

Perspectives

Quarterly economic views and asset class outlook

Summer 2025





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Economic outlook broadly supportive for equities despite tariffs

Key takeaways

- The outlook for global growth is expected to be broadly supportive for equity and risk markets.
- Uncertainty remains high, driven primarily by US policy decision making, particularly those related to trade tariffs. This uncertainty means that downside risks to our broadly constructive economic outlook remain pronounced.
- Cyclical economic trends are diverging, supporting cross-regional asset rotation. The US economy is slowing, as it bears the brunt of tariff-related headwinds. Growth in Canada, Europe, and many Emerging Markets (EMs) is expected to strengthen as the negative hit from higher tariffs is mitigated by monetary and fiscal stimulus.
- We favour a tactical overweight in equities over bonds, as fiscal stimulus and an expected easing in trade tensions support risk assets. A strategic allocation to fixed income remains important in the context of pronounced downside risks to our baseline economic view.
- Within equity, we are positive on US tech, which we expect to benefit from strong demand and favourable policy tailwinds, but are neutral on the broader S&P 493 (S&P 500 minus "Magnificent 7").
- Canada, Europe, and EM equities are well positioned for relative outperformance, fostered by an expected improvement in economic activity, more attractive valuations, and policy tailwinds.
- Within fixed income, we favor EM and US government bonds, where yield and rate dynamics remain relatively attractive.
- We expect a continued US dollar depreciation, including against the Canadian dollar, driven by weaker US growth, twin deficits, and institutional risk. This outlook makes currency hedging increasingly important.

Capital Markets outlook, next 12 months

(tactical allocation, relative to a generic SAA)

Market	Negative	Negative bias	Neutral	Positive bias	Positive
Equities Aggregate					
US					
Magnificent 7					
SP493					
Canada					
Europe					
Japan					
EMs (ex. China)					
China					
Tech					
Non-tech					
Bonds Aggregate					
US 10y Gov. Bonds					
Canadian 2y Gov. Bonds					
Canadian 10y Gov. Bonds					
European 10y Gov. Bonds					
EM Bonds (local currency)					
US High Yield					
USD					
CAD					
EUR					
JPY					
CNH					
Commodities					
Oil					
Copper					
Gold					

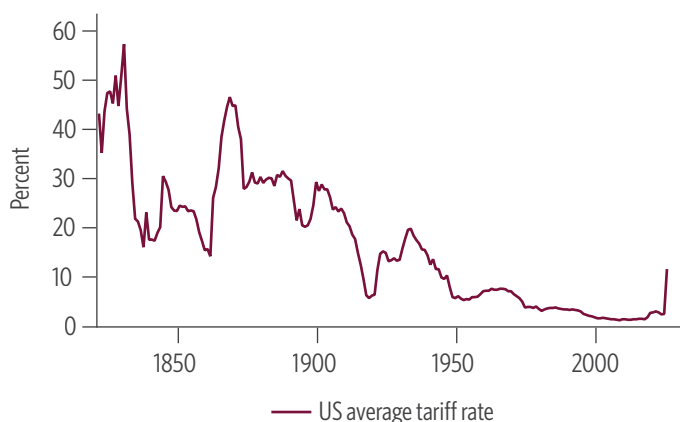
Source: CIBC Asset Management as of July 23, 2025.

Global macro outlook

Global overview: The global economic outlook is broadly supportive for equities and risky assets despite tariffs

We anticipate the US will raise its effective global tariff rate by 15% (Figure 1), equivalent to a 3–4% consumption tax increase, given the proportion of imports relative to GDP. While the economic drag from this increase will be front-loaded, it is expected to remain manageable.

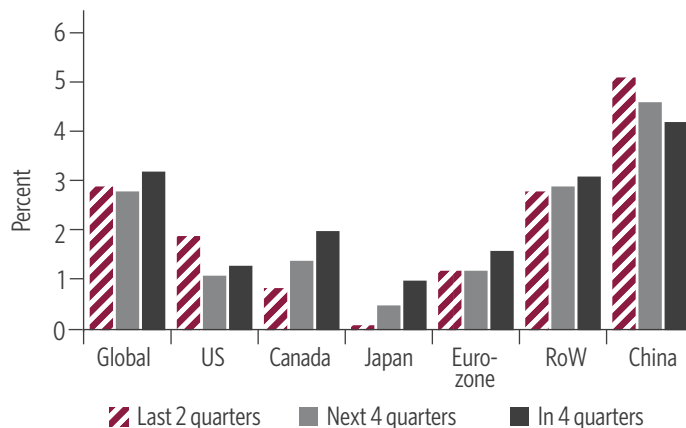
Figure 1: Biggest increase in US Tariffs in 100 years



Source: Macrobond and CIBC Asset Management as of July 15, 2025.

