CIBC Asset Management

PERSPECTIVES

Global Market Outlook for the one-year period beginning January 1, 2019

IS RELIEF IN SIGHT?

The intensity of the late-2018 market pullback may seem counterintuitive—isn't the world economy still in decent shape? Although the global economy remains in expansion mode, market focus has shifted to deteriorating global liquidity conditions and what this could mean for 2019. We believe that global policy-makers, starting with the U.S. Federal Reserve, will increasingly shift from policy renormalization to policy relief.

EQUITIES VERSUS FIXED INCOME

With significant corrections in most markets last year, equity valuation has improved. Strictly from a valuation point of view, equities are currently more attractive than government bonds. While the timing of an increased allocation to risky assets is tricky in this volatile environment, cautiously building positions could prove rewarding over the long term.

CURRENCIES

The Canadian dollar will remain a fundamentally challenged currency in 2019, limiting its potential upside against the U.S. dollar even once oil prices stabilize and the Fed moves to the sidelines.

Policy changes should allow the long-awaited U.S. dollar trend reversal to finally materialize in 2019. The U.S. dollar's downside will likely be limited, however, in the absence of clear policy shifts in the rest of the world.

REGIONAL MARKETS

U.S.: The U.S. continues to be the most expensive equity market worldwide. U.S. corporate earnings will decelerate significantly as the one-time tax-cut effect on earnings disappears.

Canada: The Bank of Canada may be forced to move to the sidelines earlier than generally expected, owing to the pronounced tightening in financial conditions.

Europe: Growth has decelerated and tensions between eurozone countries have intensified. Italy has been and remains the main source of tension, owing to its economic woes and resurfacing fiscal risk.

Emerging Markets: Emerging markets have become more resilient over the years but remain cyclical and higher octane assets. Given attractive valuation, they should be one of the better performing asset classes once the dust settles.

EXPECTED RETURNS Expected returns for the one-year period beginning January 1, 2019.

	IN CANADIAN DOLLARS			IN LOCAL CURRENCY		
	Policy Renormalization	Policy Relief	Global Recession	Policy Renormalization	Policy Relief	Global Recession
Probabilities	**25.0%**	**50.0%**	**25.0%**	**25.0%**	**50.0%**	**25.0%**
Canada Money Market	2.1%	1.8%	1.2%	2.1%	1.8%	1.2%
Canadian Bond	-0.7%	1.0%	5.1%	-0.7%	1.0%	5.1%
Canadian Federal Govt. Bond	-1.7%	0.5%	5.7%	-1.7%	0.5%	5.7%
Canadian Corp. Bond	2.7%	3.0%	3.5%	2.7%	3.0%	3.5%
Canadian RRB	3.5%	2.5%	4.9%	3.5%	2.5%	4.9%
Canadian High Yield	10.5%	7.3%	-1.5%	10.5%	7.3%	-1.5%
International Govt. Bond	-9.6%	-3.8%	10.9%	-3.3%	-1.5%	5.0%
Canada Equity	15.4%	7.3%	-16.6%	15.4%	7.3%	-16.6%
United States Equity	-0.2%	-1.8%	-14.0%	9.0%	2.9%	-17.7%
International Equity	11.8%	6.7%	-15.5%	15.7%	7.4%	-18.9%
Emerging Equity	17.6%	6.5%	-25.3%	19.5%	9.2%	-23.8%

ASSET ALLOCATION OUTLOOK as at January 1, 2019

ASSET CLASS		UNDERWEIGHT SIGNIFICANT	UNDERWEIGHT MODERATE	NEUTRAL	OVERWEIGHT MODERATE	OVERWEIGHT 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)	UNDERWEIGHT SIGNIFICANT	UNDERWEIGHT MODERATE	NEUTRAL	OVERWEIGHT MODERATE	OVERWEIGHT SIGNIFICANT
Canadian Dollar			■		
Euro		■			
Japanese Yen			■		
British Pound		■			
Swiss Franc		■			
Australian Dollar		■			
Emerging Markets				■	

For our complete economic views and forecasts, please request the full Perspectives report.