



## Tactical Asset Allocation Strategic Review and Outlook

SPRING 2008

The objective of the Tactical Asset Allocation Strategy is to identify the asset classes with the best potential, and the long-term trends in these asset classes, in order to add value. CIBC Global Asset Management Asset Allocation and Quantitative Team's last tactical asset mix change came in May 2006, nearly two years ago, anticipating uncertainty in North American markets. Since then the markets have certainly been uncertain and, while we are constantly monitoring the twists and turns of the volatility, we remain steadfast in our views.

### OUR MAIN TACTICAL ASSET ALLOCATION STRATEGIES:

We expect the outperformance of international equities against international bonds to resume as credit tensions start dissipating. We are maintaining our overweight in international equities and our underweight in international bonds.

#### Fixed Income: *Underweight*

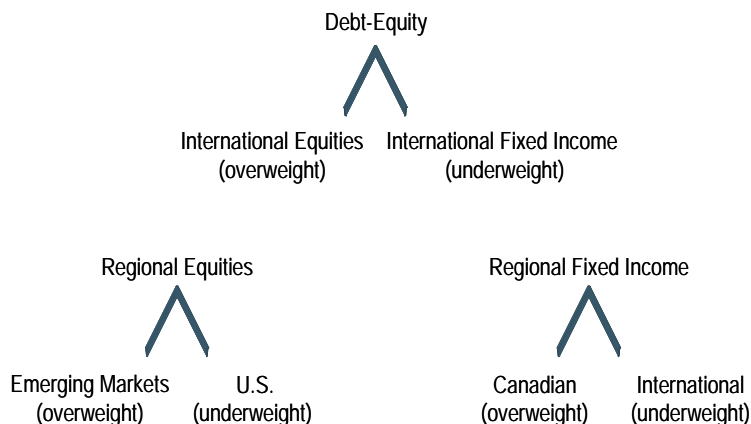
- After the subprime-induced bond rally, bond valuations still appear to remain unattractive.
- Central bank intervention has reduced uncertainty and may provide a floor for interest rates.
- Aggressive easing from the U.S. Federal Reserve, in our view is already priced into fixed income expectations.

#### Equity: *Overweight*

- Equity markets should remain in a broad trading range for the first half of the year.
- Lower interest rates should provide some valuation support for equity prices,
- Continued downward earnings revisions and financial losses could prevent stock prices from appreciating decisively before the second half of the year.

#### Our regional allocation strategy still favours emerging equities over U.S. equities

- In our view, the recent drop in emerging markets has been primarily due to contagion from the global credit crisis. This implies that beyond near-term volatility, emerging markets should once again outshine other asset classes.
- While U.S. equities appear to be more attractive than they have been previously given improved valuation and a supportive monetary outlook, the cyclical outlook remains more appealing for emerging equities.
- It could become more difficult for the Canadian equity market to keep its pole position. We remain neutral on Canadian equities.





## POSSIBLE STRATEGY CHANGES IN 2008:

### Fixed Income: Underweight

- Increase the fixed income underweight by selling Canadian bonds to add to our cash position

### Equity: Overweight

- No Change

### Global equities

- Reduce non-U.S. equity and increase U.S. equity

While we are maintaining our current asset mix strategy, which is based on a global rebalancing scenario, the balancing act between steering clear of recession in the U.S. while avoiding overheating in the rest of the world, we do have our eye on the risks of a deflationary bust or a growth surprise. However it is our view that the global rebalancing scenario will prevail.

On one side of the rebalancing scenario, the U.S. slowdown triggered by the weakness in the residential real estate sector runs the risk of spreading further, affecting consumer spending in the U.S. On the other side of the rebalancing scenario, growth in the rest of the world remains healthy. Increased uncertainty revolving around how this balancing act will evolve is at the root of the current increased market volatility. It will also be a key determinant shaping our investment outlook for the next six to twelve months.

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