CIBC PRIVATE WEALTH

INVESTMENT STRATEGY GROUP

MONTHLY WORLD MARKETS REPORT

January 2023

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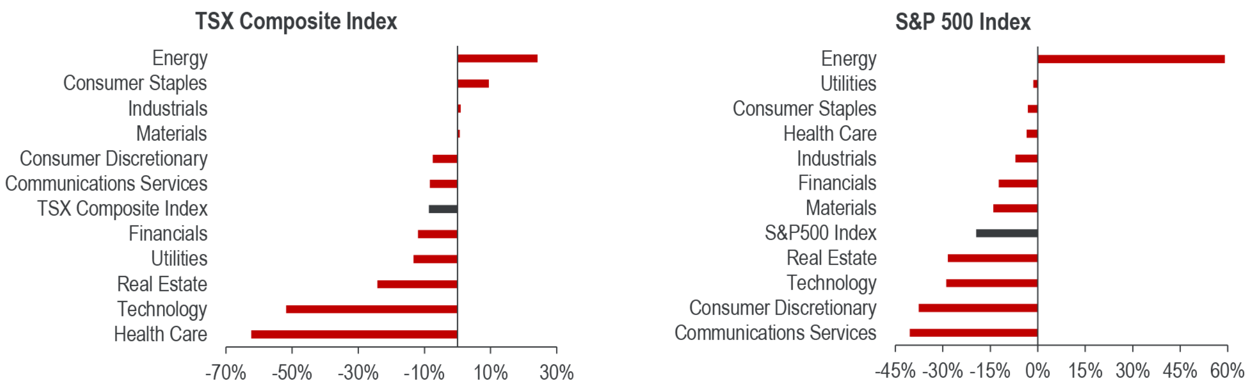
A look back at 2022 and thoughts for 2023

Most investors will be happy to say goodbye to 2022, a year which presented no shortage of challenges to portfolios and which saw the financial markets finish in negative territory. During the year, investors had to deal with: i) soaring energy prices due to a growing imbalance between global energy supply and demand; ii) Russia invading Ukraine; iii) massive increases in interest rates by central banks; iv) inflation reaching 40-year highs as the world reopened after the Covid shutdown; and v) growing expectations of a recession. The TSX Composite Index (TSX) finished down 8.7% for the year, while the S&P 500 Index (S&P) and the NASDAQ fared much worse, finishing down 19.4% and 33.1%, respectively. Underscoring the negative results was how broad-based the sell-off in equities was. For the TSX, by mid-October, energy was the only sector in positive territory but by the end of the year, four sectors – energy, materials, consumer staples and industrials – were in positive territory. However, for the S&P, by mid-October all sectors except energy were in negative territory and things remained this way at year-end.

2022: Equity Markets' Performance



Source: FactSet

Caution is recommended for 2023

Despite the unprecedented level of rate hikes by central banks in 2022, inflation remains high and surprisingly, consumer spending has held up, although spending by lower-income families has slowed. With corporations eager to retain employees, large-scale downsizing across the economy has failed to materialize. However, the final three months of the year saw what might be the beginning of this with large technology companies announcing headcount reductions, and now some large U.S. financial institutions have followed suit. With rising expectations of a recession in 2023, the downsizing seen in the technology and financial sectors might be the first phase of corporations preparing for a recession by downsizing. Should this happen, consumer spending should fall, corporate earnings projections will have to move down in tandem and this would provide further reason for equities to move lower. Adding to the reason for caution is that the rate hikes have provided attractive yields on government bonds and even more attractive yields on corporates, thereby reducing the need for investors to look to equities for income generation in portfolios, given the elusiveness of capital gains.

