CIBC ASSET MANAGEMENT

Perspectives

Quarterly economic views and asset class outlook

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Global economic outlook remains moderately supportive for equities and emerging markets

Key takeaways

- We expect the global economy to grow at a moderate pace over the next year. Recession risks remain elevated (at 35%), but unchanged from the summer edition of Perspectives. We remain in a moderately supportive environment for risky assets.
- A confluence of competing themes are in play. US tariffs and the rise of protectionism are growth headwinds, particularly in the US, but fiscal and monetary stimulus are providing a sufficient cushion on aggregate outside the US. Military conflicts and tensions, the rise of low-cost unmanned warfare, and signals of a weaker US commitment to protect its allies are increasing geopolitical uncertainty. But that same uncertainty is likely to drive global military investment, and magnify the global technology cycle.
- Despite underlying resilience, the US is facing rising cyclical challenges. Most are self-inflicted, including tariffs and more stringent immigration policies. We expect US GDP growth to slow by more than consensus forecasts, but to remain positive and not too far from trend growth.
- Weakening growth and labor markets suggest the US Federal Reserve (Fed) will cut rates by 125 bps over the next year (as of October 20, 2025), contributing to a further, albeit more gradual US dollar (USD) depreciation, including against the Canadian dollar.
- Outside the US, the outlook remains relatively constructive, despite tariffs. Easier central bank policy, fiscal stimulus, a robust global technology cycle, and increased military investment are all expected to nurture a gradual improvement in growth in most cases.
- We recommend a small tactical equity overweight. Equity markets have historically outperformed during non-recessionary Fed rate-cutting cycles. US stocks should also benefit from accelerated tax depreciation for capital expenditures, which is expected to sustain share buybacks. Our favourable tech cycle outlook supports a positive view of the Magnificent 7 (Mag-7), as well as tech-heavy markets such as Japan, Taiwan, and Korea. Corporate reforms also provide tailwinds to Japan and Korea.
- The outlook for Canadian equity remains constructive, given relatively attractive valuations and dividend yields, supportive earnings tailwinds, and the opportunity for sector diversification compared to the narrow US market, which is heavily exposed to technology.
- We recommend a tactical underweight in developed market fixed income, where starting yields are relatively low. By contrast, we continue to like Emerging Markets (EM) local currency debt, given higher starting yields and supportive tailwinds that include a weaker USD, more cuts by the Fed, and low crude oil prices.

Capital markets outlook, next 12 months (tactical allocation, relative to a generic SAA)

Market	Underweight	Underweight bias	Neutral	Overweight bias	Overweight
Equities Aggregate	–	–	–	✓	–
US	–	–	–	✓	–
Canada	–	–	–	✓	–
Europe	–	–	✓	–	–
Japan	–	–	–	✓	–
EMs (ex. China)	–	–	–	✓	–
China	–	–	–	✓	–

Market	Underweight	Underweight bias	Neutral	Overweight bias	Overweight
Fixed Income	–	✓	–	–	–
US 10y Gov. Bonds	–	–	✓	–	–
Canada 2y Gov. Bonds	✓	–	–	–	–
Canada 10y Gov. Bonds	–	✓	–	–	–
Germany 10y Gov. Bonds	–	✓	–	–	–
EM Bonds (local currency)	–	–	–	✓	–
US High Yield	–	–	✓	–	–

Market	Underweight	Underweight bias	Neutral	Overweight bias	Overweight
USD	–	✓	–	–	–
CAD	–	–	✓	–	–
EUR	–	–	✓	–	–
JPY	–	–	–	✓	–
CNH	–	–	✓	–	–
Cyclical currencies*	–	–	–	✓	–

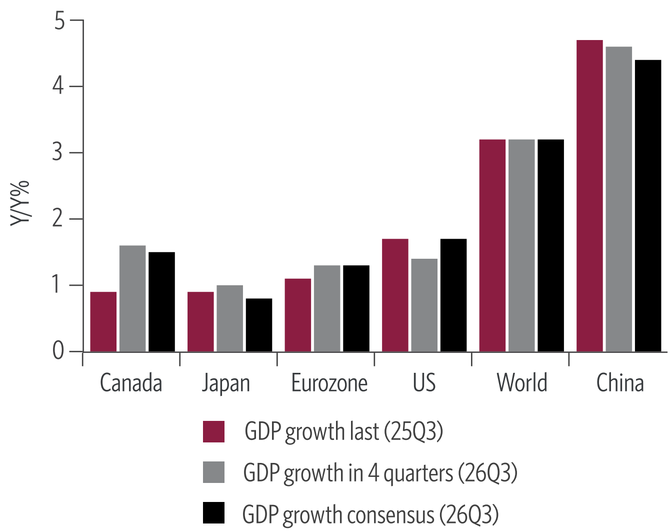
Market	Underweight	Underweight bias	Neutral	Overweight bias	Overweight
Commodities	–	–	–	✓	–
Oil	–	✓	–	–	–
Copper	–	–	–	✓	–
Gold	–	–	–	✓	–

