CIBC Asset Management

Market Spotlight

February 2017

Global Markets

Global markets continued to react to the new Trump administration in the U.S. and its numerous executive orders since inauguration on January 20. Although Trump has raised the overall level of uncertainty, investors seem more optimistic that some global economies are improving. Global equity markets rose 2.41% in U.S. dollar terms, -0.44% in Canadian dollar terms.

The Canadian equity market reached another new 52-week high in late-January, with the S&P/TSX Composite Index closing the month less than 2% from its all-time high. The best relative-performing sectors in Canada during the month were materials, telecommunications, financial services and utilities. The laggards were the energy, health care and consumer staples sectors.

U.S. broad equity markets rose about 2%, with the Nasdaq 100 surpassing that performance with a 5.3% gain. Both the U.S dollar and U.S. bond yields fell from their high December levels, as economic data continues to point towards gradual improvement. Although U.S. Q4 2016 GDP growth was the slowest since 2011, recent manufacturing data indicates a pickup in activity. The potential for fiscal stimulus and relaxed government regulations are also fueling optimism.

International equity markets rose about 3% (USD), slightly less in local currency. The U.K. continues to clarify issues around Brexit, suggesting that the country will seek a free-trade agreement with the rest of Europe. Europe's economy continued to improve, leaving some to call for less government intervention in markets. However, the recovery will have to show its resilience to election risks before the European Central Bank tapers its program.

Emerging markets gained 5.5% (USD), 4.0% in local currency, with China higher by 6.8% (USD). This is the strongest January performance for emerging markets since 2012. Higher commodity prices contributed to the gains.

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 January 31, 2017.*

"Sound Bites"

Luc de la Durantaye

"The prospect of fiscal stimulus amid accommodative monetary conditions in the U.S. has dramatically changed the financial dynamics. Bond yields have risen, along with inflation expectations, while rising stock prices are anticipating only a positive impact from the expected policy boost. Other aspects of a new Trump administration, such as trade protectionism and the potential imposition of tariffs on trading partners, have so far been treated with benign neglect by financial markets. This may come to haunt them in the first 100 days of the new administration. For example, renewed strength in the mighty U.S. dollar is likely to negatively impact manufacturing employment prospects, the very base of Trump's election supporters. Continued strength in the greenback makes it more likely that the new administration will make good on implementing trade restrictions. This development is the one that is most likely to unnerve financial markets and trigger retaliation from trading partners impacted by the new measures."

Fixed Income

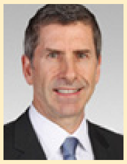
Bond yields were stable despite better-than-expected U.S. economic reports and a rise in business optimism from expected changes to regulations and corporate taxes. The U.S. Federal Reserve continues to guide investors to expect three rate increases in 2017. The Bank of Canada (BoC) released a slightly more optimistic forecast for growth this year, but did cite 'elevated policy uncertainty' as a risk to its outlook. Canada faces challenges from revisions to rules on mortgages and home buyers, and also from the potential for lower corporate taxes and increased protectionist measures in the U.S. These factors should leave the BoC on hold for the foreseeable future.

Canadian Equity

The Canadian equity market reached another new 52-week high in late-January, as did the S&P 500 Index. The S&P/TSX Composite Index closed the month less than 2% from its all-time high. Equity markets appeared to be driven higher on the expectation of an improving earnings environment. Both the U.S dollar and U.S. bond yields fell from their high December levels, while broader economic data continued to point towards improving conditions. Nevertheless, as U.S. President Trump issued a number of executive orders, investor concerns rose on the potential for border tax adjustments on imports and other changes to existing international trade policies.

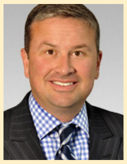
"Sound Bites"

The Trump Effect



Stephen Carlin
Managing Director and Head, Equities

"As we look at the new U.S. administration and what they're bringing so far... some of it has been positive and for some of it, we just don't know the answer yet. Positive developments have related to the Keystone XL pipeline and also some reassuring comments from Trump advisor Stephen Schwarzman on NAFTA and the Canadian impact. The only cause for concern would be some discussions around border tax adjustments, but that would have to pass through the administrative process before we know the ultimate result. With respect to particular industry sectors, the financial services sector may be somewhat immune to Trump's proposed policies and, in fact, could benefit from lower regulation."



Scott Vali
Global Resource Fund Manager

"What Trump means for the metals, mining and energy space will depend on where you're domiciled, the location of your production base. There are really two factors here—one is on the fiscal stimulus and infrastructure spending side. This would be very positive for companies like Martin Marietta or Vulcan Materials. They produce a lot of cement or construction aggregates like ashphalt that would be used in those types of projects.

U.S. oil producers are going to benefit if there is a tax imposed on oil that comes into the U.S. We would expect to see U.S. domestic oil prices move higher and U.S. producers see their profitability move higher as a result. On the other side are the Canadian producers. To the extent that there's a tax on Canadian oil coming into the U.S., we think that will have a detrimental effect on Canadian producers, and we're already seeing that reflected in the market. The problem today is that we really don't know what Trump is going to do with respect to that tax or the fiscal stimulus. However, there will definitely be positive and negatives. We're mindful of those in terms of how we construct the portfolio and we've been focused over the last six months or longer on a lot of the U.S. names."