CIBC ASSET MANAGEMENT

PERSPECTIVES

For the 12-month period beginning July 1, 2022

50 YEARS

> "To ensure a more lasting economic recovery, central banks will have to win the battle against inflation for financial markets to be able to deliver less-volatile returns."

Inflation forces the hand of central banks

With major central banks trying to maintain and, in some cases, regain their inflation-fighting credentials, the world is experiencing its first truly synchronized global monetary policy tightening act. As a result, investors should account for a higher probability of a more severe economic slowdown over the coming year as a necessary condition for a better and more sustainable recovery in the longer term as inflation returns closer to central banks' targets.

Asset class highlights

Equity: While our central scenario is not for a recession, the odds of experiencing a cyclical downturn have been increasing, making it worth evaluating the potential implications. If we do get one, further downside in equities should be expected.

Fixed Income: Increasingly hawkish guidance from the Fed and the ECB have led market participants to re-price higher their policy rates expectations meaningfully, hurting bond returns as a consequence. From this point onward, however, global bonds' negative returns are increasingly unlikely.

Currencies: Mounting concerns about the outlook for the world economy propelled the U.S. dollar (USD) higher over the second quarter. The strength of the USD was widespread, for an appreciation of more than 4% on a trade-weighted basis. Looking forward, the outlook for the USD remains complicated, as the drivers of the currency will tug in opposite directions. Given the offsetting forces at work, the USD is expected to stay in consolidation mode over the forecast horizon—that is, within a relatively wide trading range.

China: The Chinese economy has been fragilized by a myriad of headwinds, and a foreign-demand shock could result in important negative spillovers.

Multi-asset outlook

Asset class	Current June 30, 2022	Expected range: minimum next 12 months	Expected range: maximum next 12 months
Canada 3-month T-Bills rate	1.50%	2.50%	3.50%
Canada 2-year government bond yield	3.09%	2.45%	3.45%
Canada 10-year government bond yield	3.22%	2.40%	3.65%
U.S. 10-year government bond yield	3.01%	2.25%	3.75%
Germany 10-year government bond yield	1.33%	0.50%	2.00%
Japan 10-year government bond yield	0.23%	-0.25%	0.25%
Canada 10-year real-return government bond yield	1.35%	0.95%	1.55%
Canada investment-grade corporate spreads	1.59%	1.30%	1.95%
U.S. high-yield corporate spreads	5.67%	3.75%	7.30%
Emerging market sovereign (USD denominated) bond spreads	460	250	500
S&P/TSX price index	18,861	16,650	21,100
S&P 500 price index	3,785	3,325	4,225
Euro Stoxx 50 price index	3,455	3,025	3,875
Japan Topix price index	1,871	1,650	2,100
MSCI Emerging Markets index	59,621	52,400	66,600
U.S. dollar/Canadian dollar	1.2873	1.266	1.316
Euro/U.S. dollar	1.0484	0.980	1.100
U.S. dollar/Japanese yen	135.72	120.00	140.00
U.S. dollar/Offshore Chinese yuan	6.69	6.50	7.00
Gold	1,807	1,625	2,000
Oil price, WTI (West Texas Intermediate)	105.76	82.00	111.00

Source: Thomson Reuters Datastream, CIBC Asset Management Inc. Data as at July 12, 2022.
All prices in home currency unless otherwise specified.

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