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Q&A with Gitesh Goyal—The Private Debt Offering

We recently sat down with Gitesh Goyal, CFA (Vice-President, Global Fixed Income, Infrastructure and Power), to discuss the private debt space and management of his portfolios. With extensive expertise in public-private partnerships, infrastructure and power markets, Gitesh has originated and structured transactions ranging from $100 million to more than $4 billion in the social infrastructure, transportation, renewable energy and power sectors.

Read the full conversation here.

Gitesh Goyal, CFA
Global Fixed Income,
Infrastructure and Power

Looking for an Equity Replacement? Consider Allocating to High Yield

Like most investments, where we see inefficiency is also where we believe clients can extract the most value. In his recent white paper, Carlo DiLalla, CFA (Vice-President & Senior Client Portfolio Manager—Fixed Income), explores the impact of adding high yield to portfolios, along with the improvement to the risk/reward profile for clients.

In the context of expanding portfolios to capture income streams, high yield offers 'a more liquid' option for those down the path of growing their alternatives allocations. Carlo also explores the benefit of utilizing high yield as an equity replacement for those plans beginning their de-risking journeys.

Read the full white paper to learn why we believe clients should consider high yield as an allocation within their portfolios.

RESEARCH & INSIGHTS

Plotting a Course for an Uncertain Year Ahead

The global economic expansion is expected to continue in 2017, but growth is unlikely to accelerate. Uncertainty around our forecast is unusually large this quarter, given many policy unknowns as we enter 2017.

Since the election of Donald Trump in the U.S. last November, the prospect of fiscal stimulus amid accommodative monetary conditions in the U.S. has dramatically changed global financial dynamics. Other aspects of a new Trump administration, such as trade protectionism and the potential imposition of tariffs on trading partners, have so far been treated with benign neglect by financial markets. This may come to haunt investors in the first 100 days of the new administration.

Read our flagship publication *Perspectives.*

Global Fixed Income Weekly Roundup

Patrick O'Toole's **Weekly Roundup** features economic data, reaction from the fixed income and equity markets and key events to watch for.

TRUMPENDOUS … OR 'D'-DAY? this week's edition.

Sign up to receive Weekly Roundup every Monday by email.

Patrick O'Toole, CFA, CGA
Vice-President
Global Fixed Income

MARKET COMMENTARY

Key Bond Market Developments – Fourth Quarter 2016

The bond market experienced one of its worst quarterly declines in the post crisis period, triggered by Donald Trump's victory in the Presidential elections. In the President-elect's speech following his victory he spoke about reducing regulations and red-tape, and reiterated his plans for major spending on infrastructure projects. Those initiatives are all in the hope of boosting U.S. GDP above the roughly 2% level that has prevailed in the post crisis period. Longer-term bond yields in Canada rose roughly 65 bps, reversing the rally that occurred in the first three quarters of 2016, leaving yields marginally above December 2015 levels.

The rise in yields came despite evidence that the U.S. economy likely decelerated in the fourth quarter. The Federal Reserve raised the Fed Funds rate by 0.25%, and provided guidance that it expects to raise it a further 0.75% in 2017. We expect that the Bank of Canada will be on hold for the foreseeable future. The Bank continued to express its dissatisfaction regarding the volume of non-energy exports and the lack of business investment. However, Governor Poloz expects the recovery to broaden as the federal government's infrastructure spending kicks in during 2017, the lower value of the Canadian dollar provides a boost to exports, as the U.S. economy improves, and as the current low level of interest rates encourages consumers to spend.

The selloff in the bond market was exacerbated by the European Central Bank reducing the amount of its monthly bond purchases. However, the end date was extended to December from March, and beyond then if necessary.

When examining the change in yields in the quarter, we can conclude two things. One, roughly half of the increase in bond yields can be attributed to expectations that inflation will increase due to the impact of some of Trump's policies and as the U.S. economy's output gap closes. That may occur, but the forces of aging demographics and changing spending patterns that ensue, and income levels for the median household that remain below levels of 20 years ago (on an inflation-adjusted basis), leave little appetite or ability for the consumer to absorb higher prices.