* Cyclical currencies such as BRL, HUF, and KRW.
Investment outlooks may differ from actual portfolio positioning depending on market conditions and portfolio constraints.
Source: CIBC Asset Management, as of October 20, 2025.

Global macro in a nutshell

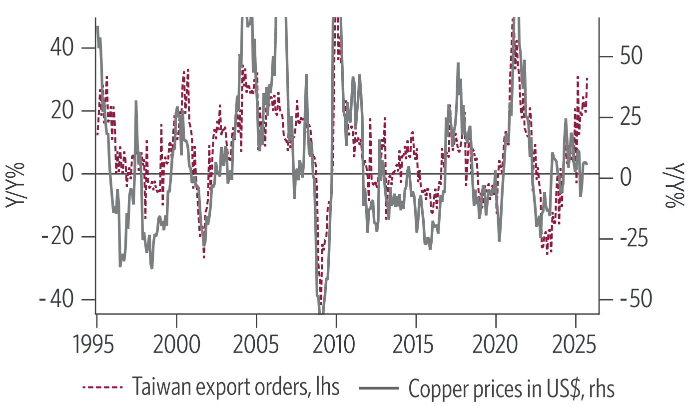
Global overview: We expect growth differences between the US and other advanced economies to narrow. The US is expected to slow **(Figure 1)**, facing the largest negative growth impact from tariffs and an unfriendly immigration policy, with limited policy relief from fiscal stimulus and deregulation. In other major economies, policy easing and a robust tech cycle **(Figure 2)** should broadly cushion tariff pressures. We expect global growth to remain stable at 3.2% over the next 12 months.

Figure 1: Global GDP growth forecasts



For illustrative purposes only.
Source: Bloomberg, CIBC Asset Management, as of October 20, 2025.

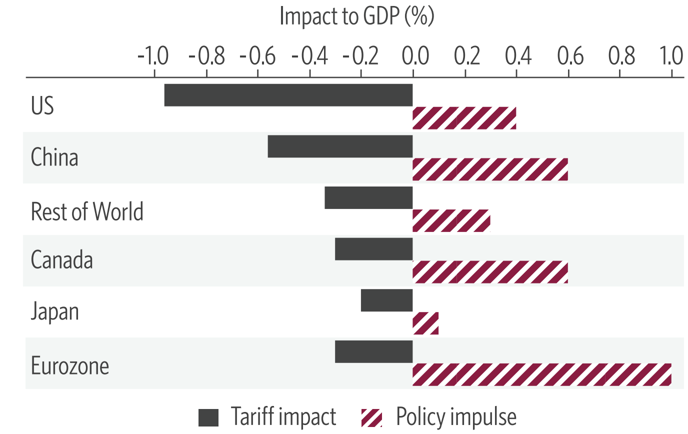
Figure 2: Global technology cycle indicators



Source: Macrobond, CIBC Asset Management, as of October 20, 2025.

United States: Expected Fed rate cuts are likely to provide limited relief to the tariff shock **(Figure 3)**. Deportations and restrictive immigration policies are additional growth impediments. We expect equilibrium monthly job creation to fall below 30,000, down from over 150,000 in 2024. Additionally, after accounting for more than one-third of GDP growth year-to-date, tech investment's contribution to GDP growth is expected to decline to more sustainable levels.

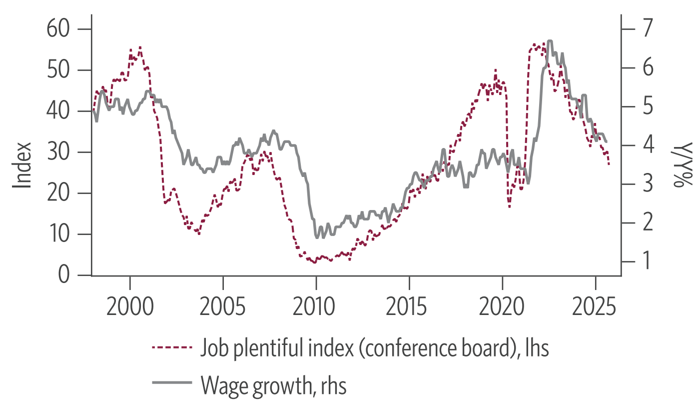
Figure 3: Estimated impact of US tariffs and policy responses on GDP growth



For illustrative purposes only.
Source: CIBC Asset Management, as of October 20, 2025.

