CIBC Asset Management

Perspectives

CIBC Global Asset Management Inc.

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Currency

We forecast the dollar, the euro and the yen to continue to evolve in line with their recent ranges.

Expected Returns

For the 12 month period ending September 30, 2007	In Canadian Dollars			In Local Currency		
	Economic Rebalancing	Stagflation	Disinflation	Economic Rebalancing	Stagflation	Disinflation
Probabilities	50.0%	35.0%	15.0%	50.0%	35.0%	15.0%
Canada Money Market	4.1	4.2	3.9	4.1	4.2	3.9
Canada Bond	0.3	-4.1	4.3	0.3	-4.1	4.3
International Bond	-1.1	6.3	12.0	0.3	-2.4	4.7
Canada Equity	6.3	-10.6	-5.2	6.3	-10.6	-5.2
U.S. Equity	9.8	2.5	2.2	9.6	-6.4	-2.7
International Equity	9.9	3.1	13.0	13.0	-4.3	6.1
Emerging Market Equity	13.0	10.1	-10.0	12.8	0.5	-14.4

Global Environment

As the second half of 2006 began, market concerns started to shift away from inflation to growth. Concerns about a potential global recession have increased in the third quarter because the U.S. economy – the world's growth engine – is showing clear signs of fatigue. While the rest of the world is typically unable to escape a U.S. slowdown unfazed, this time a few nuances can be noted.

Our forecast only calls for a mild U.S. economic downturn – that is, from 3.5% to 2.5% GDP growth. But U.S. demand is not the only factor driving the rest of the world's economy and global recessions only occur when many forces work in that direction. All things considered, World ex-U.S. GDP growth is expected to drop from 5.0% in 2006 to 4.4% in 2007.

For the first time in years, our 12-month forecast doesn't call for higher global inflation. As the global economy shifts into lower gear, inflationary pressures are expected to start easing. Global headline inflation should peak over the forecast horizon, declining from 3.3% to 2.8%. However, the longer-term inflation outlook isn't turning rosier. Capacity pressures are gradually building and, as a result, inflation concerns will eventually resurface.

For the first time in a long while, our economic forecast is very much in line with the consensus view. Canada is the only exception with a forecast of 2.0%, well below the 2.9% consensus projection.

On the inflation front, the only potential surprise is likely to be found in Japan where we expect inflation to disappear completely (i.e. 0% vs. consensus expectations of 0.6%).

Fixed Income vs. Equity

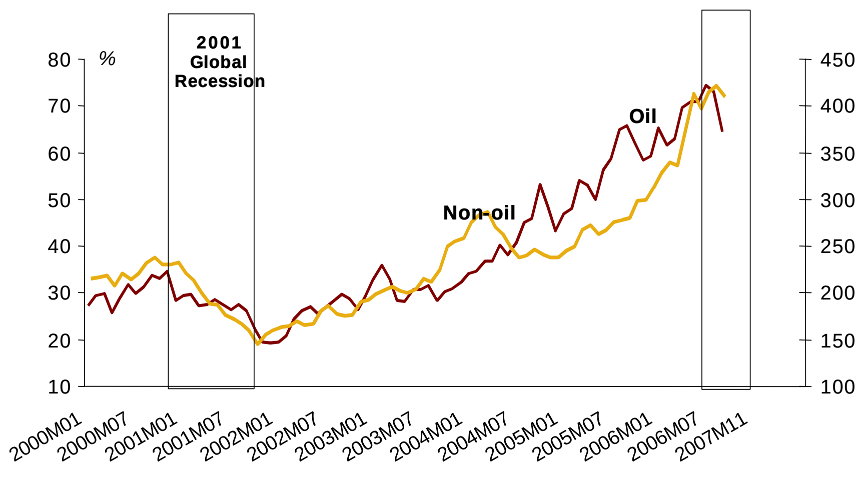
For the time being, we are maintaining our global rebalancing strategy -- overweight equity and underweight fixed income. However, given that markets have already priced in a lot of bad news, we may shift to a more aggressive position as the U.S.-led slowdown unfolds over the forecast horizon. Markets have likely gone overboard on the extent of the slowdown of the U.S. economy and its impact on the rest of the world. In the short-term, we expect to move away from our overweight in Canadian fixed income.

