CIBC ASSET MANAGEMENT

NAVIGATING A RECESSION AND THE FOLLOWING RECOVERY

FOR EXTERNAL USE

Key points

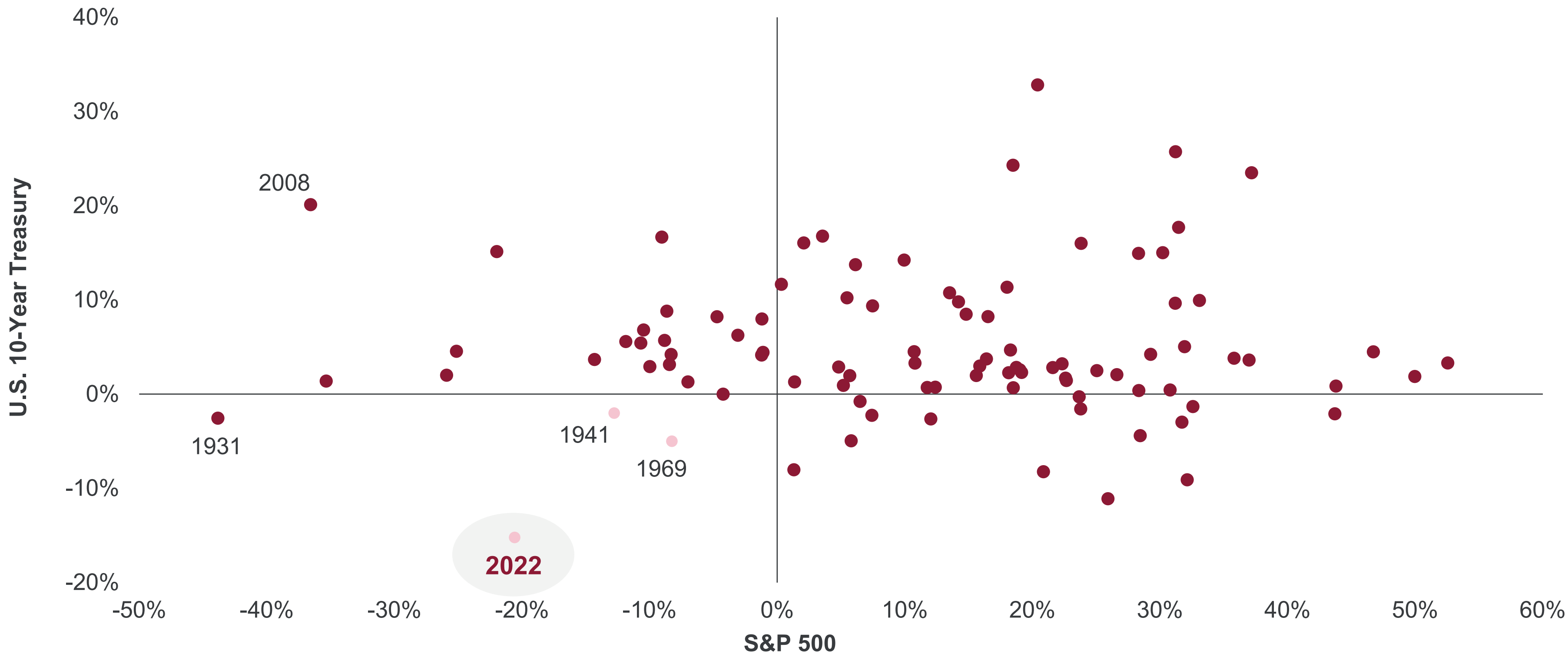
1. 2022 has been a tough year, with both equities and bonds registering negative returns. It has been difficult to find ways to protect portfolios in the face of this rare event.
2. Economic trends are important drivers of asset returns. Global recession risk appears high, particularly in Europe, as central banks continue to raise interest rates to squeeze inflation from economies.
3. This recession risk represents an important headwind to equity markets, and other pro-risk assets such as High-Yield. By contrast, fixed income will likely perform better in this environment after a tough couple of years.
4. Leading indicators help identify imminent turning points in the economic cycle. These turning points are typically associated with sustained upturns in equity markets. Our set of indicators remains consistent with weakening economic activity, and a difficult outlook for equities.
5. Focusing on the long-term outlook provides a brighter perspective. Bond yields have reached levels that make fixed income a much more attractive proposition, and equity valuations have begun to reach healthier levels, including in Canada. Markets are always forward looking and often recession related news is already priced into market prices. These facets suggest a long-term opportunity to start putting capital to work.
6. To navigate economic recessions and the recoveries that follow, we recommend using a full toolkit of portfolio construction building blocks, including strategic and tactical asset allocation, dollar cost averaging, passive and active investment strategies, a full set of public market assets and alternatives, and rigorous manager research.
7. Each block has an important role to play as investors seek to maximize long-term expected performance and mitigate episodic capital drawdowns.

