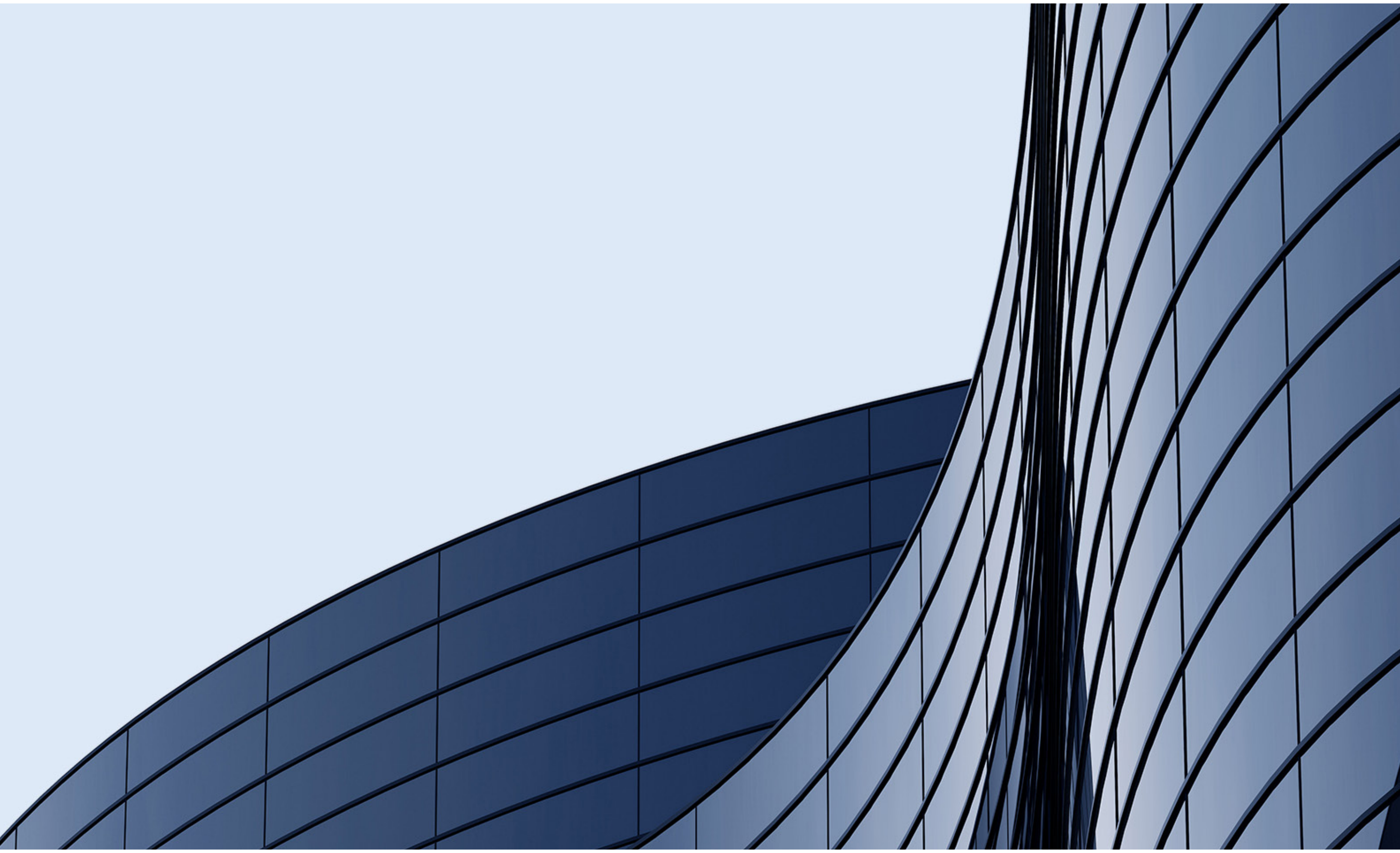
CIBC ASSET MANAGEMENT

Portfolio Solutions Research Forum Commentary

Estimated reading time: 10 minutes

July 2025



Key takeaways

1. Equity market performance: Equity markets showed resilience despite economic uncertainty.
2. US exceptionalism: US continues to dominate, but emerging risks like de-globalization, rising costs, USD depreciation, and market concentration could temper its dominance.
3. Rise of China: China is rapidly advancing in technology and production, offering opportunities but also posing risks such as geopolitical tensions.
4. Investment landscape: Increasingly shaped by macroeconomic uncertainty and global competition, requiring a dynamic and diversified approach to asset allocation.

