CIBC ASSET MANAGEMENT

# Perspectives

## Quarterly economic views and asset class outlook

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# Benign outlook for global economic growth expected to support risky assets

## Key takeaways

- Perspectives provides tactical global investment recommendations for the next 12 months.
- Despite tariffs, geopolitical volatility, and policy uncertainty, risky assets performed well in 2025 as global stimulus and a strong technology cycle offset economic challenges. Looking ahead, cyclical and policy tailwinds should keep global growth near trend.
- US growth is expected to remain near potential, with policy and investment tailwinds offsetting headwinds from tariffs and restrictive immigration policies. Disinflation should allow the US Federal Reserve (Fed) to cut rates to 3.25%.
- Growth outside the US is expected to improve slightly, supported by fiscal stimulus, military investment, an ongoing global tech cycle, an emerging manufacturing cycle, and accommodative monetary policy.
- Canada should see a modest recovery toward potential, but lingering growth impediments are likely to keep the economy in low gear. Inflation concerns should lead the Bank of Canada (BoC) to keep its policy rate unchanged at a slightly accommodative 2.25%.
- We recommend overweight equities in all major regions except Europe, where we are neutral due to competitiveness challenges in Germany and pro-growth fiscal stimulus already reflected in prices.
- In fixed income, we recommend selective positioning: overweight emerging markets (EM), neutral US Treasuries, and underweight other developed market (DM) government bonds given lower yields and the potential for rising rates in Europe and Japan. With a 30% probability of recession, government bonds remain essential for hedging portfolio risks and diversification.
- In the face of several headwinds, we recommend an underweight in the US dollar, including versus the Canadian dollar. Fundamentally attractive cyclical and EM currencies offer the most attractive returns.
- We recommend an overweight to gold, which will continue to benefit from global reserve diversification. One way to get this exposure is via Canadian equities. Commodities and commodity-linked equities also offer significant diversification against inflation and geopolitical risks.

## Capital markets outlook, next 12 months (tactical allocation, relative to a generic SAA)

| Market | Underweight | Underweight bias | Neutral | Overweight bias | Overweight |
|---|---|---|---|---|---|
| **Equities** | | | | ✓ | |
| US | | | | ✓ | |
| Canada | | | | ✓ | |
| Europe | | | ✓ | | |
| Japan | | | | ✓ | |
| EMs (ex. China) | | | | ✓ | |
| China | | | | ✓ | |

| Market | Underweight | Underweight bias | Neutral | Overweight bias | Overweight |
|---|---|---|---|---|---|
| **Fixed Income** | – | ✓ | – | – | – |
| US 10y Gov. Bonds | | | ✓ | | |
| Canada 2y Gov. Bonds | ✓ | | | | |
| Canada 10y Gov. Bonds | | ✓ | | | |
| Germany 10y Gov. Bonds | | ✓ | | | |
| EM Bonds (local currency) | | | | ✓ | |
| US High Yield | | | ✓ | | |

| Market | Underweight | Underweight bias | Neutral | Overweight bias | Overweight |
|---|---|---|---|---|---|
| **USD** | | ✓ | | | |
| CAD | | | ✓ | | |
| EUR | | | ✓ | | |
| JPY | | | | ✓ | |
| CNH | | | ✓ | | |
| Cyclical currencies* | | | | ✓ | |

| Market | Underweight | Underweight bias | Neutral | Overweight bias | Overweight |
|---|---|---|---|---|---|
| **Commodities** | – | – | ✓ | – | – |
| Oil | | ✓ | | | |
| Copper | | | ✓ | | |
| Gold | | | | ✓ | |

* cyclical currencies such as BRL, HUF, and KRW.
Investment outlooks may differ from actual portfolio positioning depending on market conditions and portfolio constraints. For illustrative purposes only.
Source: CIBC Asset Management, as of January 13, 2026.

# Global macro in a nutshell

## United States

The economy has remained relatively resilient even in the face of tariffs. We expect sequential GDP growth to average 2% over the next four quarters. This is slightly below the pace observed in 2025, but closer to potential growth.

