PRIVATE WEALTH
MANAGEMENT

CIBC WOOD GUNDY
HUMMEL FINANCIAL GROUP

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel

THE SCIENCE BEHIND THE NUMBERS: DON'T LET A RECESSION FAZE YOU

Do you find it puzzling when a bleak economic report emerges from the press, only to be accompanied by a positive surge in the stock market? You are not alone. The last few weeks have produced many examples of a stark contrast between stock market performance and economic indicators. So why the apparent disconnect?

Markets are forward-looking, meaning current asset prices reflect market participants' aggregate expectations. Those expectations include whatever future economic developments are anticipated and their potential impact on cash flows, which are key to a stock's value. For example, if the market expects the economic environment to weaken company cash flows, stock markets may react well in advance of when we observe the impact on cash flows, as expectations are embedded in prices. And the eventual direction of the stock market will depend on how the economic outcome compares to expectations. If things aren't as bad as expected, poor economic news can be greeted with a positive stock reaction.

LOOKING AHEAD

We can see this anticipatory nature of markets in action by looking at the relationship between US gross domestic product (GDP) growth and equity premiums, aka. stock market returns in excess of one-month US Treasury bills. When annual US equity premiums are plotted against GDP growth for the same year (Panel A of Exhibit 1), there is no discernable relation between the two. Changes in GDP have not been strongly related to simultaneous stock market returns.

It's important to note that this result does not imply financial markets ignore macroeconomic data. After all, GDP encompasses several measures of the economy, not just corporate profits. However, while GDP may be an imprecise representation of the activities that ultimately drive stock prices, further analysis shows that is not the sole cause for the lack of relation between GDP growth and simultaneous equity returns.

Plotting GDP growth against the previous year's equity premium (Panel B of Exhibit 1) reveals a noticeable relation. The positive trend in the data suggests market prices have in fact reacted to changes in GDP, but have done so in advance of these economic developments coming to fruition. This result is consistent with markets pricing in their expectation of economic growth.

CHAIRMAN'S
COUNCIL

Brad Hummel is a recipient of CIBC Wood Gundy's Chairman's Council Award – 2017 and 2018

