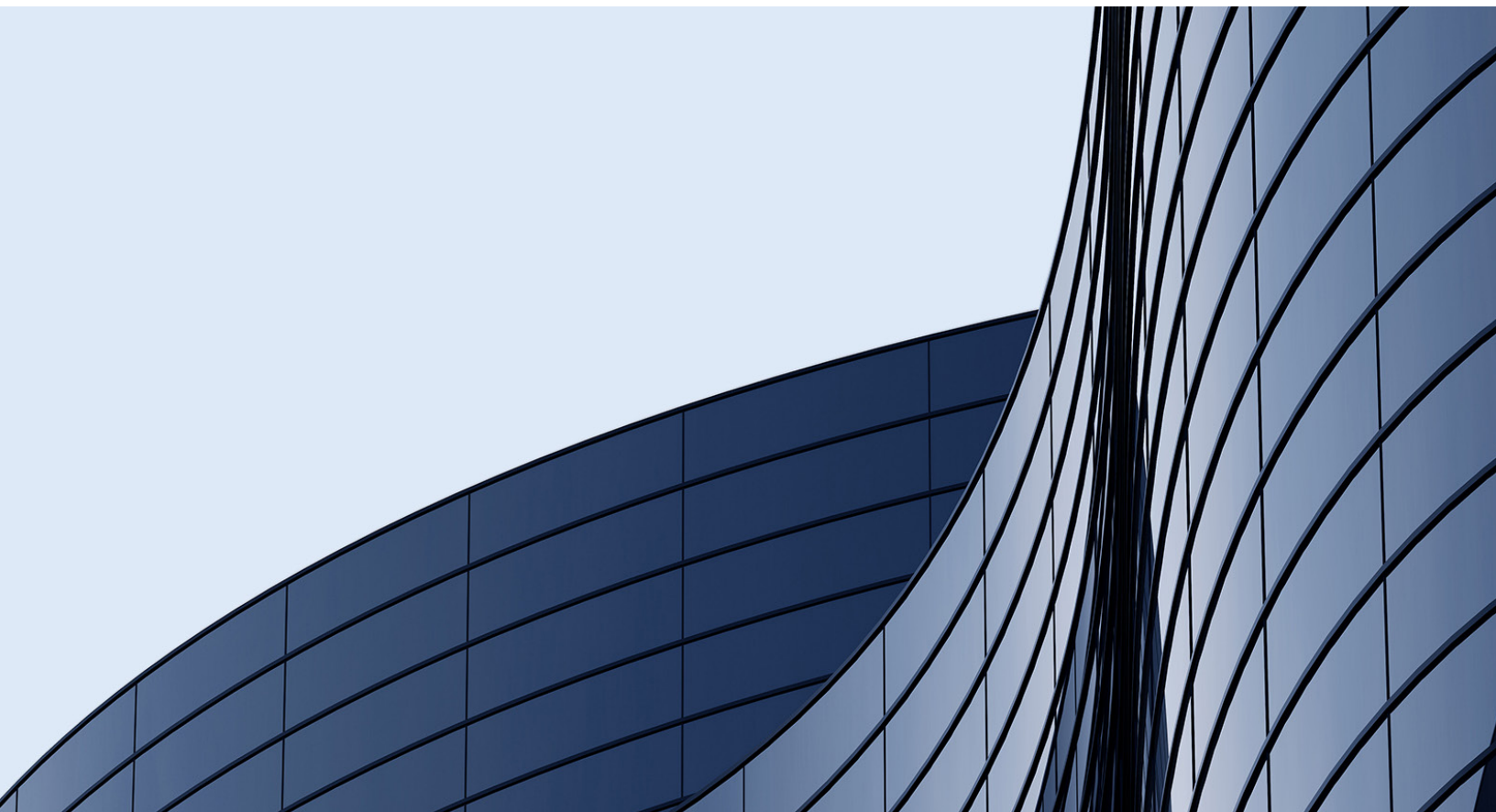


Portfolio Solutions Research Forum Commentary

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Key takeaways

1. Major equity markets are reaching new highs as trade tariff concerns ease, but risks remain as markets are priced for almost flawless outcomes and could react sharply to disappointments.
2. US equities have outperformed recently, supported by innovation and strong earnings, but global policy support and valuation differences across major equity markets suggest diversification is essential. Market leadership could shift and long-term returns may favor Europe and emerging markets.
3. We added private Canadian multi-family real estate to premium income portfolios for its stable and attractive income, resilience during downturns, and low volatility. We established a strategic partnership with Starlight™ Investments to capitalize on strong fundamentals and supply-demand imbalances.
4. A disciplined, diversified investment approach positions portfolios to adapt to risks and opportunities, supporting clients' long-term financial goals in a dynamic global market.

Market performance: Defying gravity

Major equity markets continue to reach new highs, while investment-grade and high-yield credit spreads remain tight across most developed markets. What do you believe is behind market activity?

Recent market activity illustrates a renewed willingness among investors to embrace risk. This growing optimism has emerged as concerns over trade tariffs have begun to subside. With diminishing uncertainty around tariffs, market participants are increasingly confident that any lingering effects on the broader economy and financial markets will be minimal, if not negligible.

Looking outside of the US, there's a sense that current government stimulus efforts will make up for any negative effects from tariffs. This has helped keep spirits high among global investors.

However, the picture in the US is more nuanced. Recent payroll data has fallen short of expectations, and what is perhaps more troubling are the significant downward revisions to employment figures for May and June. As a result, the average pace of job creation is now running well below the threshold needed to maintain the current unemployment rate. Even though inflation has crept back above 3% for the year, the market's attention has shifted to the softer labor market. As a result, investors are betting heavily—about an 85% chance—that the Federal Reserve will cut interest rates in September. There's a widespread belief that this move could help the US sidestep a recession, with consensus only pricing in a 30% chance of one happening.