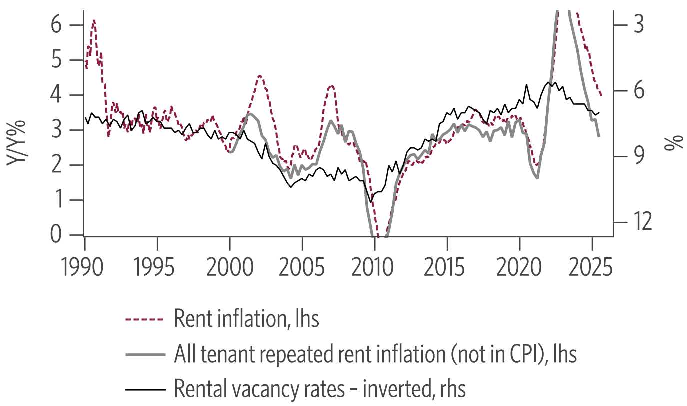
We expect services inflation to decline and lead to a decrease in headline inflation in 2026. Slowing labor markets should continue to weigh on wage growth, a key driver of services inflation **(Figure 4)**. Measures of rent inflation, rising vacancies, and deportations point to further downside for rent inflation **(Figure 5)**. We expect core Personal Consumption Expenditures (PCE) inflation to peak in the next few months and fall to 2.6% in four quarters, down from 2.9% currently.

Figure 4: US wage growth and employment indicators



Source: Macrobond, CIBC Asset Management, as of October 20, 2025.

Figure 5: US rent inflation and vacancy rates

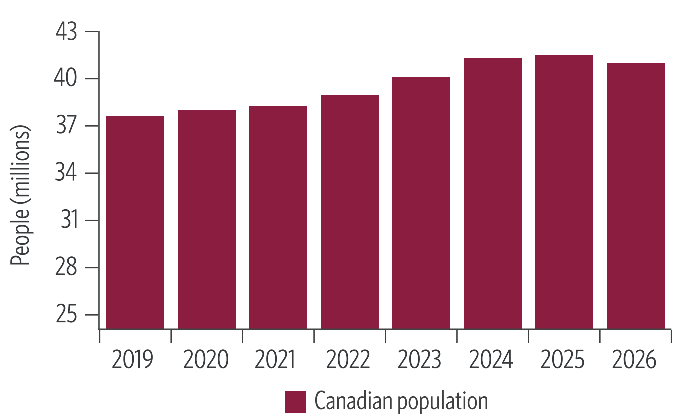


Source: Bloomberg, CIBC Asset Management, as of October 20, 2025.

As of October 20, we expect the Fed to cut rates by 125 bps over the next 12 months, reaching a terminal rate of 2.75–3.00%. Fiscal policy is unlikely to provide meaningful support, as tax benefits from accelerated investment depreciation will likely be offset by reduced government spending growth.

Canada: We expect a gradual GDP growth recovery over the next 12 months as a whole. Our overall outlook is a tad above consensus, which continues to run with still-depressed expectations for late 2025 and early 2026. We estimate tariffs to have a contained impact, with about 90% of goods exports exempt from tariffs, and we continue to expect a trade deal encompassing military and natural resources projects. But in 2026, growth is likely to stagnate, constrained by higher mortgage payments, potentially negative population growth **(Figure 6)**, and a likely peak in housing construction. We expect the Bank of Canada to cut rates by 75 bps (as of October 20, 2025), which is more than priced. Infrastructure and military stimulus announced by Ottawa should support growth, but this is more a story for late 2026 and 2027. Inflation is forecast to fall below 2%, reaching 1.8% in four quarters.

