CIBC PRIVATE WEALTH

INVESTMENT STRATEGY COMMITTEE

QUARTERLY PORTFOLIO STRATEGY REPORT

NORTH AMERICAN YIELD EQUITY MODEL PORTFOLIO

February 2024

Inside this issue

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Unless otherwise noted, all prices quoted in this report are as of the close of markets on December 29, 2023.

Market Review: Q4/2023

The fourth quarter of 2023 commenced with subdued expectations, driven by rising long-term interest rates that extended the decline observed in August and September. By late October, both the stock and bond markets hit their intra-quarter low points as investor sentiment waned. However, a positive turn of events unfolded: robust third-quarter economic data, favourable business activity reports and corporate earnings results that exceeded expectations. The U.S. job market's resilience contributed to a healthier consumer, resulting in better-than-anticipated spending and overall economic growth. Furthermore, inflation data softened more rapidly than anticipated and the Federal Reserve's dovish monetary policy guidance prompted a swift shift in investor confidence. Consequently, both stock prices and long-term interest rates reversed course, culminating in a powerful rally across equity and bond markets to close out the year.

In Canada, the S&P/TSX Composite Index delivered a solid 8.1% total return during Q4, with broad-based strength seen across sectors. The energy sector was the sole laggard, experiencing a negative total return of 1.3%. Plummeting oil prices - U.S. WTI fell by over 20% in the quarter and closed the year at US$72 - exerted pressure on the entire energy industry. Conversely, the information technology, financial and real estate sectors emerged as top performers, delivering total returns of 24.0%, 12.8% and 10.7%, respectively.

The S&P 500 Index achieved its most robust quarterly return in three years, delivering a total return of 11.7% during Q4 2023. This impressive performance contributed significantly to the overall annual total return of 26.3%. Notably, the market narrative was shaped by the dominance of the 'magnificent seven' technology and A.I. stocks, which collectively accounted for approximately 80% of the index's gains. However, similar to the S&P/TSX Composite Index, the energy sector experienced a negative quarter, with 6.9% in total return. On a brighter note, the real estate, information technology and financial sectors emerged as top performers, boasting total returns of 18.8%, 17.2% and 14.0%, respectively. The Nasdaq Composite Index, characterized by its substantial exposure to technology stocks, posted a commendable 14.6% total return.

Global equities made gains during the quarter, with developed markets outperforming their emerging counterparts. In Europe, Germany's DAX Index and France's CAC 40 Index achieved price-return gains of 8.9% and 5.7%, respectively. Meanwhile, the U.K.'s FTSE 100 Index recorded a modest 1.6% increase. In Asia, Japan's Nikkei Index rose by 5.0% on a price-return basis, while China's Shanghai Composite Index experienced a decline of 4.4%.

The Bank of Canada maintained its benchmark overnight rate at 5% for the third consecutive meeting in December, aligning with market expectations. Notably, this rate represents the highest policy rate in 22 years. The central bank acknowledged signs of moderating consumer spending but emphasized its commitment to monitoring core inflation trends. Key considerations include the delicate balance between demand and supply in the economy, inflation expectations, wage growth and corporate pricing behaviour. In November, Canada's annual headline inflation rate stood firmly at 3.1%, surpassing market expectations of 2.9%. However, the Canadian economy added a modest 100 jobs in December, falling significantly short of the consensus estimate of 13,500 job additions. The unemployment rate in Canada was 5.8% in December of 2023, remaining unchanged from the 22-month high recorded in November.

Meanwhile, the U.S. Federal Reserve (Fed) maintained the Fed Funds Rate within the range of 5.25% to 5.50% for a third consecutive meeting, aligning with market expectations. Policymakers acknowledged that recent indicators point to slower economic growth and lower job gains, although the employment situation remains robust and the unemployment rate remains low. The dot plot revealed that the median year-end 2024 projection for the Fed funds rate declined to 4.6%, down from the 5.1% projected in September. Additionally, the annual headline inflation rate in the U.S. decelerated to 3.1% in November 2023, marking the lowest reading in five months, consistent with market forecasts. The annual core inflation rate, which excludes food and energy, remained at more than a two-year low of 4% in November. Furthermore, U.S. nonfarm payrolls surged by 216,000 jobs in December, significantly surpassing the revised figure of 173,000 jobs reported for November and exceeding the market forecast of 170,000.

In the fixed-income markets, bonds delivered positive returns as government bond yields declined across the curve during the last two months. Specifically, the U.S. Treasury 2-year and 10-year yields dropped by 79 and 69 basis points, respectively. The yield curve remains inverted, consistent with the level observed last year. The Canadian 10-year bond yield closed the quarter at 3.10%, while the U.S. 10-year yield concluded the quarter at 3.88%.