While the US is expected to face the most significant tariff-related headwinds, with a projected 1% GDP drag over the next 12 months—likely prompting the US Federal Reserve (Fed) to cut rates by 100 basis points (bps)—growth outside the US is expected to accelerate in most cases (Figure 2), albeit from a low base. Canada, Europe, and EMs are demonstrating resilience, bolstered by reduced trade uncertainty from anticipated trade deals, limited exposure to US tariffs, synchronized policy stimulus, and the supportive effects of lower oil prices.

Figure 2: Narrower GDP growth differentials between US and other DMs

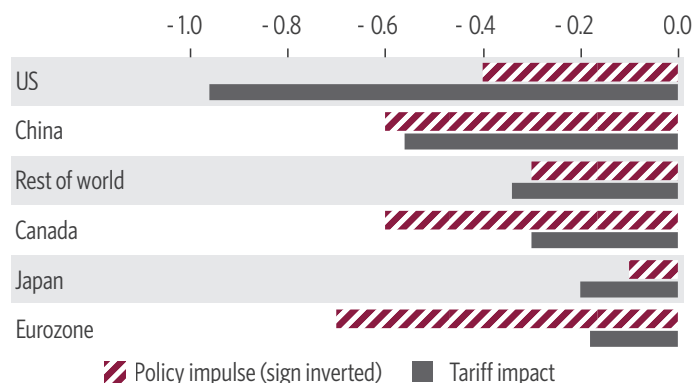


Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Regional overview: Significant global policy relief outside the United States

Regional disparity: Most countries, apart from the US, are delivering synchronized and important fiscal and monetary stimulus, helping to offset the economic drag of tariffs (Figure 3). Canada and major economies—excluding the US and China—are expected to accelerate toward trend growth over the next 12 months, supported by policy tailwinds, reduced tariff uncertainty, and lower oil prices.

Figure 3: Reap what you sow – US expected to bear the biggest burden of higher trade tariffs

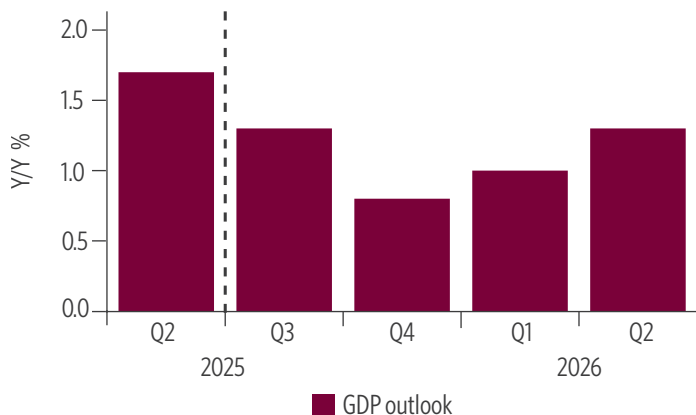


Source: CIBC Asset Management as of July 15, 2025.

Lower oil prices: Lower oil prices and disinflationary trends outside the US provide room for central banks to cut interest rates without fueling inflation. Oil is projected to decline and then fluctuate around \$60 per barrel, providing additional support to global growth, especially in emerging Asia.

United States: We expect US growth to slow to 1.2% over the next four quarters, bottoming at 0.5-1.0% in late 2025 (Figure 4). With inflation peaking shortly after tariffs take effect, the Fed is likely to cut rates by 100 bps. Elevated but stable deficits limit the scope for fiscal stimulus.

