



PERSPECTIVES

For the 12-month period beginning July 1, 2020

“The virus outbreak has not yet been fully contained and the global economy is still in the early stages of recovery. The most likely culprit for market optimism is the abundance of liquidity provided by central banks.”

Higher rewards, higher risks

A large segment of risky assets have already recouped nearly all of the ground lost during the March correction. Are markets ahead of themselves or will the global recovery be faster than generally expected? This is not an easy call, but we think the odds of a faster recovery are better than generally believed.

Equity: A liquidity-driven bull market in risky assets, including equities, is possible but could rest on shaky ground. Higher rewards come with higher risks.

Fixed Income: The U.S. Federal Reserve (Fed) is expected to work with an implicit target range for U.S. 10-year Treasury yields of around +0.5% to +1.15%. The U.S. government and U.S. non-financial corporations have heavy debt loads that need to be refinanced at a low cost with the issuance of longer duration debt securities. As a result, yield curve targeting is not an option.

Currencies: Relatively faster pandemic recovery in Europe and Asia versus the U.S. should be an important source of downward pressure on the overvalued U.S. dollar.

China: The world is experiencing a China-led recovery, with Chinese real growth projected to average +10.2% over the forecast horizon.

Multi-asset outlook

| Asset class | Current June 30, 2020 | Expected range: minimum next 12 months | Expected range: maximum next 12 months |
|--|--------------------------|---|---|
| Canada 3-month T-Bills rate | 0.25% | 0.25% | 0.25% |
| Canada 2-year government bond yield | 0.29% | 0.20% | 0.60% |
| Canada 10-year government bond yield | 0.53% | 0.40% | 1.05% |
| U.S. 10-year government bond yield | 0.66% | 0.50% | 1.15% |
| Germany 10-year government bond yield | -0.46% | -0.35% | 0.30% |
| Japan 10-year government bond yield | 0.02% | -0.25% | 0.25% |
| Canada 10-year real-return government bond yield | -0.08% | -0.20% | 0.15% |
| Canada investment grade corporate spreads | 1.58% | 1.25% | 2.05% |
| U.S. high yield corporate spreads | 6.70% | 5.05% | 8.15% |
| Emerging market sovereign (USD denominated) bond spreads | 433 | 250 | 600 |
| S&P/TSX price index | 15,515 | 14,500 | 17,000 |
| S&P 500 price index | 3,100 | 2,880 | 3,400 |
| Euro Stoxx 50 price index | 3,234 | 3,100 | 3,700 |
| Japan Topix price index | 1,559 | 1,450 | 1,700 |
| MSCI Emerging Markets | 57,480 | 57,300 | 67,000 |
| U.S. Dollar/Canadian Dollar | 1.3576 | 1.2800 | 1.3900 |
| Euro/U.S. Dollar | 1.1234 | 1.1000 | 1.2000 |
| U.S. Dollar/Japanese Yen | 107.93 | 102.00 | 111.00 |
| U.S. Dollar/Offshore Chinese Yuan | 7.07 | 6.65 | 7.15 |
| Gold | 1,781 | 1,600 | 1,900 |
| Oil price, WTI (West Texas Intermediate) | 39.27 | 30.00 | 55.00 |

Source: Thomson Reuters Datastream, CIBC Asset Management Inc.

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