Portfolio Performance

ISC North American Yield Equity Model Portfolio

The CIBC Private Wealth North American Yield Equity Portfolio posted a positive return but underperformed its benchmark in the final quarter of 2023. The top contributing sectors were energy, consumer staples and health care, while industrials, materials and financials sectors detracted.

Financials was the largest underperformer as it was impacted by Sun Life Financial (SLF) and Intact Financial (IFC), coupled with outperformance from U.S. regional banks, relative to our Canadian bank holdings, on falling bond yields. IFC and SLF produced positive returns in the quarter but underperformed relative to peers. The materials sector underperformed primarily due to our holding of Franco-Nevada (FNV), which was impacted by the shutdown of First Quantum's (FM) Cobre Panama mine, for which it has a gold and silver stream, due to government opposition. Given the near-term headwinds, we sold our position in December. Industrials detracted as Emerson Electric (EMR) underperformed largely on weaker-than-expected free cash flow guidance for fiscal 2024 as it faces some weakness from its National Instruments and in its Discrete business. Overall, we continue to like EMR over the intermediate term, given the secular tailwinds from automation, nearshoring and energy transition.

The energy sector was the portfolio's best relative performer, which was attributed to strong stock selection led by our overweight positions in Pembina Pipeline (PPL) and Enbridge (ENB). Energy pipeline stocks outperformed those of energy producers. Stable, predictable earnings growth for pipeline stocks was rewarded in a period of falling commodity prices, while falling interest rates also provided a tailwind for these names. Pembina Pipeline added value for the fund, with the stock benefitting from strong Q3 results and improved guidance for 2023. Cameco also contributed as its robust performance continued into Q4 on the back of rising uranium prices, a continued positive outlook and the closing of its Westinghouse transaction. Loblaw (L) and Alimentation Couche-Tard (ATD) both outperformed on relatively solid financial results, partially offset by macro pressures. Within healthcare, Merck (MRK) contributed to the portfolio's outperformance on another strong quarterly result and a raise in guidance.

In December, we used the proceeds from the FNV sale to fund additions to Wheaton Precious Metals (WPM) and Teck Resources (TECK.B), in which we see much better near-term prospects. TECK.B recently announced the sale of its steelmaking coal business to Glencore, which is expected to close in Q3 2024, with the remaining company focused on growing its copper and zinc businesses. We trimmed BCE given a more uncertain outlook and slowing internet revenue and subscriber growth, while using the proceeds to increase our position in Telus (T), which is benefiting from improving ARPU, cost savings and strong customer growth.

We continue to be positioned defensively, given weakening macroeconomic data, primarily in Canada. However, the prospects for interest rate cuts could bode well for equities in the coming quarters. We believe the portfolio is strategically well positioned for the current environment, with a balanced mix of growth, income and stability. As always, we continue to analyze new opportunities and remain tactical in our positioning.

The team here at CIBC will continue to deploy a multi-disciplined investment approach that uses fundamental, quantitative and technical research methods to construct a balanced portfolio of North American securities that aims to achieve long-term growth of capital and income for our clients.

Results as of the end of December 2023

Portfolio Performance	3 month	YTD	1 year	3 year	Since Inception[1]
North American Yield Equity	6.02%	7.56%	7.56%	10.79%	8.89%
Benchmark[2]	6.61%	6.94%	6.94%	11.16%	NA
Relative	**-0.58%**	**0.62%**	**0.62%**	**-0.38%**	**NA**

[1] March 28, 2017.

[2] Benchmark: 63% S&P/TSX Composite Dividend Index + 32% Dow Jones US Div. 100 Index (CAD) + 5% FTSE Canada 91-Day T-Bill Index.

Current Environment

Inflation is easing faster than previously expected, particularly in the U.S. but also, if one looks past rents and mortgage interest costs, in Canada. That is increasing central bankers' confidence that inflation can be brought back to target with much less damage to economic activity than in past episodes. It also has markets anticipating a series of rate cuts on both sides of the Canada-U.S. border, and a soft landing outcome for the economy.

That said, the two countries have diverged notably in the degree to which current interest rates have posed a hurdle to growth. Canada's economy has essentially flatlined in real GDP terms in recent quarters and has declined in real output per capita, while a less-indebted household sector with locked-in mortgages at low rates has sheltered the U.S. economy from a similar stall. There are some signs of a deceleration in hiring in interest-sensitive sectors stateside, and we expect growth to tail off as we move deeper into 2024, but the Fed might be a bit more patient than markets now expect in terms of when it deems it necessary to ease up on rates, and how many of those rate cuts we see this year.