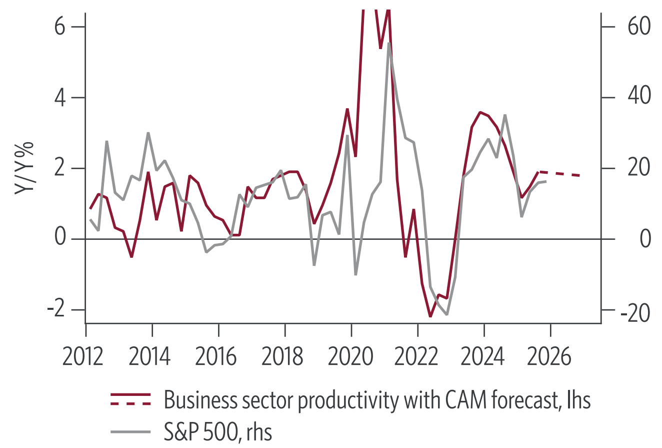
The economy is caught between opposing forces. Deportations and restrictive immigration policies are important and growing headwinds. These factors should result in much weaker job creation. We expect equilibrium job creation to fall below 30,000 per month in 2026, down from over 100,000 in 2025. Additionally, SMEs have lost their appetite for hiring due to elevated costs, uncertain demand, and as AI offers an opportunity to improve efficiency. Negative monthly Payroll prints should become more frequent in this regime. Tariffs remain a growth dampener. While technology investment is expected to remain strong, the pace of growth should slow, resulting in a smaller contribution to GDP growth.

Policy is expected to continue providing a cushion. The economy will continue to benefit from the lagged effects of the 75 basis point (bps) interest rate cuts delivered by the US Federal Reserve (Fed) in late 2025, and from the additional 50 bps of cuts expected in 2026. Our outlook implies a policy rate (upper bound) of 3.25% in 12 months (compared to 3.75% as of January 13, 2026), a level the Fed considers to be neither restrictive nor stimulative for growth and inflation. Our rate outlook implies one fewer cut than in the previous edition of Perspectives. This change is motivated by the underlying resilience of investment demand. Additionally, the economy is expected to benefit from a modest fiscal impulse from the One Big Beautiful Bill Act (OBBBA), related to military investment.

Overall, ongoing investment tailwinds—along with low job creation—support productivity growth remaining above average, which has historically been positive for equities (**Figure 1**).

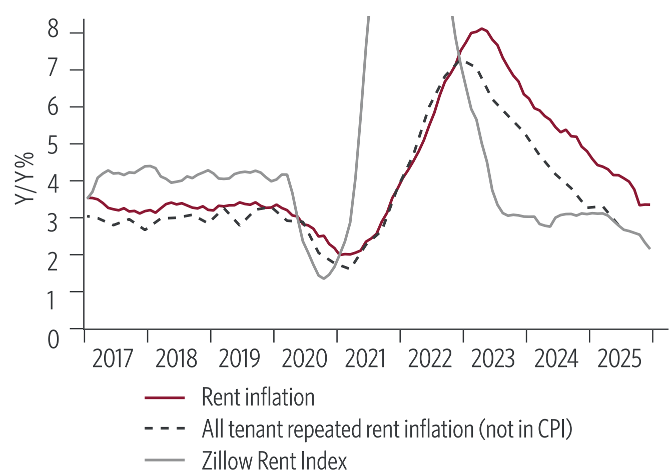
We expect disinflation to continue. We believe the peak impact of tariffs on goods price inflation is now behind us. Rent inflation is expected to decline more rapidly due to lagged dynamics between the official and “smoothed” rent series, that feed into inflation, and market-based rents (**Figure 2**). Restrictive immigration policies should exert additional downward pressure on rent inflation. A slowing labour market will continue to dampen wage growth, a key driver of future services inflation (**Figure 3**).