Global markets in motion: US leadership and the rise of new contenders

The global investment landscape is evolving rapidly, driven by resilience, innovation, and the emergence of new contenders. While US exceptionalism continues to dominate, the rise of global competition is reshaping the playing field. Let's explore the key themes driving markets and the opportunities that lie ahead.

Market performance: U.S. equity and China tech in focus

As of the end of June, US equity markets continued to demonstrate resilience, with the S&P 500 delivering strong performance, driven by the dominance of technology and communication services sectors. Companies such as Nvidia, Meta, and Microsoft were key contributors, reflecting robust demand for AI-driven innovation and digital transformation. However, for unhedged Canadian investors, returns were partially offset by a weaker USD relative to the CAD.

In contrast, Chinese technology stocks experienced a mixed recovery during the first half of the year. While the sector benefitted from policy support and improving domestic demand, geopolitical tensions and regulatory overhangs continued to weigh on investor sentiment. Despite these challenges, China's leadership in areas such as electric vehicles, AI infrastructure, and renewable energy production underscores its growing influence in the global technology landscape.

US exceptionalism and the rise of China

The S&P 500 is priced for continued exceptionalism, supported by several structural advantages such as:

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

However, in many investors' minds, a key challenge is the S&P 500's current large representation in the MSCI World Index, at over 70%. Some may question whether the US can maintain growth and leadership indefinitely before it 'becomes the index'. The math is surprisingly counterintuitive; if the US market outperformed the rest of the MSCI World by 2% annualized over the next 15 years, the weight of the US would only grow from 70% to 75%. We are in no danger of the US getting to 100% of the global market any time soon, even with meaningful outperformance.

While the math doesn't necessarily disallow continued US dominance, other countries are better positioned to catch up in the current climate. For example, Canada and Germany have fiscal capacity to invest in infrastructure and defense. The global trade landscape and rising geopolitical risks are incentivizing countries to diversify away from US-centric dependencies and stimulate their own economies.

The era of unchallenged US dominance may be moderating, undermined by a number of potential risks:

- De-globalization and rising input costs may pressure margins.
- A potential US current account surplus could impact foreign demand for US assets.
- Slower share buybacks as interest rates normalize may reduce total shareholder returns, though buybacks have not been a significant contributor to S&P 500 total returns despite being headline grabbing.
- Market concentration risk persists with the MAG7 (Microsoft, Apple, Google, Amazon, Nvidia, Meta, Tesla) accounting for ~30% of the S&P 500 and carrying relatively stretched valuations.
- Medium-term USD depreciation risks.

Meanwhile, China's rapid ascent in technology and production is reshaping the investment environment, signaling the emergence of a more multipolar world. China's rapid climb up the technology and production value chain is impossible to ignore. The country is:

- Surpassing the US in the number of tech clusters (local concentrations of world-leading science and technology activity).
- Dominating in the mass-scale production of electric vehicles (EVs), solar technology, and AI infrastructure.
- Competing in AI research and increasing influence in emerging markets.

However, risks to investing in China remain, including geopolitical tensions with the US and structural inefficiencies, such as state intervention. While valuations remain relatively discounted compared to developed markets, these are not viewed as standalone risks. Rather, they are considered within the broader context of policy intervention, market sentiment, and long-term structural headwinds that may weigh on investor confidence.

Managed Solutions: Balancing risk and opportunity

At CIBC, our Managed Solutions are designed to navigate today's complex investment landscape by balancing risk and reward. Heading into 2025, we maintained a constructive view on US equities, recognizing their leadership in innovation and economic strength.