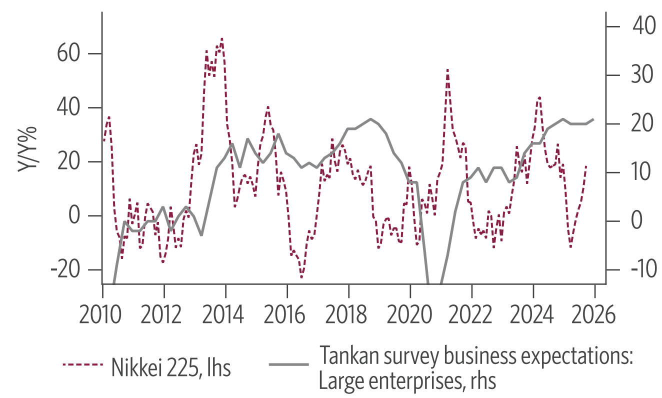
Figure 6: Canada population



For illustrative purposes only.
Source: Bloomberg, PBO (Parliamentary Budget Officer), CIBC Asset Management, as of October 20, 2025.

Europe and Japan: We project both economies to grow at a moderately faster pace, supported by the lagged effects of monetary support and fiscal drivers. German infrastructure and military stimulus should boost growth, but likely not before the second half of 2026. Eurozone inflation is expected to remain just below 2%. We expect the ECB will stay on hold. Cyclical tailwinds are also visible in Japan **(Figure 7)**, where fiscal policy is expected to become more dovish and real rates should remain negative – even as the Bank of Japan (BoJ) is expected to hike by 50 bps. Growth in both countries is expected to be close to trend and slightly above consensus expectations.

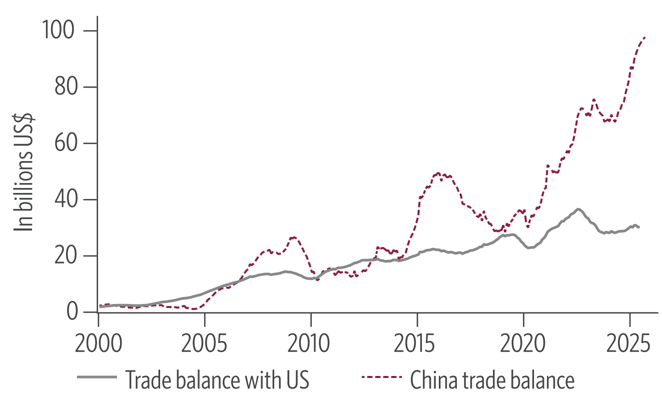
Figure 7: Japanese business expectations and equities



Source: Macrobond, CIBC Asset Management, as of October 20, 2025.

China: Solid foreign demand for Chinese manufactured goods **(Figure 8)** and policy support (ongoing and future) are expected to keep the economy more resilient than consensus expectations, despite US tariffs. Additional expected policy measures include further fiscal funding for technology investment, local governments, and public infrastructure. We expect a modest 10 bps rate cut by the People's Bank of China (PBoC), as well as additional liquidity injections.

Figure 8: China trade balance



Source: Macrobond, CIBC Asset Management, as of October 20, 2025.

Emerging Markets (EM): We are generally positive and foresee benefits from stable global growth, lower energy prices, and past domestic EM country policy easing. Upcoming Fed cuts will be a tailwind and should allow EM central banks to lower rates further. Current account and fiscal vulnerabilities remain low by historical standards and, in many cases, are much lower than in the US.

Global investment strategy (tactical recommendations)

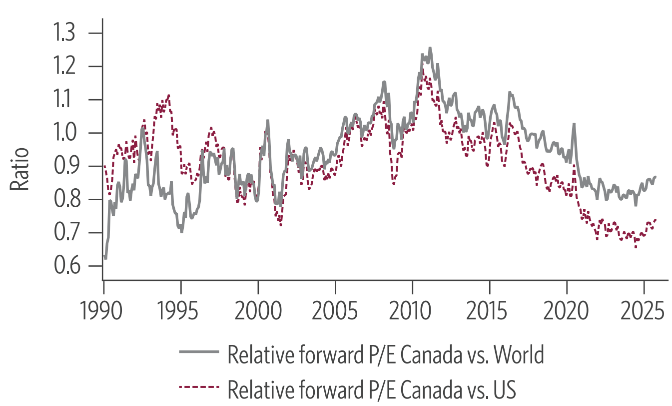
Equities versus fixed income: Tactical preference for equities

- We recommend maintaining a tactical overweight in equities relative to a generic Strategic Asset Allocation (SAA), reflecting the aforementioned constructive macro outlook in which the Fed continues cutting.

