CIBC PRIVATE WEALTH

INVESTMENT STRATEGY COMMITTEE

QUARTERLY PORTFOLIO STRATEGY REPORT

U.S. CORE EQUITY MODEL PORTFOLIO

August 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 June 28, 2024.

Market Review: Q2/2024

In the second quarter of 2024, the financial markets navigated through a turbulent phase, adjusting to the evolving economic landscape. Investors approached the period with a blend of hope and caution, weighing the prospects of growth against the enduring challenges of inflation and the uncertain schedule for expected reductions in interest rates. Despite these challenges, the U.S. markets managed to find a foothold for a rally, particularly driven by sectors thriving on the continuous surge in artificial intelligence, while Canadian markets did not keep pace with their south of the border counterparts. The U.S. Federal Reserve (the Fed) indicated the likelihood of a single rate cut in 2024, a departure from the previously forecasted three. Meanwhile, the Bank of Canada (BoC) took the lead among G7 nations to lower its benchmark interest rate by 25 basis points during its June session, the first such action post-pandemic. Bond markets saw a volatile quarter, with yields swinging as investor expectations for monetary policy shifted.

In Canada, the S&P/TSX Composite Index posted a slight negative total return of 0.5% for the quarter, with most sectors, seven out of eleven, ending in the red. The materials and consumer staples sectors emerged as the quarter's champions, registering positive total returns of 7.4% and 4.1%, respectively. Robust commodity prices propelled the materials sector, while consumer staples remained resilient due to its defensive character and the steady demand for necessities amidst economic flux. On the flip side, the health care and real estate sectors lagged significantly, with negative total returns of 18.6% and 5.7%, respectively.

Stateside, the U.S. S&P 500 Index continued its upward trajectory, posting a total return of 4.3%. Companies heavily invested in artificial intelligence largely fueled this performance, although the gains were more modest compared to previous quarters. The S&P 500's sector performance was mixed, like the S&P/TSX Composite Index, with six out of eleven sectors experiencing a negative return. Information technology and communication services stood out with positive total returns of 13.8% and 9.4%, respectively, while materials and industrials were at the bottom with negative total returns of 4.5% and 2.9%, respectively. The Nasdaq Composite Index, known for its tech-centric stocks, achieved an impressive total return of 8.5%.

Globally, equities saw price-return gains during the quarter, with emerging markets outperforming developed ones. In Europe, Germany's DAX and France's CAC 40 indices faced declines of 1.4% and 8.9%, respectively. Conversely, the UK's FTSE 100 Index saw a modest uptick of 2.7%. In Asia, Japan's Nikkei Index took a dive of 1.9%, China's Shanghai Composite Index dipped by 1.4%, while India's Sensex 30 bucked the trend with a robust rise of 7.3%.

During its June session, the Bank of Canada reduced its benchmark interest rate by 25 basis points to 4.75%, aligning with the expectations of the market. The Bank indicated the possibility of further rate reductions if the slowing of inflation persists as projected. It expressed increased assurance that the trend towards the 2% inflation target is solidifying, justifying a move towards a more accommodating monetary policy. In May 2024, Canada's headline inflation rate climbed to 2.9% from April's three-year low of 2.7%. The unemployment rate in Canada escalated to 6.4% in June 2024, up from 6.2% the previous month, marking the highest rate since January 2022 and exceeding the anticipated 6.3%.

The Fed maintained the federal funds rate between 5.25% and 5.50% during its June 2024 meeting, marking the seventh consecutive session without change, which was anticipated by analysts. Fed officials are awaiting more evidence of inflation consistently moving towards the 2% goal before considering rate reductions. The latest projections show an expectation of one rate cut in 2024 and four in 2025, a revision from the three cuts expected in both years as of March. The annual inflation rate in the U.S. decelerated unexpectedly to 3.3% in May 2024, the lowest in three months, coming in below the 3.4% rate in April and the forecast of 3.4%. The U.S. job market saw the addition of 206,000 jobs in June 2024, slightly below the revised figure of 218,000 in May but surpassing the 190,000 jobs forecast.

In the U.S. bond market, returns remained relatively unchanged in the second quarter of 2024, despite a rise in government bond yields over the last three months. Specifically, the yields on U.S. Treasury securities with 2-year and 10-year maturities rose by 10 and 17 basis points, respectively. The 10-year minus 2-year U.S. treasury yield curve continued its inversion at 35 bps vs 106 bps last year. The Canadian bond universe posted a 0.9% total return in the second quarter. Within this market, short term bonds outperformed long term bonds and corporate bonds outperformed sovereign bonds. The Canadian 10-year bond yield concluded the quarter at 3.50%, while the U.S. 10-year bond yield ended at 4.40%.

Portfolio Performance

ISC U.S. Core Equity Model Portfolio

The CIBC Private Wealth U.S. Core Equity Portfolio delivered a positive return but modestly underperformed its benchmark during the second quarter of 2024. Positive contributions came from a diverse mix of sectors led by consumer staples, industrials and financials. However, our limited exposure to semiconductor businesses within the information technology sector detracted from performance.

