CIBC SUSTAINABLE CANADIAN CORE PLUS BOND STRATEGY

Portfolio commentary as of December 2023

Overview

- The financial industry continues to recognize the importance of environmental, social and governance (ESG) factors in the assessment of company and industry performance. While 2023 introduced some opposition and polarization on the subject, it was mostly just noise. Over the last year, we saw significant developments across several key areas of responsible investing.
- Climate continues to gain importance for market participants, with more direct integration of climate related considerations within the investment process. Client demand for climate specific strategies is also increasing, with asset flows increasing significantly compared to five years ago. We expect the demand for these strategies to reman strong amid favourable policy environments and long-term structural tailwinds.
- Government policy is reshaping industries, with the US Inflation Reduction Act being an example. Through tax credits and incentives, the economics of many clean industries and technologies have structurally changed, spurring investment at never-before-seen levels. In Canada, the 2023 federal budget and the National Adaptation Strategy (NAS) provided similar tailwinds to industries with key roles to play in shaping a future clean energy economy. We expect policy action to continue in the coming years, as countries continue progressing towards their net zero commitments.
- The past year has been one of maturity rather than rapid growth for responsible investing. Looking ahead to 2024, we expect continued policy maturation along with greater transparency around ESG factors, and increased focus on emerging investor issues around human rights and biodiversity. We expect the climate transition to remain at the forefront as one of the largest economic transitions in history. As these factors continue to garner attention, it's critical for asset managers to develop the capabilities necessary for including these risks and opportunities throughout the investment process to help make the most informed investment decisions for clients.

Performance

- Bond yields continued to move lower in December, as markets gained further confidence that both the US Federal Reserve Board (the Fed) and the Bank of Canada were at the end of their rate hiking cycles. Markets are now pricing in rates cuts as early as March 2024. As a result of the move, the Canadian bond universe saw its first positive year since 2020.
- As expected, the Fed elected to leave its overnight rate unchanged at 5.25%-5.50% but surprised the market by revising its projection materials to include three rate cuts in 2024 vs. the September projection which included only one. Additionally, comments from Chairman Powell were interpreted as more dovish, with an emphasis on getting close to reaching the central bank's 2% inflation target without causing a recession.
- Credit spreads saw material tightening in the month. However, the corporate credit sub-index underperformed the broad universe in December due its shorter duration relative to the overall benchmark. High yield also saw strong spread compression in the month, leading the sector to outperform both investment grade credit and the broad Canadian bond universe.
- The portfolio remains overweight the corporate sector and underweight the Government of Canada and Provincial sectors. The yield of the portfolio is above the benchmark, due to the sector allocation strategy and duration is modestly short relative to the benchmark.

1204 | 01/2024