Presently, North American equities are not as overvalued as they were in early 2022. The TSX's forward price-to-earnings ratio (P/E) has fallen from its 2022 high of 14.7x, which was above the 5-year average of 14.2x and it finished the year below this at 12.3x. The S&P's forward P/E has fallen from its 2022 high of 20.9x, which was well above the 5-year average of 18.0x, but ended 2022 below this at 16.8x. That said, there is no guarantee that these valuations won't stay at these new levels for several months before moving higher. Alternatively, they might move lower, especially the S&P's P/E since it remains close to its 5-year average. Since the TSX now looks more undervalued versus its 5-year average than the S&P, a case can be made for favouring Canadian equities over U.S. equities, at least for now. For 2023, CIBC World Markets expects mid-single-digit percentage returns in equities and recommends overweighting the energy, communications services and utilities sectors, while underweighting technology, consumer staples and consumer discretionary.

MICHAEL O'CALLAGHAN, MBA, CFA

Is it time to buy bonds?

Yield is back

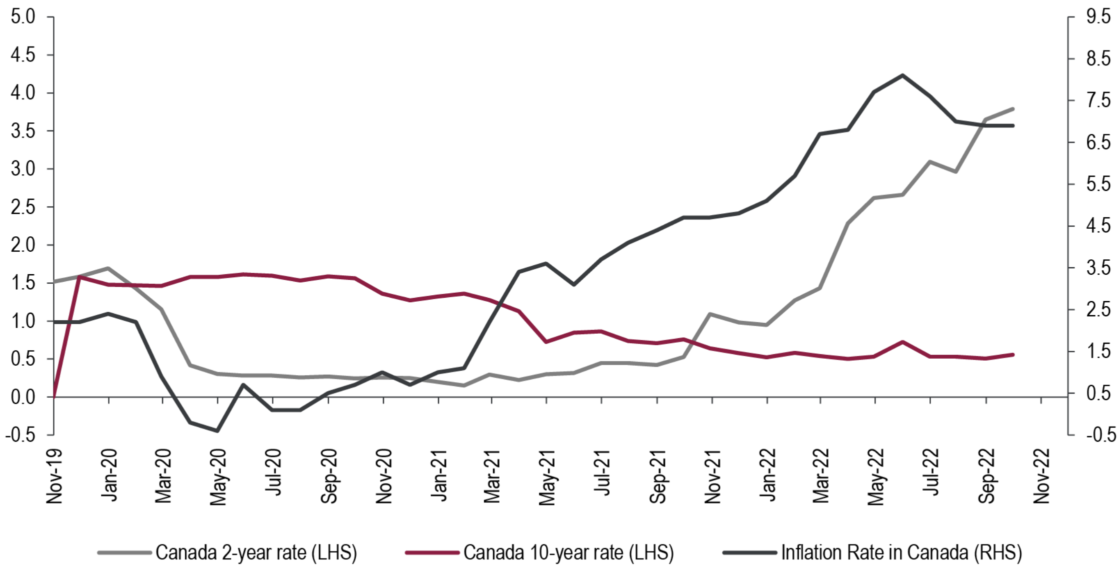
The bond market has had a historic challenge as yields reached their highest levels since 2010 in the summer of 2022. In November, yields started to retreat and bond yields now look more attractive again. On December 7th, the Bank of Canada (BoC) raised its benchmark overnight interest rate by 50 basis points to 4.25%, which is the highest it has been since the beginning of 2008. This signaled that it was getting close to the end of its rate-hiking campaign. The Bank of Canada said decisions about future interest-rate increases will be guided by incoming economic data, though it's still ready to move aggressively if needed.

Canada's yield curve inversion hit its widest since the early 1990s in the first week of December 2022, a global phenomenon that often precedes a recession. The yield on Canada's benchmark 2-year debt reached 100 basis points above the yield on 10-year bonds. In the U.S., 2-year Treasuries yielded approximately 80 basis points more than 10-years. While inflation has come off its peak of 8.1% in June of 2022, with higher interest rates, the BoC expects inflation to fall to about 3% in late 2023, then return to 2% sometime in 2024.

Why buy bonds now?

Not only are yields up, but prices are also down, which is offering opportunities for those with cash to invest. Investor needs are creating opportunities to buy relatively low-risk assets at bargain-level prices with yields that are higher than they have been in decades. Higher yields mean bonds can now play a more significant role in income investing strategies. If an investor is interested in adding bonds to their portfolio, they can choose from individual bonds, bond mutual funds and exchange-traded funds as well as other bond-like fixed-income products such as GICs.