MARKET COMMENTARY (CONT'D)

Second, the other half of the increase can be attributed to investors demanding a higher real yield to own longer-term bonds as inflows to the equity market accelerated and investors anticipate a surge in real growth. The latter has been elusive, but with the election over and an increased chance for tax reform, the investment climate in the U.S. should see some improvement, providing a boost to growth in the New Year.

The FTSE/TMX Canada Universe Bond Index returned -3.44% for the quarter and +1.66% over the past twelve months. Due to demand for higher yields and its lower duration, the corporate sector performed best in the quarter, returning -1.82%, while Government of Canada bonds returned -3.91%, edging out provincial bond returns of -4.85%. During the quarter, the Government of Canada 30-year bond yield increased 64 basis points to 2.31%.

Bond Market Outlook

Once again, investors are optimistic that the upcoming year will finally be the one where the U.S. economy breaks out to a higher level of growth. The catalyst this time is not more central bank intervention that will unleash consumer and business spending. Instead, it's the pro-growth policies of Donald Trump that are rekindling hopes that it will result in a Reagan-like renaissance for an economy that has been stymied by "anti-business" policies.

But it's unfair to blame the disappointing trend growth rate in the post-recovery period on government policies. While there may be some blame that can be attributed to increased regulations, most of the impediment to better growth lies in structural headwinds that The Donald can't, or is unlikely to, change.

One of the major headwinds is demographics, and it's unlikely that he can improve the birth rate. With the labor force growing at 0.7% per annum, and expected to fall to 0.25% in the next decade, trend growth is poised to continue to decline, barring a major boost in productivity. Even if productivity were to double in the next decade, trend growth would still be roughly 2.25%, not much above the trend 2% rate that has prevailed since 1980.

The other major headwind is an excessive level of debt that is not being used to increase productivity. Debt has grown at the government and business levels such that total global debt (private and public) is at new record highs, now exceeding 230%. Research shows that when government debt exceeds 100% of GDP, economies tend to struggle as the need to service the debt takes capital away from investment that can grow the economy. Early indications are that Mr. Trump has no plan on reducing the U.S. deficit, and there is little appetite in other major developed countries to do the same.

Looking more specifically at 2017, Canada and the U.S. face different impediments to better growth levels. Canada faces an uncertain global economy that calls into question the recovery in our export sector that is badly needed. With the U.S. economy slowly improving, there is some room for optimism. But the potential for changes to NAFTA or other duties that may be imposed leave us concerned that non-energy exports to the U.S. may not be as robust as expected.

The U.S. economy faces hurdles from the recent spike in bond yields that are likely to hinder further improvement in its housing sector, along with the higher prices at the pump as oil prices have rebounded from year ago levels. Throw in the impact that a strong U.S. dollar should have on the export sector, and you've got a drag on growth that wasn't in place a few short months ago. Further, the Federal Reserve plans on raising its rate a full percentage point in the next year. Those aren't factors that lead us to raise our growth forecasts.

That should leave growth mired at low levels, with interest rates also remaining low. We expect that the U.S. Federal Reserve may hike its rate twice in the next year, but the Bank of Canada is likely to remain on hold.

The Trump victory brings many uncertainties. Those uncertainties mean that large scale changes that would have an impact on growth in 2017 are more limited than the consensus expects. We expect that capital investment will be slow to respond to changes in the tax code or legislation and that any fiscal stimulus won't be as large as Mr. Trump has stated; there are many in the Republican party who won't support such a large scale increase in the deficit.

In summary, bond yields are expected to remain in the range that has been in place over the past few years. For stock markets, continued sluggish global growth, declining profit margins and stagnant revenues lead us to expect returns only modestly better than bonds.

OUR FIXED INCOME CAPABILITIES

Since 1972, CIBC Asset Management has been managing fixed income strategies for institutional investors. Our capabilities span across active multi-alpha and corporate credit strategies to enhanced passive, passive and liability driven investment strategies. We create custom solutions to address the unique performance objectives, risk constraints and asset-liability matching needs of our clients.

