



CIBC ASSET MANAGEMENT

Market Spotlight

US equities and real estate

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Can AI keep the US equity engine running?

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US equities have outperformed other global markets since early April and are supported by secular advantages that could help them continue to perform over the medium to long-term, including:

- A culture of risk-taking and innovation leadership
- High sector profitability across industries, not just tech
- Deep capital markets that provide critical funding for digital and tech start-ups
- Resilient earnings that may justify premium valuations

On the other hand, there are factors that could lead to a significant change in global markets, with potential shifts in market leadership. While the US has long been a dominant force, tailwinds are emerging for other regions to narrow the gap:

Global policy support: Most countries are implementing synchronized fiscal and monetary stimulus to counteract increasing economic headwinds. China, for example, is providing solid fiscal support for technology, local governments, and housing, to mitigate the impact of tariffs and reduce reliance on US demand through diversified global supply chains.

Potential for a multi-polar world: American economic dominance may not have ended, but it's changing. Power is becoming less concentrated in one dominant player and

diffused among several major actors, including the US, China, and Russia. The increasing competition among different models for the international order is creating wider divides between major powers and their allies.

Persistent high valuation spread: Over the long run, US equity returns are driven by a combination of earnings growth and dividend yield. In recent times, multiple expansion has played a meaningful role in its league-leading returns. While valuation alone is not a great predictor of returns, US technological leadership appears priced into mega-cap valuations. If AI technology stocks fail to meet lofty expectations, US equities may lose the valuation expansion tailwind that has driven recent returns.

All things considered, the current market environment calls for a disciplined and diversified approach to equities. To prepare the portfolios we manage for a wide range of potential outcomes, we maintain diversification in equities across geographies, style factors, and by balancing active and passive management.

Where applicable, our Managed Solutions continue to hold CIBC Qx Low Volatility Dividend ETFs, which is expected to smooth out equity returns amid market volatility. This approach has proven effective in managing downside risk in an environment of elevated uncertainty.



The potential role of private multi-family real estate in a balanced portfolio

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Depending on your investment objectives, several factors make private multi-family real estate funds a compelling opportunity to enhance portfolio stability and generate income.

Attractive income streams: The Canadian multi-family real estate sector offers stable, growing, and relatively attractive income streams, supported by robust housing fundamentals. Significant population growth, deteriorating home ownership affordability, and limited new rental supply have created structural long-term rental shortages.

Strong rental growth and low vacancy: The sector has experienced high rental growth (11.0% in 2023, 8.5% five-year average) and low vacancy rates (1.5% in 2023), supporting ongoing rent increases and income stability. While we expect the pace of rental price growth to moderate, it's expected to remain an attractive and resilient income stream.

Outperformance during downturns: The Canadian multi-family sector has demonstrated resilience during economic downturns, outperforming US counterparts in both 2008/09 and 2023.

Resilience and low volatility: Historical data shows that Canadian rent growth has been stable, with no years of rent price declines from 1990-2023. While recent dynamics have challenged this, the imbalances between supply and demand remain a tailwind for the rental market.

In addition, private real estate has exhibited lower volatility compared to public REITs and equities, with an annual standard deviation of 5.1% for direct multi-family real estate (2005-2023), versus 20.6% for the S&P/TSX REIT index. Canadian rent growth standard deviation has been only 1.6% annually (1990-2023).

Real estate can play an important role in creating a well-diversified portfolio by complementing the traditional equity and fixed-income mix. And purposeful allocation to Canadian multi-family real estate offers enhanced portfolio stability and income generation, and provide a resilient and attractive addition to a diversified equity strategy in a shifting global landscape.

Investing in a private multi-family real estate fund — or any real estate investment for that matter — may or may not be a good fit within your balanced investment portfolio. Before making any investment decision, always be sure to take a thoughtful approach, focus on long-term outcomes, and work with a CIBC advisor or representative to help make sure the choices you make are right for you.



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Across a spectrum of investment solutions, we commit to robust research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset class teams. By sharing insights across asset class teams, we maximize opportunities to add value to our client portfolios.

Contact us any time

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