CIBC Asset Management

Market Spotlight

November 2016

Global Markets

Looming U.S. elections added to existing uncertainty around central bank actions and took global markets lower in October. In part, this reaction stemmed from uncertainty of what a Trump win would bring—from trade deals to U.S. economic growth to whether the U.S. Federal Reserve would hike interest rates in December. Global equity markets fell 1.94% in U.S. dollar terms, unchanged in Canadian dollar terms.

U.S. equity markets were lower by about 2%, with small cap stocks particularly hard hit. The run-up to the U.S. election kept investors on edge, especially when developments seemed to introduce some advantage for Trump, and risk was being taken "off the table" in October. However, economic data registered some improvement, with initial estimates of Q3 GDP showing 2.9% annual growth.

Canadian equities added just under 1%, despite a decline in many commodity prices. As expected, the Bank of Canada lowered growth expectations at its monetary policy update. The Canadian dollar declined by over 2% against the U.S. currency, as investors acknowledged that Canadian monetary policy will likely remain accomodative even if rates rise in the U.S.

International equity markets fell about 2%, with Europe dropping by over 3% (in USD). This was largely a currency story, as European equity markets were mostly unchanged in local currencies. The U.K. equity market, for example, dropped over 5% in U.S. dollar terms in October, but rose about 1% in local currency terms.

Emerging markets were close to unchanged, although China fell by almost 2% (in USD). Despite the decline, data released during the month showed the Chinese economy grew by 6.7% year-over-year in the July-to-September quarter. This echoes identical gains in the first two quarters of 2016, a rate above the 6.5% minimum target set by government for the current calendar year.

Current Asset Allocation Outlook*

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

For balanced portfolios, as at October 31, 2016.

"Sound Bites"

Trump Wins

Luc de la Durantaye

"Potentially, one of the biggest financial market consequences of the U.S. election could result from Trump's stance on Mexico and China. He has expressed a strong protectionist position, and has suggested introducing tariffs and duties, particularly on China, as well as renegotiating free-trade agreements with Mexico and Canada. He has also threatened to label China as a currency manipulator. This could all worsen trade relations with China.

As well, under Trump's presidency, we will have to watch how much fiscal spending is increased, which could spur growth, and therefore steepen the yield curve. Trump has been very critical of the U.S. Federal Reserve (Fed) and how they are not meeting standards. If he decides to have it audited, and force changes at the Fed, this may also unnerve markets about the uncertain future of U.S. monetary policy direction and leadership."

Fixed Income

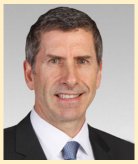
North American bond yields rose over the month, as the bond market adjusted to a greater likelihood that the U.S. Federal Reserve will increase its administered rate at the final meeting of the year in December. Increasingly, central banks across the globe are realizing that there are detriments to their use of unconventional monetary policy. The Bank of Canada lowered its growth expectations at its monetary policy update. Growth forecasts for the economy this year and next were decreased, and Governor Poloz encouraged the federal government to increase spending to help kickstart growth.

Canadian Equity

The Canadian equity market reached another new 52-week high in mid-October and closed out the month with a total return of +0.6%, bringing the year-to-date return of the S&P/TSX Composite Index to +16.5%. The Federal government introduced changes to mortgage rules intended to dampen speculative investment and the sharp price appreciation in residential housing. An oil production agreement between OPEC and major non-OPEC producers continued to be negotiated ahead of the next official OPEC meeting, scheduled for November 30. News that Valeant's ex-CEO and ex-CFO were subject to criminal investigations sent the shares sharply lower at month's end.

"Sound Bites"

Trump wins – What now for Canadian investors?



Stephen Carlin

Managing Director and Head, Equities

"The outcome of initiatives like potentially re-negotiating the North American Free Trade Agreement would have a potential negative impact for the Canadian economy. However, we note that most of the rhetoric on trade agreements related to lost jobs in America. It would be our expectation that Mexico could be more in the crosshairs of these discussions than Canada.

The Canadian stock market will not be immune to the U.S. market reaction—especially given that we remain strong trading partners. The Canadian government and the Bank of Canada will stand ready with a policy response to bridge a potential impact as a result of uncertainty. We see concern around many government policies translating into a higher level of market volatility until a clearer picture emerges. Trump has also conveyed a view relating to current Fed policy— this remains an important risk element not just for Canada, but for all global central banks and markets to absorb."

Jeffrey Waldman

First Vice President, Global Fixed Income

"At the end of arguably the most farcical and sordid presidential campaign in American history, Donald Trump takes office with one of the lowest approval ratings ever for a new president. Thanks to the controversies surrounding him, there will be no honeymoon period when he enters the White House in January, like there was when Barack Obama took office in 2009.

On the economy, Trump will try to impose fewer regulations in the energy sector and the banking sector by rolling back Dodd-Frank[1] but reinstating Glass-Steagall[2], a higher minimum wage, lower taxes on businesses and individuals, and new terms for trade deals that currently exist.

Perhaps some of these measures will help jumpstart an economy that has been growing at less than 2%, but not likely to the lofty levels that Trump is suggesting. There is a risk that trade frictions could actually trigger a backlash and slow economic growth."

[1] The Dodd-Frank Wall Street Reform and Consumer Protection Act is U.S. federal law that places regulation of the financial industry in the hands of government.

[2] Glass-Steagall is a U.S. banking act that prohibits commercial banks from engaging in the investment business.