Figure 4: Weak growth ahead for the US

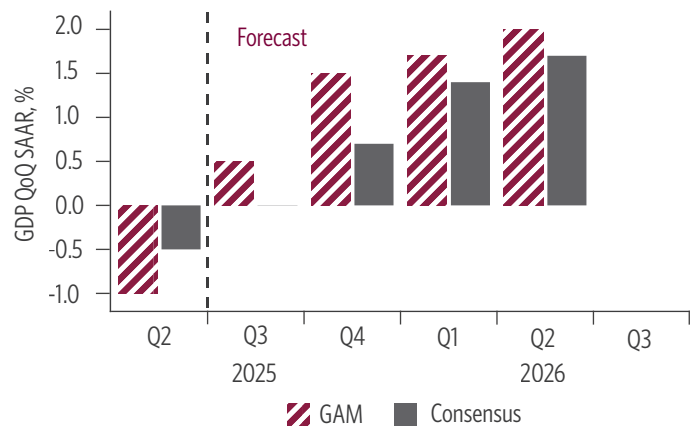


Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Tariffs are expected to reduce GDP growth by about 1% over the next 12 months. While the drag will be front-loaded, it remains manageable. Headline inflation may stay above 3% over the next year due to base effects, but quarterly annualized inflation should fall below 2.5% by Q4 and stabilize between 2.2% and 2.5% thereafter. The 2018 tariffs on China caused a brief inflation spike, followed by slower growth and disinflation—a pattern we expect to repeat.

Canada: GDP growth is expected to recover modestly and outperform consensus, driven by reduced uncertainty following a US trade deal, limited US tariffs, positive real wage growth, past and expected rate cuts, and fiscal stimulus. The Bank of Canada has already eased significantly and is expected to cut by an additional 50 basis points. Concerns about the build-up of vulnerabilities to the financial system and inflation should limit the number of cuts by the central bank. Fiscal policy is shifting from mild consolidation to increased military and infrastructure spending. We forecast average annual growth of 1.4%, accelerating toward 2.0% in the next four quarters (Figure 5). Inflation should average 2.2%.

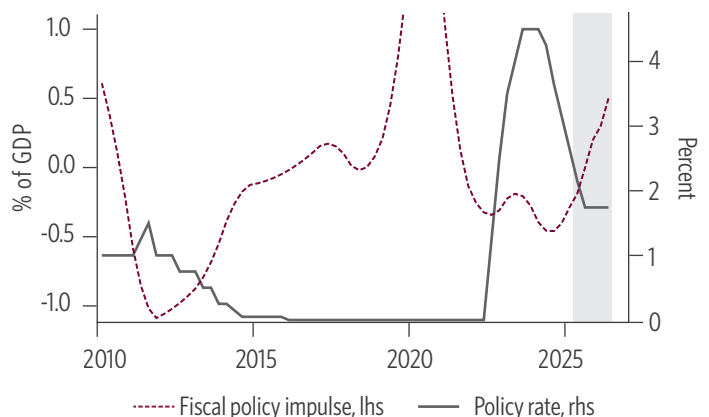
Figure 5: Growth recovery for Canada



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Euro zone: The outlook is constructive, with modest growth acceleration expected. Tariff exposure is limited, as US exports make up a small share of GDP. Policy support remains strong (Figure 6)—Germany is launching a multi-year defense and infrastructure program, and the European Central Bank (ECB) has already delivered significant rate cuts. Cyclical indicators point to resilience. We forecast 1.1% GDP growth over the next four quarters, rising to 1.3% in 12 months. Inflation should stay slightly below 2%, allowing room for another 25 bps ECB rate cut.

Figure 6: Important policy tailwinds for the Eurozone

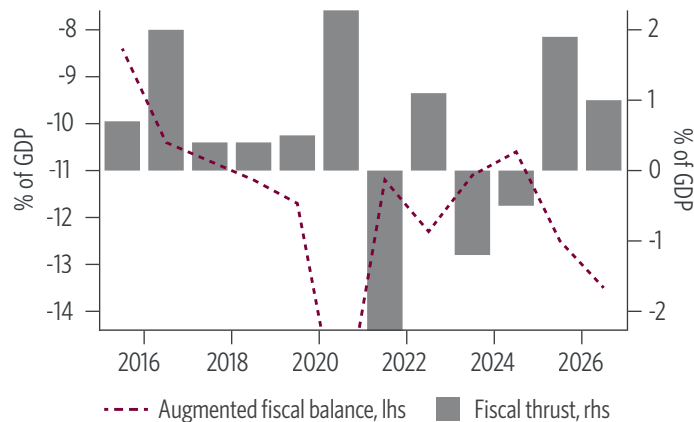


Source: Macrobond and CIBC Asset Management as of July 15, 2025.