**Figure 1: Higher productivity: tailwinds for stocks**



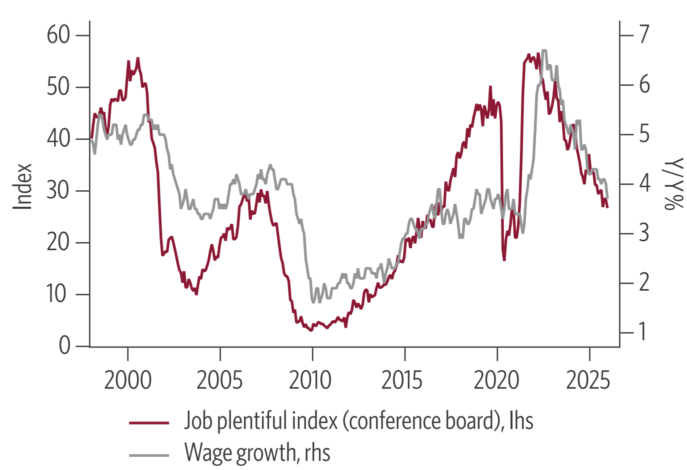

Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

**Figure 2: Important downside for rent inflation**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

**Figure 3: Wage growth slowing with labour markets**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

That said, we don't expect disinflation to be strong enough to bring inflation (both headline and core) close to the Fed's 2% policy target. Our outlook is for core Personal Consumption Expenditures (PCE) inflation to run at 2.6% on average and at 2.4% in 12 months. One reason for sticky inflation is the impact that restrictive immigration policies will have on wages in late 2026 and in 2027. Another reason is lower inventories, that will need to be replenished gradually by manufacturers, wholesalers, and retailers—who will be facing tariffs on imports. The Fed's Beige Book released in January 2026, indicated that many businesses still expect tariffs to seep into general price levels.

## Canada

Consensus, which was previously overly pessimistic, has now aligned with our view of a gradual and moderate GDP recovery supported by positive real wages **(Figure 4)** and policy tailwinds, including lagged effects of Bank of Canada (BoC) policy rate cuts and a positive, albeit modest, fiscal impulse.

**Figure 4: Positive real wages still a growth tailwind**

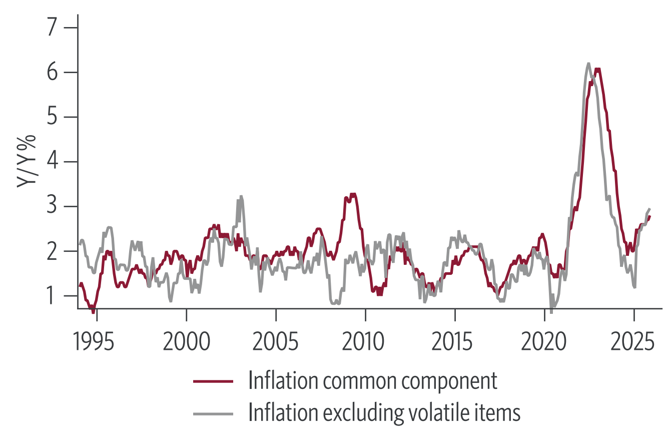

Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

Structural impediments underpin our view of a growth recovery that remains stuck in low gear. They include falling population growth, due to adverse demographics and a policy-driven decline in immigration; the normalization of housing construction from current elevated levels; increasing headwinds from weak competitiveness, which negatively affect investment and the trade balance through higher imports; and long-term uncertainty surrounding US tariff policies.

We continue to expect tariffs to have a contained impact on growth, as over 90% of goods exports to the US are exempt. We also anticipate a revised trade deal with the US, although the timing remains uncertain. That said, the balance of risks remains skewed to the downside due to political uncertainty, as US President Trump could reintroduce targeted tariffs against Canada as a negotiating tactic and in hopes of securing a better deal ahead of the upcoming midterm elections in the US at the end of the year.

Demographic headwinds and competitiveness challenges are negative supply shocks for the economy, compatible with potential inflationary pressures. This is a concern for the BoC, especially in a context where measures of trend inflation have been increasing in recent months and have remained well above the 2% target in the last four years **(Figure 5)**. Headline inflation, currently running at 2.4% year-over-year (y/y) (December 2025 print), has been obscuring continued higher median inflation, which provides a better depiction of trend inflation than either headline or core. The BoC is currently walking a tightrope between sticky inflation and the need to nurture the expected recovery. We expect the central bank to keep its policy rate unchanged at 2.25%, a level that is marginally stimulative. We have removed our outlook, published in the last edition of Perspectives, for an additional 50 bps of cuts. This change reflects stickier trend inflation, significant historical upward GDP revisions that have likely closed most of the negative output gap, and recent positive employment surprises. Our new policy outlook broadly aligns with the market consensus.