Canadian and U.S. Benchmark 10Y Government Bond Yields and Inflation Rate in Canada



Source: Bloomberg / Bank of Canada

The opportunity to buy bonds at current market levels could be short-lived. Getting inflation under control has been the focus of both the BoC and the U.S. Federal Reserve and will continue to be the focus in the months ahead. The BoC wants to make sure it has room to cut rates if the economy tips into a recession in 2023. Rate cuts are powerful tools if the BoC is to stimulate economic growth, so the bank wants to be able to make cuts when necessary. That could mean that the opportunity to invest in low-risk, higher yielding bonds may not be there if investors wait too long.

Assessing investment options

With rising interest rates and volatile markets, some investors are rethinking portfolio allocations and getting more strategic with fixed-income strategies. Investors may want to consider some of the following strategies:

- Construct a bond ladder, which is a series of bonds that mature at regular intervals over a period, allowing for a staggered reinvestment which allows for better overall yields.
- Purchase a floating-rate ETF or mutual fund if one has moderate interest-rate risk tolerance. The interest rates on these securities reset periodically based on market rates.
- Include provincial bonds or investment-grade corporate bonds which will provide higher rates of return.
- Incorporate floating-rate notes because when market rates rise, the expected coupons of the notes increase, meaning that their prices remain constant, protecting the principal investment.

Bond ETFs have simplified fixed-income investing by bringing the bond market to the retail investor within a single security. Investors use ETFs to gain instant diversification, mitigating single-security risk, at a lower cost than fully active alternatives. The number of ETF options enables investors to access a variety of fixed-income markets and make adjustments to a portfolio's duration and credit quality. With a single ticker, an investor can tap into thousands of bonds in a specific sector without having to hunt for inventory.

Mutual funds are another option for fixed-income investors and are similar to ETFs in some ways. Like ETFs, bond funds offer diversification for a relatively small investment minimum. The main difference is that ETFs are predominately for passive investing strategies, whereas mutual funds are generally fully active. As a result, investors will pay more for the fully active manager than the index-tracking alternative. Investors ultimately have to decide if they believe active management can outperform net of fees.

The bottom line

As the bond markets face volatility due to a combination of financial and geopolitical factors, investors are looking at strategies that give liquidity to portfolio holdings that can be traded during uncertain times. Some investors are taking a wait and see strategy, staying with short-duration bonds, while others feel that current yield levels are very attractive and are looking at a longer duration. Timing the market is not a precise science but it's been about 15 years since we have seen yields at this level.

Rates may continue to rise for a short time but it is also possible that they will fall shortly after the rate hikes stop. Maybe this will happen at some point in 2023 but being prepared for this situation will allow for some investment opportunities to be maximized.

ALLAN BISHOP
Investment Strategy Group

Market return data

All data is sourced from Bloomberg unless otherwise noted. Data as of December 30, 2022.

North American indices – Price performance (% Change)

North America indices	Price	1 Month	3 Months	6 Months	YTD
S&P/TSX Composite	19,385	-5.2%	5.1%	2.8%	-8.7%
S&P/TSX Composite – Total Return	75,200	-4.9%	6.0%	4.5%	-5.8%
S&P 500 Index	3,840	-5.9%	7.1%	1.4%	-19.4%
S&P 500 Index – Total Return	8,178	-5.8%	7.6%	2.3%	-18.1%
Dow Jones Industrial Average	33,147	-4.2%	15.4%	7.7%	-8.8%
Dow Jones Industrial Average – Total Return	79,728	-4.1%	16.0%	8.9%	-6.9%
Nasdaq Composite Index	10,466	-8.7%	-1.0%	-5.1%	-33.1%

North American indices – Price performance (% Change – Annualized)

