Fourth Quarter 2017

Financial Markets Monitor

CIBC PRIVATE WEALTH MANAGEMENT

A Look Back: Market Scorecard

The Bull Market Keeps On Giving…

2017 equity market returns reflect an improved outlook for economic growth and profits.

Declining bond yields and well-rewarded credit risk have produced positive fixed income returns across the credit quality spectrum

Most commodity prices are under water year-to-date, though oil prices and some other industrials rebounded in Q3.

Total Returns as of September 30, 2017

	Year-to-Date	Trailing 3-Year	Trailing 5-Year
Stocks			
U.S.	14.2%	10.8%	14.2%
Developed International	20.5%	5.5%	8.9%
Emerging Markets	28.1%	5.3%	4.4%
Bonds			
Long-Term Treasuries	6.0%	4.9%	2.8%
Intermediate Govt/Corp	2.3%	2.1%	1.6%
Corporate High-Yield	7.0%	5.8%	6.4%
Commodities			
Bloomberg Commodity Index	-2.9%	-10.4%	-10.5%
Oil (Brent)	-4.2%	-26.9%	-18.1%
Gold	10.7%	1.3%	-6.8%

Source: FactSet, Bloomberg, L.P., MSCI.com as of 09.30.2017. Indices used are S&P 500, MSCI EAFE (gross), MSCI Emerging Markets (gross), Barclays U.S. Agg Long-Term Treasury Total Return Index, Barclays Intermediate U.S. Govt/Credit Total Return Index, BofA Merrill Lynch High Yield Master Index, Bloomberg Commodity Index, Bloomberg Brent Crude Oil Total Return and Bloomberg Gold Subindex Total Return.

Global Asset Class Total Returns Thru 10/31/17*

Asset Class	Benchmark	Oct.	QTD	YTD	1 Yr	3 Yr**	5 Yr**	10 Yr**
World Equities	*MSCI ACWI NR USD*	2.08	2.08	19.69	23.22	7.92	10.80	3.70
U.S. Large Cap	*S&P 500 Composite TR USD*	2.33	2.33	16.91	23.65	10.77	15.18	7.51
	Russell 1000 TR USD	2.29	2.29	16.78	23.69	10.57	15.18	7.61
U.S. Mid Cap	*Russell Mid Cap TR USD*	1.67	1.67	13.60	21.11	9.03	14.87	8.09
U.S. Small Cap	*Russell 2000 TR USD*	0.85	0.85	11.89	27.87	10.12	14.49	7.63
U.S. Value	*Russell 3000 Value TR USD*	0.68	0.68	8.46	18.31	8.11	13.48	6.07
U.S. Core	*Russell 3000 TR USD*	2.18	2.18	16.40	24.00	10.53	15.12	7.61
U.S. Growth	*Russell 3000 Growth TR USD*	3.69	3.69	24.87	29.83	12.93	16.71	9.06
International Equities	*MSCI ACWI Ex USA NR USD*	1.88	1.88	23.41	23.66	5.71	7.29	0.92
Intl. Developed	*MSCI EAFE NR USD*	1.52	1.52	21.78	23.46	6.08	8.53	1.10
Intl. Emerging	*MSCI EM NR USD*	3.51	3.51	32.26	26.47	5.70	4.83	0.60
U.S. REITs	*FTSE NAREIT Equity REITs TR USD*	-0.96	-0.96	2.67	5.68	6.10	9.67	5.61
Infrastructure	*S&P Global Infrastructure TR USD*	0.98	0.98	19.08	17.55	5.67	9.22	3.08
Commodities	*Bloomberg Commodity TR USD*	2.14	2.14	-0.79	2.35	-9.53	-9.38	-6.93
MLPs	*Alerian MLP TR USD*	-4.14	-4.14	-9.53	-3.39	-12.78	-1.50	5.34
Investment Grd Bonds	*BBgBarc US Gov/Corp Intermediate TR USD*	-0.01	-0.01	2.31	0.61	1.92	1.59	3.55
High Yield	*BBgBarc US Corporate High Yield TR USD*	0.42	0.42	7.45	8.92	5.56	6.27	7.82
Investment Grd Munis	*BBgBarc Municipal 5 Yr 4-6 TR USD*	-0.03	-0.03	3.84	1.56	1.86	1.91	3.77
Emerging Mkt Debt	*JPM EMBI Global Diversified TR USD*	0.37	0.37	9.40	6.32	6.03	4.81	7.24

* *Source: Morningstar*

** *Annualized*

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2017 Investment Themes

Q4 2017

- Data has been distorted by the violent hurricane season, but the U.S. economy is improving. Recession risk is quite low.

