CIBC PRIVATE WEALTH

INVESTMENT STRATEGY COMMITTEE

QUARTERLY PORTFOLIO STRATEGY REPORT

NORTH AMERICAN YIELD EQUITY MODEL PORTFOLIO

November 2024

Inside this issue

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Unless otherwise noted, all prices quoted in this report are as of the close of markets on September 30, 2024.

Market Review: Q3/2024

In the third quarter of 2024, financial markets underwent notable shifts, driven by sector rebalancing and the Federal Reserve's decision to initiate an interest rate cut in September, marking the start of a monetary easing cycle in the U.S. The rate cut was prompted by a sustained decline in inflation, which dropped below 3% during the quarter. Despite turbulence in August, equity markets rebounded sharply, with mid-cap and value stocks, which had previously lagged, outperforming the tech-heavy giants that had dominated earlier in the year. This shift reflected a broader investor move toward diversification, particularly in light of high valuations in certain growth sectors.

In Canada, the S&P/TSX Composite Index delivered a strong total return of 10.5% for the quarter, with gains across all eleven sectors. The real estate, financials, and utilities sectors led the market, posting impressive total returns of 23.0%, 17.0%, and 16.6%, respectively, buoyed by lower interest rates, increased credit activity and favourable risk-return profiles. Conversely, the energy, industrials, and consumer staples sectors underperformed, with total returns of 2.0%, 2.7%, and 6.0%, respectively.

In the U.S., the S&P 500 Index continued its positive trend, with a total return of 5.9% for the quarter. Every sector except energy posted gains, with utilities, real estate and industrials leading the market, delivering total returns of 19.4%, 17.2%, and 11.5%, respectively. In contrast, the energy, information technology, and communication services sectors lagged behind, with total returns of -2.3%, 1.6%, and 1.7%, respectively. The Nasdaq Composite Index, which is heavily weighted towards technology stocks, underperformed relative to the S&P 500, with a total return of 2.8%.

Globally, equities saw broad-based price gains, with emerging markets outpacing developed markets. In Europe, Germany's DAX and France's CAC 40 indices delivered 6.0% and 2.1% price return, respectively, while the UK's FTSE 100 registered a modest 0.9% price return. In Asia, Japan's Nikkei Index declined by 4.2%, while China's Shanghai Composite Index surged by 12.4% on a price return basis. India's Sensex 30 continued its trends with a price return of 6.7%.

In September 2024, the Bank of Canada implemented its third consecutive 25 basis point reduction in the key interest rate, bringing it to 4.25%. The central bank justified this continued easing cycle, citing persistent downward inflationary pressures due to excess supply in the Canadian economy. Policymakers also expressed concerns about potentially undershooting inflation targets, adding to existing worries about overtightening. Canada's annual inflation rate decelerated for the third consecutive month, reaching 2% in August 2024, the lowest since February 2021 and slightly below the forecasted 2.1%. This marks the first time in over three years that inflation has aligned with the central bank's target. The moderation in headline inflation was partly attributed to a 5.1% decrease in gasoline prices, influenced by both current price levels and base-year effects. Concurrently, Canada's unemployment rate rose to 6.6% in August 2024, exceeding market expectations of 6.5% and reaching its highest level since October 2021.

In the United States, the Federal Reserve enacted a significant 50 basis point cut to the federal funds rate target range, lowering it to 4.75%-5.00% in September. This marks the first reduction in borrowing costs since March 2020. While a rate cut was expected, there was uncertainty regarding its magnitude. The Fed's updated economic projection implies two more 25 basis point reductions in 2024, while further easing of 100 basis points is anticipated for 2025, followed by a final 50 basis point cut in 2026. U.S. inflation continued its downward trajectory, with the annual rate decelerating to 2.5% in August 2024, the lowest level since February 2021 and below the forecast of 2.6%. The U.S. labour market added 142,000 jobs in August 2024, surpassing July's revised figure of 89,000 but falling short of the projected 160,000.

The U.S. Aggregate Bond Index returned 4.8% in the third quarter of 2024. In the past 3 months, the yields on U.S. Treasury securities with 2-year and 10-year maturities declined by 108 and 58 basis points, respectively. The 10-year minus 2-year U.S. treasury yield curve reverted from inversion, ending the quarter at a positive 14 basis points. Similarly, the Canadian bond universe recorded a 4.7% total return for the quarter, with long-term bonds outperforming short-term bonds, while corporate bonds performed in line with government bonds. By the end of Q3 2024, the Canadian 10-year bond yield stood at 2.96%, while its U.S. counterpart closed at 3.78%.

