CIBC Asset Management

Market Spotlight

November 2015

Global Markets

Global equity markets gained 7.9% in U.S. dollar terms in October and 5.3% in Canadian dollar terms, as the Canadian dollar strengthened against the U.S. currency. Most international markets experienced a strong month of October, rebounding after sharp declines in September.

Emerging markets climbed, with gains of over 9% for the Chinese market. The Chinese central bank put several monetary policy changes in place in an effort to stimulate its economy, including a decrease in interest rates.

U.S. equity markets jumped over 8% as the prospect of a Fed rate hike was pushed into the future, possibly to December. U.S. economic data is still mixed—domestic consumption is fairly healthy but investment, housing and manufacturing are not yet on solid ground. Quarterly corporate earnings reports began to appear in October and these were generally positive (e.g. Amazon, Apple) with some notable exceptions (e.g. IBM).

International equity markets advanced, as Europe benefits from stimulative monetary policy. European Central Bank (ECB) president Draghi has hinted that quantitative easing could be extended beyond the target end-date of September 2016. In Japan, the economy is having difficulty meeting the Bank of Japan's inflation target, but no additional monetary easing has been announced for the moment.

Canadian equities also rallied, but sharp declines in Canadian market heavyweight Valeant Pharmaceuticals produced muted returns in Canada as compared to the rest of the world. On the positive side, the energy and materials sectors rallied and the Canadian dollar strengthened against the U.S. currency.

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 October 31, 2015.*

"Sound Bites"

Luc de la Durantaye

"China has experienced increased turbulence so far in the second half of 2015. This has had an important impact on global growth prospects and is a key factor in explaining global financial market dynamics.

Given the slowing growth environment and disinflation tendency in the Chinese economy, we expect the central bank of China to continue its accommodative policies. This should promote economic activity and provide relief on debt servicing. On a historical basis, real interest rates remain relatively high, suggesting that more needs to be done by the central bank to loosen financial conditions."

Fixed Income

Global bond yields were supported during the month by dovish announcements from the Bank of Canada (BoC), the European Central Bank, the People's Bank of China and others, with the exception of the U.S. Federal Reserve (Fed). The BoC lowered its growth forecast for 2016 and 2017, and the market is currently expecting no change in the BoC rate for all of 2016. Government of Canada bonds performed in line with U.S. bonds, while European bonds outperformed. Currently, $1.9 trillion of European sovereign bonds are trading with negative yields, approximately 30% of the sovereign market and more than ever before. Concerns about deflation and slow growth persist in Europe.

Canadian Equity

The S&P/TSX Composite Index had a total return of +2% in October, bringing year-to-date performance to -5.2%. In addition to news surrounding Valeant Pharmaceuticals, Suncor made a bid for Canadian Oil Sands, Potash withdrew its takeover bid for the German-based fertilizer company K+S Ag and the Quebec provincial government invested US$1 billion for a 49.5% stake in Bombardier's CSeries program. Lastly, the Canadian Federal election took place, producing a surprising majority win for the Liberals.

"Sound Bites"

Fixed Income Insight

Jeff Waldman

Head of Global Fixed Income

"The wild speculation on the timing of the initial increase in the U.S. fed funds rate since 2006 continued unabated, as the Fed kept its rate unchanged for its 55th consecutive meeting. In its statement, the Fed highlighted that it will consider raising the rate provided that employment, inflation, international and financial conditions continue to improve. The futures market is currently pricing in a 50% chance of a hike by December, up from 40% last month."

Natalie Taylor

Equities

"In October, the Fed left the door open for an interest rate hike in late 2015, bringing expectations forward. We continue to believe that U.S. rate hikes will be few and far between. As such, we look to take advantage of swings in valuation resulting from shifts in expectations. North of the border, the Bank of Canada appears to be taking a breather from rate cuts to allow for fiscal stimulus to play a role. This is positive for Canadian banks, which have faced margin pressure as the result of two rate cuts in 2015."

Equity Insight

Craig Jerusalim

Canadian Equities

"Valeant's muted specialty pharmacy strategy continues to be mired under a cloak of uncertainty. In order to address this controversy and move forward, Valeant has severed ties with Philidor and will be picking up incremental customer costs in the interim. Management has a lot of work to do to regain stakeholders' trust, and refocus investors on the strong underlying cash flow profile of the remaining majority of their business."

Mark Lin

Global Equities

"The European continent is undergoing a slow recovery as employment in the southern countries continues to steadily improve. However, the level of economic activity is far from robust and growth remains subdued. European banks that have exposures to emerging markets also saw negative earnings contribution and rising bad loan provisions from those markets."