Perspectives Executive Summary

For the 12-month period beginning July 1, 2015

INTEREST RATES: READY, SET, CRAWL

- Expect heightened volatility in fixed income as the Fed could *slowly* begin to raise interest rates.
- The global economy is counting on the impact of continued easy monetary policies in Europe, Japan and China, as well as the benefit of lower energy prices.
- Slowing economic momentum casts doubts on China's 7% GDP growth target this fiscal year.

Interest Rates: Ready, Set, Crawl

- The investment community is laser-focused on estimating when the U.S. Federal Reserve (Fed) should start raising interest rates. We believe this obsession misses the bigger picture.
- The widely used term *lift-off* is the wrong way to characterize the Fed's policy approach—*crawling* is probably more appropriate. The path and reaction function of the Fed are the important issues, not the specific starting point.
- The Fed is keeping all options open by specifying that decisions will remain data dependent.
- We also believe that fears of a broad-based shock to emerging markets from Fed renormalization may be overstated. While there are a number of vulnerable economies, they do not constitute the majority.

Equities versus fixed income

- Equities are still favoured over bonds, although rising valuations make equities more vulnerable to an adverse scenario.
- If rising interest rates are accompanied by improving corporate cash flows, the negative effect of rising rates on the equity risk premium will be offset, allowing equity markets to outperform fixed income securities.

Regional equity markets

- Canadian equities are neutrally rated. Valuation remains around the historical average, but we fail to see a catalyst that would support outperformance.
- U.S. equities might be the most at risk because their valuations are among the highest of all major countries.
- European equities (particularly banks) and Japanese equities could outperform other regions.

Canadian dollar

- The Canadian dollar has likely transitioned to a trading range from the pure depreciation trend of the past two years.

CIBC
Asset Management

Expected Returns

Expected returns for the 12-month period beginning July 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%	0.7%	0.4%	0.9%	0.7%	0.4%
Canada Bond	-1.5%	0.5%	6.5%	-1.5%	0.5%	6.5%
Canadian Federal Government Bond	-2.4%	0.0%	5.9%	-2.4%	0.0%	5.9%
Canada Corporate Bond	0.6%	1.3%	4.3%	0.6%	1.3%	4.3%
Canada RRB	-1.7%	0.0%	11.0%	-1.7%	0.0%	11.0%
Canada High-Yield Bond	6.8%	4.5%	-3.5%	6.8%	4.5%	-3.5%
International Government Bond	-8.2%	-0.5%	13.1%	-5.3%	-0.3%	5.7%
Canada Equity	14.3%	3.1%	-10.7%	14.3%	3.1%	-10.7%
United States Equity	7.8%	6.5%	-8.3%	11.7%	3.9%	-13.3%
International Equity	9.0%	7.6%	-8.3%	13.0%	9.3%	-12.0%
Emerging Equity	12.2%	11.9%	-10.9%	12.4%	11.2%	-12.6%

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				✓	

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