Anatomy of equity drawdowns

Anatomy of equity drawdowns

The impact on portfolios of the current equity correction has been amplified by a concurrent bond market drawdown. This combination of falling equities and bonds is rare, and painful for traditional portfolios.

Annual returns to equity and bonds since 1928



The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html. Annual data. Sample: 1928 – 2021. Data accessed as at November 5,2022. Balanced portfolio defined as 60% equity (S&P 500) & 40% fixed income (10-year U.S. Treasuries).

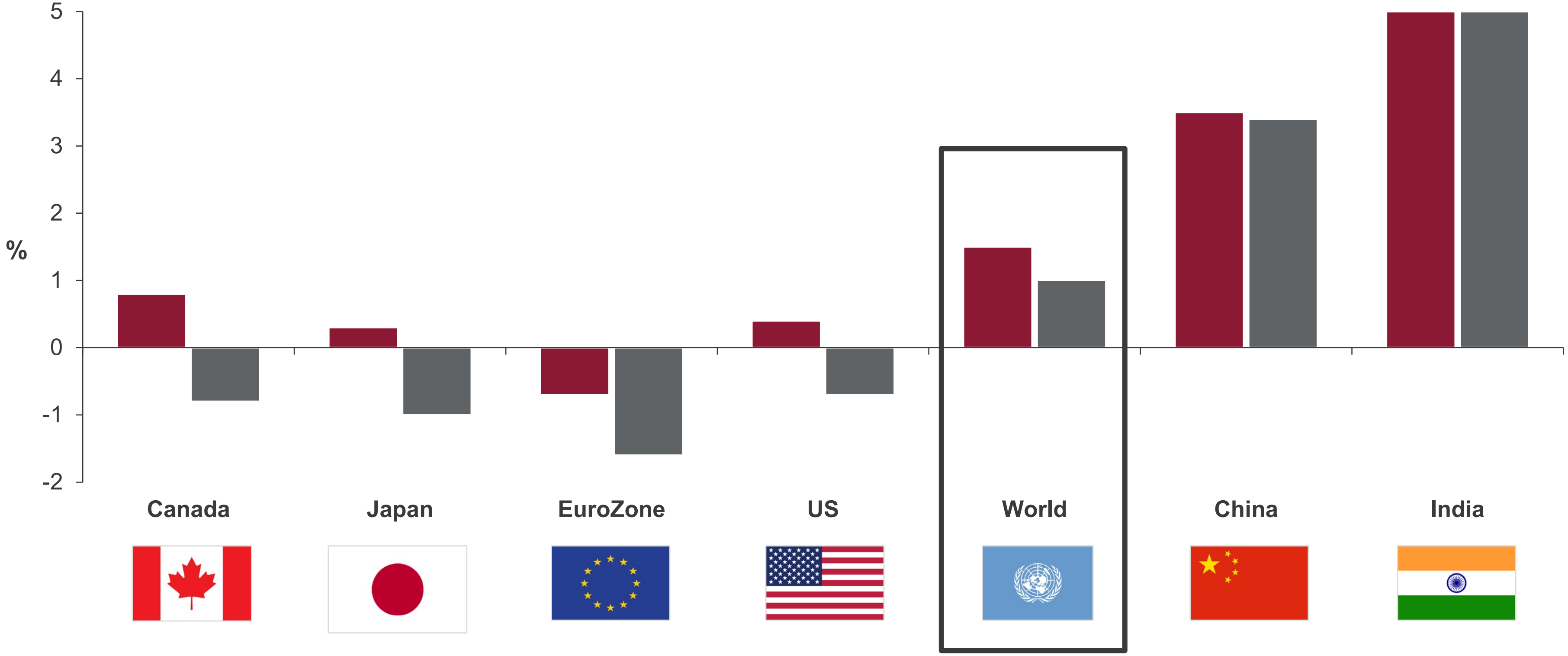
Global economic outlook

Where we think we're headed, and why it matters

How likely is an economic recession?

