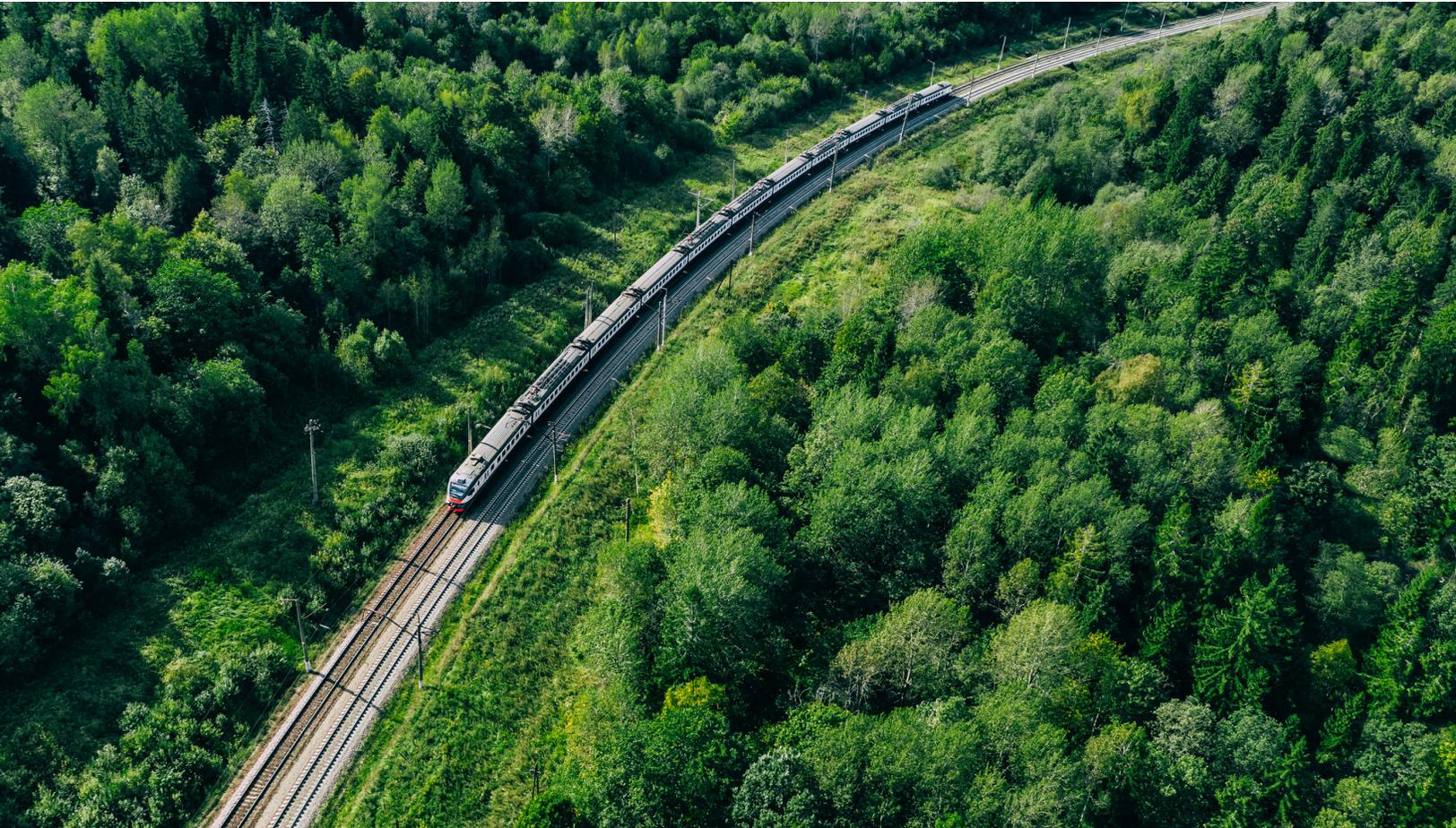


# Portfolio Solutions Research Forum Commentary

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## Key takeaways

- With geopolitics and shifting market expectations driving volatility, portfolios are positioned for resilience through broad diversification and disciplined risk management.
- Given uneven market leadership, we're emphasizing higher-quality exposures, tilting equities toward quality and low-volatility dividends. At the same time, we maintain a measured, risk-controlled approach to credit.
- Amid AI-driven dispersion in software and renewed attention on private-market liquidity, our private credit approach prioritizes durable cash flows, senior-secured structures, liquidity-aware sizing, and rebalancing rather than headline-driven moves.

## Geopolitical tensions in the Middle East have been moving markets. How are developments in Iran shaping investor sentiment and volatility?

Developments in Iran have raised concerns about potential disruptions to global energy markets, with oil prices rising sharply and a more cautious tone across markets.

Historically, geopolitical shocks like this tend to trigger short-term spikes in volatility across commodities and risk assets, often easing once the probability of broader escalation declines.

While the situation remains fluid, CIBC Global Asset Management's baseline view is for a contained conflict. That said, the risks are skewed and any meaningful disruption through the Strait of Hormuz could create a more sustained energy shock, lift inflation expectations, and weigh on growth-sensitive assets.

In the near term, we expect investor sentiment to remain on edge, with the potential for continued elevated volatility.