North America indices	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
S&P/TSX Composite	-8.7%	5.4%	4.3%	3.6%	4.5%	2.3%	5.5%
S&P/TSX Composite – Total Return	-5.8%	8.5%	7.5%	6.8%	7.7%	5.4%	8.5%
S&P 500 Index	-19.4%	1.1%	5.9%	7.5%	10.4%	6.6%	7.6%
S&P 500 Index – Total Return	-18.1%	2.7%	7.7%	9.4%	12.6%	8.8%	9.8%
Dow Jones Industrial Average	-8.8%	4.1%	5.1%	6.0%	9.7%	6.3%	7.1%
Dow Jones Industrial Average – Total Return	-6.9%	6.1%	7.3%	8.4%	12.3%	9.0%	9.8%
Nasdaq Composite Index	-33.1%	-9.9%	5.3%	8.7%	13.2%	9.6%	10.8%

International indices – Price performance (% Change)

International indices	Price	1 Month	3 Months	6 Months	YTD
Bloomberg Euro 500	277	-3.8%	9.2%	3.4%	-12.9%
FTSE Eurotop 100	3,310	-3.9%	9.5%	5.5%	-7.1%
FTSE 100 (England)	7,452	-1.6%	8.1%	3.9%	0.9%
Dax (Germany)	13,924	-3.3%	14.9%	8.9%	-12.3%
CAC 40 (France)	6,474	-3.9%	12.3%	9.3%	-9.5%
MSCI World	2,603	-4.3%	9.4%	2.2%	-19.5%
MSCI Emerging Markets	956	-1.6%	9.2%	-4.4%	-22.4%
MSCI Emerging Markets – Total Return	2,395	-1.4%	9.8%	-2.7%	-19.7%
MSCI EAFE	1,944	0.0%	17.0%	5.3%	-16.8%
MSCI EAFE – Total Return	8,997	0.1%	17.4%	6.5%	-14.0%
Nikkei 225 (Japan)	26,095	-6.7%	0.6%	-1.1%	-9.4%
Hang Seng (Hong Kong)	19,781	6.4%	14.9%	-9.5%	-15.5%
ASX 200 (Australia)	7,039	-3.4%	8.7%	7.2%	-5.5%
Taiwan Weighted	14,138	-5.0%	5.3%	-4.6%	-22.4%
Sensex 30 (India)	60,841	-3.6%	5.9%	14.8%	4.4%

International indices – Price performance (% Change – Annualized)

International indices	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
Bloomberg Euro 500	-12.9%	2.1%	0.0%	1.1%	3.7%	0.4%	3.2%
FTSE Eurotop 100	-7.1%	7.2%	1.6%	2.1%	3.6%	0.3%	2.8%
FTSE 100 (England)	0.9%	7.4%	-0.4%	-0.6%	2.4%	1.0%	3.2%
Dax (Germany)	-12.3%	0.7%	1.7%	1.5%	6.2%	3.7%	8.2%
CAC 40 (France)	-9.5%	8.0%	2.7%	4.0%	5.9%	1.0%	3.8%
MSCI World	-19.5%	-1.6%	3.3%	4.4%	6.9%	3.3%	6.1%
MSCI Emerging Markets	-22.4%	-13.9%	-5.0%	-3.8%	-1.0%	-1.7%	6.1%
MSCI Emerging Markets – Total Return	-19.7%	-11.4%	-2.3%	-1.0%	1.8%	1.0%	9.1%
MSCI EAFE	-16.8%	-4.9%	-1.5%	-1.1%	1.9%	-1.0%	3.6%
MSCI EAFE – Total Return	-14.0%	-2.0%	1.3%	2.0%	5.2%	2.3%	6.9%
Nikkei 225 (Japan)	-9.4%	-2.5%	3.3%	2.8%	9.6%	3.6%	5.7%
Hang Seng (Hong Kong)	-15.5%	-14.8%	-11.1%	-7.9%	-1.3%	-2.2%	3.8%
ASX 200 (Australia)	-5.5%	3.4%	1.7%	3.0%	4.2%	0.7%	4.3%
Taiwan Weighted	-22.4%	-2.0%	5.6%	5.8%	6.3%	3.4%	5.9%
Sensex 30 (India)	4.4%	12.9%	13.8%	12.3%	12.1%	7.6%	15.6%

Index returns in Canadian dollars – Price performance (% Change)