Active

- Core Plus
- Liability Driven Investing
- Core
- Corp. Investment Grade
- High Yield
- Long Term
- Private Debt
- Inflation Linked
- Short Term
- Money Market

Enhanced Passive

- Liability Driven Investing
- Universe Index Plus
- Duration Pools
- Long Index Plus
- All Government
- Long Corporates

Passive

- Liability Driven Investing
- Universe Index
- Long Term Index
- Global Government Index
- Inflation Linked
- Short Term Index
- All Government Index

FLAGSHIP STRATEGIES – PERFORMANCE SUMMARY

CIBC Canadian Bond Core Plus Strategy

Annualized as at December 31, 2016 (%)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
CIBC Canadian Bond Core Plus Representative Account	3.90	3.33	5.14	3.79	4.27	5.15	5.61	6.01	5.75	5.54
FTSE TMX Canada Universe Bond Index	1.66	2.59	4.61	3.13	3.22	4.27	4.62	4.72	4.91	4.78
Added Value	2.24	0.74	0.52	0.66	1.04	0.88	0.99	1.29	0.85	0.75

	Q4	YTD	Periods Ending December 31							
Calendar Year Returns (%)	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008
CIBC Canadian Bond Core Plus Representative Account	-2.89	3.90	2.76	8.85	-0.14	6.19	9.66	8.42	8.84	3.73
FTSE TMX Canada Universe Bond Index	-3.44	1.66	3.52	8.79	-1.19	3.60	9.67	6.74	5.41	6.41
Added Value	0.54	2.24	-0.76	0.06	1.05	2.59	-0.01	1.68	3.43	-2.68

Characteristics	Mod. Duration (years)	Term to Maturity	Yield to Maturity (%)	Coupon (%)	Average Rating
CIBC Canadian Bond Core Plus Representative Account	7.5	10.0	3.1	3.8	A
FTSE TMX Canada Universe Bond Index	7.4	10.3	2.1	3.5	AA

Sources: FTSE TMX Global Debt Capital Markets & CIBC Asset Management Inc. Characteristics as at December 31, 2016. All performance is shown before management and custodial fees.

CIBC Canadian Bond Active Universe Strategy

Annualized as at December 31, 2016 (%)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
CIBC Canadian Bond Active Universe Representative Account	2.84	3.15	4.96	3.44	3.69	4.77	5.20	5.51	5.31	5.13
FTSE TMX Canada Universe Bond Index	1.66	2.59	4.61	3.13	3.22	4.27	4.62	4.72	4.91	4.78
Added Value	1.18	0.56	0.35	0.31	0.46	0.50	0.58	0.79	0.41	0.35

	Q4	YTD	Periods Ending December 31							
Calendar Year Returns (%)	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008
CIBC Canadian Bond Active Universe Representative Account	-3.13	2.77	3.38	8.66	-1.02	4.67	10.34	7.74	7.65	3.79
FTSE TMX Canada Universe Bond Index	-3.44	1.66	3.52	8.79	-1.19	3.60	9.67	6.74	5.41	6.41
Added Value	0.32	1.18	-0.07	-0.09	0.18	1.10	0.70	1.04	2.29	-2.64

Characteristics	Mod. Duration (years)	Term to Maturity	Yield to Maturity (%)	Coupon (%)	Average Rating
CIBC Canadian Bond Active Universe Representative Account	7.3	10.0	2.5	3.5	AA
FTSE TMX Canada Universe Bond Index	7.4	10.3	2.1	3.5	AA

Sources: FTSE TMX Global Debt Capital Markets & CIBC Asset Management Inc. Characteristics as at December 31, 2016. All performance is shown before management and custodial fees.