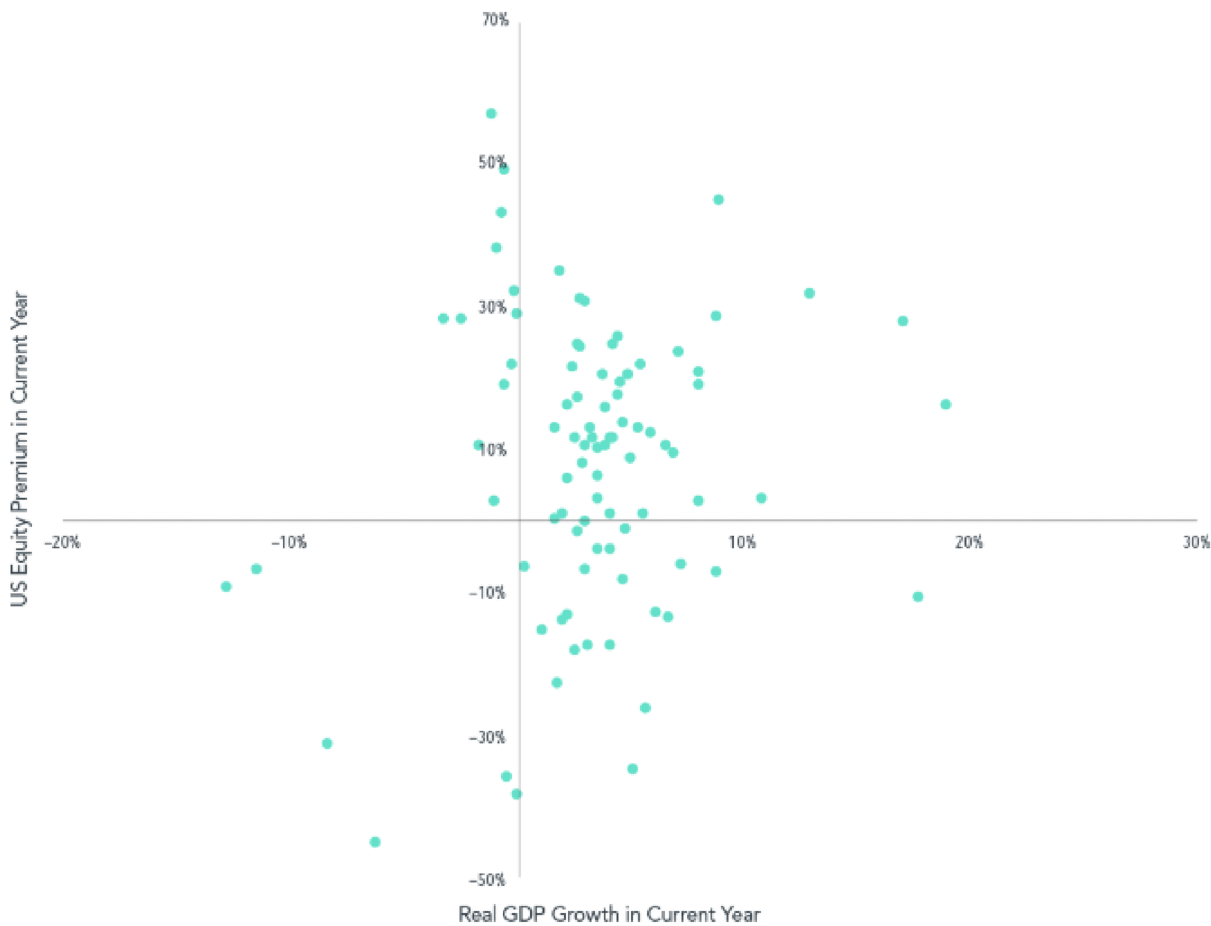
"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel

EXHIBIT 1