Portfolio Performance

ISC North American Yield Equity Model Portfolio

The CIBC Private Wealth North American Yield Equity Portfolio realized strong absolute returns and negative relative performance in Q3 2024. The top relative performing sectors were energy, information technology, and real estate, while healthcare, financials, and industrials were the biggest detractors.

The energy sector was the largest contributor to relative performance as our overweight positions in pipelines (relative to oil and gas producers) outperformed, driven in part by declining interest rates and falling crude prices which impacted oil and gas producers. The best relative performer within the sector was TC Energy (TRP), followed by Enbridge (ENB) and Pembina Pipeline (PPL). Within information technology, our position in International Business Machines (IBM) performed well as corporations increasingly looked to outside consulting firms to help with their adoption of generative artificial intelligence (Gen A.I.), which increased IBM's Gen A.I. consulting backlog. Real estate was the top performing sector and the portfolio benefited from favourable sector allocation given our overweight positioning. The sector's robust performance, which benefited largely from declining interest rates, was broad-based with 70% of the blended benchmark's constituents gaining over 20%, including our holdings in RioCan REIT (REI.UN) and Granite REIT (GRT.UN).

Unfavourable stock selection in healthcare was the biggest detractor of relative performance. This was driven by underperformance in the portfolio's biggest overweight Merck (MRK), which was impacted after it lowered its sales guidance in China of Gardasil, its vaccine against the HPV virus. We believe those concerns are overdone and we added to our position in September after the recent pullback resulted in a more attractive valuation level for the stock. In financials, our overweight position in JP Morgan (JPM) underperformed given uncertainty regarding the economic outlook and whether the U.S. Federal Reserve could engineer a soft landing for the economy. JPM has been a strong performer year-to-date and the stock had become more expensive but we remain bullish and recently added to our position on the pullback. The industrials sector was impacted by our holding of Emerson Electric (EMR), which underperformed due to weaker sales growth that resulted in a reduction in sales growth guidance for fiscal 2024 attributed to ongoing weakness in factory automation and China. We remain constructive on EMR as it is well positioned to benefit from several secular themes.

In July, we eliminated our position in Magna International (MG) due to continued headwinds in the auto industry and limited potential catalysts for the name through the remainder of the year. We used part of the proceeds to add to our position in Fortis (FTS) given our favourable view of the regulated utility space, particularly driven by secular tailwinds of growing electricity demand. We also rebalanced our weights among our bank holdings, trimming TD Bank (TD) given elevated near-term risks and added to Bank of Montreal (BMO) and Royal Bank of Canada (RY). We subsequently eliminated our position in TD in September after strong performance in the shares over the prior three month period and based on continuing downside risks related to regulatory uncertainty in the U.S. We invested the proceeds in Bank of Nova Scotia (BNS), RY and JPM. Additionally, we trimmed our positions in Loblaw (L) on profit taking and Canadian National Railway (CNR) due to continued freight market impacts and idiosyncratic challenges.

The rally in U.S. and Canadian equity markets continued in Q3, particularly bolstered by dovish moves by central banks in lowering interest rates. Macroeconomic data was mixed, with the U.S. holding up better than Canada, and continues to reflect the impacts of restrictive monetary policies across economies. Inflation moderated further and is near both central bank's target level. Further interest rate cuts are expected to continue benefiting equity markets, in particular yield oriented portfolios. Potentially deteriorating macroeconomic conditions and elevated valuations in pockets of the U.S. could pose headwinds. Within equities, we continue to be positioned overweight energy and information technology, along with interest rate sensitive sectors, such as communication services, utilities, and real estate. We continue to seek and evaluate new opportunities, but will remain disciplined on valuation. The portfolio remains strategically well positioned for the current environment, with a balanced mix of growth, income, and stability.

The team here at CIBC will continue to deploy a multi-disciplined investment approach that utilizes fundamental, quantitative, and technical research methods to construct a balanced portfolio of North American securities that aims to achieve long-term growth of capital and income for our clients.

