

Market Spotlight

December 2016

Global Markets

The surprising election of Donald Trump on November 8 far overshadowed other market-moving events in November. Global reactions to the election result pushed U.S. and other developed-market equities higher and bond prices lower (yields higher). With higher relative interest rates in the U.S., the U.S. dollar also strengthened on a trade-weighted basis. Global equity markets rose 1.44% in U.S. dollar terms, 1.77% in Canadian dollar terms.

U.S. equity markets rose 3.7%, with small cap stocks rebounding sharply (up 12.55%) after a difficult October. The last weeks of November saw the major U.S. averages hitting all-time highs, as investors considered the possible stimulative effects of proposed Trump policies. With the possibility of a relaxed regulatory environment, financials gained solid ground. Infrastructure and materials stocks also benefited, based on the potential for new government spending on highways and other infrastructure.

Canadian equities added 2.2%. Energy stocks benefited from the OPEC decision to cut production and the subsequent rise in oil prices. The labour market created jobs in November and the jobless rate dropped to 6.8%, but the composition of the gains was not encouraging. Full-time jobs declined while part-time increased and gains came in lower-paying positions.

International equity markets fell about 2% (USD), but were largely unchanged or higher in local currency. At the end of November, Europe was still awaiting the result of the Italian referendum (December 4). Elections in the Netherlands and France will continue to cloud the picture moving into 2017. At stake is whether the European Union and the euro will survive the growing trend of isolationism.

Emerging markets fell 4.6% (USD), -2.2% in local currency, with China lower by 1.2% (USD). This was the biggest decline for emerging markets since January 2016. Investors are trying to gauge the potential scope and severity of Trump's avowed protectionism. Trump has suggested the introduction of tariffs and duties for China and has also threatened to label China as a currency manipulator.

Current Asset Allocation Outlook*

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

*For balanced portfolios, as at November 30, 2016.

"Sound Bites"

Luc de la Durantaye



"Trump has emphasized multi-year infrastructure spending supported by tax breaks. However, given that the economy is running above trend and close to full employment, the market has been quick to price in larger inflationary pressures.

At one point, the rise in bond yields could become a significant economic roadblock, along with the rising U.S. dollar. On a trade-weighted basis, the U.S. dollar is testing the highs reached last January and, we believe, is overvalued by 11% on an effective basis. A continued appreciation could spell trouble for the ailing U.S. export sector.

The good news is that the rise in Treasury yields has not fully spilled over to mortgage rates. Seeing a glass half full, investors around the world are feeling euphoric about the potential for a heavy dose of U.S. fiscal stimulus. Nevertheless, this will take some time to materialize—if delivered."

Fixed Income

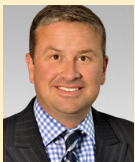
North American bond yields rose dramatically over the month. This followed a U.S. election result that conjured up fears of increased U.S. debt issuance, higher inflation and stronger economic growth. Confidence increased to a virtual certainty that the U.S. Federal Reserve would increase its administered rate at the final meeting of the year in December. Canadian monetary policy may diverge from the U.S., given that the Canadian economy is still recovering from the effects of lower commodity prices.

Canadian Equity

The Canadian equity market reached another new 52-week high with a total monthly return of +2.2%, +19.1% for the year-to-date. Geopolitical factors dominated investment trends following the unexpected election of Donald Trump as U.S. President. Late in the month, an unexpected agreement was struck between OPEC and major non-OPEC producers to cut oil production, the first time in eight years, causing energy prices to spike higher from mid-month lows. The Federal government announced the approval of two major oil pipeline projects designed to improve export capacity over the long term.

"Sound Bites"

Oil prices jump as OPEC cuts production



Scott Vali
Global Resource Fund Manager

"In a press release on November 30, OPEC indicated that its members had come to an agreement to reduce

current production for a period of six months by approximately 1.2 million bbl/d* to a production level of 32.5 million bbl/d. In addition, non-OPEC countries are also expected to cut 600k bbl/d, led by a Russian cut of 300k bbl/d.

OPEC indicated that part of the rationale for the cuts was to assist in the reduction of global inventory levels and to ensure that "counterproductive and damaging" market conditions are mitigated. Although the initial agreement is for a period of six months, it could be extended for an additional six months depending on market conditions.

The agreement represents not only a shift in OPEC policy from unconstrained production, but also re-establishes their role as the global swing producer. Had an agreement not been reached, OPEC's role in the oil market would have been further questioned longer term.

The market's initial reaction has been to "bid up" the front end of the oil futures curve, as it now anticipates that the current surplus will be dramatically reduced. The long end of the curve will likely be slower to move and be more reliant on seeing the physical market come into balance and inventories decline.

We have been expecting the oil market to balance and this agreement pulls forward the time line. In anticipation of this move, we have been overweight U.S. E&Ps (Exploration and Production companies) and had recently been adding oil service providers which will benefit from the increased cash flows of the E&Ps.

Longer term, our oil thesis has not changed. This agreement just pulls forward the timeline to a recovery."

*bbl/d = barrels/day

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