**Figure 5: BoC is concerned about trend inflation—and is expected to keep its policy rate unchanged at a slightly accommodative level of 2.25%**



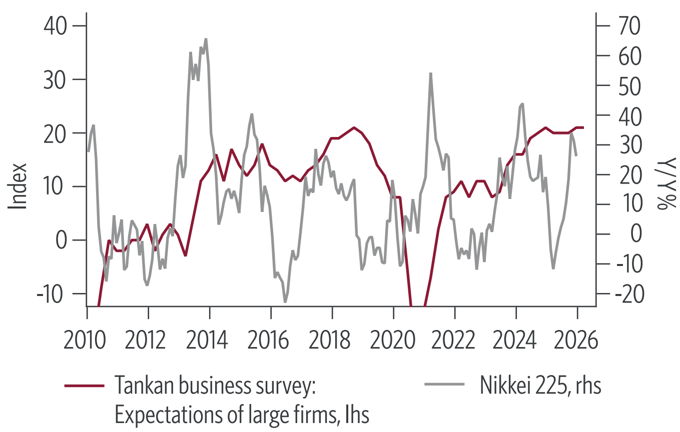

Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

## Europe and Japan

Both regions are expected to experience a moderate acceleration in GDP growth, reaching rates just above trend growth before the end of 2026, owing to accommodative monetary policy, fiscal stimulus, military investment, and improving manufacturing activity. Compared to consensus, we are slightly more constructive for Europe and more upbeat for Japan. Our growth outlook for Japan is also further above trend growth compared to our outlook for Europe. We project growth to average 1.3% for the eurozone and 1% for Japan.

In Japan, fiscal policy is among the most stimulative globally. Real interest rates should remain deep in negative territory, even as the Bank of Japan (BoJ) is expected to raise rates by 50 bps in the next 12 months. Cyclical tailwinds have remained visible in the manufacturing sector **(Figure 6)**.

**Figure 6: Japan: upbeat manufacturers**




Sources: Bloomberg, Bloomberg Intelligence, CIBC Asset Management Inc. Data as at January 11, 2026.

In Europe, the near-term growth impetus from the German fiscal stimulus is expected to remain contained. While German infrastructure and military spending will likely have a greater impact on growth in the second half of 2026, this effect will be partly offset by growing competitiveness challenges for Germany, related to the rising dominance of Chinese electric vehicles (EVs). Given the European Central Bank's (ECB) outlook for core inflation to remain a few tenths above its 2% policy target in 2026, the large number of rate cuts delivered last year (summing cumulatively to 100 bps), and historically high wage growth, we expect the ECB to remain on hold during the next 12 months.

## China

We expect stable growth near equilibrium. We foresee growth averaging 4.6%. The key focus is the strong foreign demand outlook we expect for Chinese manufactured goods **(Figure 7)**. This view is underpinned by healthy global economic growth and by Chinese manufacturers expanding into global markets at a faster pace. In addition, policymakers are likely to increase policy support in the first half of 2026, targeting further investments in technology and infrastructure. We also expect significant government bond issuance, a modest 10 bps rate cut by the People's Bank of China, and continued liquidity injections. Overall, policy support should continue to help offset the impact of the ongoing housing recession and US tariffs.

**Figure 7: Chinese manufacturers increasingly dominating global markets**


Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

## Emerging markets (EM)

We remain constructive, reflecting the stable or improving outlook in major economies, the ongoing global tech cycle (which is positive for Asia), low energy prices (benefiting energy importers), and the lagged effects of previous easing by key EM central banks. Compared to developed markets (DM), inflation is often less problematic, fiscal deficits are generally lower, and trade balances generally stronger. Political risks also appear relatively contained, especially compared to the US. Positive global financial conditions and additional rate cuts by the Fed should provide further support, allowing EM central banks to maintain accommodative policy or ease further if needed.

# Global investment strategy (tactical recommendations)

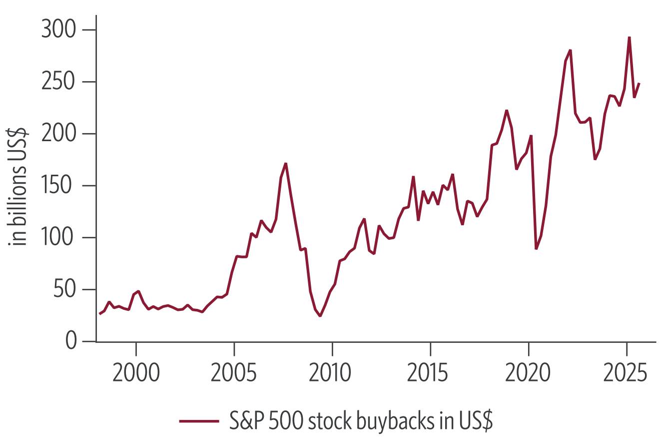
## Equities versus fixed income: We maintain a tactical preference for equities (outlook unchanged)

We continue to recommend a tactical overweight in equities relative to fixed income, reflecting a stable global economic outlook, fiscal stimulus and military investment across several major economies, lower or stable policy rates at most central banks, an ongoing global tech cycle, and an emerging cycle in the manufacturing sector.