China: Solid fiscal support (Figure 7) for technology investment, local governments, and housing is expected to broadly mitigate the impact of tariffs. We forecast 4.6% growth—near trend but above consensus. US tariffs are expected to reduce China's GDP growth by about 0.6% over the next four quarters. The impact is relatively modest despite a 30% effective tariff assumption, reflecting China's reduced reliance on US demand due to deeper penetration in non-US markets in recent years and more adaptable supply chains—built through years of preparation for a more protectionist world. Inflation should remain subdued due to a large negative output gap. The central bank is

expected to expand targeted lending facilities but deliver only a modest 20 bps policy rate cut to avoid adding further financial system vulnerabilities.

Figure 7: Strong fiscal support for China



Source: CIBC Asset Management, IMF and Bloomberg as of July 15, 2025.

Global headwinds: Dollar diplomacy and tariffs

Since Liberation Day in April, the US has been actively negotiating with dozens of trading partners to create commercial and political relationships intended to benefit the US and reduce China's influence in global supply chains. Tariffs also aim to repatriate critical manufacturing supply chains and preserve US deterrence capabilities against China. For US manufacturing to be competitive, a weaker currency is likely necessary over the long run.

Dollar diplomacy—marked by the strategic use of tariff threats and the weaponization of the US dollar through sanctions—along with elevated fiscal deficits and the apparent deterioration of US institutions, is eroding confidence in the US dollar's monopoly as the world's dominant safe-haven currency.

In response, countries—particularly in the Global South—are increasingly diversifying their reserves into gold and other currencies (EUR, JPY, CHF, CNY) to reduce excessive reliance on the US dollar and Treasuries, and to hedge against growing skepticism about the long-term stability of a dollar-centric system. That said, there has been no evidence that the broader usage of USD in international transactions has significantly declined—and we don't expect this to happen given the USD is the most convenient mean of transactions between nations and investors.

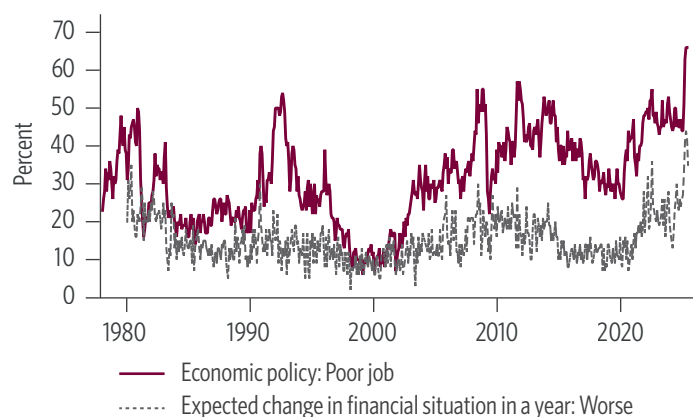
The era of Pax Americana is fading, giving way to a more fragmented and militarized world order. Dollar diplomacy also includes a push for higher defense spending among US allies, as Washington uses tariffs and a transactional NATO stance to promote strategic self-reliance. Germany and Canada are ramping up defense budgets, and NATO members are signaling a longer-term shift toward spending near 5% of GDP.

For investors, this marks a potential structural rise in global fiscal stimulus, with military outlays emerging as an additional medium-term growth driver.

US has economic and political incentives to secure trade deals soon

With the 2026 midterm elections approaching, the US has strong incentives to finalize trade agreements sooner rather than later—both to alleviate economic pressures (Figure 8) and to secure political wins ahead of the elections. We expect a flurry of announcements this summer, including a comprehensive trade and political agreement with Canada.

Figure 8: Unfavorable opinions on government policy (UMich)



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Our economic and markets outlook is predicated on the following tariff assumptions:

- A 30% tariff on China. A higher rate seems unlikely, as it could significantly raise US inflation and hurt manufacturers reliant on Chinese inputs. A lower rate is also improbable, given the US perception of China as both an unfair trading partner and a long-term military threat.
- A 2.5% effective tariff on Canada and Mexico, reflecting a 25% punitive tariff on USMCA non-compliant goods (which account for roughly 10% of total trade).
- A 15–20% global blanket tariff, with exemptions or additional punitive measures to prevent the rerouting of Chinese products. This would result in an average effective tariff of 10–15% for developed markets and 15–20% for EMs (excluding China).