Plot Development

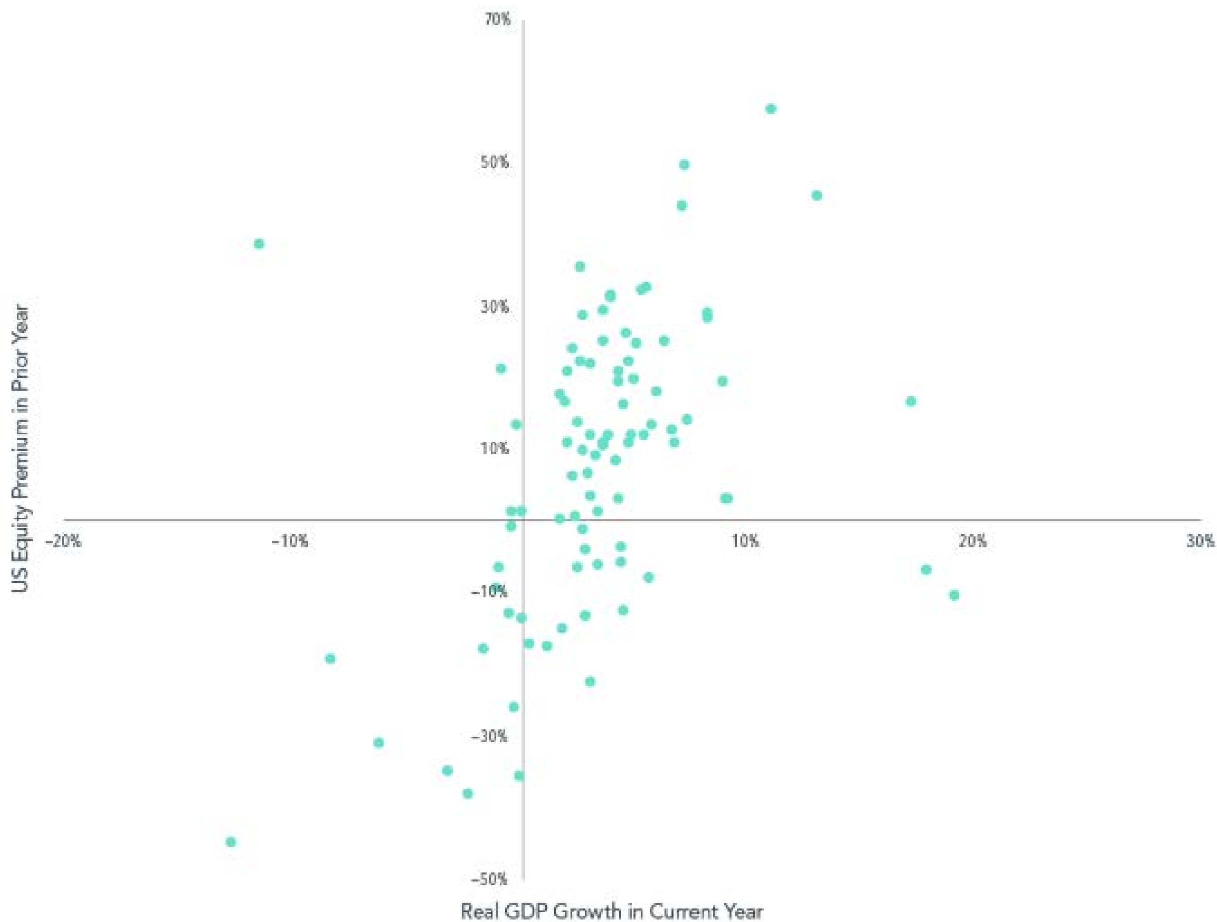
US equity premium vs. GDP growth, 1930—2019