Index returns in Canadian dollars	Price	1 Month	3 Months	6 Months	YTD
S&P/TSX Composite	19,385	-5.2%	5.1%	2.8%	-8.7%
S&P/TSX Composite – Total Return	75,200	-4.9%	6.0%	4.5%	-5.8%
S&P 500 Index	5,195	-5.9%	5.1%	6.6%	-13.8%
S&P 500 Index – Total Return	11,065	-5.8%	5.6%	7.5%	-12.4%
Dow Jones Industrial Average	44,848	-4.2%	13.3%	13.2%	-2.4%
Dow Jones Industrial Average – Total Return	107,873	-4.1%	13.9%	14.4%	-0.4%
Russell 2000	2,383	-6.7%	3.8%	8.4%	-16.1%
Nasdaq Composite Index	14,161	-8.8%	-2.9%	-0.2%	-28.4%
Bloomberg Euro 500	401	-0.1%	17.3%	11.0%	-12.4%
EURO STOXX 50	5,498	-0.7%	22.8%	17.9%	-11.2%
EURO STOXX 50 – Total Return	12,449	-0.6%	23.0%	18.5%	-8.9%
MSCI World	3,521	-4.4%	7.4%	7.4%	-13.9%
MSCI Emerging Markets	1,294	-1.7%	7.2%	0.5%	-17.0%
MSCI Emerging Markets – Total Return	3,240	-1.4%	7.8%	2.2%	-14.1%
MSCI EAFE	2,630	0.0%	14.8%	10.7%	-11.0%
MSCI EAFE – Total Return	12,172	0.1%	15.2%	11.9%	-8.0%
MSCI Far East	4,460	0.9%	11.3%	8.0%	-11.4%

Index returns in Canadian dollars – Price performance (% Change – Annualized)

Index returns in Canadian dollars	1 Year	2 Years	3 Years	5 Years	10 Years	15 Years	20 Years
S&P/TSX Composite	-8.7%	5.4%	4.3%	3.6%	4.5%	2.3%	5.5%
S&P/TSX Composite – Total Return	-5.8%	8.5%	7.5%	6.8%	7.7%	5.4%	8.5%
S&P 500 Index	-13.8%	4.1%	7.4%	9.2%	13.9%	8.9%	6.8%
S&P 500 Index – Total Return	-12.4%	5.7%	9.2%	11.1%	16.1%	11.1%	9.0%
Dow Jones Industrial Average	-2.4%	7.1%	6.6%	7.7%	13.2%	8.5%	6.3%
Dow Jones Industrial Average – Total Return	-0.4%	9.3%	8.8%	10.1%	15.8%	11.3%	8.9%
Russell 2000	-16.1%	-2.8%	3.2%	4.4%	10.9%	7.9%	7.1%
Nasdaq Composite Index	-28.4%	-7.2%	6.7%	10.4%	16.8%	11.9%	10.0%
Bloomberg Euro 500	-12.4%	-1.6%	-0.2%	0.4%	4.8%	0.4%	2.5%
EURO STOXX 50	-11.2%	-0.4%	0.2%	0.8%	4.7%	-1.0%	1.6%
EURO STOXX 50 – Total Return	-8.9%	1.8%	2.4%	3.2%	7.4%	1.9%	4.5%
MSCI World	-13.9%	1.3%	4.8%	6.0%	10.2%	5.5%	5.3%
MSCI Emerging Markets	-17.0%	-11.4%	-3.6%	-2.3%	2.1%	0.3%	5.3%
MSCI Emerging Markets – Total Return	-14.1%	-8.8%	-1.0%	0.5%	5.0%	3.1%	8.3%
MSCI EAFE	-11.0%	-2.1%	-0.2%	0.5%	5.1%	1.1%	2.8%
MSCI EAFE – Total Return	-8.0%	0.9%	2.8%	3.6%	8.4%	4.4%	6.1%
MSCI Far East	-11.4%	-6.7%	-2.0%	-0.6%	6.2%	2.2%	2.8%

Commodities – (% Change)