## Equities: Constructive most regions

**Overweight US:** We continue to recommend an overweight position in US large cap, supported by attractive earnings prospects, a solid tech outlook, and pro-cyclical policies. We also anticipate continued robust share buybacks, which could be further magnified by accelerated tax depreciation, boosting corporate free cash flows **(Figure 8)**. However, unattractive valuations should continue to put a lid on returns.

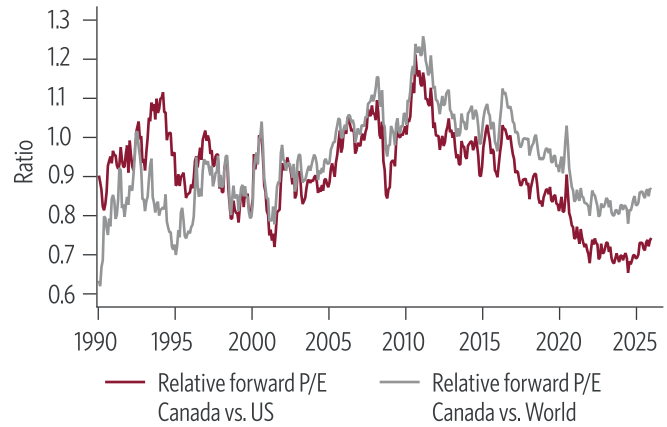
**Figure 8: Share buybacks should continue to rise (accelerated capex depreciation)**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

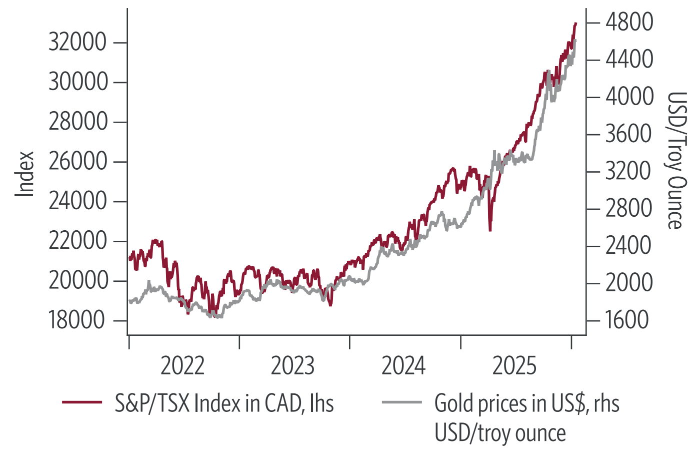
**Overweight Canada:** Valuations relative to the US **(Figure 9)**, earnings prospects, and dividend yields are all attractive factors. A slightly accommodative and expectedly unchanged monetary policy stance should provide further support. The Canadian market also offers diversification away from the tech-heavy US index: Large sector weights in financials should benefit from a positively sloped yield curve, while a constructive global backdrop should support natural resources and materials sectors. Additionally, our constructive outlook on gold prices—supported by a changing geopolitics and growing long-term political risks in the US—is another positive factor for Canadian gold miners **(Figure 10)**.

**Figure 9: Attractive relative valuation—especially in a context of gradual growth recovery and stimulative policy**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

**Figure 10: We are bullish gold—a positive for Canadian stocks**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

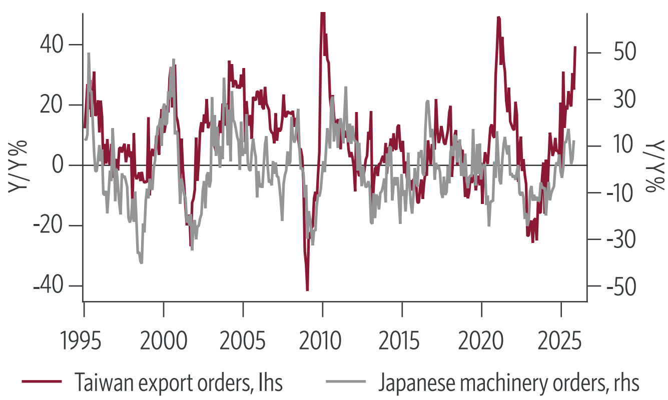
**Neutral Europe:** Most of the anticipated German fiscal stimulus is already reflected in equity prices, and the timing of its economic impact remains uncertain. China's growing dominance in EVs is a structural headwind for German car producers, while lackluster demand for foreign luxury brands presents an additional challenge for European exporters overall.