## How are Managed Solutions positioned amid recent market volatility and managing portfolio risk?

Our approach is resilience first: maintaining diversified positioning, managing risk deliberately, and keeping flexibility to act if markets reprice quickly.

Against a backdrop of shifting rate expectations, elevated geopolitical uncertainty, and potential spikes in volatility, we've leaned on a few consistent anchors.

Strategically, our core positioning includes:

- Equities: a tilt toward quality and away from momentum. In practical terms, quality companies tend to have stronger balance sheets and more durable cash flows, while momentum can be more crowded and sensitive to sharp shifts in market leadership.
- Fixed income: a measured tilt toward credit for the following reasons:
  - Over time, investors are generally compensated for taking credit risk.
  - Corporations typically issue debt with shorter maturities than government bonds, resulting in lower duration, which measures a bond's sensitivity to interest-rate changes. The ultimate impact is generally lower volatility.
  - Over longer horizons, bond returns tend to closely follow the starting yield, and all-in yields today remain relatively attractive.

From a dynamic allocation perspective:

- We are overweight low-volatility dividend equities, which has helped support portfolio resilience and contributed positively during more unsettled periods. These exposures help provide stability amid market volatility, protecting during downturns while providing equity participation over the long term.

Tactically, we've been prepared to adjust risk when warranted:

- In our Canadian bond funds, we've trimmed credit exposure from higher levels, while maintaining a focus on higher-quality issuers, strong diversification, and liquidity.
- In our Canadian equity funds, we continue to see value in quality gold producers with strong balance sheets as a potential diversifier.
- In CIBC Smart Investment Solutions, the team used the tactical overlay to quickly reduce risk in an environment of declining investor sentiment, repositioning the portfolios back to neutral vs benchmarks—with the aim of avoiding oversized directional bets without sufficient short-term conviction.

Overall, the environment continues to reflect a wide range of macro and market risks. Our focus remains on diversification, disciplined risk management, and keeping portfolios positioned to perform across multiple potential outcomes.

## Beyond geopolitics, AI has been a major catalyst for repricing risk in software, driving equity market volatility, especially at the start of the year. How is the team measuring and managing risk, especially across private markets?

For Managed Solutions, we start by taking a fundamentals-first approach—separating fast-moving market narratives from the indicators that typically drive long-term outcomes.

Software stocks have repriced quickly as investors debated how AI might shape software pricing, margins and competitive

dynamics. While equity markets have reacted quickly to these developments, the underlying credit fundamentals of many software businesses remain relatively stable. Key metrics such as cash flow generation, customer retention and balance sheet strength have not deteriorated meaningfully, and we expect any AI-related disruption to emerge gradually rather than as an immediate credit shock.

At the same time, recent headlines involving Blue Owl Capital (a global asset manager) have highlighted liquidity dynamics in the fast-growing private credit market. The firm halted redemptions in one of its funds and sold roughly \$1.4 billion of loans at 99.7% of par to institutional investors to meet redemption needs. These developments have prompted broader discussion around liquidity and have also renewed the debate about valuation transparency across private markets.

Within Managed Solutions, our software-related private credit exposure generally emphasizes durable business models and predictable cash flows, rather than long-term growth narratives. The strategy typically favors:

- Mission-critical enterprise software deeply embedded in customer workflows
- High switching costs that support retention
- Regulated end-markets (e.g., healthcare and financial services), which can slow the pace of displacement

Structurally, the private credit portfolio is focused on senior secured lending, positioning portfolios higher in the capital structure with moderate loan-to-value ratios and a meaningful equity cushion. In downside scenarios, senior lenders are generally paid first and have direct claims on business assets. These features can help mitigate risk even when technology narratives shift.

Our software-related private equity exposure tends to focus on buyout companies with defensible moats such as proprietary data assets, high switching costs or regulatory or localized complexity. In many cases, AI can enhance the user experience and further embed solutions into customer workflows. There is also exposure to growth companies that are category leaders, which demonstrate durable unit economics, and actively use AI to extend their competitive advantage. The Private Equity hands-on value creation approach supports management teams as they navigate product evolution, go-to-market change and capital market volatility.

Importantly, our portfolios are invested in a broader range of AI beneficiaries across both public and private markets than in potential AI losers. This strategic positioning means that even if the AI trend accelerates and negatively impacts certain segments, other parts of the portfolio should benefit even more, providing a natural ballast for continued outperformance.

Across Managed Solutions, we manage portfolios holistically—sizing positions based on opportunity and risk, including liquidity considerations. Our rebalancing process is disciplined, but flexible; we do not automatically rebalance private assets. If portfolio weights drift below private-asset targets, we assess the best path forward, including whether to:

- Add to existing exposures
- Introduce complementary, diversifying managers
- Maintain liquidity until the opportunity set improves

## Any final words on managing risks and volatility in the portfolio?

The goal of portfolio construction isn't to predict every headline that can drive markets. It's to stay positioned for a range of outcomes while preserving the ability to act when markets dislocate. Volatility is a natural feature of investing, and can create both risk and opportunity. That's why we emphasize diversification across multiple return drivers, maintain liquidity and structural resilience, and follow a disciplined, adaptive process so we can respond to changing conditions as warranted.

## Let's connect



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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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