Transcript: A Shock to the System: Perspectives April 2020

[Soft music playing in background]

[Title reads: A Shock to the System: Perspectives, April 2020]

[Onscreen Text: April 16, 2020]

[Onscreen Text: Luc de la Durantaye, Chief Investment Strategist and CIO, Multi-Asset and Currency Management, CIBC Asset Management]

So in terms of economic outlook, obviously it is very dependent on the evolution of the coronavirus. Judging from what we know of what happened in Asia, which they are about two months, two and a half months ahead of us, we should be able to see a peaking in cases and a dying down of cases by the end of the first half of this year, at which point an economic recovery should take hold and carry us into the first half of 2021. In terms of the magnitude at this stage, it's very difficult to assess the magnitude. Certainly we will face a sharp economic recession in the first half and the degree of recovery will depend on a number of things. What we want to see is being able to see if we have an antiviral drug that comes over the next few weeks and if we see as well a vaccine being implemented within the next 12 to 18 months, we can forecast that this recovery could be almost a full recovery because we will have relieved, if you will, the risk of a recurring, second phase of the pandemic.

[A still image of a scientist working on a medication in a lab, followed by a still image of two lab technicians, one of whom is prepping a medication in a syringe, following by a still image of a lab technician holding a small vial of a medication, followed by a patient in a doctor’s office about to be given a coronavirus vaccine.] The more these antiviral drugs' introduction and a vaccine is pushed back, then the more gradual the economic recovery will be. And from a regional perspective, we can also see some advantages in the sense that Asia has been ahead of the pandemic, it started there, and then North America is kind of at the tail end. And so we see a regional benefit. We'll see Asia, China recovering first, potential in Europe, and then the US after, which will provide also some investment opportunity on a relative basis.

[Soft music playing in background]

[Title Reads: Investment strategy]

So certainly when we hear global recession, it can be frightening. But we have to realize that financial markets have already discounted quite a bit of that news already as they usually do. Correction in equity markets of 30 to 35 percent as we have seen, are a typical correction in terms of percentages during recession, regular recession. And so from that perspective, we see that there has been value that has been uncovered in financial markets in many places. From a credit market as well, the central banks around the world have been providing a lot of support to various aspects at various areas of the credit market. [A still image of the US Federal Reserve, followed by a still image of the EU flag.] And that's certainly reassuring in the sense that you have strong backing from central banks in various areas of credits, which is
also a place where investors should start looking into in terms of adding positions. And finally, we had been talking a lot about gold. That provides a good hedge. We would continue to recommend to hold gold at this stage. It’s been a very stable and growing asset in this type of environment and we continue to see that in the future. [A still image of a stack of five gold coins, followed by a still image of many gold bars.] And finally, we had mentioned to hold a little bit of cash. Well, we think that at this stage, having cash is a good opportunity. [A still image of bills of various international currencies.] There have been some opportunities in the market during this correction, and it would be time for investors to gradually put some of that cash to work and finding some of the best opportunities.

[Soft music playing in background]

[Title Reads: Currencies]

So we have to touch a little bit on currency, there’s been a lot of dislocation. The US dollar has been very strong. It’s somewhat typical in these types of environment where the dollar is used as a financing currency around the world, and then when you have recession, there’s a struggle around the world to find US dollars. The Federal Reserve, though - so the US dollar has been very strong. It has become very expensive. And the Federal Reserve on top of that has started to ease the need for the search for US dollars around the world through their, what's called their swap lines with the various central banks around the world. So we're already starting to see a reversal of the US dollar. So we would be careful from here. We would find that the US dollar is likely to be more weak than strong going forward. As long as the pandemic is kept under control. The reverse of that, we have a Canadian dollar that sold off quite a bit. The tricky part with the Canadian dollar is what is going to be happening with oil prices. With the recession, there's a shortage. Demand has declined quite dramatically. And so we're seeing oil prices at very low levels, which we think is very important for the Canadian dollar and the Canadian economy. So we think that it's going to be difficult for the Canadian dollar to rally strongly until we see the glut of oil in the world market resorb itself and oil prices going back up, which is not going to be something that's going to be with us until the second half of this year. So we would still be prudent on the Canadian dollar. We don't think it can appreciate a lot from here.

[Soft music playing in background]

[Disclaimer reads: “This video is provided for general informational purposes only and does not constitute financial, investment, tax, legal or accounting advice nor does it constitute an offer or solicitation to buy or sell any securities referred to. Individual circumstances and current events are critical to sound investment planning; anyone wishing to act on this document should consult with his or her advisor. All opinions and estimates expressed in this document are as of the date of publication unless otherwise indicated and are subject to change.

®The CIBC logo is a registered trademark of the Canadian Imperial Bank of Commerce (CIBC), used under license. The material and/or its contents may not be reproduced without the express written consent of CIBC Asset Management Inc.
Certain information that we have provided to you may constitute “forward-looking” statements. These statements involve known and unknown risks, uncertainties and other factors that may cause the actual results or achievements to be materially different than the results, performance or achievements expressed or implied in the forward-looking statements.”]