**Overweight Japan:** A growth outlook above consensus, an emerging global manufacturing cycle, Japanese fiscal stimulus—the largest impulse among major economies—and negative real rates are supportive factors. Corporate reforms and rising shareholder activism continue to improve the investment environment, while the expected cumulative BoJ rate hike in 2026 (only 50 bps) is expected to only partially offset these positives.

**Overweight China:** We continue to recommend an overweight position, supported by strong foreign demand for Chinese manufactured goods, faster global market penetration by Chinese manufacturers, attractive valuations on a relative basis, large excess domestic savings in the banking system, and under-ownership of this market by international investors. China is also the main long-term contender to US tech dominance, offering additional diversification benefits beyond US technology exposure.

**Overweight EMs (ex-China):** The recommendation is underpinned by a constructive world global economic outlook, and ongoing robust global tech cycle which is positive for Asia **(Figure 11)**, attractive valuations relative to the US, global policy tailwinds, and low oil prices (benefiting energy importers). Current account and fiscal vulnerabilities remain low by historical standards and, in many cases, are significantly lower than in the US.

**Figure 11: Global tech and manufacturing cycle underway**

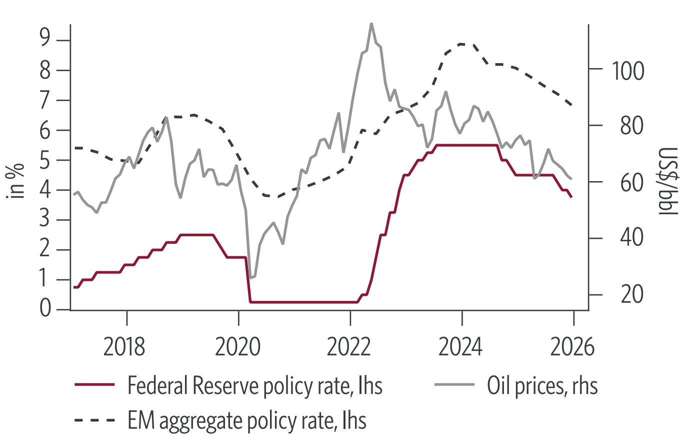



Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

## Fixed income: Selectively positioned

**Overweight EM local currency government debt:** The outlook is supported by higher yields relative to developed markets (DM), contained fiscal vulnerabilities, potential for further monetary easing by EM central banks, and a positive global macro environment for risk assets. EM central banks also have room to cut rates further if needed, which represents another supportive risk factor **(Figure 12)**.

**Figure 12: Fed easing & low oil prices: More leeway for EM central banks to cut further if needed**




Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

**Neutral US Treasuries (USTs, 10-year bonds):** Current yields are attractive relative to other DM, but are expected to remain broadly unchanged **(Figure 13)**. Our baseline outlook for the 10-year UST yield is 4.3% (current yield: 4.18% as of January 13, 2026), which is compatible with economic growth around trend, core inflation remaining sticky despite disinflation, large fiscal deficits, and longer-term concerns among foreign investors related to US political risks, which is exerting some upside pressure on the term premium.

**Figure 13: US 10-year government yields**


Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

That said, USTs continue to provide strategic value as a recession hedge. Despite our constructive central economic scenario, we still maintain an elevated 30% probability of a mild global recession in the next 12 months, although this probability is slightly lower than in mid-2025. Under this risk scenario, US 10-year yields would likely decline to 3.35%. By contrast, we see them increasing to 4.85% under stagflation-lite or stronger growth scenarios.

**Underweight Canadian and other DM government bonds (10-year bonds):** Yields on Canada and other DM government bonds are lower than those in the US. We expect yields to remain flat in Canada, but to rise in Japan and Europe, reflecting a larger fiscal impulse.

Our baseline outlook for the Canadian 10-year yield is 3.45% (current yield: 3.41% as of January 13, 2026). We don't expect yields to rise in Canada, given a growth recovery stuck in low gear, structural growth impediments, and a smaller fiscal impulse than in Germany or Japan. Canadian government bonds continue to provide strategic value as a recession hedge. Canadian 10-year yields would likely decline to 2.7% in a recession. Alternatively, they would increase to 3.75% under a US stagflation-lite scenario.

