Perspectives: Investors still facing uncertainty

[Energetic music]

[CIBC logo]

[Perspectives: Investors still facing uncertainty]

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So the complexity of landing the global economy by central banks has become even more complex with the recent developments in the regional banking sector in the US. The rising cost for commercial banks to finance themselves will likely reduce their willingness to lend and bring another form of monetary tightening over the coming months.

[The skyscrapers of a financial district. The New York City financial district. A man holding a phone, scrolling through financial data.]

How much tightening will come from this channel is uncertain at this time.

[The United States Federal Reserve building.]

Estimates are that the coming tightening of lending standards by commercial banks could be worth something like 25 to 50 basis points of central bank tightening in the US. How much will this reduce the willingness of central banks to hike interest rates is also difficult to assess and will depend on the incoming economic data, particularly the data in the labour market.

[The European Central Bank building. The Bank of England. A timelapse of a warehouse with forklifts moving around skids of good. A timelapse of a conveyor belt transporting boxes, with boxes being added and taken away by several employees.]

Finally, the recent production cut by the OPEC+ members adds to the complexity as it can be seen as a tax on consumption, reducing growth, but it's also at the margin inflationary, or it increases the inflationary risk.

[An offshore oil drilling rig. A field of oil storage tanks. A timelapse of cars leaving and arriving at a gas station. A fuel pump being inserted into a car's gas tank. The digital display on a fuel pump showing the cost of the gas being pumped.]

We think that central banks are likely to hold interest rates at elevated levels until they see more evidence of a slowing labour market.

[A timelapse of a construction site. A shipping port. A shipping boat full of shipping containers navigating into a shipping port.]

And this will likely be done at the expense of decelerated growth. So in sum, our economic forecast continues to expect the risk of recession, particularly in North America. And we expect inflation to remain stubbornly high, which will motivate central banks to keep interest rates higher for longer.

[Facade of Bank of Canada during summer day.]

[Energetic music]

[Fixed income outlook]

As we had mentioned in our last quarterly video, we expected 2023 to be a little bit better than 2022, in some parts of the financial markets, particularly government bonds.
[Extreme closeup of U.S. EE savings bonds fanned out over one another. United States savings bonds of varying amounts. US savings bonds issued in Series EE or Series I.]

Continued deceleration of inflation that we expect would also help improve the investing outlook as central banks slow their tightening efforts and reassure fixed-income investors that their nominal returns will not be destroyed by high inflation.

[Energetic music]

[Equities outlook]

On the other hand, equity markets have remained surprisingly resilient since the start of the year.

[Wall Street sign in New York City. An exterior view of a changing stock market ticker. Semi-trucks at a big truck stop in the desert of Eastern Utah at Dusk. A cargo truck driving on the highway. Drone shot of a cargo ship sitting in dock in the Port of Long Beach, with crane booms lowering into position to unload the containers. Aerial drone view of a container ship docked at port.]

With our economists still expecting a deceleration in both US and European economic activity this year, our equity strategists continue to think this deceleration puts corporate profits at risk.

[Semi-trucks at a big truck stop in the desert of Eastern Utah at Dusk. A cargo truck driving on the highway. Drone shot of a cargo ship sitting in dock in the Port of Long Beach, with crane booms lowering into position to unload the containers. Aerial drone view of a container ship docked at port.]

What is important is to assess how deep the economic slowdown could be, to evaluate the earnings outlook. We continue to think that we could see some corporate profit disappointment as analysts continue to revise their earnings forecasts to the downside to account for that economic weakness.

Current consensus estimates appear to be too high relative to the changing economic environment. This last leg of corporate profit adjustments may provide some opportunities for investors to reengage with equity markets. But in the meantime, we continue to recommend keeping a well-diversified equity portfolio with a tilt towards non-US equities.

[Finger working with data on a smartphone with cryptocurrency graph on a monitor. Stock market tickers with graphs and charts and world map. Daytime timelapse of Tokyo city skyline view. Timelapse of automobile factory production equipment being used. Timelapse of an automated car production line.]

It's worth noting that Asia is at a different period in its economic cycle, where policy rates are close to peaking, and China in particular is in an easing mode and continues its economic reopening, which could be positive in relative terms.

[Chinese Flag blowing in wind with skyscrapers in the background. People walking on Wangfujing Street in Beijing,China. Groups of people and cars at a busy city intersection. Gridlock on inner-city highways in a city in China.]

[Energetic music]

[Staying the course]

[10,000-yen bills stacked and spinning on a turntable. US one-hundred-dollar bill moving forward in close-up.]

While holding cash has been reducing portfolio volatility and improving the risk-free returns, we suspect that over the coming quarters there will be some opportunities to redeploy that cash into what we expect to be better opportunities in the equity market in the coming quarters.
With a continuing challenging macro environment though, investors must build a well-diversified portfolio to be resilient in these uncertain economic times.

And as always, staying the course relative to your long-term investment plan is always the best advice we can give investors, especially during this uncertain economic period.

[Energetic music]

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