In our opinion, the near inversion of the global yield curve is not signaling a global economic meltdown. Rates are not high enough to push the economy into recession. However, the inversion of the yield curve is pointing to a deceleration in inflation over the forecast horizon. This deceleration is already priced in, leaving global bond markets very vulnerable to an unexpected re-acceleration of inflation.

Looking forward, bond returns are likely to be very disappointing. In the global bond universe, countries such as Australia and the United Kingdom should be the top performers. U.S., Japanese and European bonds are likely to trail behind the rest of the world. The North American yield curve is expected to stay negative for most of the forecast period but will eventually start steepening modestly, ending the forecast period completely flat.

GLOBAL RECESSION OR MID-CYCLE SLOWDOWN?

Oil and non-oil (CRB raw) prices



Source:Datastream

Markets have likely gone overboard on the extent of the slowdown of the U.S. economy.

Even if global liquidity conditions are clearly becoming less favorable, they won't be turning restrictive for global equities. In other words, the bull market in global equities has further to run before the uptrend is broken. However, the uptrend will continue to moderate. This is already quite apparent in the United States in sharp contrast with the rest of world. With the global economy moderating, earnings momentum will also be slowing.

Risks:

Global Slowdown: More pronounced U.S. consumer slowdown caused by the lagged impact of high energy costs and a deeper housing contraction. Weakening U.S. demand eventually pulls the global economy down. This is the best case scenario for global bonds but the worst case scenario for Canadian equities. In this scenario, emerging equities suffer most.

Stagflation: The global economy shifts into lower gear but global inflation resurfaces faster than expected owing to the pass through of high energy prices and building cost-push pressures. Renewed inflation fears force central banks to resume their tightening campaign. The bear market in global bonds resumes and global equities are in for a rough ride (i.e. increased volatility). The storm is particularly severe for Canadian financial markets.

Signposts:

- U.S. Core CPI and Personal Consumption Expenditures
- U.S. Employment growth
- Earnings reports and guidance from corporate management
- U.S. housing data
- Japanese Inflation and employment growth
- Chinese money growth & industrial production
- Central bank activity and statements

Regional Outlook

Global financial markets now seem increasingly influenced by developments on the economic front, paying less attention to the uptrend in inflation.

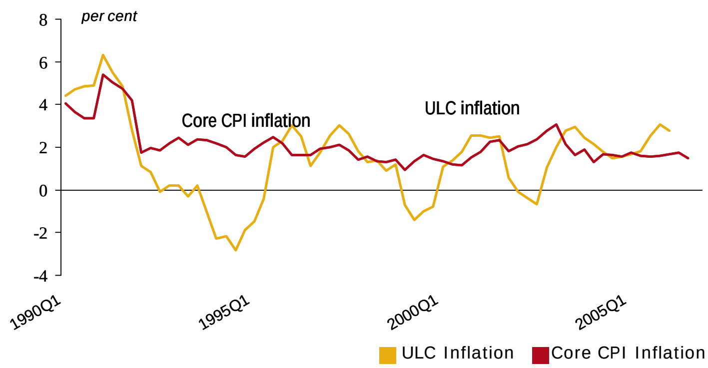
Canada

We are now seven years into the structural advance that began in early 1999. Energy prices have now been elevated long enough to start engendering substitution effects, demand destruction, new exploitation and other economic responses which together usually conspire to bring the price of energy down.

Continued weakness in energy prices has serious implications for Canada. The boost from energy exports could turn into a drag on the economy. This term of trade shock could easily shave another 0.6% off Canadian GDP growth.

WAGE INFLATION - A SOURCE OF CONCERN

Core CPI inflation vs. Unit Labor Cost inflation



Source: Datastream & Congressional Budget Office

Our Canadian economic forecast calls for slower growth owing to this sizeable drag from net exports. Our 12-month projection stands at 2.0%, well below the consensus projection of 2.8%. However, domestic demand is expected to slow marginally – from 4.2% to 3.7%.

Inflation in Canada is not as preoccupying as in the United States. Consumer prices advanced 2.25% on average between July 2005 and July 2006. Excluding food and energy, CPI inflation is rising at a 1.5%.