Growth is slowing and the risk of a recessionary recession in the next year is high. This risk is particularly acute in Europe, and represents a significant near-term challenge to equities and other pro-risk assets.

CIBC Asset Management year-ahead GDP growth projections as at September (grey) and June (burgundy) 2022

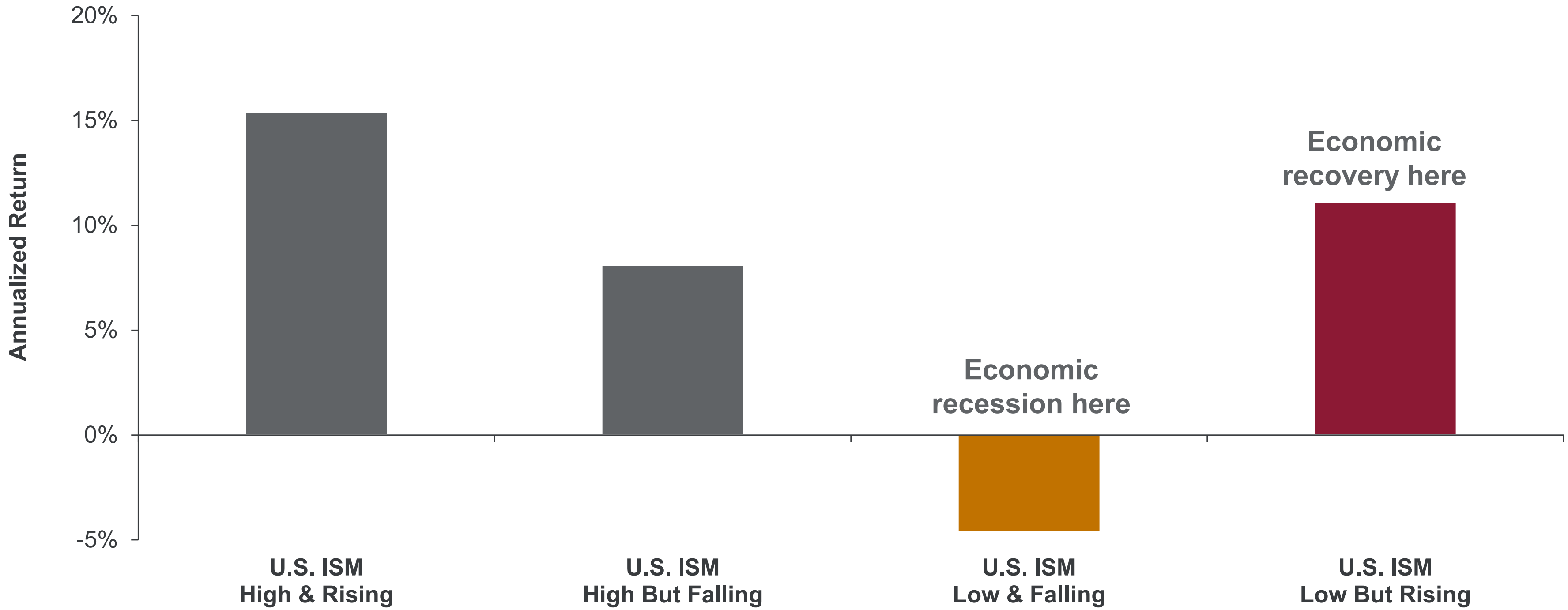


The information was prepared by CIBC Asset Management Inc. using the following third party service providers' data: Refinitiv Datastream. Data as at September 30, 2022.

Why does the economic outlook matter?

Markets react positively to early evidence of improving economic conditions. We monitor lead indicators to identify these turning points. Currently, our indicators suggest that conditions continue to deteriorate.