Results as of the end of September 2024

Portfolio Performance	3 month	YTD	1 year	3 year	Since Inception[1]
North American Yield Equity	8.88%	16.67%	23.70%	11.24%	10.24%
Benchmark[2]	9.29%	16.67%	24.38%	10.97%	NA
Relative	**-0.41%**	**0.00%**	**-0.68%**	**0.27%**	**NA**

[1] March 28, 2017.

[2] Benchmark: 63% S&P/TSX Composite Dividend Index + 32% Dow Jones US Div. 100 Index (CAD) + 5% FTSE Canada 91-Day T-Bill Index.

Current Environment

Inflation has continued to abate in both the U.S. and Canada, and excluding mortgage interest, is now running well below the Bank of Canada's 2% target. Central banks are increasingly confident that inflation can run near their targets without any further damage to economic prospects, and in Canada's case, the central bank is now looking to accelerate growth to narrow the existing slack in the labour market. In the U.S., where slack is less apparent, the U.S. Federal Reserve's (Fed) objective in beginning an easing cycle is to prevent a significant further rise in unemployment while preserving the economy's existing momentum.

The two economies continue to diverge in the degree to which current interest rates have posed a hurdle to growth. Canada's economy has seen moderate growth, but at a pace that has meant declining real GDP per capita. The jobless rate has moved up from a too-tight 4.9% to a more worrisome 6.6%. That opens the door for additional interest rate relief over the next few quarters, taking the overnight rate below 3%, which could support fixed income markets but also buttress expectations for improved growth and related gains in corporate earnings in 2025.

While overall U.S. growth has held up well, interest-sensitive elements of the American economy, including homebuilding and parts of the manufacturing sector, have been more sluggish, so the Fed still has reason to ease up on interest rates now that inflation has moderated. Real (inflation-adjusted) interest rates remain higher than would typically be sustained over the cycle. But U.S. policy rates are less likely to head materially below the mid-3% range given America's greater resilience in employment and labour markets.

Outlook

In the third quarter of 2024, North American equity markets continued their upward trajectory. In Canada, the S&P/TSX Composite Index (TSX) delivered a quarterly total return of 10.5% with all eleven GICs sectors registering gains, while the S&P 500 index (S&P 500) delivered a total return of 5.9% with ten out of eleven sectors gaining. Energy was the only U.S. sector finishing in negative territory. Of note during the quarter was concern that growth in generative artificial intelligence might not meet the high expectations that were reflected in the valuations of many of the semiconductor and software companies operating in this market. Many investors used this as an opportunity to take profits, lower their exposure to technology names, and raise their exposure to interest-rate-sensitive sectors in anticipation of cuts in interest rates by the U.S. Federal Reserve (Fed). This rotation out of technology stocks resulted in the NASDAQ delivering a modest total return of 2.6% for the quarter.

Inflation in Canada declined during the quarter, falling to 2% in August on a year-over-year (Y/Y) basis, the first time it had reached this level since 2021. This was welcome news and provided ample evidence that the previous policy of higher interest rates implemented by the Bank of Canada (BoC) had succeeded in driving inflation back to the BoC's 2% target. In September, the BoC cut rates by 25 basis points (bps), its third reduction since initially lowering rates in June. The CIBC Economics team notes that excluding mortgage interest costs inflation is just 1.2% Y/Y. This may drive expectations that further rate cuts may be needed to stimulate Canada's economy. In the U.S., inflation fell to 2.5% and although this was still above the Fed's 2.0% target, the Fed's decision to cut rates in September was widely expected. However, the decision to cut by 50 bps caught many investors by surprise and at first was taken as a negative indication that the U.S. economy might be weakening faster than expected. But with Fed Chairman Jerome Powell citing the need to protect the strong U.S. job market and expressing confidence that inflation in the U.S. would continue to fall, investors responded by pushing equities higher on expectations that lower rates will provide support for the consumer and boost corporate earnings.

Additional reasons for optimism regarding the financial markets stem from the decision in September by the government of China to implement a massive economic stimulus program, which may provide a boost to the overall global economy. With many investors having cited weakening demand from China as a headwind to global economic growth and to continued gains in financial markets, this might serve to boost investor sentiment during the fourth quarter of 2024 and into 2025. Another reason for optimism is the expectation that Saudi Arabia may be ready to abandon its unofficial US$100/barrel price target for oil and that it may accelerate the unwinding of cuts to its production, effectively signaling that it is resigned to a prolonged period of lower oil prices. If so, the counter-inflationary impact of falling energy prices could work in tandem with falling interest rates to continue to drive inflation lower and spur consumer spending. However, the recent widening of the war in the Middle East may provide an offset to this as crude oil prices could move higher, especially if Iran's oil facilities are targeted by Israel.