Within some of our Managed Solutions portfolios, we took measured steps to address continuation of trends alongside elevated valuations and market concentration risk where appropriate. For example, we selectively incorporated exposure to S&P 500 Market-Linked GICs (MLGICs) — an approach that provides participation in market upside with downside protection. This implementation reflects our philosophy of capturing opportunities while managing risk, in a way that's tailored to our mandates and consistent with our long-term outlook.

We also adjusted allocations within our Managed Solutions where applicable by adding to CIBC Qx Low Volatility Dividend ETFs across Canada, US, and EAFE® equity exposures. These changes were intended to support our focus on delivering more resilient risk-adjusted returns while remaining fully invested.

Looking ahead: Navigating complexity with confidence

The investment landscape is increasingly shaped by macroeconomic uncertainty, shifting leadership dynamics, and valuation extremes. While US exceptionalism remains a cornerstone of the market, the rise of global competition—particularly from China—demands a more balanced perspective.

In our Managed Solutions, we maintain a defensive positioning, recognizing the upside potential of US equities while staying prepared to adjust as conditions evolve. By positioning strategically across a wide range of purposeful asset classes and dynamically managing risks, we are well-positioned to navigate the complexities of this evolving landscape and deliver value to our investors.

Let's connect

Michael Keaveney
Vice President
Managed Solutions
Michael.Keaveney@cibc.com

Leslie Alba
Executive Director & Head,
Portfolio Solutions Total Investment Solutions
Leslie.Alba@cibc.com

Portfolio Solutions Research Forum (PSRF)

The views of our Portfolio Solutions Research Forum help guide CIBC Asset Management and our partners by providing strategic asset allocation recommendations, as well as strategic and tactical investment oversight for CIBC managed solutions

Leslie Alba, CFA, MBA
Executive Director & Head,
Portfolio Solutions Total Investment Solutions
Chair, PSRF

David Wong, CFA, FRM
CIO, Managing Director & Head
Total Investment Solutions

Michael Sager, PhD
CIO & Managing Director
Multi-Asset & Currency Management

Patrick Thillou, CFA
Managing Director & Head Trading, Global Beta,
Overlays and Outcome Management
Total Investment Solutions

Alex Dyoujenko, CFA
Director, Purpose Scores
Total Investment Solutions

Philip Lee, CFA
Executive Director
Manager Research
Total Investment Solutions

Francis Thivierge, CFA
Senior Portfolio Manager
Multi Asset & Currency Management

Gaurav Dhiman, CFA, MBA
Portfolio Manager
Global Fixed Income

Crystal Maloney, CFA, CPA, CMA
Head of Equity Research

Ohm Srinivasan, CFA
Head of Manager Research & Alternatives,
CIBC Private Wealth US

Michael Keaveney, CFA
Vice President
Managed Solutions

"EAFE®" is a registered trademark of MSCI Inc., used under license.

The views expressed in this material are the views of CIBC Asset Management Inc. as of July 2025 unless otherwise indicated, and are subject to change at any time. CIBC Asset Management Inc. does not undertake any obligation or responsibility to update such opinions. This material is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice, it should not be relied upon in that regard or be considered predictive of any future market performance, nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this material should consult with their advisor. The material and/or its contents may not be reproduced without the express written consent of CIBC Asset Management Inc. Past performance may not be repeated and is not indicative of future results.

Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or other similar wording. In addition, any statements that may be made concerning future performance, strategies, or prospects and possible future actions taken by the fund, are also forward-looking statements. Forward-looking statements are not guarantees of future performance. These statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results and achievements of the fund to differ materially from those expressed or implied by such statements. Such factors include, but are not limited to: general economic, market, and business conditions; fluctuations in securities prices, interest rates, and foreign currency exchange rates; changes in government regulations; and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. CIBC Asset Management Inc. does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments, or otherwise prior to the release of the next management report of fund performance.

CIBC ETFs are managed by CIBC Asset Management Inc. ("CAM"), a subsidiary of Canadian Imperial Bank of Commerce. Commissions, management fees and expenses all may be associated with investments in exchange traded funds (ETFs). Please read the CIBC ETFs prospectus and ETF Facts document before investing. To obtain a copy, call 1 888 888-3863, ask your advisor or visit CIBC.com/etfs. ETFs are not guaranteed, their values change frequently and past performance may not be repeated.