Equity returns during different macroeconomic states (S&P/TSX returns)



The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg. Sample March 1989 – August 2022. High (Low) = U.S. ISM Survey of Manufacturing Sentiment Index above (below) its full sample average. Rising (Falling) = latest observation of ISM above (below) 4-month trailing average.

How to position portfolios through economic cycles

CIBC

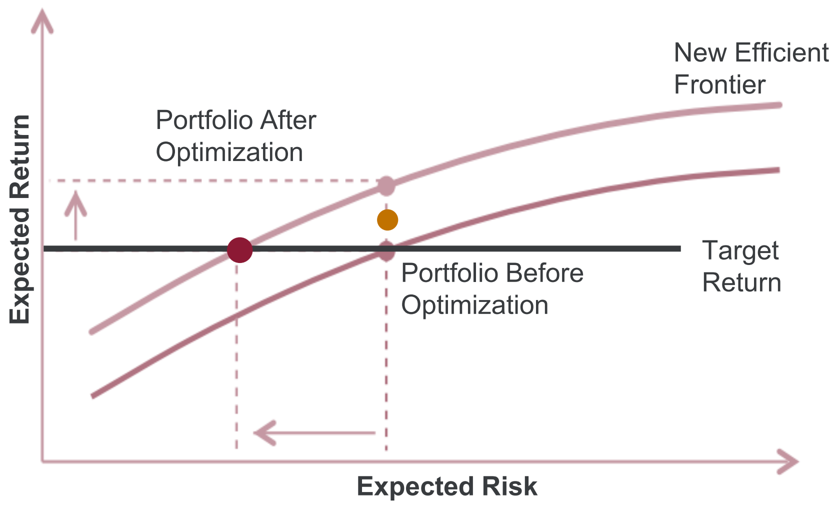
Position portfolios for stronger, smoother performance

A full toolkit can help maximize long-term expected performance and mitigate episodic capital drawdowns.

Portfolio Construction Building Blocks

- Focus on robust strategic asset allocation at portfolio's core
- Add flexibility to introduce tactical tilts
- Implement positions through dollar-cost averaging
- Maximize diversification within and between asset classes
- Where appropriate, combine passive beta exposure with active risk

Goal: Meet Target Return at Lowest Level of Risk



Focus on robust strategic asset allocation

Robust, thoughtful portfolio construction encompasses broad diversification across public asset classes and alternatives, passive and active investment strategies, as well as best-in-class manager fulfillment.

Base portfolios
Broad asset class diversification

Diversified beta construction
Alternative beta

Alpha integration
High-conviction managers substyle allocation

Traditional asset classes	Alternative asset classes	Underlying fulfilment
Money Market	Multi-Sector Fixed Income	CIBC Mutual Funds
Canadian Fixed Income	Real Assets	Renaissance Private Investment Pools
Global Fixed Income	Multi-Asset Absolute Return	High Conviction Investment Managers from around the World
Canadian Equity		
International Equity		
U.S. Equity		
Emerging Market Equity		

Benefit from dollar-cost averaging

Invest regularly, especially through down markets. Making regular contributions helps eliminate emotional investing and the temptation to try to time the market. Buying into the market regularly also helps purchase more units when prices are low and fewer units when prices are high. Over the long term, this may help reduce the average cost of your investment purchases.