However, even if core inflation is running below its implicit target, the Bank of Canada (BoC) still faces a dilemma. On the one hand, capacity pressures are building. With wage inflation rising at close to 5% and productivity is growing at about 2%, wage inflation as measured by Unit Labour Costs is running above core inflation, or close to 3%. In our view, the projected slowdown in domestic demand won't be sufficient to curb wage inflation.

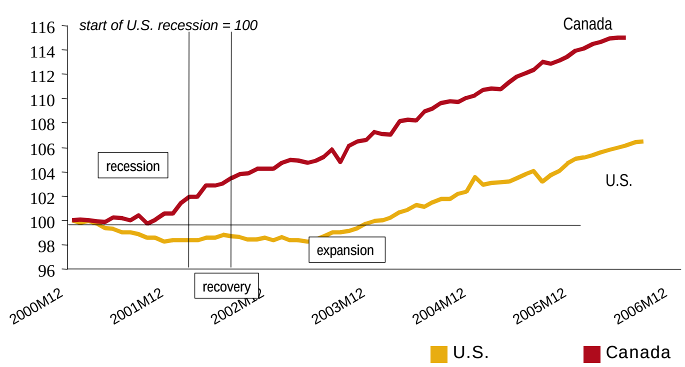
Longer-term inflation indicators justify a tightening of the monetary policy stance. However, the tame short-term inflation outlook argues for a very long pause before tightening the screw further. To complicate things, a weaker-than expected economy could convince the BoC to temporarily ease policy. The BoC is expected to cut its key interest rate to 4% over the forecast horizon.

With a policy gap of 125 bps, the spread between Canadian and U.S. interest rates will stay negative. Our forecast calls for 10-year bonds at 4.60% in Canada vs. 5.25% in the United States. In this scenario, Canadian bond returns would be flat to slightly positive for the first time since 2000.

United States

CANADA: HIGH ALTITUDES

Business cycle comparison: Canada vs. United States



Source:Datastream

Our U.S. GDP growth forecast calls for a slowdown from 3.45% to 2.5% - the slowest pace since 2003. Given that this slowdown will essentially be led by a contraction in housing activity, to quantify the amplitude of the slowdown one first needs to accurately determine what the main drivers of residential spending are. The number one determinant is, of course, interest rates. Based on our estimates, a 1% permanent increase in interest rates translates (with a lag) into a 3% drop in real residential spending. Disposable income also has a significant impact - a 1% increase in real disposable income has an impact of about 1% on real residential spending. Rising real home prices also stimulate spending, but very modestly. A 1% increase in real home prices translates in only a 0.1% increase in spending. In short, home prices are not the driving force of residential spending.

Core CPI inflation in the U.S. is expected to stabilize at 2.8%. Headline CPI will converge on core – eventually declining below it. And the Federal Reserve Board (the Fed) will stay on the sidelines over the forecast horizon.

Europe

The European Central Bank (ECB) is expected to stay very accommodative in the Eurozone despite the projected rate hikes. We expect the ECB to move to the sidelines once its interest rate reaches 3.5%. In this environment, we believe there is still a positive case to be made for European equity markets. The economy is not likely to surprise on the upside, but unit labour costs remain very subdued, allowing corporations to achieve attractive profitability levels and generate strong earnings results. We do not see this situation fading dramatically over the next six to 12 months.

Japan

Inflation is not staging a comeback in Japan and the Bank of Japan (BOJ) is not about to embark on a long tightening campaign. In our last forecast, we projected a drop in headline Japanese inflation back to zero. Our views have not changed.

Inflation's last attempt to stage a comeback gives us a foretaste of things to come over the longer-term. By keeping policy accommodative long enough, cost-push pressures will eventually resurface in Japan and the BOJ will then embark on a tightening campaign. The implications will be global. The important point here is that such a scenario is unlikely to unfold over the next 12-months.

Japan has been the underperforming equity market for the year so far -- hurt by scandals and uncertainty regarding Japan's economic growth. We think the uncertainty has been overdone. A strong domestic recovery is still underway. Unit labour cost growth remains low, keeping the profit outlook sound. Valuations are not expensive and we do not believe the underperformance will continue. We will maintain our overweight position in Japan.

