CIBC Asset Management

Market Spotlight

September 2015

Global Markets

Global equity markets tumbled 6.6% in U.S. dollar terms in August and 4.5% in Canadian dollar terms. Enormous volatility in most capital markets characterized the month. Intraday and day-to-day volatility increased substantially, with the VIX volatility indicator reaching levels not seen in over three years.

Emerging markets suffered the largest declines of global markets, with Chinese equities losing almost 12% in U.S. dollar terms. Emerging markets are also experiencing capital outflows as investors brace for an initial U.S. interest rate increase. *(More from Luc de la Durantaye at right.)*

U.S. equity markets declined about 6%. U.S. economic data has been improving, with home sales, consumer confidence and employment numbers all stronger. However, the strong U.S. dollar has impeded exports and the manufacturing sector.

International equity markets experienced similar declines to North American markets—in the 5-7% range. European manufacturing activity is picking up—euro declines are helping—and the Greek situation appears calmer. But no global market escaped the spike in volatility and the anxiety of nervous investors.

Canadian equities declined as lower energy prices led to oil industry layoffs. This may create a weaker housing market, with the Western provinces feeling the greatest impact.

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 August 31, 2015.*

"Sound Bites"

Luc de la Durantaye

"The Chinese government moved unexpectedly to devalue the yuan during the month, initiating a strategy that will eventually allow market forces to set the currency's value. This is a necessary step as China moves to gain acceptance for the yuan as a global reserve currency. The government also intervened to stem the slide in the Chinese equity market, but these efforts were not particularly successful.

China is shifting from an economy focused on manufacturing and infrastructure investment, to one focused on the domestic consumer. We believe this is a healthy long-term goal, but there will be a period of adjustment and possible slower growth. Meanwhile, we believe that investors are overly worried and are pricing in a worse outcome than will actually come to pass."

Fixed Income

Towards the end of August, rumours were widespread that the Chinese government was selling U.S. Treasury bonds and using the proceeds to stabilize the volatility in the Chinese currency and stock markets. This reversed the decline in bond yields late in the month and bond prices finished lower. Government of Canada bonds outperformed other bond sectors, and the Canadian market performed in line with the U.S. bond market last month, after a recent period of Canadian outperformance.

Canadian Equity

The S&P/TSX Composite Index had a return of -4.0% in August, bringing year-to-date performance to -3.5%. During the month, the index corrected about 9.8% from its July close, due in part to the unexpected devaluation of the Chinese currency. Among the major developments in the Canadian market were the 57% reduction of the dividend at Crescent Point Energy and the elimination of the dividend at Baytex Energy. Canadian banks announced their fiscal third quarter results that, as a group, were slightly better than expected.

"Sound Bites"

Fixed Income Insight

Jeff Waldman
Head of Global Fixed Income

"The action by the People's Bank of China (PBOC) to adjust its currency regime, and the Chinese government's policy to initially support, then temper support for the domestic equity market, had implications for capital markets last month. The U.S. dollar hit new highs against a basket of Asian currencies, as expectations grew over further devaluations by Asian countries. This could occur as an attempt to protect their export markets from the PBOC move. Global bond yields fell on the belief that the new PBOC policy will revive idle production capacity and increase deflationary pressures around the globe. Commodities weakened further on signs of slowing global growth, with oil falling to levels not seen since the financial crisis in 2009.

The wild speculation on the timing of the first increase in the U.S. federal funds rate since 2006 seemed to be triggered by opposing public comments made by U.S. Federal Reserve governors. We believe that a 2015 rate hike is still the most likely scenario, subject to improving economic data. However, the extreme volatility in global equity markets also seems to be playing a role in U.S. Federal Reserve policy. The futures market is currently pricing in a 60% chance of a hike by December, down from 70% last month."

Equity Insight

Natalie Taylor
Equities

"Bank earnings once again exceeded muted market expectations, delivering solid retail banking and wealth management results. Not surprisingly, oil and gas exposure was once again a big focus. Updated stress tests indicate that credit losses are expected to be manageable and will not exceed historical averages. We continue to believe that earnings growth will be a challenge in a rising credit cost environment. Current valuations appear to be pricing in a 5% decline in earnings for 2016, which is fair in our view."

Domenic Monteferrante
Canadian Equities

"Over the last 12 months the Canadian equity market has been led by fewer and fewer stocks, with only 23% of stocks now trading above their 200-day moving average. Some believe the S&P/TSX Composite Index is in a "stealth" bear market environment. Current conditions present short-term investment risks but long-term investment opportunities. Our focus is to construct a portfolio with below-average price volatility and above-average dividend yield. We continue to see attractive long-term valuations developing in Canadian financial services, energy infrastructure and telecommunications."