Commodities	Price	1 Month	3 Months	6 Months	1 Year	YTD
Gold Spot (US$/oz)	1,824.02	3.1%	9.8%	0.9%	-0.3%	-0.3%
Silver (US$/oz)	23.95	7.9%	25.9%	18.1%	2.8%	2.8%
Brent Crude Oil	85.91	0.6%	-2.3%	-25.2%	10.5%	10.5%
West Texas Intermediate Oil	80.26	-0.4%	1.0%	-24.1%	6.7%	6.7%
NYMEX Natural Gas	4.48	-35.4%	-33.9%	-17.5%	20.0%	20.0%
Spot Nat. Gas (AECO Hub – USD)	3.25	-40.8%	2.2%	-27.8%	-1.2%	-1.2%
Lumber	373.70	-13.0%	-11.6%	-43.7%	-67.4%	-67.4%
Copper 3-month	3.80	1.6%	10.7%	1.4%	-13.9%	-13.9%
Nickel 3-month	13.63	11.3%	42.4%	32.4%	44.8%	44.8%
Aluminum 3-month	1.08	-4.0%	10.0%	-2.8%	-15.3%	-15.3%
Zinc 3-month	1.35	-2.1%	0.2%	-5.8%	-15.9%	-15.9%

Currencies – (% Change)

Currencies	Price	1 Month	3 Months	6 Months	1 Year	YTD
CAD/USD	0.7378	-1.0%	2.0%	-5.0%	-6.8%	-6.8%
EURO/CAD	1.4505	3.9%	7.0%	7.5%	0.9%	0.9%
EURO/USD	1.0705	2.9%	9.2%	2.1%	-5.8%	-5.8%
USD/YEN	131.1200	-5.0%	-9.4%	-3.4%	13.9%	13.9%
Trade Weighted U.S. Dollar	103.5220	-2.3%	-7.7%	-1.1%	8.2%	8.2%

Bond returns – Total return (% Change)

Bond Index	1 Month	3 Months	6 Months	1 Year	YTD
FTSE Canada Bond Universe Index	-1.7%	0.1%	0.6%	-11.7%	-11.7%
FTSE Canada Long Term Bond Index	-3.6%	-1.0%	0.5%	-21.8%	-21.8%
FTSE Canada Mid Term Bond Index	-1.9%	0.3%	1.2%	-10.3%	-10.3%
FTSE Canada Short Term Bond Index	-0.2%	0.7%	0.4%	-4.0%	-4.0%

Government Yields

Government Notes	Yield	1 Month	3 Months	6 Months	1 Year
Canada 3-month T-Bills	4.25%	4.06%	3.58%	2.08%	0.16%
Canada 5yr Notes	3.41%	3.16%	3.33%	3.11%	1.26%
Canada 10yr Notes	3.30%	2.94%	3.17%	3.22%	1.43%
Canada 30yr Bonds	3.28%	3.00%	3.10%	3.14%	1.68%
U.S. 3-month T-Bills	4.34%	4.32%	3.25%	1.63%	0.03%
U.S. 5yr Notes	4.00%	3.74%	4.09%	3.04%	1.26%
U.S. 10yr Notes	3.87%	3.61%	3.83%	3.01%	1.51%
U.S. 30yr Bonds	3.96%	3.74%	3.78%	3.18%	1.90%

S&P/TSX GICS sectors – Price performance (% Change)

