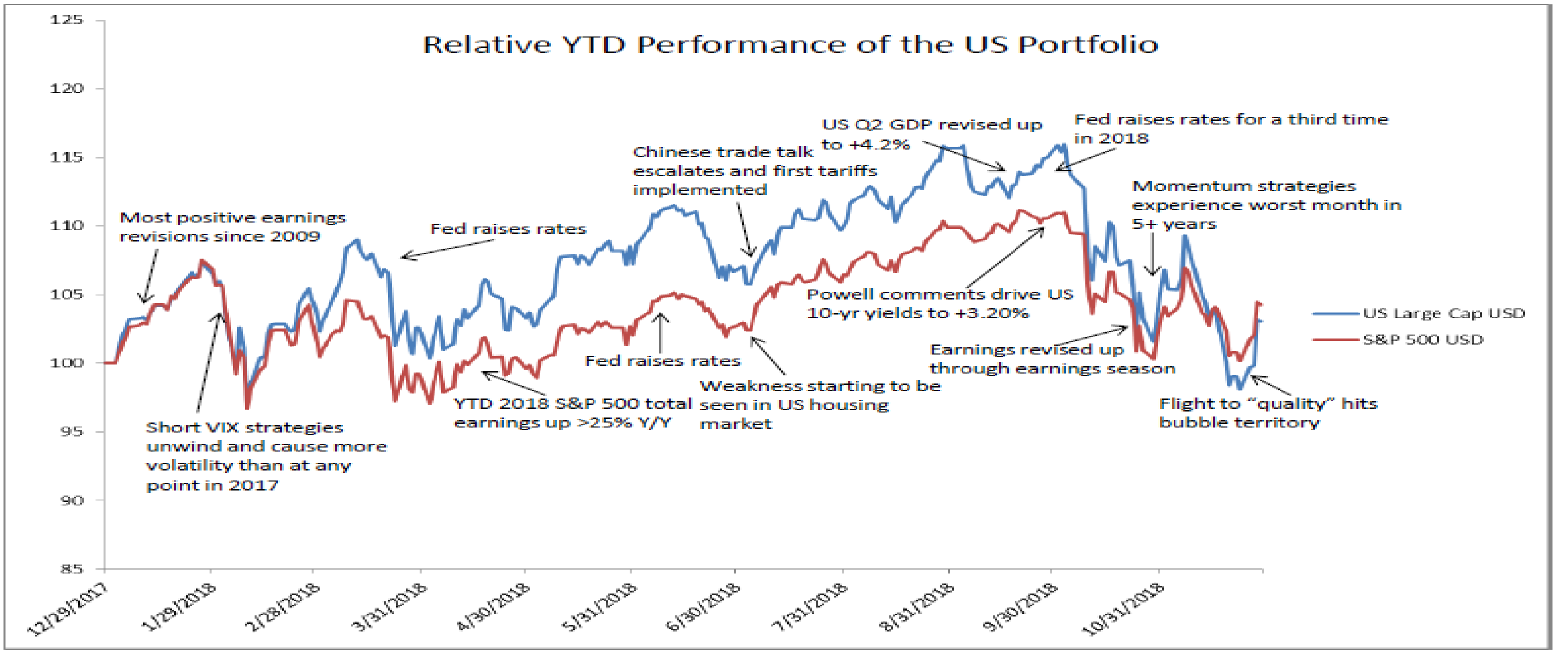
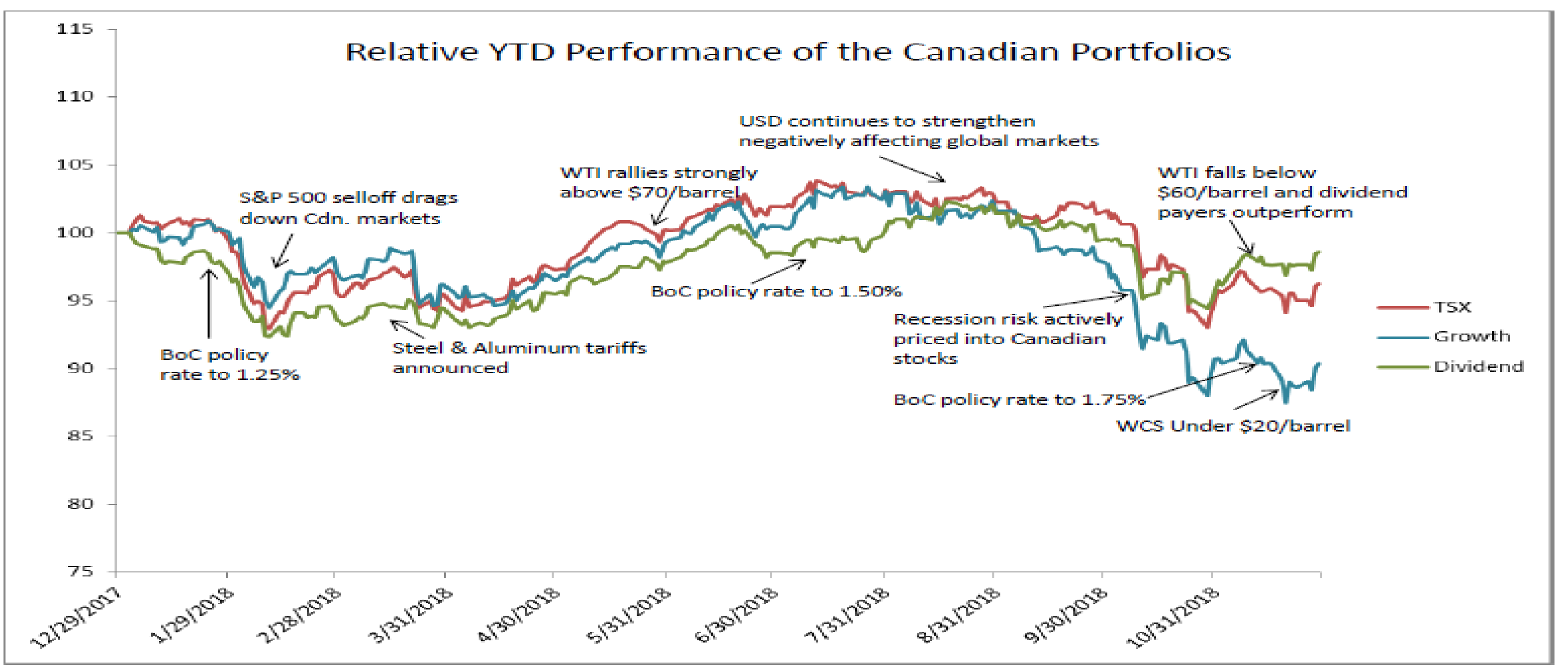


