CIBC PRIVATE WEALTH

INVESTMENT STRATEGY COMMITTEE

QUARTERLY PORTFOLIO STRATEGY REPORT

U.S. CORE EQUITY MODEL PORTFOLIO

February 2024

Inside this issue

See Disclosures And Disclaimers at the end of this report for disclosures, including potential conflicts of interest. Complete research on any equities mentioned in this report is available from your Investment Advisor.

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 U.S. Core Equity Model Portfolio

The CIBC Private Wealth U.S. Core Equity Portfolio underperformed the benchmark during the fourth quarter of 2023, with allocation and selection contributing to the underperformance. Regarding allocation, the portfolio's overweight positions in energy and healthcare contributed to underperformance as did the underweight positions in real estate and information technology. This more than offset contribution to outperformance from the underweight position in consumer staples. Regarding selection, the detraction from outperformance due to our selection in communications services, energy, materials and communication services more than offset the contribution to outperformance from selections in financials and consumer discretionary.

In financials, the positions in Black Rock (BLK), JP Morgan (JPM) and Bank of America (BAC) performed well, helped by positive sentiment regarding the potential for lower interest rates in 2024. In healthcare, the position in Eli Lilly (LLY) continued to perform well after the company posted strong quarterly results and the company's blockbuster diabetes drug Mounjaro was approved by the U.S. FDA for treating weight loss. We reduced the position in Thermo Fisher Scientific (TMO) after the company's quarterly results disappointed and the company provided weak guidance due to an uncertain outlook for its Chinese business. We also added to the position in Stryker as we expect the post-Covid demand for the artificial knees and hips that Stryker produces will continue to be strong. In information technology, the position in ServiceNow (NOW) continued to perform well and we added to our holdings after the company released strong quarterly results and reported encouraging initial adoption by corporations of its generative artificial intelligence (generative A.I.) products. In materials, CF Industries' (CF) share price fell as higher global supply of fertilizers pushed down benchmark index prices and weighed on revenue, and Albemarle (ALB)'s share price continued to decline as falling lithium prices more than offset the impact of higher sales volumes related to the expansion of its operations in Chile and production from its processing plant in China. Finally, ExxonMobil (XOM)'s share price moved lower after its quarterly results disappointed and as energy prices declined during the quarter.

During 2023, an underweight position in high-growth technology stocks contributed significantly to the portfolio's underperformance versus its benchmark. A considerable source of this was in semiconductors, where those companies involved in producing graphics processing units used in generative A.I. saw their share prices soar. Although we did not own the shares of any of these companies because we believed that their valuations were too high, we own the shares of software companies such as International Business Machines (IBM), Microsoft (MSFT) and ServiceNow (NOW), which have a growing presence in the generative A.I. market and which have seen their share prices increase as a result. We will be seeking additional ways to participate in the upside potential in generative A.I. in 2024, either from investments in software companies or hardware companies.

Given the strong performance of equities in 2023, significant additional upside in equity indices may prove challenging but we believe the recent decision by the U.S. Federal Reserve (Fed) not to raise interest rates and the likelihood that rate hikes are over is a positive factor and could result in improved breadth of the market, with upside participation from more sectors in 2024 than we saw in 2023. However, given that it takes time for the negative effects of higher interest rates to be felt in the economy, we recognize the possibility of a recession in 2024 and that this could have a negative impact on overall equity returns should macroeconomic headwinds and high interest rates persist. Therefore, we are cautiously optimistic regarding equities in 2024.

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 portfolio of mid-cap and large-cap U.S. equities 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]
U.S. Core Equity	9.52%	19.17%	19.17%	9.93%	13.99%
Benchmark[2]	11.69%	26.29%	26.29%	10.00%	NA
Relative	**-2.17%**	**-7.11%**	**-7.11%**	**-0.07%**	**NA**

[1] February 16, 2016.

[2] Benchmark: 100% S&P 500 Index (USD).

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.