We remain confident that Canada will face limited effective tariffs, given the high economic and political costs such measures would impose on the US ahead of the midterm elections. Canada mainly exports intermediate goods that support—rather than compete with—American industries, meaning tariffs would raise costs for US manufacturers, consumers, and homebuilders. Politically, they would be unpopular in key states reliant on Canadian trade and tourism.

Another reason we anticipate a deal with Canada is strong geopolitical alignment. A comprehensive partnership is likely to include increased Canadian purchases of US military

Global investment strategy

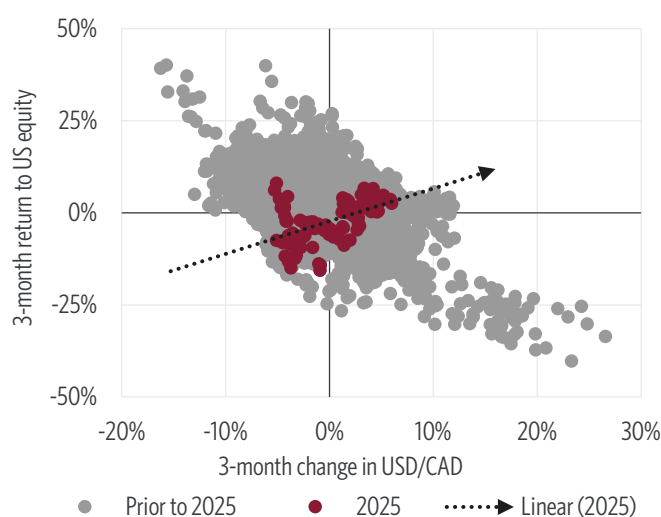
The US dollar expected to trend weaker

The US dollar entered 2025 overvalued on the back of an extended period of strength but has since depreciated by about 10% against a broad currency basket.

It has underperformed during recent episodes of market stress and in a context of relatively stable US government yields, challenging its traditional safe-haven role. A rising term premium points to reduced foreign appetite, while the dollar's increasing correlation with US equities reflects a shift toward a more cyclical, risk-sensitive profile.

We expect continued but gradual depreciation, driven by slower US growth relative to global peers, large current account and fiscal deficits, weakening institutional anchors (e.g., political threats to dismiss the Fed Chair), and erratic trade and foreign policy moves (e.g., the 50% tariff threat on Brazil). While the dollar remains dominant in global transactions, these dynamics are shifting correlation structures (Figure 9) and have significant hedging implications for global investors.

Figure 9: Shifting correlations between USD and local US equity returns



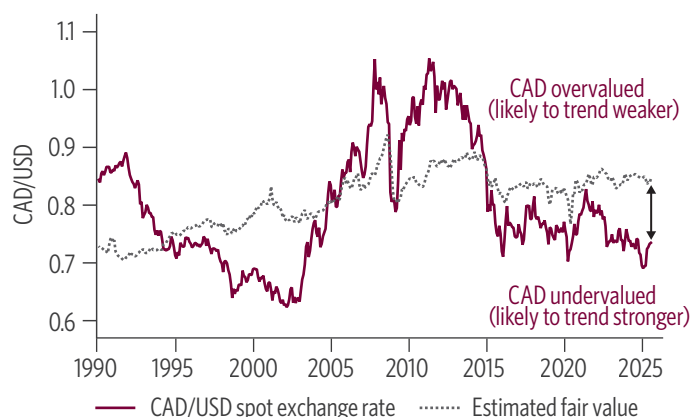
Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

In response, we've increased hedge ratios on US equity funds and positioned the dollar as a preferred funding currency in active FX mandates. The Canadian dollar—and most currencies in our universe—remain undervalued (Figure 10).

equipment, faster development of Canadian natural resources, and joint efforts to limit China's role in North American supply chains.

We target an exchange rate of 0.78 Canadian dollars per US dollar (CAD/USD) over 12 months, reinforcing our hedge strategy.

Figure 10: CAD expected to strengthen against USD



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Looking ahead, increased FX hedging by non-US institutional investors—particularly in the euro area, Japan, Switzerland, and Korea—may create a feedback loop that adds further downward pressure on the US dollar.