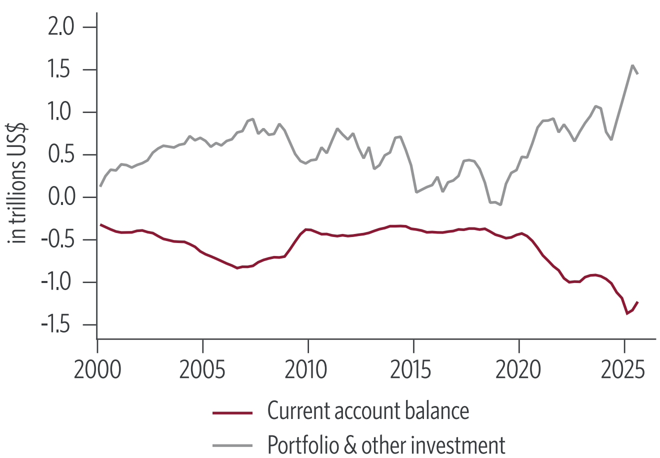
**Neutral US high yield (HY) bonds:** Narrow spreads reduce the attractiveness of this asset class relative to equities. We expect spreads to remain tight. Default risks are expected to remain contained, given our growth outlook.

## Currencies: Continued USD weakness, albeit at a slower pace than in 2025

**Underweight US dollar (USD):** The currency remains expensive despite an annual depreciation of about 9% in 2025, as measured by the DXY index. Looking ahead, the currency continues to face lingering headwinds, although there is no imminent catalyst. We expect continued USD weakness, although at a slower pace than was observed during the first half of 2025.

Upcoming Fed rate cuts, growth improving in other DM, a constructive outlook for global risk assets, large trade **(Figure 14)** and fiscal deficits (that have to be financed by foreigners) are all headwinds. Additionally, long-term institutional investors, particularly central banks in emerging markets, remain concerned about long-term risks surrounding the US fiscal situation, the potential deterioration of US institutions, US political volatility, and unpredictable US diplomacy. Increased global FX hedging may add further downward pressures.

**Figure 14: Large current account deficit requires constant US exceptionalism (large portfolio inflows) to mitigate downward pressure on the currency**



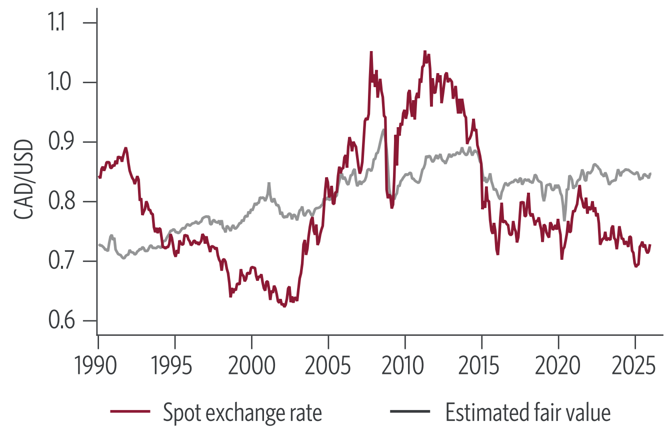

Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

Note that there is little evidence of a significant decline in USD usage for international transactions, and we do not expect this to change given its convenience for global trade and investment.

**Neutral euro:** While fiscal policy is expected to support eurozone growth in 2026, the timing (and perhaps the magnitude) remains uncertain. Additionally, the GDP growth acceleration we expect pales in comparison with the 2017–18 episode, when the euro rose by about 20% cumulatively. Accordingly, we see limited upside for the euro. Our 12-month EUR/USD target is 1.20, with more potential upside over the medium term (Current price: $1.16 as of January 13, 2026). In turn, limited upside for the euro—which is considered the "anti-dollar"—reinforces our view of limited USD weakness.

**Neutral Canadian dollar (CAD):** Competitiveness challenges facing the Canadian economy are putting a lid on CAD. While we expect CAD to underperform other cyclical currencies, we anticipate some appreciation compared to the USD. This view is underpinned by current undervaluation **(Figure 15)**, the expected GDP growth recovery, constructive prospects for Canadian stocks, improving outlook for infrastructure and military spending over the medium term, and a likely renewal of USMCA near the end of 2026 or in 2027. Our 12-month target for CAD/USD remains unchanged at 0.74 (Current price: $0.7199 as of January 13, 2026).

