CIBC Asset Management

Market Spotlight

June 2015

Global Markets

Global equity markets gained 0.34% in U.S. dollar terms in May and 3.41% in Canadian dollar terms, as the Canadian dollar plunged against the U.S. currency. The Canadian dollar ended May just above USD 0.80.

U.S. equity markets ended the month with small gains. Much investor attention is still focused on the U.S. Federal Reserve's (Fed's) next move and economic data are not providing clear signposts. Mergers and acquisitions activity continues to be lively, especially in the technology sector.

International equity markets had a slightly negative month. European markets were mostly negative but Japanese equities rose, as the yen fell to multi-year lows against the U.S. dollar—a plus for Japanese exporters. European equities reacted negatively to renewed concerns over the situation in Greece and the country's ability to avoid default on an imminent payment to the IMF. The Greek drama continues, with no ultimate solution in sight.

Emerging markets tumbled in May, after stellar performance in April. The Chinese equity market lost value in U.S. currency terms. The Chinese central bank will likely become increasingly accommodative as the year progresses.

Canadian equities fell, with energy prices slipping once again after an April rebound. Canadian bank results were released during the month and were encouraging, with dividend increases from some major players. While the Canadian economy appears somewhat stable, the impact of sharply lower crude oil prices may not yet be fully reflected in economic data.

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 May 31, 2015.*

"Sound Bites"

Luc de la Durantaye

"In the context of a very dovish Canadian central bank and oil price weakness, the Canadian dollar is expected to consolidate around current levels for some time. Given the damage done, and using the 2008-09 consolidation phase as a guide, this consolidation will likely continue well into the summer. The risk, however, is for a deeper short-term undershoot of our Canadian dollar fair value based on Canadian growth concerns and a retest of the cyclical lows reached in late 2008 and early 2009."

Fixed Income

The Bank of Canada left its administered rate unchanged. Governor Poloz continues to believe that weak Canadian growth will improve once U.S. economic growth bounces back in the second quarter. Fed Chair Yellen and Vice-Chair Fisher used every opportunity to prepare the market for an initial increase in the federal funds rate this year. However, the futures market currently sees only a 50% chance of a hike by December. Despite the effects of the European Central Bank's (ECB's) quantitative easing program, European bond yields rose. The near-term challenges facing Greece will continue to dominate capital markets in the weeks ahead.

Canadian Equity

The S&P/TSX Composite Index fell 1.2% in May, bringing year-to-date performance to +3.8%. The Canadian market was negatively affected by a stronger U.S. dollar, weaker energy prices, slightly higher bond yields and mixed corporate quarterly earnings results. The best performing sectors in the Canadian equity market were health care, consumer discretionary, consumer staples and telecommunication services, while the energy, industrials, utilities and financial services sectors had the largest negative returns.

"Sound Bites" *Canadian Banks Report Results*

Fixed Income Insight

Marisa Jones

"Solid results across all business lines in the quarter, lofty capital and resistant loan books remain supportive of bank credit. Bond market participants recognize that recent negative action from rating agencies resulted from changes in rating methodology rather than declining bank credit quality. Within the capital structure, bank senior deposit notes offer an attractive alternative to similarly-rated regulated utility and infrastructure bonds. Upcoming clarification on bail-in legislation may provide a catalyst for deposit note strengthening."

Equity Insight

Domenic Monteferrante, *Canadian Equities*

"While energy prices have recovered from recent lows and many energy companies have re-financed and lowered their cost structures, uncertainty remains in their revenue and earnings growth outlook. Given this uncertainty and the collateral damage it could exert on the broader economy in terms of weaker business investment and real estate activity, Canadian bank-share price performance is likely range bound for now."

Natalie Taylor, *Canadian Equities*

"Canadian banks proved the strength and resiliency of their business models yet again this quarter, exceeding low expectations. Earnings were driven by higher levels of capital markets activity and strength in wealth management while retail banking remained solid. That being said, we believe that domestic growth will continue to slow and credit could deteriorate from exceptional levels. As such, we prefer banks with strong capital, non-domestic exposure and attractive valuations."

Colum McKinley, *Canadian Equities*

"Both Canadian and U.S. businesses reported stable and relatively uninspiring quarterly results relative to expectations. The combination of bad weather, U.S. dollar strength and a major port strike slowed overall earnings growth and lead to lowered expectations throughout the period. This places an even greater burden for improved earnings results in the back half of 2015, to meet the market's optimistic recovery scenario embedded in some stock valuations."