FLAGSHIP STRATEGIES – PERFORMANCE SUMMARY

CIBC Canadian Bond Corporate Investment Grade Strategy

Annualized as at December 31, 2016 (%)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
CIBC Canadian Bond Corporate Investment Grade Representative Account	4.47	4.08	5.50	4.71	5.55	–	–	–	–	–
FTSE TMX Canada All Corporate Bond Index	3.73	3.22	4.65	3.69	4.19	–	–	–	–	–
Added Value	0.75	0.86	0.85	1.02	1.36	–	–	–	–	–

	Q4	YTD	Periods Ending December 31							
Calendar Year Returns (%)	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008
CIBC Canadian Bond Corporate Investment Grade Representative Account	-1.37	4.35	3.51	8.29	2.25	7.80	–	–	–	–
FTSE TMX Canada All Corporate Bond Index	-1.82	3.73	2.71	7.58	0.84	6.22	–	–	–	–
Added Value	0.48	0.75	0.98	0.82	1.52	2.76	–	–	–	–

Characteristics	Mod. Duration (years)	Term to Maturity	Yield to Maturity (%)	Coupon (%)	Average Rating
CIBC Canadian Bond Corporate Investment Grade Representative Account	6.0	8.2	3.6	5.4	A
FTSE TMX Canada All Corporate Bond Index	6.1	9.0	2.7	3.9	A

Sources: FTSE TMX Global Debt Capital Markets & CIBC Asset Management Inc. Characteristics as at December 31, 2016. All performance is shown before management and custodial fees. CIBC Canadian Bond Corporate Investment Grade Pool Inception Date – January 2012

CIBC High Yield Bond Strategy

Annualized as at December 31, 2016 (%)	1 Yr	2 Yrs	3 Yrs	4 Yrs	5 Yrs	6 Yrs	7 Yrs	8 Yrs	9 Yrs	10 Yrs
CIBC High Yield Bond Representative Account	17.32	6.11	5.50	6.42	7.65	6.91	7.57	10.64	6.51	6.23
Benchmark*	14.27	5.62	5.12	5.98	7.68	7.26	8.01	10.23	8.24	7.79
Added Value	3.05	0.49	0.38	0.44	-0.02	-0.36	-0.44	0.41	-1.72	-1.56

	Q4	YTD	Periods Ending December 31							
Calendar Year Returns (%)	2016	2016	2015	2014	2013	2012	2011	2010	2009	2008
CIBC High Yield Bond Representative Account	1.48	17.32	-4.03	4.29	9.24	12.73	3.26	11.62	34.76	-21.42
Benchmark*	1.34	14.27	-2.38	4.13	8.63	14.72	5.23	12.60	27.06	-6.44
Added Value	0.14	3.05	-1.65	0.16	0.61	-1.99	-1.97	-0.99	7.69	-14.98

Characteristics	Mod. Duration (years)	Term to Maturity	Yield to Maturity (%)	Coupon (%)	Average Rating
CIBC High Yield Bond Representative Account	4.1	5.9	4.6	6.5	B
Benchmark*	4.2	5.6	6.4	6.2	BB

Nicholas Leach began managing the High Yield strategy in 2013. Sources: CIBC Asset Management Inc. Characteristics as at December 31, 2016. All performance is shown before management and custodial fees. *10% BofA ML BB-B Canada HY Index (HC40) / 90% BofA ML BB-B US Cash Pay HY Index (J0A4) –100% hedged to Canadian dollars (Benchmark since Jan. 2013. Benchmark has changed over time).

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ABOUT CIBC ASSET MANAGEMENT – INSTITUTIONAL

CIBC Asset Management (CIBC AM) is one of the largest asset managers in Canada with $120 billion[1] in assets under management (as of December 31, 2016). With a 40-year history of active management, we maintain a strong tradition of disciplined investment processes to prudently manage risk and develop innovative solutions across a spectrum of asset classes. At CIBC AM, we believe investment research guided by a rigorous and consistent process will yield better results for our clients. Our commitment to best-in-class research is demonstrated by large research teams with multiple sector and regionally focused analysts who are dedicated exclusively to industry research and security-specific idea generation. As the asset management subsidiary of CIBC, CIBC AM combines the flexibility and focus of a boutique firm, with the robustness and resources of CIBC, one of the strongest of major banks in North America.[2]

[1] In addition, we manage $28 billion in notional currency overlay assets. Of this $28 billion, we manage $8 billion of the underlying physical assets.
[2] CIBC was ranked strongest of (publicly traded) major banks in Canada and North America, by Bloomberg Markets as of 2018. In 2015 and for four consecutive years, CIBC has also been recognized as the strongest among Canada's Big Five banks.

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