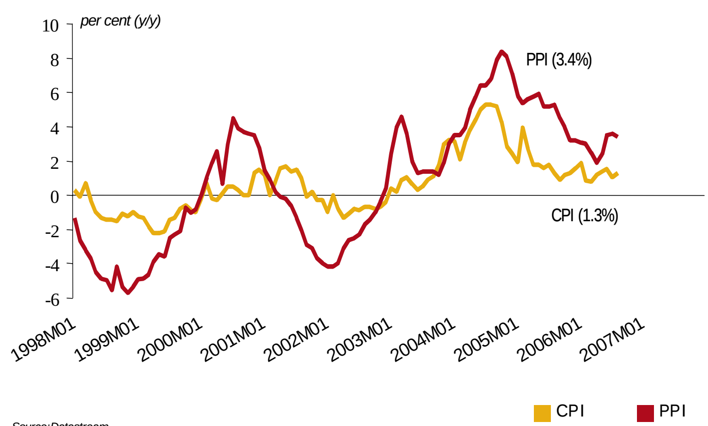
China

We expect Chinese GDP growth to slow down from more than 10% in 2006 to 8% in 2007. This projection is well below the consensus forecast of 9% for next year. Growth contributions from business investment and trade will decline in 2007, but will be partially offset by a pick-up in consumer spending growth.

Cost-push pressures won't become apparent in China. Year in year out, per capita disposable incomes have been rising at a 10% clip. However, rising wages are not translating into rising prices because wage inflation is more than offset by the rise in productivity. In fact, Chinese unit labor costs are still trending down. As long as this trend remains in place, a sharp rise in inflation will be hard to foresee.

CHINA: INFLATION IS NO THREAT

China CPI and PPI inflation



Source:Datastream

In our view, Chinese CPI inflation is likely to gradually rise from 1.3% to 2.5% in 12-months. Inflation will essentially be concentrated in non-tradable goods and services.

Risks:

Global Slowdown: If weakening U.S. demand knocks the rest of the world down, a trend reversal in commodity prices will unfold, leaving emerging markets in a very vulnerable position. On the other hand, net energy importers (Asia and Europe) will experience a positive term of trade shock.

Signposts:

- U.S. Corporate Profit Margins
- Japanese core inflation
- Bank of Japan interest rate decision
- European employment growth
- Chinese domestic retail sales

CURRENCY

In the past three months, most major currencies have been locked in a tight trading range. We believe that this reflects the fact that after the sharp adjustments of 2002-2005, exchange rates today are more or less in line with their long-term equilibrium. In addition, global business cycles have converged.

For many, this will remain true in the next twelve months and we forecast the dollar, the euro and the yen to continue to evolve in line with their recent ranges. In the U.S., domestic demand weakness will be a negative factor, but could be offset by an improved trade balance and persistently high interest rates. Growth in Europe will remain relatively firm, allowing a few more interest rate increases by the ECB, but not enough to propel the single currency to new highs. Finally, the Japanese outlook will remain well anchored by strong regional demand, but the BoJ will continue to lag the cycle, denying the yen the interest rate advantage it needs for a sustained appreciation.

The British pound and the Norwegian krone remain two of the world's most expensive currencies and we expect them to perform poorly in the next year. In contrast, we expect the Canadian dollar to be at the same level in 12 months as it is now, and both the Australian and New Zealand dollars to be somewhat firmer, assuming in all cases no material decline in commodity prices.

Finally, we forecast that China's currency will continue to appreciate gradually against the U.S. dollar by roughly 5%, and that other emerging market currencies will, on average, hold recent gains but no more in the next year.

Risks:

Global Slowdown: In this scenario, the U.S. dollar fares poorly. Weak domestic demand in the U.S. would force the Fed to ease. Commodity-sensitive currencies would also fare poorly, but Europe would act as a "safe haven", as it did in 1997-98 and again in 2001-02.

Stagflation: In this scenario, the U.S. dollar fares very well; the Fed would be forced into a second round of interest rate increases as global demand slows, thus increasing capital market volatility and the risk of a financial accident. Currencies most negatively affected would be commodity-sensitive currencies like the Canadian, Australian and New Zealand dollars, Scandinavian currencies, the Japanese yen and the British pound. In contrast the euro and the Swiss franc would do well and could indeed appreciate marginally against the greenback.

Signposts:

- Energy and non-energy commodity prices
- Divergence/convergence of central bank policies
- Domestic demand in China
- The U.S. current account balance