**Figure 15: USD screens expensive against a broad set of currencies, including CAD**




The chart reports the estimated value misalignment of currencies in the CIBC Asset Management currency universe versus the US dollar, in percent.

Sources: Bloomberg, CIBC Asset Management Inc. Data as at January 11, 2026.

**Overweight yen:** We continue to recommend an overweight in the Japanese yen. It is undervalued and likely to gain support from ongoing reflation, strong foreign demand, new fiscal stimulus, and military spending. As real rates are expected to remain negative, appreciation of the yen is likely to be limited. Our 12-month target is 150 for USD/JPY (current price: 159.14 JPY as of January 13, 2026).

**Neutral Chinese renminbi, but overweight EM currencies:** China's constructive current account outlook should lead to further appreciation of the China Foreign Exchange Trade System (CFETS) currency basket targeted by the PBoC. Our 12-month target for USD/CNH is 6.8 (current price: 6.97 CNH as of January 13, 2026). We remain constructive on EM currencies overall, as many are expected to exhibit relatively high sensitivity to movements in the renminbi and to benefit from a weaker USD. EM currencies should also remain supported by improving current account balances due to favourable commodity price trends; reserves will benefit from higher gold prices, and low oil prices are positive for the current account balances of energy importers. In most cases, current account and fiscal vulnerabilities are contained and are significantly lower than those in the US.

## Commodities: Gold has the most upside

**Overweight gold and neutral copper, underweight oil:** Countries, particularly in the Global South, are diversifying official reserves into gold and other currencies (EUR, JPY, CHF, CNY) to reduce excessive reliance on USD and USTs. This diversification trend is expected to remain a key driver of persistent and inelastic demand for gold. Gold is also supported by expectations of lower policy rates by the Fed (reducing the associated opportunity cost of holding gold), heightened US political risks, US invasion or annexation threats of Greenland, and a changing world order that is becoming more multi-polar and less stable. For copper, global supply remains insufficient to meet robust demand, which is being fueled by technology, military investment, and infrastructure spending. The long-term outlook is decidedly positive, but we see less upside in the near term given recent price appreciation. Our 12-month targets are $5,500 for gold (current price: $4,587 as of January 13, 2026) and $12,350 for copper (current price: $13,254 as of January 13, 2026).

Oil prices are expected to remain stable within a $60–65 forecast range (current price: $61.15 WTI Crude as of January 13, 2026), reflecting stable global growth, higher output quota by OPEC, and sufficient inventories. We do not expect recent events in Venezuela and Iran to have a significant impact on oil prices over the next 12 months.

Commodities, and equities with commodity exposure continue to offer valuable diversification against inflation and geopolitical risks.

# Risks surrounding the outlook

| Implications | Mild recession | Baseline: US growth near potential | Stagflation-lite |
|---|---|---|---|
| Risks (probabilities) | • 30% | • 55% | • 15% |
| Global macro drivers | • Larger headwinds from US tariffs (global) and immigration policies (US, Canada). Fed slow to cut, but eventually cuts 125 bps—more than most other central banks. BoC cuts 75 bps. ECB and BoJ cut 50 bps. China responds with larger tech and infrastructure stimulus. | • US growth at potential despite tariffs and immigration policies, supported by investment, higher productivity, and pro-cyclical policy. Canada and other major DMs experience gradual recovery. Fed cuts 50 bps. BoC & ECB on hold. BoJ hikes 50 bps. China delivers moderate fiscal support to tech investment and infrastructure. | • US: Immigration and tariff policies negatively impact supply more than expected, resulting in a stagflation-lite economy (slightly weaker growth but stickier wages and inflation). Fed hikes 25 bps.<br>• Canada: Weaker immigration triggers stronger wage growth; BoC hikes 50 bps to neutral. Under this scenario, we expect limited spillovers to the rest of the world. |
| Global strategy: what to overweight | • Government bonds, JPY, USD, gold | • Equities, cyclical currencies, gold | • Equities, gold, oil, copper |
| Global strategy: what to underweight | • Equities, cyclical currencies, copper | • Government bonds (non-US DMs), USD | • Government bonds (US, Canada), JPY |

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