CIBC ASSET MANAGEMENT

STAYING INVESTED

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Truth and reconciliation

CIBC proudly acknowledges the unique histories, cultures and contributions of Indigenous communities in Canada, and accepts the responsibility as an institution to contribute to education as well as creating respectful relationships with Indigenous communities. CIBC has formally launched a Reconciliation Action Committee to build a framework with clear and measurable commitments that will accelerate progress while responding to Call to Action #92 of the Truth and Reconciliation Commission of Canada.

Summary

- Equity markets have been the cornerstone of financial wealth creation for many decades. We expect them to retain this position for the foreseeable future.
- Equity market volatility can be elevated in short-term periods. This feature often encourages investors to try and time their participation in equity markets.
- Market timing is difficult to do well. Investors are generally better served by establishing a long-term plan specific to their investment goals.
- Patient, well-diversified investors have a greater probability of achieving their long-term investment goals.

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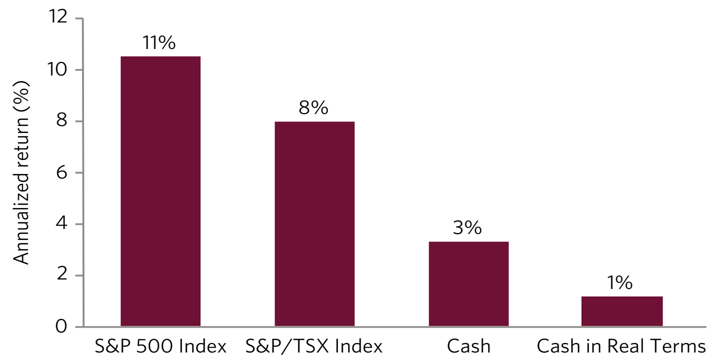
Introduction

Equity markets have been the cornerstone of financial wealth creation for many decades (Chart 1). We expect them to retain this position for the foreseeable future. Equities are relatively volatile over short time periods, compared with bonds. This volatility often tempts investors to try and time their participation in equity markets, with the intention of being more invested and exposed to equities during periods of rising markets, and less exposed during falling markets.

Market timing is difficult to do well. It is not something we encourage. It is easy to leave the market, but much tougher to get back in on a timely basis to benefit from subsequent market rallies. The best daily returns frequently occur in close proximity to the largest daily declines (Chart 2; colour coding highlights proximate days of large negative and positive returns). Missing these days can have a significant negative impact on long-term investment performance. A more reliable strategy to maximize wealth is to establish a well-diversified strategic portfolio, focus beyond short-term volatility, and stay invested for the long term.

Chart 1 – Long-term historical equity performance has far exceeded cash



The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg Finance L.P.. Sample: January 1990 to April 2022. Monthly data accessed at May 31, 2022.

Chart 2 – In market corrections the largest positive daily returns often occur soon after the largest declines

(Colour coding indicates days when large positive returns follow closely after to large negative daily returns)

2020 S&P/TSX				2020 S&P 500			
Largest Daily Declines	**Dates**	**Largest Daily Increases**	**Dates**	**Largest Daily Declines**	**Dates**	**Largest Daily Increases**	**Dates**
-13.16%	2020-03-12	11.30%	2020-03-24	-12.17%	2020-03-16	9.66%	2020-03-13
-10.80%	2020-03-09	9.28%	2020-03-13	-9.67%	2020-03-12	8.96%	2020-03-24
-10.40%	2020-03-16	4.99%	2020-04-06	-6.49%	2020-03-09	7.46%	2020-03-17
-7.90%	2020-03-18	4.43%	2020-03-25	-5.16%	2020-03-20	6.56%	2020-04-06
-5.40%	2020-03-23	3.79%	2020-03-19	-5.15%	2020-03-11	6.07%	2020-03-10
-5.23%	2020-03-27	3.26%	2020-04-17	-4.79%	2020-06-11	4.89%	2020-03-26
-4.70%	2020-03-11	3.03%	2020-03-10	-4.29%	2020-04-01	4.42%	2020-03-04
-4.21%	2020-06-11	2.88%	2020-04-29	-4.18%	2020-02-27	4.36%	2020-03-30
-3.83%	2020-04-01	2.85%	2020-03-30	-3.90%	2020-03-27	3.85%	2020-04-08
-3.16%	2020-04-21	2.59%	2020-03-17	-3.30%	2020-03-05	3.82%	2020-03-02