Canada's economy might still avoid an outright recession, but sluggish growth will impact corporate earnings performance in upcoming quarters in cyclically-sensitive sectors. Weak global growth has also put a damper on commodity prices, with oil prices weakening even in the face of OPEC+ production restraints. As much as a 150 basis point easing by the Bank of Canada in the last half of the year should create a more positive tone for financial markets, buttressing expectations for better growth in 2025 after a close brush with recession.

Outlook

North American equity markets rallied sharply to finish the year. Including dividends, the S&P/TSX Composite Index (TSX) posted a total return of 8.1% for the fourth quarter of 2023. This quarterly gain contributed strongly to a total return of 11.8% for the full year. Ten of the eleven GICS sectors gained during the quarter, led by information technology, financials and real estate. Energy was the only sector to post a negative total return in the quarter. In the U.S., the S&P 500 Index (S&P 500) delivered a total return of 11.7% in the fourth quarter, bringing the full-year 2023 total return to an impressive 26.3%. Real estate, information technology and financials were the top performing sectors, while energy was the only GICS sector to post a negative total return in the quarter.

A common theme in the quarter was the outperformance of interest-rate-sensitive sectors such as real estate and financials, which benefitted from a sizable drop in government bond yields. These higher dividend-yielding sectors had underperformed in previous quarters, weighed down by stiffer relative competition from higher government bond yields, but rallied to close out the year. Softening inflation, and signs of a slowing economy (particularly in Canada) have lessened the need for restrictive monetary policy, and central bankers pivoted towards an easing bias and opened the door to rate cuts in 2024. The U.S. 10-year government bond yield, which had moved above 5% in October for the first time since 2007, fell by over 100bps to finish the year at 3.9%. Information technology continued to perform strongly in the quarter. The sector led gains for the year in both Canada and the U.S., producing impressive full-year returns of 68.8% and 56.4% respectively. While structural tailwinds such as the rapid rise of generative artificial intelligence (A.I.) continued to fuel gains for the information technology sector, the decline in interest rates also provided a boost in the quarter.

As we begin 2024, two themes could drive equity markets. First, economic growth is likely to be muted as the lagged impact of higher interest rates weighs on consumers and businesses. The Canadian economy has already shown some signs of weakness, largely owing to a more indebted consumer but Canada does have the tailwind of continued rapid population growth. The consumer has remained quite resilient, particularly in the U.S. but most economists and forecasters are calling for rising unemployment levels and slower consumer spending going forward. Discretionary spending will likely face some headwinds, as consumers prioritize saving and essential spending. The other key driver will likely be falling interest rates. A confluence of factors, including the strain of high interest rates, has brought inflation down from the peaks seen in 2022 and shorter-term trends point towards continued convergence with central bank inflation targets of 2%. Current levels of restrictive policy are no longer needed and markets are now pricing in multiple rate cuts from the Bank of Canada and the U.S. Federal Reserve. A more stable environment, with some clarity that interest rates are more likely going down, will provide relief for corporations and investors.

Overall, the outlook for equity markets appears reasonably attractive. Both the TSX and S&P 500 are expected to post aggregate earnings growth of approximately 10% in 2024. Earnings expectations may have to come down, particularly if the economy is weaker than expected but even mid-to-high single-digit percentage growth would set the stage for a good year for equity investors. Valuations are not overly extended, particularly in the context of lower interest rates. The TSX closed the year trading at a P/E of less than 14x based on forward earnings, compared to its historical 10-year average of approximately 15x. The S&P 500 closed the year at just under 20x versus its 10-year average of approximately 18x. This index-level multiple for the S&P 500 masks some nuances below the surface. Technology stocks, particularly a handful of mega-cap names, are trading at high multiples but also have the benefit of dominant market positions and robust growth outlooks.

We are somewhat defensively positioned within equities and continue to focus on resilient, durable businesses. We see opportunities in some of the interest-rate sensitive sectors, where attractive going-in dividend yields provide a nice baseline return for investors. We see opportunities in the energy sector as energy diversity remains a global theme, solid balance sheets should help to buffer commodity price volatility and position many companies to continue executing shareholder-friendly initiatives. Given the rise in bond yields over the last twelve months, the risk-reward proposition for fixed income is more compelling for investors relative to the start of 2023. Bonds are an important tool in balanced portfolios and should offer ballast in risk-off environments. Bond yields may have overshot on the downside in the short term and we are maintaining our underweight position in fixed income given the current volatility in fixed-income markets. We believe the portfolio positioning should serve well to guard against heightened market volatility while providing a balanced mix of growth, income, and stability in the coming months.