Regional equity views: Several opportunities

- **Overweight Canada:** Stocks are attractively valued relative to US peers **(Figure 9)** and should benefit from the combination of high dividend yields, a GDP growth recovery, Bank of Canada rate cuts, and anticipated infrastructure stimulus. Additionally, rising gold prices should continue to support Canadian gold miners and equities. Any trade deal with the US that includes or implies investment in natural resources would provide further catalysts.

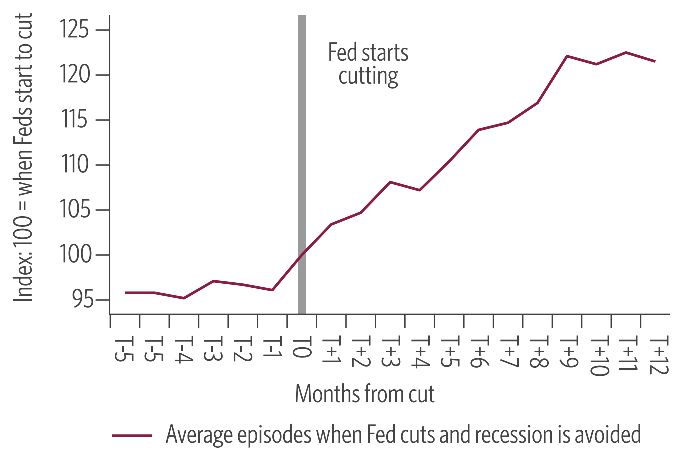
Figure 9: Relative forward P/E ratios: Canada vs. US and global peers



Source: Bloomberg, CIBC Asset Management, as of October 20, 2025.

- **Overweight the US:** While valuations are unattractive, US equities generally outperform during Fed rate cuts when recession is avoided **(Figure 10)**. Accelerated tax depreciation for capital expenditures is expected to sustain share buybacks, offering additional support. Tech stocks are more likely to benefit from rate cuts (due to higher sensitivity) and buybacks.

Figure 10: US equity performance when the Fed cuts and recession is avoided



Source: CIBC Asset Management, as of October 20, 2025.

- **Neutral Europe (revised from overweight):** We have lowered our conviction that Germany will be able to implement its planned large fiscal stimulus quickly—this is more likely to be a catalyst for late 2026. While economic data have disappointed recently, we consider the ECB to have completed its rate-cutting cycle, given the stimulus already in the pipeline. Political uncertainty in France and the UK remain negative risks.
- **Overweight Japan:** Cyclical tailwinds, negative real rates, prospects for fiscal stimulus, and growing shareholder activism (which is on the rise due to corporate reforms) are all tailwinds. The BoJ is expected to hike rates by 0.50%, which will not be enough to bring real rates into positive territory.
- **Overweight EMs ex-China:** Relative valuations remain attractive. Global monetary easing, the ongoing global tech cycle, and lower oil prices should remain tailwinds. Additionally, EM central banks have room to ease further.
- **Overweight China (technology):** Our GDP growth outlook exceeds consensus, supported by solid foreign demand and stimulus. Despite structural challenges, Chinese equities remain under-owned globally, manufacturers are increasingly dominating global markets, and the tech sector continues to move up the value chain. We favour tech stocks and well-established manufacturers with global reach.

Regional fixed income views: Selectively positioned

- **Overweight EM local currency government debt:** EM debt is attractive due to higher yields and prospective benefit from further monetary easing. Fiscal vulnerabilities are contained in most cases—especially when compared to the US, Japan, the UK, and France.
- **Neutral US Treasuries (10-year bonds):** Current yield (3.98% as of October 20, 2025) is more attractive than in other developed markets. The downside is limited given expected large annual fiscal deficits, a constructive medium-term economic outlook, and some longer-term fiscal and institutional concerns. We expect the US 10-year yield to range between 3.35% (recession scenario) and 4.85% (stronger growth scenario) over the next 12 months, with a central target of 4.0%.
- **Underweight Canadian and developed market (DM) government bonds (10-year bonds):** Lower current yields make these bonds less attractive. Yields could increase in Europe and Japan, while we expect them to remain stable in Canada. Our baseline outlook for 10-year Canadian government bonds is 3.25% (current yield: 3.10% as of October 20, 2025). Despite our recommended tactical underweight position, government bonds retain strategic value as recession hedges, given that we still assign a 35% probability to a mild global recession. Canadian 10-year yields would likely decline to 2.70% in a recession scenario (but increase to 3.75% in a stronger growth scenario).
- **Neutral US high yield bonds:** We remain neutral high yield bonds—default risk is contained, but tight spreads limit upside versus equities.