Source: Bloomberg LP. As at November 29, 2018. Figures are believed to be an accurate representation of the CPMS models shown performance but cannot be relied on. Actual performance of accounts may vary. Graph performance figures are total return estimates and includes the reinvestment of dividends on the ex-dividend date. Annotations are for visual purposes only. The "S&P 500" is short-form for the S&P 500 Index and is an index of the 500 largest and most widely held publically traded companies in the U.S. Figures are in USD.



Source: Bloomberg LP. As at November 29, 2018. Figures are believed to be an accurate representation of the CPMS models shown performance but cannot be relied on. Actual performance of accounts may vary. Graph performance figures are total return estimates and includes the reinvestment of dividends on the ex-dividend date. Annotations are for visual purposes only. The "TSX" is short-form for the S&P/TSX Composite Index and is an index of the 250 largest and most widely held publicly traded companies in Canada.

December 11, 2018

Baker Financial Group – December 2018 Commentary

2018 will likely go down in history as a true late-cycle year characterized by increased volatility, contentious political debate, and legitimate trade war actions.

The two major opposing forces that have been at work in the equity markets are strong corporate earnings growth on the positive side and increasing interest rates and macro concerns on the negative side. North American equity markets fluctuated between the effective ceiling created by higher interest rates/macro forces and the floor as established by strong corporate earnings.

More recently, fears of a recession have affected North American markets. This is the typical cause of late-cycle volatility. Earnings growth will slow as the effects of tax reform wear off but we believe this negative sentiment is overdone and do not foresee a U.S.-led recession for 2019. Similar economic fears and market volatility are to be expected next year.

All of our strategies in our proprietary portfolios have a momentum bias with respect to both price performance and earnings growth. We monitor relative strength closely as these money flows are increasingly driving large price changes in the markets. In looking back on 2018, our momentum bias has negatively affected performance. This past October, momentum strategies experienced their worst performance month in over five years. Companies with positive earnings and price momentum experienced a period of unprecedented price to earnings (P/E) multiple contraction despite significantly positive earnings momentum.

The most prominent negative contributor to price performance in October/November was our exposure to US large cap technology companies. The >5% of positive alpha that had accumulated YTD up until the middle of September was expeditiously lost in the recent wider equity market selloff. The higher volatility experienced from these companies has not changed our longer-term secular growth thesis. As we expect rates to continue rising throughout 2019; companies with limited leverage or net cash positions, strong secular growth, and solid market share leadership should outperform. The US large cap technology companies that we own check all three of those boxes as well as having strong industry-relative quantitative scores. We continue to believe our strong rules-based strategies will continue to generate positive alpha over the cycle.

Interest rate increases have started to hurt consumers in both Canada and the U.S. and the lagged effect of higher interest rates suggests that this trend will persist. Moreover, the effects of this trend will likely be more profound on this side of the border. That being said, Canadian banks continue to offer above-average total return appreciation potential with decade-low price to book (P/B) ratios, mid-to-high-teen return on equity ratios (ROEs), solid operational leverage, and high dividend yields.

Looking forward, we expect heightened volatility to continue in the markets. It will take some time for the trade conflicts to be resolved. Fair and free trade agreements are net-positive for all parties involved and in time we expect rational decision making to prevail. In the interim, predicting and timing the swings with precision is an impossible task. Choosing strong businesses that reinvest at attractive rates will compound capital well over time.

We will continue to manage your investments alongside our own by actively managing long-term risk, quantitatively evaluating investments, and tracking money flows to generate attractive long-term absolute rates of return.

We continue to work hard every day to be worthy of your trust,

CIBC Wood Gundy
Baker Financial Group

Bryan Baker

Jonathan Baker

Please click the applicable link(s) below to view important disclosures that relate to this email and the investment recommendations and/or products mentioned in it.

http://www.cibcwg.com/cibc-disclaimer-viewer/marketing-view.jsp?viewId=17353