CIBC Asset Management

Market Spotlight

September 2017

Global Markets

Whether it was summer doldrums or a pause after strong appreciation so far this year, global markets barely moved in August. This was not a month that lacked news stories. North Korea weapons tests, Hurricane Harvey in the U.S. and terror attacks in Spain all made headlines. However, despite some short-lived volatility and a spike in gold and gasoline prices, financial markets ended the month little changed. Global equities rose 0.14% in U.S. dollar terms, and 0.4% in Canadian dollar terms.

The Canadian equity market rose 0.67%. Canadian banks released strong quarterly earnings results, with several increasing their dividends. The Canadian energy subsector was lower by over 3%, mirroring the continued volatility in energy prices.

U.S. broad equity markets gained 0.3%, while the Nasdaq 100 was higher by over 2%. Political drama continued, as President Trump made controversial comments following violent clashes at a white supremacist rally and implemented additional staff changes. However, U.S. economic data is still improving and consumer sentiment is strong. Meanwhile, continued low inflation likely means only a gradual increase in interest rates in the near term.

International equity markets were close to unchanged as a group. European equity market gains (excl U.K.) registered -0.4% in local currency. ECB Chairman Draghi's comments at an economic summit omitted reference to the disadvantages of a strong euro. Investors interpreted this as significant and an implied sign that the ECB will begin to "normalize" monetary policy in the near future. This also implies that euro strength will continue.

Emerging markets gained 2.2% (USD), with China higher by over 4% (USD). China's economic numbers continue to be robust, supporting year-to-date gains of over 40% (USD) in its equity market.

Current Asset Allocation Outlook*

Asset Class	Weighting
Canadian Bonds	Overweight
International Bonds	Underweight
Canadian Equities	Market Weight
U.S. Equities	Underweight
International Equities	Overweight
Emerging Market Equities	Overweight

** For balanced portfolios, as at August 31, 2017.*

"Sound Bites"

Luc de la Durantaye

"After more than nine years since the Global Financial Crisis (GFC), the U.S. Federal Reserve (Fed) and the European Central Bank (ECB) are indicating confidence in the self-sustainability of the current economic expansion—to the point that they are sending signals they are moving away from extraordinary policy accommodation. More recently, other central banks in smaller economies (the likes of Canada, Sweden and Norway) have also shown more confidence in the eventual removal of some of the excess policy stimulus.

As central banks scale back years of aggressive monetary stimulus, we will be monitoring a number of key economic and policy developments to determine their success. After years of underinvestment, investment growth must pick up in order to lift growth and increase long-term potential GDP. While there have been tentative signs of a pickup, this must continue in order to ensure the self-sustainability of this recovery. Fiscal policy will be required to remain looser rather than tighter to cushion the removal of quantitative easing. The global economy will also need to demonstrate it is not unduly sensitive to rising interest rates, despite a higher level of debt today than at the start of the GFC."

Fixed Income

Canadian bond yields declined (prices rose) as investors responded to rising tensions with North Korea and evidence that U.S. economic growth was moderating in the third quarter. Although both Canadian and U.S. growth have been above trend, low yields have been supported by a lack of inflationary pressures. Canada's economy has outpaced its G-7 counterparts this year. Canada has recovered more quickly and forcefully than expected after a collapse in oil prices in 2015 and the Fort McMurray fires in 2016.

Canadian Equity

The Canadian equity market rose 0.67%. Canadian banks released strong quarterly earnings results, with several increasing their dividends. Despite the positive news, the financials subsector was little changed in August. The Canadian energy subsector was lower by over 3%, mirroring the continued volatility in energy prices. A sharp decline in Valeant Pharmaceuticals led the health care sector to a 10% loss for the month while higher gold prices helped to push the materials subsector up over 5.5%.

"Sound Bites"

John Braive

Vice-Chairman,
Global Fixed Income

Bank of Canada Boosts Rates Again

"The Bank of Canada (BoC) increased rates by 0.25% on September 6, bringing their overnight rate to one percent. What was the immediate impact on the market? Yields on Canada bonds (two, five, and 10-year) rose—two-year yields were the most impacted, up by about seven basis points. The other considerable impact was on the Canadian dollar. The Canadian dollar was very strong following the announcement—up to almost 0.815 USD. If you go back a year, it was 0.75 USD, so we've had quite an appreciation of the Canadian dollar.

As we look ahead, we have to consider a number of factors. The first is the strength of the Canadian dollar. How will that impact Canada's economy going forward? Our exports have been strong because the Canadian dollar has been weak. With a stronger Canadian dollar, exports are unlikely to add as much to GDP.

The other area is oil. Last December, oil was around $52, today it's around $49. However, oil companies have been basing their capital expansion plans on oil at $55 or $60. They've been disappointed, and we're now seeing these companies start to pull back on expansion plans for next year. So the capital spending growth that we saw in the first and second quarter is likely going to slow.

Then we look at what's going on with federal taxes, as the government considers taxing business professionals (doctors etc.) and taking away some tax advantages. That would be a depressant on growth in terms of a tax increase next year for those individuals. Here in Ontario, we have a minimum wage increase going through and that will also have an impact on growth. Growth in Canada in the first half of the year was strong, running at about 3.7% year-over-year. That's going to come down, in our view. That being said, we believe the BoC has already made the adjustments to monetary policy that we think they had to make.

As we look forward, there's one more rate increase priced in for this year (in December), of another quarter of a percent. Into 2018, there's actually nothing priced in right now. It looks to me like the markets have adjusted, have taken the hit. We probably won't see much more in terms of interest rate increases in the near term that hasn't already been priced into the market. Of course, this is data dependent and the BoC acknowledges that. This is something that will evolve as time goes by."

Watch the video