Currencies: continued USD weakness, albeit at a slower pace

- **Underweight US dollar:** It remains expensive despite year-to-date depreciation. Upcoming Fed rate cuts and slowing growth are additional challenges. Long-term institutional investors, particularly central banks in emerging markets, are increasingly concerned about US fiscal risks and geopolitical uncertainty. Elevated fiscal deficits and a large current account deficit require substantial and continuous foreign portfolio inflows to sustain the currency—a lingering vulnerability. Increased global FX hedging may add further downward pressure. We expect continued USD weakness, although at a slower pace than observed during the first half of 2025 due to limited upside for the euro. Note that there is little evidence of a significant decline in USD usage for international transactions, and we do not expect this to change given its convenience for global trade and investment.
- **Neutral Canadian dollar:** The currency remains undervalued and is expected to benefit from a modest economic recovery, stronger equities, and rising expectations for infrastructure and military spending over the medium term. Near-term upside against USD is limited. Our 12-month target is 0.74 CAD/USD (Current price: $0.71 as of October 20, 2025). We anticipate a stronger move higher toward the end of 2026 and into 2027 as infrastructure stimulus takes effect. We estimate the long-term fair value for CAD/USD to be 0.84.
- **Neutral euro (revised from long):** While fiscal policy is expected to support eurozone growth in 2026, the timing remains uncertain. Accordingly, we see limited upside for the euro against USD over the next few months. Our 12-month target is 1.2250 for EUR/USD, with more potential upside over the medium term (Current price: $1.1650 as of October 20, 2025).
- **Overweight yen:** The yen has remained undervalued. The Japanese economy is still on a reflation path, and growth should continue to benefit from foreign demand. Prospects for additional fiscal stimulus are another positive factor. While we expect the central bank to increase its policy rate by 50 bps in the next year, the real interest rate should remain negative and continue to support growth. Our 12-month target is 143 for USD/JPY (Current price: 150.60 JPY as of October 20, 2025).
- **Overweight Chinese renminbi and EM currencies:** The renminbi is supported by China's global manufacturing strength and improving current account prospects, both factors favour appreciation of the CFETS currency basket targeted by the PBoC. Our 12-month target for USD/CNH is 6.9 (Current price: 7.13 CNH as of October 20, 2025). We remain constructive on EM currencies overall, as many exhibit relatively high sensitivity to movements in the renminbi. EM currencies should also be supported by improving current account balances due to favourable commodity price trends—higher gold prices are positive for reserves, and low or lower oil prices are positive for the current account balances of energy importers. In most cases, current account and fiscal vulnerabilities are contained and remain much lower than in the US.

Commodities: more upside for gold and copper

- **Overweight gold:** Countries, particularly in the Global South, are diversifying reserves into gold and other currencies (EUR, JPY, CHF, CNY) to reduce excessive reliance on USD and US Treasuries, creating important inelastic demand for gold. Gold is also supported by expectations of a more dovish Fed. Our 12-month target is $4,750 (Current price: $4,294.35 as of October 20, 2025).

- **Overweight copper:** Demand remains resilient and inelastic, driven by strong global demand for tech, military investment, and infrastructure. Our 12-month target is $12,000 (Current price: $10,581 as of October 20, 2025).
- **Underweight oil:** Oil prices are expected to remain under pressure over the next few months, suggesting Brent will remain towards the bottom of our $60–$65 forecast range (Current price: $60.86 as of October 20, 2025). Rising supply from both OPEC+ and non-OPEC producers, as well as higher inventories, should keep a lid on oil prices.

Risks to the outlook

Implications	Mild recession	Baseline: US growth slowdown	Stronger growth and productivity
Risks (probabilities)	• 35%	• 50%	• 15%
Global macro drivers	• Larger impact of tariffs than expected on the US consumer • Fed too slow to cut, but eventually cuts 175 bps	• US growth slows, below consensus, due to tariffs and labor markets • Fed cuts 125 bps	• Lower impact of tariffs than expected on the US consumer • Fed cuts 50 bps • AI investment surprises to the upside • Global stimulus provides a more significant tailwind to growth than expected
Global strategy: what to overweight	• Government bonds, JPY, USD, gold	• Equities, cyclical currencies, gold, copper	• Larger overweight equities, cyclical currencies & CAD, copper
Global strategy: what to underweight	• Equities, cyclical currencies & CAD, copper	• Government bonds, USD	• Government bonds, USD

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