets don't see any change until late 2015, at the earliest.

Canadian Equity

The S&P/TSX Composite Index rebounded 2.4% in April, bringing year-to-date performance to 5.1%. The sectors with the strongest positive returns were energy, materials, health care and financials. The lower U.S. currency contributed to a recovery in commodity prices. The Canadian macroeconomic data does not yet show the negative impact of weaker energy prices, as the unemployment rate and the housing and retail numbers remained steady.

"Sound Bites" *Higher Oil, Higher Loonie*

Fixed Income Insight

Steven Dubrovsky

"Following the April 15 BoC meeting, the fixed income market has priced out further interest rate cuts. Governor Poloz believes that the BoC took out sufficient insurance at its January policy meeting, given the economic environment at the time. Any further policy changes will depend on economic data—particularly inflation, trade balance and labour market readings. If economic conditions deteriorate further, additional rate cuts are possible."

Equity Insight

Colum McKinley, *Canadian Equities*

"The recent rise in oil prices is encouraging. Management teams have proactively moved to realign cost structures and growth profiles to a new lower oil price. Over the coming period, investors should continue to closely monitor progress in the Canadian economy, looking for greater clarity on its near-term effect on bank operating results."

Dominique Barker, *Canadian Equities*

"No matter the oil price, as long as there are jobs in Alberta, there is going to be the need for a place to live. Boardwalk is an Alberta-concentrated apartment REIT. It has been one of the weakest performing REITs since September, when the oil price started to crack (Boardwalk down 15% vs. REIT index up 3.7%). This is unwarranted, and an opportunity for us to add to positions in a best-in-class REIT."

Vincent Lépine, *Global Asset Allocation*

"Is a CAD trend reversal in the making? I doubt it. With the BoC now more upbeat about Canadian economic prospects, markets are discounting future interest-rate cuts and boosting the dollar. However, the BoC is betting on a strong, U.S.-led growth rebound and assuming continued strength in non-oil exports to the United States. In other words, the BoC's upbeat economic assessment is conditional on continued Canadian dollar weakness."