Dimensional Fund Advisors Canada ULC. (2020). Under the Macroscope When Stocks and the Economy Diverge. Retrieved from Dimensional Fund Advisors (https://www.mydimensional.com/under-the-macroscope-when-stocks-and-the-economy-diverge)

"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel



Dimensional Fund Advisors Canada ULC. (2020). Under the Macroscope When Stocks and the Economy Diverge. Retrieved from Dimensional Fund Advisors (https://www.mydimensional.com/under-the-macroscope-when-stocks-and-the-economy-diverge)

"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.

PRIVATE WEALTH MANAGEMENT

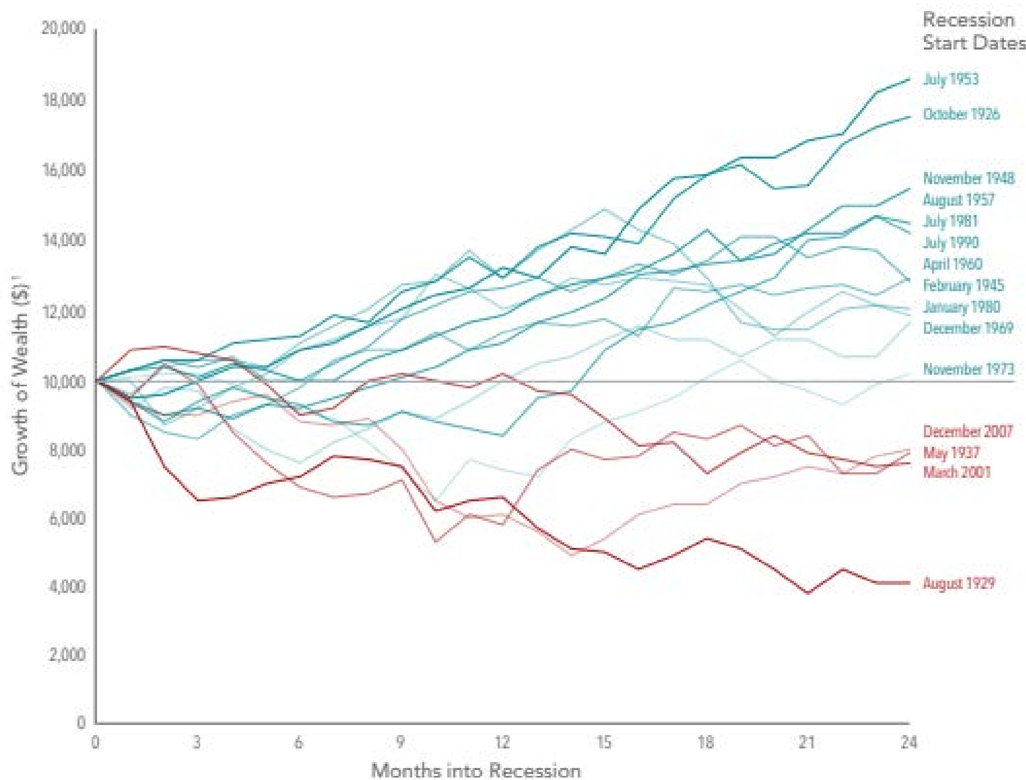
CIBC WOOD GUNDY
HUMMEL FINANCIAL GROUP

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel

STAYING THE COURSE

Economic recessions understandably trigger worries, but it is important to remember that stock markets are anticipatory and are a leading indicator to economic results. There is a history of positive average performance following a recession which is a comfort for investors wondering if they should stick with stocks.

In the past century, there have been fifteen recessions in the US. In eleven of those instances, stock returns were positive two years after the recession began.



Dimensional Fund Advisors Canada ULC. (2020). Long-Term Investors, Don't Let a Recession Faze You. Retrieved from Dimensional Fund Advisors (https://www.mydimensional.com/long-term-investors-dont-let-a-recession-faze-you)

CHAIRMAN'S COUNCIL

Brad Hummel is a recipient of CIBC Wood Gundy's Chairman's Council Award – 2017 and 2018

"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel

CONCLUSION

Caution should be exercised when combing macroeconomic variables and investment decisions. The results presented here are consistent with markets aggregating and processing vast sets of macroeconomic indicators and expectations for those indicators. By incorporating this information into market prices, we believe public capital markets effectively become the best available leading macroeconomic indicator.

Consistent investment actions form strong investment behaviors, which helps mitigate market anxiety, and increases the comfort level to stay invested long-term. A well-constructed portfolio of diversified index investments, coupled with consistent investment behavior, gives you the highest probability of long-term investment success.

CHAIRMAN'S
COUNCIL

Brad Hummel is a recipient of CIBC Wood Gundy's Chairman's Council Award – 2017 and 2018

"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.

PRIVATE WEALTH MANAGEMENT

CIBC WOOD GUNDY
HUMMEL FINANCIAL GROUP

J. Bradley Hummel, Portfolio Manager, First Vice-President
780 498-5087 | brad.hummel@cibc.ca | www.cibcwg.com/brad-hummel

Sources:

1) Dimensional Fund Advisors Canada ULC. (2020). Under the Macroscope When Stocks and the Economy Diverge. Retrieved from Dimensional Fund Advisors (https://www.mydimensional.com/under-the-macroscope-when-stocks-and-the-economy-diverge)

2) Dimensional Fund Advisors Canada ULC. (2020). Long-Term Investors, Don't Let a Recession Faze You. Retrieved from Dimensional Fund Advisors (https://www.mydimensional.com/long-term-investors-dont-let-a-recession-faze-you)

Disclosures:

- CIBC Private Wealth Management 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 Management" is a registered trademark of CIBC, used under license. "Wood Gundy" is a registered trademark of CIBC World Markets Inc.

- Brad Hummel is an Investment Advisor with CIBC Wood Gundy in Edmonton. The views of Brad Hummel do not necessarily reflect those of CIBC World Markets Inc.

- If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor.

CHAIRMAN'S COUNCIL

Brad Hummel is a recipient of CIBC Wood Gundy's Chairman's Council Award – 2017 and 2018

"CIBC Private Wealth Management" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth Management services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth Management" are registered trademarks of CIBC.