Dollar-cost averaging – a long-term strategy

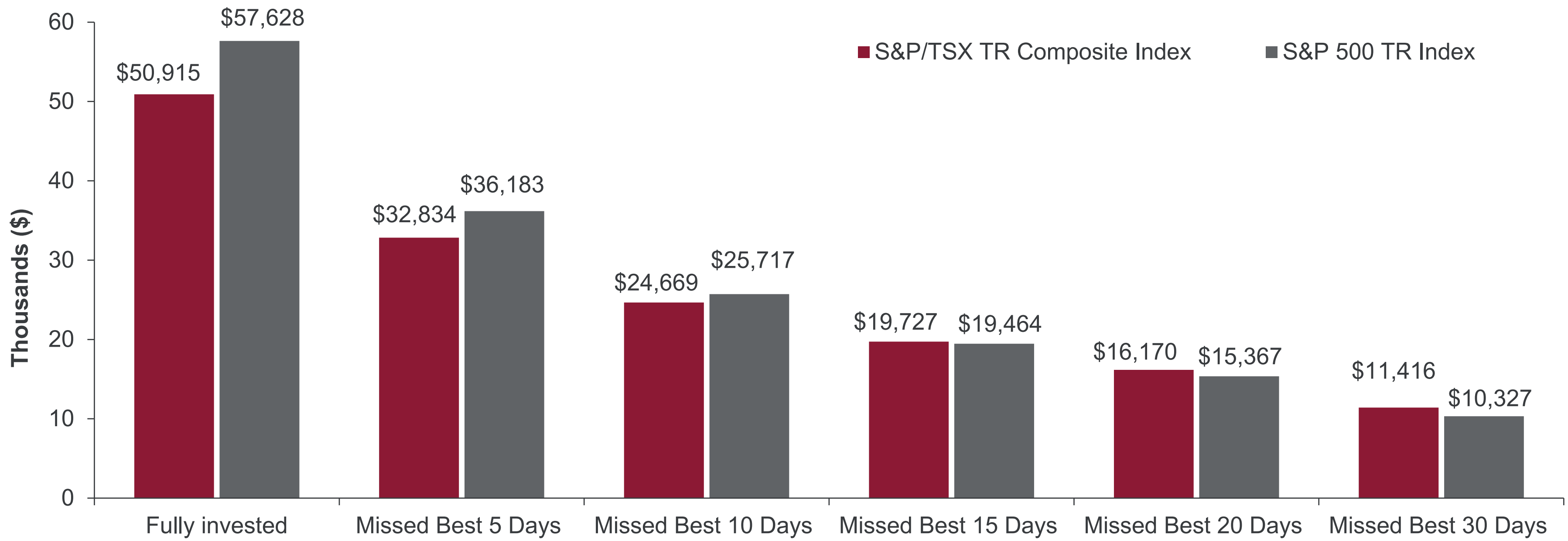
Month	Amount invested	Unit price	# of units acquired
January	$500	$10	50
February	$500	$5	100
March	$500	$15	33

Average price per unit: $10
Average cost per unit to the investor: $8.20

Don’t time the market

Timing the market is hard to get right and often leads to inferior long-term performance.

Growth of an initial $10,000 investment invested in equities



The information was prepared by CIBC Asset Management Inc. using the following third-party service providers’ data: Bloomberg Finance L.P.. Sample: June 2003 to May 2022. Monthly data accessed at June 7, 2022.
“TR” is Total Return.

Diversify across traditional public assets & alternatives

Alternatives can help enhance expected portfolio performance. This includes by tapping into diversifying sources of expected returns and income not accessible from traditional public market buy-and-hold strategies.

Private market alternative	Enhanced return	Enhanced income	Enhanced diversification	Hedge against inflation	Hedge against equity drawdowns
Private equity	✓		✓		
Private credit	✓		✓	✓	✓
Real estate	✓	✓	✓	✓	
Infrastructure debt	✓	✓	✓	✓	
Absolute return	✓	✓	✓	✓	✓

The information was prepared by CIBC Asset Management Inc.. This chart is for illustrative and general purposes only.

About CIBC Asset Management

At CIBC Asset Management, we believe thorough research guided by a rigorous process will yield better results for our clients and help you make educated investment decisions.

Our investment process

Across a spectrum of investment solutions, we commit to best-in-class research. Dedicated sector and regional analysts focus on industry research and security-specific idea generation. By sharing insight across asset class teams, we maximize opportunities to add value for client portfolios. We specialize in a variety of investment solutions such as equities, fixed income, currency management, liability-driven investments, asset allocation and responsible investments.

Our research expertise

Every customized investment solution begins with research and rigour. Our investment professionals leverage deep and diverse expertise by sharing proprietary research across asset class teams and constantly challenging one another. We provide our clients with our research insights and expertise on industry issues and themes that matter most to them. Our investment teams focus on their respective areas of research expertise, using proprietary tools that are continually enhanced and improved.

To learn more about our investment solutions, please contact your CIBC Representative.
You can also reach out to us directly:

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