S&P/TSX GICS Sectors	1 Month	3 Months	6 Months	1 Year	YTD	Index Weight (%)
Consumer Discretionary	-4.6%	8.2%	12.1%	-8.1%	-8.1%	3.7%
Consumer Staples	-2.1%	8.1%	10.4%	8.5%	8.5%	4.2%
Energy	-6.3%	7.6%	0.7%	24.4%	24.4%	18.1%
Energy – Integrated Oil & Gas	-4.0%	14.6%	0.1%	45.0%	45.0%	3.8%
Energy – Oil & Gas Exploration & Production	-7.9%	11.8%	10.1%	47.8%	47.8%	6.3%
Energy – Pipeline	-6.3%	2.3%	-7.2%	3.6%	3.6%	7.0%
Financials	-5.8%	2.3%	0.0%	-12.7%	-12.7%	30.8%
Financials – Banks	-5.5%	1.5%	-1.2%	-12.6%	-12.6%	21.0%
Financials – Insurance	-1.4%	10.4%	6.0%	-8.5%	-8.5%	4.2%
Real Estate	-3.1%	6.0%	-1.7%	-24.3%	-24.3%	2.6%
Health Care	-17.0%	-11.3%	-17.4%	-62.2%	-62.2%	0.4%
Industrials	-5.9%	7.0%	11.2%	0.2%	0.2%	13.3%
Information Technology	-7.3%	12.5%	7.2%	-52.2%	-52.2%	5.7%
Materials	-2.1%	7.7%	9.7%	-0.2%	-0.2%	12.0%
Materials – Gold	1.5%	14.0%	11.1%	-0.9%	-0.9%	6.6%
Materials – Base Metals	-1.9%	14.6%	28.4%	24.9%	24.9%	1.3%
Materials – Fertilizers	-8.6%	-14.2%	-3.6%	4.0%	4.0%	1.8%
Communication Services	-4.2%	4.8%	-4.3%	-7.0%	-7.0%	4.9%
Utilities	-4.9%	-8.4%	-13.5%	-14.0%	-14.0%	4.4%

Strategic asset allocation[1] (in C$) – Performance (% Change - Before Fees)

Strategic Asset Allocation (in C$)	1 Month	3 Months	6 Months	1 Year	YTD
Capital Preservation	-1.8%	1.7%	1.6%	-7.7%	-7.7%
Income	-2.3%	2.4%	1.8%	-9.1%	-9.1%
Income & Growth	-3.1%	4.4%	2.5%	-10.1%	-10.1%
Growth	-3.5%	5.8%	2.9%	-11.7%	-11.7%
Aggressive Growth	-4.2%	7.7%	3.3%	-13.6%	-13.6%

CIBC World Markets Interest Rate Outlook

Interest Rates (%) – End of Qtr	30-Dec-22	Mar-23	Jun-23
Canada 3-month T-Bill	4.27%	4.10%	4.00%
U.S. 3-month T-Bill	4.14%	4.95%	4.90%
Canada 10-year Gov't Bond Yield	3.29%	3.35%	3.40%
U.S. 10-year Gov't Bond Yield	3.83%	4.05%	4.00%
US$/C$	0.74	0.74	0.75

Source: CIBC World Markets Inc.

CIBC World Markets Economic Outlook

Economic Outlook	2022F	2023F
Canada Real GDP Growth (% Chg)	3.50%	0.70%
U.S. Real GDP Growth (% Chg)	2.00%	0.70%
Canada Consumer Price Index (% Chg)	6.80%	2.90%
U.S. Consumer Price Index (% Chg)	8.00%	2.90%

Source: CIBC World Markets Inc.

[1] Refer to the Strategic asset allocation in Appendix 1

Appendix 1: Strategic asset allocation

Capital Preservation: 5% Global Equity, 15% Canadian Equity, 55% Bonds, 25% Cash

Income: 10% Global Equity, 20% Canadian Equity, 55% Bonds, 15% Cash

Income & Growth: 25% Global Equity, 30% Canadian Equity, 35% Bonds, 10% Cash

Growth: 40% Global Equity, 30% Canadian Equity, 25% Bonds, 5% Cash

Aggressive Growth: 60% Global Equity, 30% Canadian Equity, 10% Bonds, 0% Cash

About CIBC Private Wealth

You have unique challenges and ambitions. We can help you address these with our tailored services and solutions. At CIBC Private Wealth, we take a comprehensive approach to managing, building and protecting your wealth. Together we develop a plan that takes into account who you are today and what you want for your family and wealth tomorrow.

Our investment process

Our integrated approach is built around four key pillars. It all starts with understanding you, your goals and your values, which are supported by our customized services and expert guidance that keeps you moving forward.

Our services are delivered by professionals with our specialized business groups who collaborate to help you meet all of your personal, family and business financial needs.

Connect with us any time

To learn more about investing with CIBC Private Wealth, please contact your CIBC Wood Gundy Advisor.

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