Disclosures and Disclaimers

This report is issued and approved for distribution to clients in Canada by registered representatives of CIBC Wood Gundy, a division of CIBC World Markets Inc., Member CIPF, and also by affiliates of CIBC Wood Gundy via their registered representatives. This report is not authorized for distribution in the United States. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. This report is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. The CIBC ISC Model Portfolios are model portfolios of securities prepared by members of CIBC Wood Gundy's Investment Strategy Group, CIBC World Markets and CIBC Asset Management. The Model Portfolios are not mutual funds. The securities mentioned in this report may not be suitable for all types of investors. This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC Wood Gundy. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments. CIBC Wood Gundy suggests that, prior to making an investment decision with respect to any security recommended in this report, the recipient should contact one of our client advisers in the recipient's jurisdiction to discuss the recipient's particular circumstances. Non-client recipients of this report should consult with an independent financial advisor prior to making any investment decision based on this report or for any necessary explanation of its contents. CIBC Wood Gundy will not treat non-client recipients as its clients by virtue of their receiving this report. Past performance is not a guarantee of future results, and no representation or warranty, express or implied, is made regarding future performance of any security mentioned in this report.

Important disclosure footnotes for companies mentioned in this report that are covered by CIBC World Markets Corp./Inc.:

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)

Key to important disclosure footnotes:

1 CIBC World Markets Corp. makes a market in the securities of this company.

2a This company is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.

2b CIBC World Markets Corp. has managed or co-managed a public offering of securities for this company in the past 12 months.

2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.

2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.

2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.

2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.

3a This company is a client for which a CIBC World Markets company has performed non-investment banking, securities-related services in the past 12 months.

3b CIBC World Markets Corp. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.

4a This company is a client for which a CIBC World Markets company has performed non-investment banking, non-securities-related services in the past 12 months.

4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

4c CIBC World Markets Inc. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.

5a The CIBC World Markets Corp. analyst(s) who covers this company also has a long position in its common equity securities.

5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.

6a The CIBC World Markets Inc. fundamental analyst(s) who covers this company also has a long position in its common equity securities.

6b A member of the household of a CIBC World Markets Inc. fundamental research analyst who covers this company has a long position in the common equity securities of this company.

6c One or more members of Investment Strategy Group who was involved in the preparation of this report, and/or a member of their household(s), has a long position in the common equity securities of this company.

7 CIBC World Markets Corp., CIBC World Markets Inc., and their affiliates, in the aggregate, beneficially own 1% or more of a class of equity securities issued by this company.

8 A partner, director or officer of CIBC World Markets Inc. or any analyst involved in the preparation of this research report has provided services to this company for remuneration in the past 12 months.

9 A senior executive member or director of Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., or a member of his/her household is an officer, director or advisory board member of this company or one of its subsidiaries.

10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.

11 The equity securities of this company are restricted voting shares.

12 The equity securities of this company are subordinate voting shares.

13 The equity securities of this company are non-voting shares.

14 The equity securities of this company are limited voting shares.

This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. CIBC and CIBC World Markets Inc., their affiliates, directors, officers and employees may buy, sell, or hold a position in securities of a company mentioned herein, its affiliates or subsidiaries, and may also perform financial advisory services, investment banking or other services for, or have lending or other credit relationships with the same. CIBC World Markets Inc. and its representatives will receive sales commissions and/or a spread between bid and ask prices if you purchase, sell or hold the securities referred to above. CIBC Private Wealth consists of services provided by CIBC and certain of its subsidiaries, including CIBC Wood Gundy, a division of CIBC World Markets Inc. CIBC Private Wealth is a registered trademark of CIBC, used under license. “Wood Gundy” is a registered trademark of CIBC World Markets Inc. Insurance services are available through CIBC Wood Gundy Financial Services Inc. In Quebec, insurance services are available through CIBC Wood Gundy Financial Services (Quebec) Inc. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor. © 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC Wood Gundy is prohibited by law and may result in prosecution.