2022 S&P/TSX				2022 S&P 500			
Largest Daily Declines	**Dates**	**Largest Daily Increases**	**Dates**	**Largest Daily Declines**	**Dates**	**Largest Daily Increases**	**Dates**
-3.12%	2022-05-09	2.01%	2022-05-13	-4.08%	2022-05-18	2.82%	2022-01-28
-2.33%	2022-05-05	1.81%	2022-04-28	-3.59%	2022-04-29	2.59%	2022-05-04
-2.11%	2022-04-22	1.74%	2022-01-31	-3.41%	2022-05-05	2.46%	2022-02-24
-2.09%	2022-01-21	1.68%	2022-02-25	-2.67%	2022-04-26	2.40%	2022-04-28
-1.92%	2022-05-18	1.55%	2022-06-02	-2.58%	2022-05-09	2.14%	2022-05-27
-1.68%	2022-04-29	1.43%	2022-03-17	-2.53%	2022-03-07	2.04%	2022-03-09
-1.59%	2022-04-21	1.40%	2022-05-17	-2.52%	2022-02-03	1.93%	2022-03-15
-1.54%	2022-04-26	1.33%	2022-05-04	-2.21%	2022-05-11	1.72%	2022-03-16
-1.26%	2022-03-14	1.32%	2022-03-16	-2.12%	2022-02-23	1.69%	2022-02-15
-1.26%	2022-02-03	1.24%	2022-03-09	-2.11%	2022-02-17	1.64%	2022-04-19

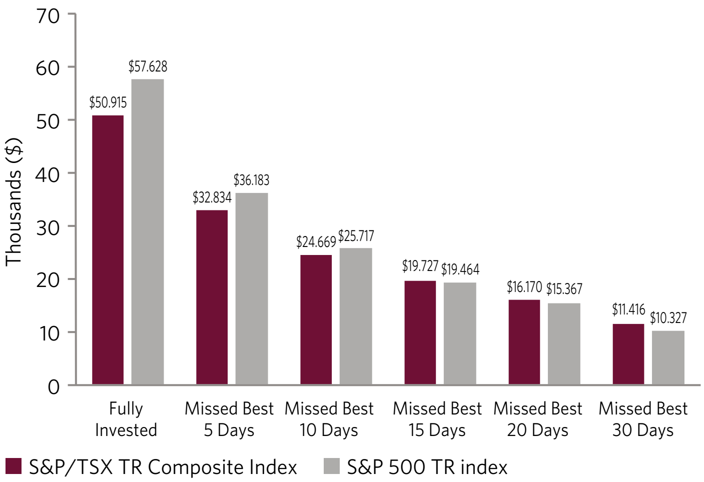
Days with same colour coding indicates the occurrence of a large positive daily return proximate to an earlier large negative daily return.
The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg. Sample: January 2020 to June 2, 2022. Monthly data accessed at June 4, 2022.

Time, not timing, is what matters

Staying fully invested in the markets over the long term can help you achieve financial goals. Chart 3 reports the growth of an initial $10,000 if fully invested in either the S&P/TSX Composite or S&P 500 equity indexes throughout the 20 years ending May 2022. The chart compares these outcomes to an investor who seeks to time their equity market participation and who, as a result, misses the best five, 10, 15, 20, or 30 days' performance during that 20 year period. Trying to time the market is difficult.

Chart 3 – Staying invested over the long term has historically been beneficial

Growth of an initial $10,000 investment

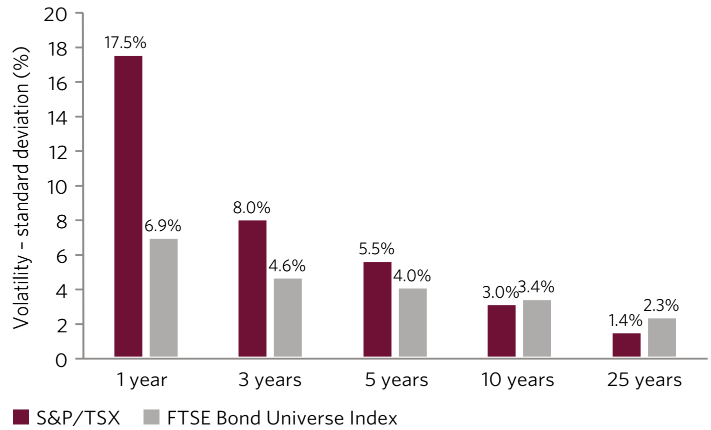


The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg. Sample: June 2003 to May 2022. Monthly data accessed at June 7, 2022. "TR" is Total Return.

Smoother returns over the long term

Equity prices do experience relatively high fluctuations in the short-term. As a result, the historical volatility of Canadian equity returns over a one-year period averages close to 18% (Chart 4). This compares to Canadian government bonds that have an average historical one-year volatility of 7%. But as we extend the period over which returns are calculated, equity volatility declines substantially, and becomes much more comparable to bonds. Measured over rolling 25-year periods, equity volatility declines to just 1.4%. This means that the variability of equity performance also smooths out as investors extend their horizon.

Chart 4 – Long-term investors benefit from lower equity volatility



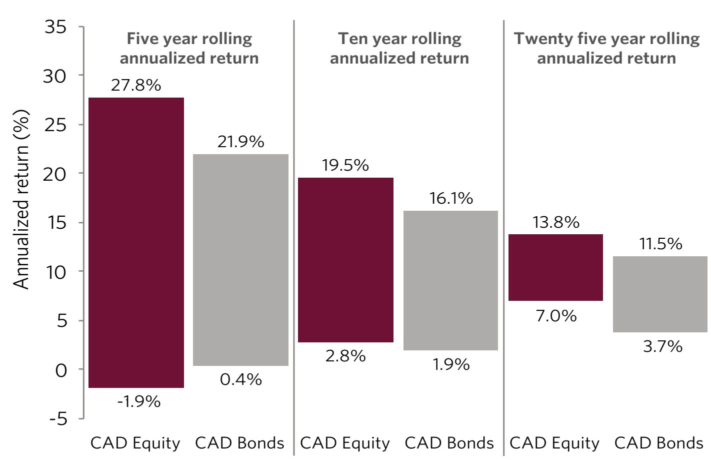
The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg Finance L.P.. Sample: January 1950 to May 31, 2022. Monthly data accessed at May 30, 2022..