During the quarter, an underweight position in semiconductor companies within the information technology sector was the key detractor of performance. We believe the adoption of generative artificial intelligence (Gen AI) is a growth opportunity but will likely take time to develop as companies validate the return opportunities for their business models. It is worth noting that we do have companies that are well positioned to benefit from the Gen AI theme across other sectors, such as Alphabet Inc. (GOOGL) within communications services and Amazon.com Inc (AMZN) within consumer discretionary. Last quarter, we initiated a position in the semiconductor company Broadcom (AVGO), a supplier of Gen AI components. We added to the position as the outlook in the company's end markets continued to improve. We will continue to look for opportunities here and will remain disciplined regarding valuation.

Both allocation and stock selection in the consumer staples and industrials segments were positive contributors to fund performance. Shares of Walmart Inc. (WMT) moved higher as the company delivered very strong financial results, as profits expanded and market share increased. Honeywell International Inc. (HON), a diversified industrial company focused on aviation, automation, and energy transition, also benefited from solid quarterly results and a record backlog. Shares further strengthened following the closing of the acquisition of Carrier's (CARR) Global Access Solutions business with improved guidance.

During the quarter, we exited our position in retailer Nike Inc. (NKE) with concerns for its near-term growth prospects given a more challenging economic backdrop in its key global markets such as China. The company subsequently lowered its financial outlook for fiscal year 2025. CF Industries Holdings Inc. (CF) was also eliminated as we continue to expect poor supply-demand dynamics in the nitrogen fertilizer market. We initiated a position in Ulta Beauty Inc. (ULTA), a leading specialty beauty retailer with a strong e-commerce presence, after the shares pulled back on comments about a slowdown in its business earlier this year. We believe it's an attractively priced business that is well-positioned to gain share, given its balanced product offering, a strong and innovative product pipeline and a loyalty platform that has over 43 million users.

Given the strong performance of equities during the quarter, dominated by information technology and communication services, significant near-term upside may prove challenging. We see signs of the U.S. economy decelerating and uncertainty over when the U.S. Federal Reserve will start to cut interest rates and by how much, as factors that may weigh on equities over the next few months. Being mindful of how well equities have performed in the first half of the year, we are cautiously optimistic regarding equities in the second half of 2024. We believe the portfolio is strategically well positioned to benefit from the current market environment, with a balanced mix of growth and stability. In terms of positioning, our biggest sector overweights include communication services and consumer discretionary, while our biggest underweight allocations include information technology and real estate.

The team here at CIBC will continue to deploy a multi-disciplined investment approach that uses fundamental, quantitative, and technical research methods to construct a portfolio of mid-cap and large-cap U.S. equities that aims to achieve long-term growth of capital and income for our clients.

Results as of the end of June 2024

Portfolio Performance	3 month	YTD	1 year	3 year	Since Inception[1]
U.S. Core Equity	3.84%	14.54%	21.41%	10.04%	15.02%
Benchmark[2]	4.28%	15.29%	24.56%	10.01%	NA
Relative	**-0.44%**	**-0.76%**	**-3.15%**	**0.02%**	**NA**

[1] February 16, 2016.

[2] Benchmark: 100% S&P 500 Index (USD).

Current Environment

Although monthly data have been choppy, inflation continues to be on a broadly downward trajectory in both the U.S. and Canada. Shelter costs remain one sticking point, but tame goods prices are providing an offset, with some evidence that wage inflation is either already easing in some measures, or poised to decelerate in others. In both countries, labour markets look less tight than a year earlier, with job vacancies back at normal levels, and the unemployment rate moving higher, with the latter more evident in Canada.

Both economic slack and disinflationary progress have been a bit clearer in Canada, with higher household debt and mortgages that aren't locked for as long as in the U.S., contributing to a greater response to higher interest rates in household spending. The result is that Canada's central bank has made an earlier turn to easing policy interest rates, with the first cut in June expected to be followed by up to three more quarter-point cuts by year-end, which would be a bit more aggressive than what the bond market has already priced-in. That said, there are also signs of a deceleration in the U.S., and after an upturn in inflation early this year, price pressures appear to once again be on a tamer path. That should bring the U.S. Federal Reserve to the rate cut table this year with up to two quarter-point cuts, close to what markets are assuming.

Central banks appear prepared to ease on a timely enough basis to avoid a harder economic landing. There could still be some disappointments in growth, and a resulting pinch on corporate earnings in cyclically sensitive sectors before interest rates reach low enough levels to prompt a growth reacceleration, a story that seems more likely to be in evidence in 2025.

