MANAGING RISK IN UNCERTAIN TIMES

[Luc De la Durantaye, Chief Investment Strategist and CIO, CIBC Asset Management]

So, an update of our macroeconomic outlook shows that the headwinds we had identified in our last forecast are working their way through the global economy.

[Images of U.S and Canadian currency.]

For example, high inflation caused by the over stimulus of policymakers, from both fiscally and monetary policies, remain elevated.

[The Ukrainian flag. Soldiers in a line. A gas pipeline.]

Geopolitical developments have deteriorated over the last quarter, leading to elevated energy costs, particularly in Europe. And Chinese growth remains sluggish due to COVID lockdowns and a more limited policy flexibility to stimulate their economy.

[The Shanghai skyline at night. A control room with COVID-19 statistics on monitors. The Shanghai skyline during the day. The Bank of Canada building.]

So, these headwinds have led to the fastest pace of central bank tightening in decades, contributing to an unusually uncertain economic and volatile financial markets environment for all investors.

[Computer-generated (CG) images of stock market data. A finger follows a line chart on a tablet.]

This quarter forecast is raising the probability of a recession over the next 12 months, that elevated inflation is likely to stick around longer than originally expected, and therefore, will necessitate to push unemployment higher to slow the pace of wage growth.
[The Bank of Canada building. The Federal Reserve in Washington. The Federal Reserve in New York City.]

So, central banks are in a difficult position: having to fight inflation while growth is already decelerating at this stage.

[Aerial view of half build apartments. An empty airport. An empty grocery store.]

This should lead to a global growth deceleration to around 1% for the global economy. But we recognize that the range of possible outcomes continues to be particularly wide, given prevailing uncertainties.

[CG images of stock market data. U.S. currency being printed. People in stores looking at receipts.]

The silver lining is that it is better to tame inflation early, and as soon as possible, before it becomes more entrenched in the global economy and in consumers expectations. And avoid a worse economic outcome, even if it creates economic weakness early on.

[Managing risk]

So, the risk we had identified in the last quarter remains present. Taming inflation is number one, particularly in the U.S., and it's a working progress.

[A woman hanging a help wanted sign.]

Labour demand, for example, is slowing, so there's progress there, but it remains at elevated levels, with jobs open in excess of labour availability.

[An empty warehouse. An electric money counter.]

A reflection of deteriorating demographics, the size of the labour force is not growing, leaving the risk of rising wages elevated.

[The Federal Reserve in Washington. The Federal Reserve in Dallas.]

The starting point of inflation is elevated, and central banks will not be able to relax their monetary policy just yet until inflation is on its way back to their 2% targets, which will take a good 12 to 18 months.

[Rockets firing along the horizon at dusk. A Ukrainian flag flies amidst rubble. A CG map of the Russian and Ukrainian border. A natural gas pipeline in the forest. People in stores looking at receipts.]

Ukraine also is a risk that is developing into a longer lasting, unstable stalemate, which could continue to place pressure on energy and food prices. The silver lining again here is that these risks are more recognized at this stage, and priced to a certain degree by financial markets.

[The New York Stock Exchange]

But we must, nevertheless, manage risk around these events, and we prefer for the moment, waiting for clearer resolution before redeploying clients assets.

With a continued challenging macroeconomic environment, investors must continue to build well diversified and resilient portfolios, to make sure they can achieve their financial goals.

[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 video should consult with his or her advisor. All opinions and estimates expressed in this video are as of the date of publication unless otherwise indicated, and are subject to change.

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.]