Portfolio Solutions Research Forum Commentary

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Key takeaways

- Market calm in 2025 masked underlying uncertainty, highlighting the need for investor vigilance despite strong returns.
- A resilient, balanced approach — emphasizing diversification, quality, and selective strategies — remains essential for portfolio construction.
- Active management and disciplined asset allocation are vital for navigating concentrated markets and positioning portfolios for both opportunity and risk management.

As we reflect on 2025, one question stands out: Should investors take comfort in the relative calm we saw in markets, or does this tranquility mask underlying vulnerabilities?

Reflecting on 2025, the relative calm in markets left many investors wondering whether this tranquility was a sign that we're "all clear" or a warning to be heeded. While equity indices posted strong results and volatility remained subdued, a closer look reveals a more nuanced story. Credit spreads are tight, select AI-linked segments show stretched valuations, and overall sentiment appears to be edging toward euphoria. History teaches us that low volatility can be a sign of investor complacency, not necessarily fundamental strength.

With these underlying vulnerabilities in mind, how are CIBC Managed Solutions positioned to both capture opportunities and manage potential risks in 2026?

Our portfolio positioning reflects this complex environment. We remain intentionally simple and empirically grounded: balance, quality, and patience. We are fully invested and diversified across equities and fixed income, using active management to steer through market concentration, valuation concerns, liquidity needs, and credit cycles. To help smooth short-term fluctuations without sacrificing long-term growth, we complement broad equity market investments with modest low-volatility equity strategies. This ensures investors stay in the market while reducing sensitivity to drawdowns during volatility spikes.

In equities, we remain constructive on Canada, supported by attractive valuations, comparatively high dividend yields, and broad sector contributions. High-quality dividend payers, defensive franchises, and disciplined capital allocators across Energy, Materials, and Technology are central to our portfolios. In the US, we favour profitable growth at reasonable valuations over momentum-heavy concentration, recognizing that, while momentum can persist, diversification is essential. In Europe and Japan, we focus on quality franchises and defensive stocks, in line with cautious growth. In Emerging Markets, we emphasize Asia and reform-led stories, sized appropriately for volatility and policy variability.

On the fixed income side, higher yields are driving stronger expected bond returns compared to recent years. Today's elevated starting yields provide bonds with a sturdier income base and greater capacity to cushion portfolios should equities weaken. Against this backdrop, we favour conservative, selective positioning in credit, with a moderate bias toward shorter-duration instruments.

Private assets further complement portfolios by enhancing diversification and providing access to unique opportunities. Allocations are carefully sized to align with long-term objectives and liquidity needs, with thoughtful selection and clear communication to ensure these assets contribute to resilience without introducing undue risk.

Gold continues to serve as a selective safeguard, diversifying portfolios during periods of policy uncertainty or heightened geopolitical risk. Our gold views are expressed through disciplined stock selection in high quality producers, with position sizes adjusted as market conditions evolve.

Given the challenging market dynamics faced by active management in 2025, how do you evaluate the role of active strategies in Managed Solutions going forward?

As we've seen throughout the prolonged growth super-cycle with exceptionally narrow market leadership, many US core managers struggled to match headline index returns as diversified exposures lagged the concentrated winners.

Despite some broadening out of market performance near the end of 2025, US equity markets remain largely concentrated in a few names, making it challenging for active managers to outperform the benchmark. This was reflected in the S&P 500's 2025 returns landing in the 33rd percentile of the eVestment US Large Cap Universe.

In Canada, equity markets were driven predominantly by strong performance in materials, especially gold stocks — the S&P/TSX Gold sub-industry returned 132% — which pushed S&P/TSX index returns to the 10th percentile within the eVestment Canada Large Cap equity universe.

Meanwhile, small cap stocks also delivered robust returns following the post-liberation day rally, though gains were mostly concentrated in lower quality names.

Even so, the purpose of active funds remains intact: they provide balanced factor exposure, diversification across sectors and styles, and drawdown mitigation that stabilizes total portfolios through cycles. The greater challenge is evaluative, not strategic. Over-reliance on benchmark-relative performance at the fund level misses the broader context of regime risk and concentration, underestimating active management's contribution to portfolio resilience, correlation management, and downside mitigation.

What principles guide your asset allocation for 2026?

The balanced portfolio delivered another strong year of returns, supported by equity market strength and robust all-in-bond yields. A question that many investors may have is: can this continue? Despite uncertainty heading into 2026, it's important to remember that markets tend to climb the "wall of worry" over the long term.

Ultimately, preparation — not prediction — remains our guiding principle. We stay anchored to strategic asset allocation, using tactical tilts to exploit dislocations and incrementally improve outcomes. Our focus is on maintaining a robust process that adapts to changing signals without overreacting to noise. Staying invested, diversified, and disciplined is central to our approach as we strive to balance participation and risk-exposure, communicate clearly, and act with purpose as the cycle evolves.

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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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