Perspectives Executive Summary

For the 12-month period beginning October 1, 2015

CENTRAL BANKS NEARING LIMITS?

- We are reducing the probability of our main ***sluggish expansion*** scenario to 50% (from 55%) and increasing the ***global slowdown*** scenario to 35% (from 30%).
- Investors are paying a lower price for equities after the third-quarter correction, but are getting lower earnings growth in return.
- Subdued U.S. growth and a strong U.S. dollar will make it difficult for the Fed to hike interest rates. More likely, the Fed will hesitantly deliver only very modest rate increases.

CIBC Asset Management

Central banks nearing limits?

- Central banks can only stretch policy so far in order to ignite growth—and many are nearing those limits. Several interest rates are already at zero and some central banks are also likely approaching their boundaries for non-conventional policy.
- Despite their best efforts, global growth remains relatively low by historical standards.
- Central bankers also face the problem that it is difficult to raise interest rates without derailing any existing momentum. Uncertainty is a negative—the U.S. Federal Reserve (Fed) introduced higher volatility to financial markets by postponing a first rate hike and keeping the market on edge.

Equities versus fixed income

- We maintain an overweight in equity. While safer assets, such as sovereign fixed income, offer a more stable return, that return will have difficulty maintaining purchasing power over time. We believe equities will stabilize following the third-quarter equity correction.
- While equity valuation has improved since the beginning of the summer, expected equity returns are not materially higher due to lower expected earnings growth.

Regional economies

- **U.S.:** resilient, labour and housing markets improving.
- **Europe:** showing signs of life. Domestic demand is improving but growth remains relatively low by historical standards.
- **China:** persistent slowdown looks more and more structural and is increasingly showing signs of impacting its neighbors.
- **Canada:** economic outlook has faded radically, with persistently low oil prices and a negligible boost to the export sector from a lower loonie.

Canadian dollar

- Canadian dollar faces a double whammy:
  - Resuming downtrend in oil prices
  - Downshift in BoC monetary policy expectations led by weaker-than-expected jobs and GDP growth
- As a result, the loonie could be headed deeper into undervalued territory.

Expected Returns

Expected returns for the 12-month period beginning October 1, 2015	In Canadian Dollars			In Local Currency		
	Global Renormalization	Sluggish Expansion	Global Slowdown	Global Renormalization	Sluggish Expansion	Global Slowdown
Probabilities	15.0%	50.0%	35.0%	15.0%	50.0%	35.0%
Canada Money Market	0.8%	0.5%	0.3%	0.8%	0.5%	0.3%
Canada Bond	-1.5%	1.5%	4.9%	-1.5%	1.5%	4.9%
Canada Federal Government Bond	-3.2%	0.2%	4.3%	-3.2%	0.2%	4.3%
Canada Corporate Bond	1.4%	2.9%	3.7%	1.4%	2.9%	3.7%
Canada RRB	0.5%	3.5%	11.2%	0.5%	3.5%	11.2%
Canada High-Yield Bond	14.2%	9.9%	1.7%	14.2%	9.9%	1.7%
International Government Bond	-15.3%	-1.3%	9.6%	-7.3%	-0.8%	3.9%
Canada Equity	12.0%	6.0%	-16.3%	12.0%	6.0%	-16.3%
United States Equity	-0.4%	4.9%	-10.4%	10.8%	4.6%	-14.2%
International Equity	4.7%	6.1%	-11.1%	12.4%	7.1%	-14.9%
Emerging Equity	16.2%	5.7%	-18.1%	17.5%	7.0%	-17.1%

Current Asset Allocation

Asset Class	Underweight		Neutral	Overweight	
	Significant	Moderate		Moderate	Significant
Equity Relative to Fixed Income				✓	
Fixed Income					
Canadian Money Market	✓				
Canadian Government Bond		✓			
Canadian Corporate Bond				✓	
International Government Bond		✓			
Equity					
Canadian Equity			✓		
U.S. Equity			✓		
International Equity (Developed Markets)					✓
Emerging Markets					✓
Currency (versus U.S. Dollar)					
Canadian Dollar		✓			
Euro	✓				
Japanese Yen			✓		
British Pound		✓			
Swiss Franc		✓			
Australian Dollar			✓		
Emerging Markets				✓	

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