Outlook

North American equity markets were mixed in the second quarter of 2024. The S&P/TSX Composite Index (TSX) posted a modest negative return but remained in positive territory (+4.4% price-only return) on a Year-to-Date basis at the midpoint of 2024. The S&P 500 posted another strong quarter and is up 14.5% for the first half of 2024, in local currency. Leadership from technology stocks, particularly those exposed to the generative artificial intelligence (Gen AI) theme, has been a key source of strength for U.S. equity markets while commodity price strength has helped the resource-heavy TSX this year. Materials and energy are the two top-performing sectors within the TSX, helped by double-digit percentage price increases from oil, gold, and copper for the first six months of 2024.

We remain slightly cautious on equity markets in the short term. A resetting of central bank rate cut expectations in recent months, particularly in the U.S., is a notable headwind for equity markets and has dampened investor sentiment. While the Bank of Canada (BoC) began to cut interest rates in June, the Canadian consumer has shown signs of weakness and further cuts will be needed before the interest-rate sensitive Canadian economy feels some relief. South of the border, a strong labour market has contributed to resilient economic growth in recent quarters and expectations for rate cuts from the U.S. Federal Reserve (the Fed) have been significantly dialed back in recent months. U.S. core inflation has come down from its peak but there is still work to do to get inflation down to the Fed's 2% target level. Various other risk factors also have the potential to disrupt equity market momentum. Key things to watch include ongoing events in the Middle East and Ukraine and various elections around the world, most notably the contentious U.S. presidential election in November. While the Gen AI theme has buoyed equity markets, investor exuberance may have become stretched and valuations have become extended for certain pockets of the market.

Looking ahead a few quarters and into 2025, we think the outlook for equity markets remains attractive. Interest rates are on their way down, perhaps not as rapidly as some investors had once expected, but this will be a positive tailwind for equity markets. Lower interest rates increase the relative attractiveness of dividend-paying stocks and provide a much more supportive financing environment for corporations. Lower interest rates will be supportive of the Canadian and U.S. economies in the coming quarters as well. Valuation levels in Canada are attractive, with the TSX trading at a 14x forward price-to-earnings (P/E) ratio compared to its 10-year average of over 15x. This provides a margin of safety for long-term investors and should limit downside risk. We have a positive view on certain commodities heading into 2025, most notably copper and natural gas, and this should also provide support for the resource-heavy TSX. Oil markets appear reasonably balanced and the OPEC+ cartel is focused on protecting prices rather than gaining market share. Valuation levels in the U.S. are more stretched, with the S&P 500 trading at a 21x forward P/E versus its 10-year average of 18x. The index level multiple is being skewed higher by the technology sector and certain high-growth stocks. Many of these companies are arguably deserving of a premium valuation given secular tailwinds. The outlook for earnings is also supportive for North American equity markets. Expectations for double-digit earnings growth for the S&P 500 in 2024 and 2025 demonstrate that stock market fundamentals are quite healthy despite some uncertainty on the outlook for the economy.

Overall, we remain cautious in the near term given the current uncertain macro backdrop and some headline downside risks to equity markets. We remain slightly defensively positioned within equities and continue to favour high-quality names with strong competitive positioning and resilient earnings. While we tactically added to our fixed income allocation post quarter-end, we remain underweight the asset class given the current volatility in fixed income markets and the uncertain outlook regarding interest rates.

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.

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AltaGas Ltd. (2a, 2c, 2e, 2g, 7) (ALA-TSX, C$30.74)

Bank of Montreal (2a, 2e, 2g, 3a, 3c, 7) (BMO-TSX, C$115.31)

Cameco Corporation (2a, 2e, 2g, 7) (CCO-TSX, C$66.83)

Canadian National Railway Co. (2a, 2c, 2e, 2g, 7) (CNR-TSX, C$157.57)

Canadian Natural Resources Ltd. (2g, 7) (CNQ-TSX, C$48.33)

Canadian Pacific Kansas City Ltd. (2g, 7) (CP-TSX, C$106.96)

Constellation Software Inc. (2g, 7) (CSU-TSX, C$4050)

Dream Industrial REIT (1b, 2a, 2e, 2g) (DIR.UN-TSX, C$12.69)

Granite REIT (2g, 7) (GRT.UN-TSX, C$68.78)

Loblaw Companies Limited (1b, 2a, 2e, 2g) (L-TSX, C$164.69)

Nutrien Ltd. (2a, 2c, 2g, 7) (NTR-NYSE, US$48.56)

Restaurant Brands International Inc. (1b, 2g, 7) (QSR-NYSE, US$68.07)

RioCan REIT (2a, 2e, 2g, 7) (REI.UN-TSX, C$16.9)

TC Energy Corporation (2g, 7) (TRP-TSX, C$51.11)

Teck Resources Limited (1b, 2g, 7, 12) (TECK.B-TSX, C$65.84)

Waste Connections Inc. (2a, 2c, 2e, 2g, 4a, 4b) (WCN-NYSE, US$178.13)

Wheaton Precious Metals Corp. (2g) (WPM-NYSE, US$56.07)

WSP Global Inc. (2a, 2c, 2e, 2g, 7) (WSP-TSX, C$215.03)

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