The start of Q4 2024 could bring challenges for equity markets including: i) the possibility of less rate cuts than expected; ii) the sustainability of the current job market; iii) the likelihood of the consumer maintaining spending levels; and iv) negative consequences of a widening of the war in the Middle East. If there are less rate cuts than expected, this could reduce the willingness of consumers to continue spending. In the Middle East, should Israel target Iran's oil facilities, the resulting hit to global oil supplies might lessen the downward impact from the current large excess OPEC+ production capacity. This could further complicate the Fed's decision making regarding interest rates and the near-term upside for equities could be limited.

Looking at equity valuations, the TSX finished the quarter trading at 15.0x consensus EPS for the next 12 months, 0.7% below its 10-year average, suggesting it is fairly valued. In the U.S., the S&P 500 closed the quarter trading at 21.6x consensus EPS for the next 12 months, 14.8% above its 10-year average, suggesting U.S. equities may have limited upside from here. However, with all sectors in the TSX and ten out of eleven sectors in the S&P 500 participating in the increase in equity indices in the third quarter, this strong breadth of participation might indicate that equity indices may prove to be resilient, especially with the BoC and the Fed expected to cut rates again before the end of the year. Lower rates might benefit the TSX more than the S&P since interest-rate-sensitive sectors such as financials, communications services, utilities, pipelines and real estate account for approximately 40% of the TSX versus approximately 20% for the S&P. The outperformance of the TSX versus the S&P in the third quarter may be evidence of this. Despite the double-digit percentage gains delivered so far by North American equity markets, the set up for equities through to the end of the year looks positive and further rate cuts by central banks could help to bolster consumer sentiment, provide a tailwind to corporate earnings and a boost to equities.

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

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

Stock prices as of October 18, 2024:

Agnico Eagle Mines Limited (2g, 7, 9) (AEM-NYSE, US$86.17)

AltaGas Ltd. (2a, 2c, 2e, 2g, 7) (ALA-TSX, C$35.7)

Bank of Montreal (2a, 2c, 2e, 2g, 3a, 3c, 7) (BMO-TSX, C$129.87)

Bank of Nova Scotia (2a, 2c, 2e, 2g, 3a, 3c, 7) (BNS-TSX, C$73.96)

Brookfield Asset Management (2g, 3a, 3c) (BAM-NYSE, US$51.55)

Brookfield Corporation (2g, 3a, 3c, 7, 14) (BN-NYSE, US$56.39)

Cameco Corporation (2a, 2e, 2g, 7) (CCO-TSX, C$80.13)

Canadian Apartment Properties REIT (2g, 7) (CAR.UN-TSX, C$50.84)

Canadian National Railway Co. (2a, 2c, 2e, 2g, 7) (CNR-TSX, C$156.84)

Enbridge Inc. (1b, 2a, 2c, 2e, 2g, 7) (ENB-TSX, C$57.97)

Fortis Inc. (2a, 2e, 2g, 7) (FTS-TSX, C$62.09)

Granite REIT (2g, 7) (GRT.UN-TSX, C$76.97)

Loblaw Companies Limited (1b, 2a, 2e, 2g) (L-TSX, C$177.23)

Magna International Inc. (2a, 2c, 2e, 2g, 7, 9) (MGA-NYSE, US$43.49)

Pembina Pipeline Corporation (2a, 2c, 2e, 2g, 7) (PPL-TSX, C$59.45)

RioCan REIT (2a, 2e, 2g, 7) (REI.UN-TSX, C$19.8)

Royal Bank of Canada (2a, 2c, 2e, 2g, 3a, 3c, 7) (RY-TSX, C$174.08)

South Bow Corporation (2a, 2e, 2g) (SOBO-TSX, C$35.46)

TC Energy Corporation (2g, 7) (TRP-TSX, C$66.42)

Toronto-Dominion Bank (2a, 2c, 2e, 2g, 3a, 3c, 7) (TD-TSX, C$77.84)

WSP Global Inc. (2a, 2c, 2e, 2g, 7) (WSP-TSX, C$250.49)

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