CIBC
Asset Management

Market Spotlight

March 2015

Global Markets

Global equity markets rose 5.86% in U.S. dollar terms in February (4.25% in CAD). World markets rallied as energy prices appeared to find a stable level, boosting the energy sector.

The U.S. market moved up in February, with many indices approaching all-time highs. The Nasdaq Composite Index had an especially strong month as it gained 6% and approached the 5,000 level, a sight not seen since the days of the technology stock "bubble."

The European Central Bank (ECB)'s massive quantitative easing program seems to be inspiring confidence, as eurozone consumer confidence figures surprised to the upside. In addition, the situation in Greece has found at least a temporary solution. The foreign aid agreement to Greece has been extended by four months as Greece works to improve its performance on structural reform, including issues such as tax collection.

Emerging markets lagged other international markets in February, although overall performance was positive. China's growth rate is moderating and the Bank of China has begun a series of rate cuts. This action should lower the yuan and hopefully re-ignite the Chinese manufacturing sector. Another focus for emerging markets investors was Russia. Political tensions are high as relations with Ukraine remain tense and Putin's public demeanour stays confrontational.

Canadian equities gained 4% in February. Although energy prices rallied, the Canadian energy sector as a whole recorded just a slight gain. However, the largest index component, the financial sector, rallied almost 7%. Healthy earnings reports and an increase in the dividend from several Canadian banks boosted the sector in February.

Current Asset Allocation*

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

**For balanced portfolios, as at February 28, 2015.*

"Sound Bites"

Luc de la Durantaye

"The need for additional Bank of Canada (BoC) rate cuts will be determined by two things. First, will financial conditions remain unchanged or start to tighten? Too much appreciation of the Canadian dollar and too great a rise in borrowing costs would be unwelcome developments.

Second, will the Canadian economy confirm the BoC's expectation that growth will slow to 1.9% in 2015? If the economic data starts to disappoint, the BoC will have to turn more dovish and eventually ease again. At this juncture, the numbers do not justify another rate cut. From a strategic perspective, the BoC also has to consider that it is quickly running out of ammunition (i.e. the policy rate is already near zero)."

Fixed Income

In February, North American bond yields gave back some of the gains from January. The Canadian bond market significantly outperformed the U.S. market as investors believe that the central banks of Canada and the U.S. are poised to move in opposite directions. Canada is expected to cut its administered rate again while the U.S. is expected to hike. Global bond markets continued to react positively to the easier monetary policy being implemented by central banks. Many yields in Europe fell to record lows during the month, and negative yields on government debt are now common for bonds with maturities up to 10 years.

Canadian Equity

The S&P/TSX Composite Index was up 4% in the month of February, bringing its year-to-date return to 4.5%. The best-performing sectors during the month were health care, consumer discretionary and financial services (banks), while the telecom, utilities and materials sectors produced modest negative returns. Canada continues to face economic growth pressures as a wide array of companies in the energy sector defer or cancel growth projects.

"Sound Bites"

Fixed Income Insight

Patrick O'Toole

"Economic data remains mixed, prompting Bank of Canada governor Poloz to state, "we took out some insurance until we can figure out just how 'net negative'"... the oil shock will be on the Canadian economy, as justification for cutting interest rates. Credit spreads remain attractive, particularly given the extremely low yields available on government bonds."

Equity Insight

Vincent Lépine, *Global Asset Allocation*

"For 2015, the number one risk for the eurozone is to fall into a deflation trap as Japan did in the 1990s. The ECB plans to buy €1 trillion in assets in an attempt to anchor long-term inflation expectations and revitalize the eurozone economy. Will it work? Odds are good. Europe should also benefit from the sharp decline in oil prices and the weakening of the euro on an export-weighted basis. The outlook is particularly bright for Germany – Europe's growth engine."

Equity Insight

Mark Lin, *International Equities*

"We continue to see signs of a sluggish European industrial economy. Financial results and related commentary for 2014 from Europe's largest industrial gases provider, Air Liquide, indicated continued sluggish industrial activity across Europe. The company's European operations (about 50% of the company total), which service a broad range of industrial customers, showed a -1.1% decline in revenue over 2013."

"European oil majors are cutting back on capital expenditures (up to 30% in some cases) and streamlining operating costs in reaction to the sharp decline in the price of oil since June of last year. Energy companies are focused on maintaining free cash flow, exercising balance sheet flexibility and preserving dividend payments to shareholders."

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