CIBC Asset Management

Market Spotlight

November 2017

Global Markets

November marks the one-year anniversary of a Trump U.S. election victory. While debate continues over the extent of Trump's economic influence to this point, there is no doubt that global financial markets are celebrating an improving economic picture. Almost every global equity market has posted a double-digit return to this point in 2017. In October, global equities rose 1.89% in U.S. dollar terms, and 5% in Canadian dollar terms.

The Canadian equity market rose 2.7%. Canadian economic readings cooled somewhat, with retail sales softer and GDP for the third quarter looking much weaker than the first half of 2017. Add uncertainty over ongoing NAFTA negotiations and dovish comments from Bank of Canada Governor Poloz that a pause in rate hikes might be appropriate. Perhaps not surprisingly, the Canadian dollar lost about 3% versus the U.S. greenback.

U.S. broad equity markets gained 2.3%, while the Nasdaq 100 was higher by 4.6%. Quarterly corporate earnings releases were generally healthy with a notable number of surprises on the upside. Combine those results with a consumer sentiment number that surpassed expectation, decent manufacturing readings and lower unemployment, and the economic picture looks much improved as compared to a year ago.

International equity markets gained 1.5% (USD), with Japanese equities higher by 4.6% (USD) following the majority re-election of Shinzo Abe. European markets digested the ECB's announcement of an extension of quantitative easing and upheaval in Spain as the Catalonia region voted for independence. In the U.K., Bank of England Governor Mark Carney raised interest rates in a move to combat inflation, despite the lacklustre economy. The Brexit vote and subsequent devaluation of the pound have pushed up U.K. inflation readings.

Emerging markets gained 3.5% (USD), with China higher by 4% (USD). China held its 19th National Party Congress, where officials underlined the government's willingness to gauge economic progress increasingly with qualitative, "softer" data rather than numerical growth targets. Investors seem to like what they are hearing and have pushed the Chinese equity market higher by almost 50% year-to-date.

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 October 31, 2017.*

"Sound Bites"

Luc de la Durantaye

"With NAFTA talks underway, concerns about the potentially negative economic impact of upcoming changes to existing trade agreements between the U.S. and Canada have resurfaced. It goes without saying that if the Trump administration bluntly puts an end to NAFTA, the Canadian economy would take a severe hit. This hit would be almost as negative as the one facing Mexico. However, this is not the most likely outcome. We think that these negotiations will likely result in either a watered-down NAFTA agreement or, in the worst case, in a new U.S.-Canada bilateral trade agreement. In both cases, the potential hit to the economy would certainly be more manageable. At the current juncture, we believe that NAFTA will remain. Only certain areas will be modified for political gain rather than for economic impact.

Negotiations are taking place behind closed doors and it is difficult to assess progress so far. What is being reported in the media represents more political posturing than clear indications of the ultimate policy outcome. This makes it difficult to judge the outcome at this time. The Trump administration could certainly use these negotiations to get a political win, given the lack of progress with regard to health care and taxation reforms.

Headline risk remains for the time being and the risk of the imposition of more tariffs is non-negligible. Looking ahead, the main risk is for significant changes to the mechanisms in place to address trade disputes, leaving dispute negotiations more difficult to resolve."

Fixed Income

Bond prices recovered much of their lost ground from the prior month, as investors scaled back their expectations for further interest rate increases from the Bank of Canada (BoC). The BoC has cited concern that growth could be negatively impacted by the results of the NAFTA renegotiations and the impact from the two rate increases to date. The stronger Canadian dollar and coming changes to mortgage qualification rules could also be negatives. U.S. bond yields moved slightly higher on the likelihood that the Federal Reserve will raise its rate again before year-end.

Canadian Equity

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"Sound Bites"

Brian See

Equities
Resources

"Oil prices pushed higher over the last several weeks as supply and demand fundamentals improved and geopolitical risk grew. Brent oil futures markets recently moved into "backwardation"—a condition that suggests a physical tightening of world oil markets and implies that today's demand is greater than supply. This has helped to propel prices back above $60/barrel. In addition, the geopolitical risk premium that has historically been embedded in oil prices has largely been ignored in the last few years, given the global oil oversupply. This risk premium is now reasserting itself.

Geopolitics is having an effect

Geopolitical risk continues to build on several fronts. In news this past weekend (Nov. 4,5), Saudi Crown Prince MBS* arrested several members of the royal family and other high ranking officials as part of an "anti-corruption" crackdown. MBS continues to consolidate power in the country and, as a supporter of measured OPEC production cuts, could be considered a bullish force for oil prices. In addition, Saudi Arabia continues to target a 2018 Initial Public Offering (IPO) of Saudi Aramco. A higher oil price is more likely to produce a successful IPO.

In Venezuela, Nicolas Maduro's election win earlier this year placed the country in economic and social turmoil. Venezuela produces 2 million barrels/day of oil and questions around possible implementation of U.S. sanctions or other disruptions in their oil exports are also adding uncertainty.

Other ongoing political issues could also affect crude oil supplies. These include the possible dissolution of the Iranian/U.S. nuclear agreement, which could lead to a reinstatement of economic sanctions and a disruption of Iranian oil supply. Additionally, the Kurdistan fight for independence in Iraq and conflicts in Nigeria and Libya could all disrupt oil supplies from these countries.

What to keep an eye on

OPEC's production cut of 1.2 million barrels per day (1.8 million barrels, if we include Russia and others) from last year continues to rebalance the oil market. The OPEC cut is theoretically in place until the first quarter of 2018 and could potentially be extended through the rest of 2018. We will get more insight at OPEC's upcoming meeting on November 30."

*Mohammad bin Salman bin Abdulaziz Al Saud, frequently known as MBS