Appendix A: Investment Strategy Committee Members

Wincy Wong, CFA, FSA credential holder

Executive Director, Investment Strategy Group, CIBC Private Wealth

Wincy Wong joined CIBC in 2021 and has over 20 years of investment experience. Previously, she held lead portfolio management responsibilities for a number of large cap dividend mandates at Mackenzie Investments. Wincy is the chair of the Investment Strategy Committee's (ISC) Stock Selection sub-committee. She is also a member of the CIBC Asset Allocation Committee. Wincy is a CFA charterholder and a holder of the Fundamentals of Sustainability Accounting (FSA) credential awarded by SASB.

Ian de Verteuil, MBA

Head of Portfolio Strategy, Quantitative and Technical Research, CIBC World Markets Inc.

Prior to joining CIBC in 2014, Ian was the Global Head of Research at another major financial institution and led that firm's 70+ fundamental analysts, its quantitative team and its Economics department. During his tenure in the investment industry, Ian was also a top-rated analyst in the consumer products and banking sectors. He has a B.Sc. in Chemistry from McGill University and an MBA from the University of Western Ontario.

Sid Mokhtari, CMT

Chartered Market Technician & Research Analyst, CIBC World Markets Inc.

Sid Mokhtari is a chartered market technician (CMT) and a research analyst with CIBC World Markets Inc., with a mandate in technical-model trading aspects of the Canadian stock universe. Sid assesses the internals of the broader indices for a top-down analysis, while his TrendSpotting Matrix provides bottom-up analysis from technical perspective. Sid plays an important role in educating CIBC's clients through technical disciplines and models. Sid has been selected as the first Canadian technician to hold a seat on the Market Technicians Association's Journal Review Board. He is a regular guest speaker on the Business News Network (BNN), at Canadian conferences, and is often quoted by the Canadian financial press.

Michael O’Callaghan, MBA, CFA

Director, Investment Strategy Group, CIBC Private Wealth

Michael O’Callaghan joined CIBC in 2011 and is responsible for providing market commentary, portfolio strategies and investment recommendations to CIBC Wood Gundy Investment Advisors and their clients. Prior to joining CIBC, Michael was in a similar position at another Canadian investment dealer. A graduate of the Richard Ivey School of Business’s MBA program and a CFA charterholder, Michael has more than 15 years of experience in the financial industry.

Andrew O'Brien, CFA

Director, Investment Strategy Group, CIBC Private Wealth

Joined CIBC in 2023 and is a member of the Investment Strategy Committee’s (ISC) stock selection sub-committee. Andrew brings over 10 years of experience in the investment industry, spanning equity research, investment strategy, and asset allocation. Prior to joining CIBC, he held the role of Director Investment Research at a large Canadian asset management firm, where he focused on Canadian equities. Andrew holds a Bachelor of Commerce degree and a Masters in Business Studies specializing in Finance from University College Dublin (UCD) in Ireland. He is also a CFA charterholder and holds a Certificate in ESG Investing from the CFA Institute.

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Stock prices as of January 17, 2024:

Alimentation Couche-Tard Inc. (2g, 12) (ATD-TSX, C$78.91)

BCE Inc. (2g, 7) (BCE-TSX, C$55.85)

Cameco Corporation (2a, 2e, 2g) (CCO-TSX, C$64.73)

Enbridge Inc. (1b, 2a, 2c, 2e, 2g, 7) (ENB-TSX, C$48.77)

First Quantum Minerals Ltd. (1b, 2g, 7) (FM-TSX, C$12.66)

Franco-Nevada Corporation (2g, 7) (FNV-TSX, C$145.12)

Intact Financial Corp. (2a, 2c, 2e, 2g, 3a, 3c, 7) (IFC-TSX, C$201.59)

Loblaw Companies Limited (1b, 2g) (L-TSX, C$131.68)

Nutrien Ltd. (2a, 2c, 2g, 7) (NTR-NYSE, US$48.92)

Pembina Pipeline Corporation (2a, 2c, 2e, 2g, 7) (PPL-TSX, C$45.4)

Restaurant Brands International Inc. (1b, 2g, 7) (QSR-NYSE, US$75.81)

Sun Life Financial Inc. (2a, 2c, 2e, 2g, 7) (SLF-TSX, C$67.59)

Teck Resources Limited (1b, 2g, 7, 12) (TECK.B-TSX, C$49.89)

TELUS Corporation (1b, 2a, 2c, 2e, 2g, 7, 9, 13) (T-TSX, C$24.57)

Toronto-Dominion Bank (2a, 2c, 2e, 2g, 3a, 3c, 7) (TD-TSX, C$79.88)

Wheaton Precious Metals Corp. (2g) (WPM-NYSE, US$46.04)

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