While we generally agree with this outlook, we remain mindful that the balance of risks is still skewed to the downside. Markets appear to be priced for an almost ideal outcome, and any disappointment relative to these high expectations could trigger a significant downward adjustment.

In other words, while optimism currently prevails, it is important to recognize that the margin for error is slim, and setbacks could have outsized effects on market performance.

Balancing act: Strategies for a potential changing equity landscape

US equities have outperformed other global markets since April 8, 2025. Do you expect the US to continue to outperform in the near term and beyond?

We maintain a measured view for the near term. We are constructive on US innovation and believe that momentum in US equities can persist. As highlighted in our July 2025 commentary, our view is that US equities are 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 that provide critical funding for digital and tech start-ups.
- Resilient earnings that justify premium valuations.

At the time, we expressed our views around the potential continued rise in China tech is on the horizon, given strong technological advancements in the market.

In our most recent meeting, the Portfolio Solutions Research Forum also recognized that global markets are vulnerable to a significant transformation, with potential shifts in market leadership. All things considered, the current market environment calls for a disciplined and diversified approach to equities. While the US has long been a dominant force, tailwinds are emerging in other regions:

- **Global policy support:** Most countries, excluding the US, are implementing synchronized fiscal and monetary stimulus to counteract economic headwinds such as tariffs. Europe is maintaining robust policy support, with Germany launching multi-year defense and infrastructure programs and the European Central Bank (ECB) delivering substantial rate cuts. China is also providing solid fiscal support for technology, local governments, and housing, mitigating the impact of tariffs and reducing reliance on US demand through diversified global supply chains.
- **Potential for a multi-polar world:** American economic dominance may not be dead, but it is changing. Power is becoming less concentrated in one dominant power but 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.

- **Valuation dispersion:** Our long-term expected annual returns over the next 10 years, which incorporates expected earnings growth, dividend yield, and valuation reversion, as of August 19 favour Europe (5.12%) and emerging markets (6.41%) over the USA (4.21%), demonstrating a wide dispersion in expected returns. While we expect US companies to continue to deliver some of the strongest earnings growth in the world, this is largely offset by expected valuation compression and lower dividend returns to shareholders.

Over the long term, US equity returns have been 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, the key question is whether the AI tailwind can offset headwinds such as:

- The reversal of globalization.
- Increasing government debt.
- Higher rates than those observed through 2009-2022
- Proliferation of technology and any risk of overinvestment and oversupply in the industry

While the US remains at the forefront of technological innovation, much of this appears priced into mega-cap valuations. If AI technology only meets current expectations, US equities may lose the valuation expansion tailwind that has driven recent returns. Additionally, high capital expenditures in AI are expected to increase depreciation expenses. This could pressure margins if revenue growth does not keep pace, although there's a possibility that margin improvement across US equities outside of the AI hyperscalers could support the US market to new highs.

Given the wide range of potential outcomes and wide dispersion across our 10-year annualized expected returns, we maintain diversification across geographies, style factors, and by balancing active and passive - where select, highly-valued innovation leaders continue to demonstrate strong momentum - management in our portfolios.

Where applicable, our portfolios continue to overweight US equities through an MLGIC structure, which limits potential drawdowns while allowing participation in US equity gains. This approach has proven effective in capturing upside while managing risk in an environment of elevated uncertainty.

Managed Solutions: Shelter income volatility through Private Multi-Family Real Estate

You recently added Private Multi-Family Office Real Estate to some premium income-distributing portfolios. Could you tell us more about why?

In response to evolving market dynamics, we have recently allocated to Private Multi-Family Real Estate within our premium income-distributing portfolios. This strategic move is underpinned by several compelling factors:

- **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 is 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.

We have chosen to add multi-family real estate to our premium income-distributing portfolios through direct private exposure driven by a Starlight™ Investments ("Starlight™"), a leading Canadian multi-family investor. 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).

We launched an open-ended Canadian Core Multi-Family Fund and strategic partnership with Starlight™ to fulfill this purpose. The newly established open-ended fund is focused on acquiring and managing a diversified portfolio of high-quality, income-producing, purpose-built Multi-Family rental properties across Canada's largest metropolitan areas, with a focus on the Greater Toronto Area, Ontario's Golden Horseshoe region, Greater Vancouver, and Greater Victoria, as well as other major Canadian markets including Calgary, Edmonton, Ottawa, Montreal, and Halifax.

We believe that the current more balanced environment is a timely one for Starlight™ to uncover value in a fundamentally sound market.

Starlight™ manages over CAD \$30 billion AUM and around 70,000 multi-residential suites. In our view, their key strengths are in their demonstrated track record in sourcing properties, managing the portfolio of assets, and managing the operations.

We're excited about this opportunity. Purposeful allocation to Canadian multi-family real estate enhances portfolio stability and income generation, providing a resilient and attractive complement to diversified equity strategies in a shifting global landscape.

Looking ahead: Focus on purpose

The complexity and dynamism of global markets underscore the importance of a well-considered and adaptable investment strategy. Our disciplined approach—anchored in diversification across asset classes, regions, sectors, and investment styles—enables us to respond proactively to both emerging risks and new opportunities.

The strategic addition of Canadian multi-family real estate to our premium income-distributing portfolios exemplifies our focus on incorporating purposeful assets in our portfolios to improve client outcomes.

At the same time, forward-thinking investment philosophy focuses on investments with strong fundamentals, encouraging long-term prospects and thoughtful risk management ensures that we continue to deliver value, regardless of the market environment. We remain dedicated to helping our clients achieve their long-term financial objectives, confident that our proactive strategies will keep them well-prepared in an ever-evolving investment landscape.

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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

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