

Perspectives Executive Summary

For the 12-month period beginning January 1, 2016



U.S. BREAKS AWAY

- U.S. interest rates have started to rise, leaving the U.S. Federal Reserve as the only developed-nation central bank with a tightening bias.
- Driven by U.S. consumer strength, the Fed assumes that the U.S. economy will be able to cope with the strong appreciation of the U.S. dollar but we are not as upbeat about U.S. prospects. From both a valuation and monetary policy standpoint, other parts of the world offer better opportunities at this juncture.

Equities versus fixed income

- Our global economic forecasts point towards sluggish, but positive, earnings growth. We forecast mid single-digit returns for equity markets over the coming year—with equities mildly more attractive than fixed income.
- The tailwind behind financial markets previously provided by universally accommodative monetary policies could be fading, resulting in flatter and more volatile financial market returns.
- With near-zero policy rates in Canada and the U.S., and little further downside in long-term yields, expected returns on fixed income assets should remain in the low single digits.

Loonie and Greenback

- Contrary to the Bank of Canada's expectations, the oil shock isn't fading but deepening. In our opinion, this dire economic reality points to further Canadian dollar weakness over the shorter term.
- The Canadian dollar will likely sink below \$0.70 US owing to the oil-driven terms of trade shock and widening Canadian-U.S. monetary policy differentials.
- While some of the economic effects of U.S. dollar strength may be transient and prone to fade, the greenback's strength is likely to be more moderate and more selective in 2016 than the broad advance witnessed in 2015.

Regional economies

- Our overweight in international and emerging markets moves to **moderate** from **significant**.
- **U.S.:** We forecast lower-than-consensus real GDP growth of +2.0%. From a cyclical perspective, U.S. companies must cope with a strengthening U.S. dollar and higher interest rates, pushing financing costs higher.
- **Europe:** Real GDP growth likely remains below consensus, owing to sluggish net exports and structural weakness in investment spending. The ECB will stay in easing mode for several years.
- **China:** Uncertainty around the Chinese economy will dominate 2016. The service sector is leading the growth outlook while manufacturing and construction continue to show signs of soft growth.
- **Canada:** Canadian dollar weakness so far has not cushioned the economic downturn as expected. Real GDP growth will likely disappoint again in 2016.



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Asset Management

Expected Returns

| Expected returns for the 12-month period beginning January 1, 2016 | In Canadian Dollars | | | In Local Currency | | |
|--|------------------------|--------------------|---------------|------------------------|--------------------|---------------|
| | Global Renormalization | Sluggish Expansion | Policy Limits | Global Renormalization | Sluggish Expansion | Policy Limits |
| Probabilities | 20.0% | 50.0% | 30.0% | 20.0% | 50.0% | 30.0% |
| Canada Money Market | 0.8% | 0.5% | 0.2% | 0.8% | 0.5% | 0.3% |
| Canada Bond | -1.6% | 0.9% | 3.6% | -1.6% | 0.9% | 3.6% |
| Canada Federal Government Bond | -2.8% | 0.0% | 3.5% | -2.8% | 0.0% | 3.5% |
| Canada Corporate Bond | 1.5% | 2.2% | 2.2% | 1.5% | 2.2% | 2.2% |
| Canada Real Return Bond | 0.9% | -0.7% | 11.3% | 0.9% | -0.7% | 11.3% |
| Canada High-Yield Bond | 14.7% | 7.9% | -1.9% | 14.7% | 7.9% | -1.9% |
| International Government Bond | -10.7% | 3.2% | 17.3% | -1.3% | 0.5% | 4.2% |
| Canada Equity | 11.4% | 5.3% | -16.9% | 11.4% | 5.3% | -16.9% |
| United States Equity | -2.7% | 4.5% | -10.2% | 8.2% | 2.6% | -16.8% |
| International Equity | 3.5% | 8.8% | -4.2% | 12.6% | 6.8% | -14.8% |
| Emerging Equity | 14.2% | 5.2% | -15.0% | 17.4% | 6.6% | -17.2% |

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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