Global investment strategy: Tactical preference for equities over bonds

The global macro backdrop remains broadly supportive of equities. We maintain a tactical overweight in equities relative to a generic Strategic Asset Allocation (SAA), driven by several key factors: tariff headwinds are expected to remain contained and largely offset by synchronized fiscal and monetary stimulus; anticipated trade deals should reduce policy uncertainty and improve risk sentiment; and the Fed is likely to resume rate cuts—supportive of both equity valuations and global activity. Downside risks to US growth also appear limited, in magnitude, anchored by persistent labor shortages and a constructive medium-term outlook.

While tariff effects will be front-loaded and policy stimulus back-loaded, we expect markets to look through near-term turbulence and focus on improving fundamentals.

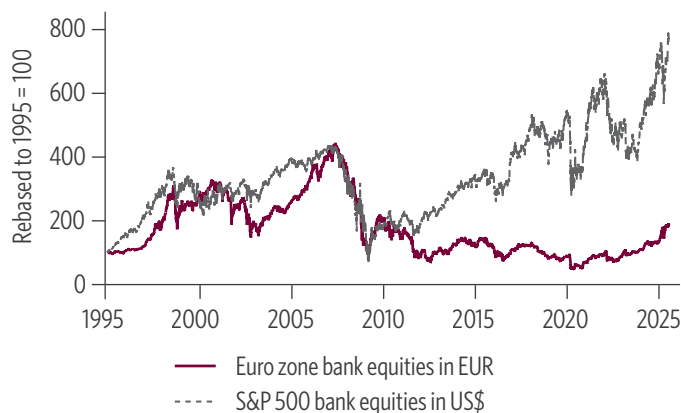
US equities: Positive on tech, neutral on the broader market

The outlook for US equities remains constructive, supported by a positive stance on technology and a neutral view on the broader S&P 493. Our optimism on tech is driven by strong global demand by investors—given the scarcity of liquid, established alternatives outside the US—greater sensitivity to lower interest rates, and favorable policy developments (including accelerated R&D depreciation, reduced digital services taxes in trade negotiations, and a likely push for deregulation). Solid earnings growth should continue to support elevated valuations. In contrast, the broader S&P 493 faces headwinds from decelerating US growth and margin pressures stemming from tariffs. Still, the resilience of the tech sector provides a strong offset, sustaining a favorable overall equity outlook for the US.

More attractive regional equity outlook: Canada, Europe, and emerging markets

We see a more favorable equity outlook outside the US, particularly in Canada, Europe, and EMs. Canadian equities are well-positioned for relative outperformance as domestic growth accelerates amid a US slowdown. In Europe, improving medium-term prospects—driven by supportive fiscal and monetary policies—should lift equity markets, with European financials especially poised to benefit from a stronger macro backdrop (Figure 11).

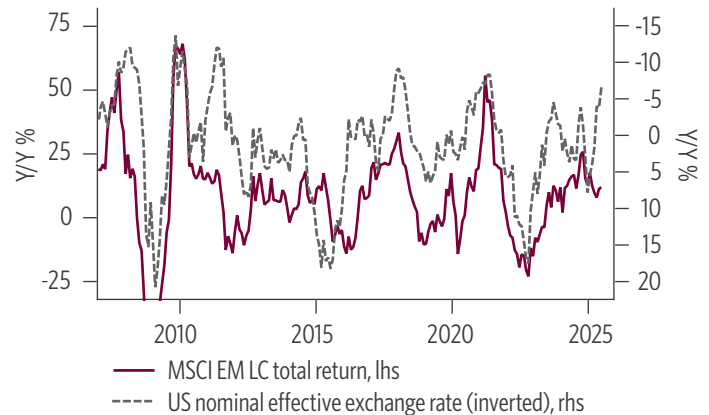
Figure 11: Better Euro zone growth prospects to boost financials



