CIBC Asset Management

PERSPECTIVES
Global Market Outlook for the 12-month period beginning April 1, 2018

TURNING UP THE PRESSURE

Market volatility returned with a vengeance over the last three months, with most asset classes providing low to negative returns. Although the big picture hasn't really changed, the high financial market valuation of many asset classes left little room for negative surprises. Trade frictions and the threat of higher wage inflation have investors on edge.

While equity market volatility will likely continue, the current correction is taking place outside of an economic recession. This increases the likelihood that the equity market uptrend will resume, albeit at a more moderate pace than last year. Equities still look slightly more attractive than bonds for the moment.

REGIONAL MARKETS

- **U.S.:** At the peak in late January, the U.S. equity market was 20% overvalued, according to our valuation model. In the aftermath of the correction, valuation has improved but is still 10% overvalued.
- **Canada**: During the first quarter of 2018, the valuation of Canadian equities improved by 6%—more than in other regions. This development improved their relative valuation and their prospects.
- **International Developed Markets:** Going forward, the valuation argument in favour of international equities versus the U.S. is intact. P/E ratios in EAFE equities are high, but less demanding than for the U.S. Dividends yields are also higher.
- **Emerging Markets:** Emerging markets showed resilience during the recent high volatility–likely the result of stronger fundamentals; they should continue to offer the best prospects in the equity universe.

LOONIE

Following a weak start in 2018, the Canadian dollar is expected to stay in a trading range. The loonie is caught between supportive oil prices and easing NAFTA risks on one hand and deteriorating trade and a prudent Bank of Canada, which will trail the tightening pace of the U.S. Federal Reserve.

TRADE WAR OR SKIRMISH?

(SPECIAL SECTION IN THIS EDITION)

By focusing on increasing exports and decreasing imports, the U.S. administration is wrongly assuming that exports are good and imports are bad. If a country can buy goods from abroad at a cheaper price than they can manufacture them at home, imports provide a benefit to the country. Too much of a narrow focus on the trade balance is unproductive. Also, ironically, while the administration is trying to reduce the U.S. trade deficit through its trade policies, its other policies (such as the implementation of tax cuts and infrastructure investments) are likely to lead to larger trade deficits.

EXPECTED RETURNS

Expected returns for the 12-month period beginning April 1, 2018

	IN CANADIAN DOLLARS			IN LOCAL CURRENCY		
	Global Reflation	Policy Renormalization	Global Recession	Global Reflation	Policy Renormalization	Global Recession
Probabilities	**20.0%**	**65.0%**	**15.0%**	**20.0%**	**65.0%**	**15.0%**
Canada Money Market	1.7%	1.4%	0.8%	1.7%	1.4%	0.8%
Canadian Bond	-1.8%	0.5%	3.4%	-1.8%	0.5%	3.4%
Cdn. Federal Govt. Bond	-1.9%	0.4%	5.3%	-1.9%	0.4%	5.3%
Canadian Corp. Bond	0.1%	1.3%	0.6%	0.1%	1.3%	0.6%
Canadian RRB	0.8%	-0.5%	3.0%	0.8%	-0.5%	3.0%
Canadian High Yield	5.3%	3.3%	-5.8%	5.3%	3.3%	-5.8%
International Govt. Bond	-8.2%	-3.4%	7.9%	-4.1%	-2.4%	5.1%
Canada Equity	13.7%	6.7%	-18.3%	13.7%	6.7%	-18.3%
United States Equity	6.3%	3.4%	-12.4%	11.0%	5.0%	-16.3%
International Equity	10.3%	7.2%	-19.4%	15.0%	8.1%	-19.0%
Emerging Equity	14.5%	9.2%	-26.6%	16.2%	9.5%	-23.9%

ASSET ALLOCATION OUTLOOK

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)	UNDERWEIGHT		NEUTRAL	OVERWEIGHT	
	SIGNIFICANT	MODERATE		MODERATE	SIGNIFICANT
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.