Volatility

Volatility refers to the amount of variability in the value of a security. A security with high volatility will experience a wider range of values. The security may also experience substantial increases and declines when measured over short time periods. A security with low volatility does not fluctuate dramatically in price, and tends to have a steadier value. The volatility of a security tends to decline as the window over which price changes are measured is increased.

It also means that the historical incidence of losses also falls substantially as we extend investment horizons. Calculating performance over 25-year rolling periods, Canadian equities have never recorded a negative return since 1950 (Chart 5). When you're investing for the long haul, it's your long-term returns that really matter. Try not to get too focused on 1- or 2-year returns.

Chart 5 – Historical incidence of negative equity returns has diminished as investment horizons extend



The information was prepared by CIBC Asset Management Inc'. using the following third-party service providers' data: Bloomberg. Sample: January 1950 – May 2022. CAD Equity is represented by the S&P/TSX Composite Index; CAD bonds are represented by the FTSE Bond Universe Index

Markets have rewarded a long-term focus

Keep emotions in check by remembering that corrections are typically short-lived, and represent an integral feature of a healthy market. Despite periods of heightened volatility, both the S&P/TSX and S&P 500 indexes have historically recovered ground lost in a market correction on average within 12 months before moving on to new highs (Chart 6). Investors who have the ability to stay invested through periods of heightened market volatility have typically been rewarded with superior long-term performance.

Chart 6 – Equity markets have typically recovered quickly following important market corrections

Equity Returns Around Significant Market Events

Market Events	Dates	S&P/TSX During Event	S&P/TSX After 1 year	S&P/TSX After 2 years	S&P 500 During Event	S&P 500 After 1 year	S&P 500 After 2 years
9/11	2001/09/10 to 2001/09/21	-11.24%	-3.17%	20.45%	-11.22%	-10.91%	-6.21%
Global Financial Crisis	2008/06/18 to 2009/03/09	-48.49%	62.33%	94.12%	-27.45%	36.02%	51.94%
2015/2016 Equity Correction	2015/08/18 to 2016/02/24	-8.75%	25.57%	30.03%	-2.09%	19.45%	36.59%
December 2018 Equity Correction	2018/12/03 to 2018/12/24	-9.64%	28.74%	36.50%	-13.02%	35.30%	54.15%
Covid-19 Pandemic	2020/02/24 to 2020/03/23	-28.18%	71.69%	107.25%	-24.10%	54.00%	77.99%

The information was prepared by CIBC Asset Management Inc. using the following third-party service providers' data: Bloomberg. Data accessed at June 7, 2022.

How we can help?

Market timing is difficult. Patient, well-diversified investors who stay focused on strategic objectives are expected to have a greater probability of achieving their long-term investment goals. At CIBC Asset Management, our Indigenous Markets and Multi-Asset & Currency Management teams are ready to help you determine an appropriate strategic portfolio asset allocation that reflects your needs and goals. Do not hesitate to contact us to obtain a second opinion on your investment plan.

Let's Connect

Should you have any questions about this report, or would like to explore how CIBC can help you and your Nation, please do not hesitate to connect with us

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Data Source & Proxies:

Proxy indices for these asset classes are: FTSE Canada 91 Day T-Bills Index for cash; FTSE Bond Universe Index for Canadian bonds since inception (1990), prior to 1990, All Government Canadian Bonds with 10yr + maturity; Barclay's Global Aggregate Bond Index for global bonds since inception (1990). 1986 to 1990 JP Morgan Global Government Bond Ex Canada, 1960 to 1985 U.S. Intermediate Government (%Total Return) in Canadian Dollars, 1950 to 1960 U.S. Intermediate Government (%Total Return) - Currency Prorated; Bank of America Merrill Lynch BB-B US Cash Pay High Yield Index (CAD) for U.S. high-yield bonds since Sep 1988, Merrill Lynch U.S. High-yield Master II Index (1986-Sep 1988). Prior to 1986, U.S. high-yield asset class returns were approximated with a 20/80 blend of the S&P 500 Index with either U.S. government bonds (1950 to 1975) or the Barclays Global Aggregate Debt Index (1975 to 1986). S&P/TSX Composite Index for Canadian Stock returns since inception (1956), prior to 1956 data was from the Montreal Exchange and Toronto Stock Exchange Market Review (1950 to 1955); MSCI World Index for Global Stocks since inception (1982), 1950-1982 Global Financial Data C$ World.

All information in this document is as of July 2022 unless otherwise indicated and is subject to change.

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