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

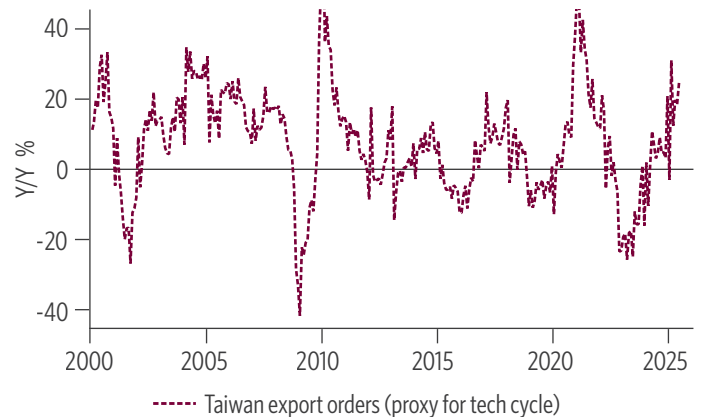
We remain constructive on EM equities, supported by a weaker US dollar (Figure 12)—historically a tailwind for EM performance—continued strength in the global tech cycle (Figure 13), the lagged effects of earlier EM rate cuts, and lower oil prices. In addition, the Fed's easing cycle provides EM central banks with more room to cut, further supporting growth and equity returns.

Figure 12: Weaker USD historically a tailwind for EM Equities



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Figure 13: Global tech upcycle often lasts 2-3 years



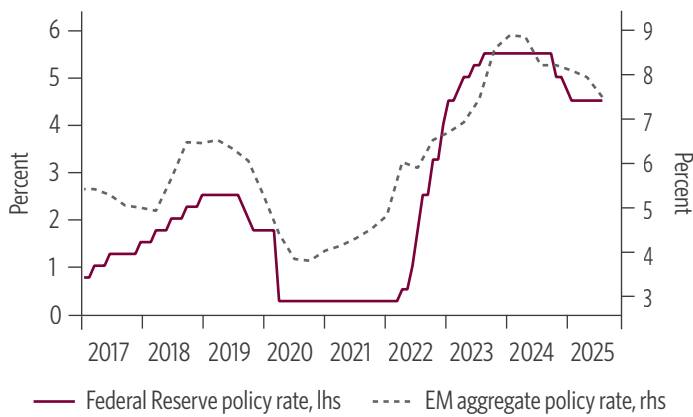
Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

Fixed income strategy: Underweight overall, selectively positioned

We maintain a tactical underweight in fixed income relative to equities, reflecting stronger near-term equity prospects. Within fixed income, we favor EM and US government bonds.

We favor EM local currency government bonds for their elevated yields and potential for further rate declines (higher prices). This segment benefits from resilient global growth, lower oil prices, and expanding policy space as the Fed resumes rate cuts (Figure 14).

Figure 14: Fed cuts offer leeway for further EM central banks cuts



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

The US 10-year government bonds also remain attractive, offering relatively elevated yields which could decline looking ahead (higher prices). We expect the US 10-year yield to range between 3.45% (recession scenario) and 4.75% (stronger growth scenario) over the next 12 months, with a central target of 4.05% (Figure 15).

Figure 15: Limited downside in US 10yr bond yields



Source: Bloomberg and CIBC Asset Management as of July 15, 2025.

We are underweight Canadian and broader developed market bonds, given lower yields and upward pressure on rates (lower prices). For Canada, we expect 10-year yields to fluctuate between 2.85% (recession scenario) and 3.75% (stronger growth scenario), with a central target of 3.25%.

Despite the underweight, government bonds retain strategic value as recession hedges. We assign a 35% probability to a global recession, 15% to an upside scenario, and 50% to our baseline.

We remain neutral high-yield bonds—default risk is contained, but tight spreads limit upside versus equities.

Alternative global scenarios

	Milder recession	Stronger growth
Probabilities	35% negative risk	15% positive risk
Key assumptions	- More tariffs than expected - Delayed trade deals - Global fiscal stimulus relief slower and less impactful than expected	- Global stimulus provides a more significant tailwind to growth than expected - Foreign governments provide targeted fiscal relief to manufacturers impacted by tariffs—cushioning their impact - Pent-up investment demand unleashed following trade deals
Market implications	- Overweight bonds as yields continue to fall - Negative for risky assets; equities experience a correction, and corporate spreads widen - JPY, and gold are safe haven outperformers—USD could also be one	- Overweight equities - Bonds underperform as yields rise - USD weakens (assuming stronger global growth) - Overweight commodities

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Creating effective exposures to certain markets: replication of equity, fixed income, money market, currency or other indices or securities, in order to reduce transaction costs and achieve greater liquidity. Facilitating the investment management process: increase the speed, flexibility and efficiency in the investment management operation of the client account. Enhancing returns: benefiting from a lower cost or locking-in of arbitrage profits, except for private client accounts..

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