- The "macro sweet spot"—solid economic growth and low inflation—persists globally, especially in Europe and Japan.

- The months ahead will be highly eventful at the Fed, and impactful for markets, as:
  - The Fed reduces the size of its bond portfolio, reversing quantitative easing.
  - The Fed likely resumes its course of rate hikes before year-end.
  - President Trump announces his choice to lead the Federal Reserve.

- "Tax cut fever" reigns in Washington and in investor hopes; while we handicap the odds in the pages ahead, it would be unwise to assume a bullish outcome given the highly volatile political environment.

- We continue to believe that equities are relatively attractive, supported by a well-balanced economy and growing profits. However, the pace of gains enjoyed year-to-date is unsustainable.

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Global Economy

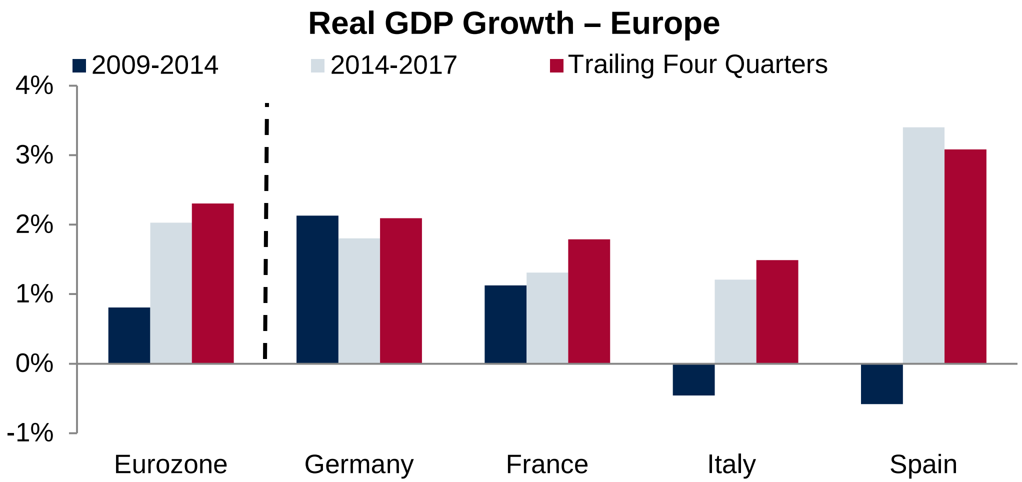
Most Economies Around the World Are Picking Up

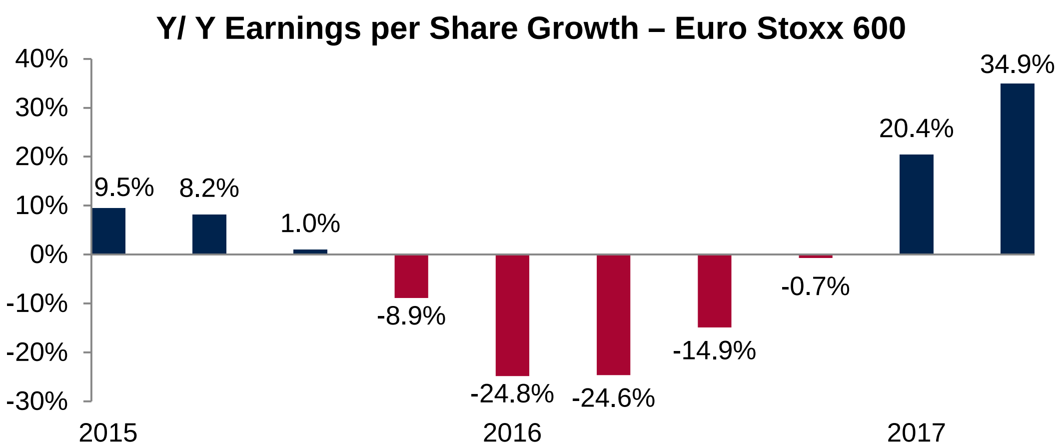
- **Coming out of the Great Recession, any semblance of economic vitality in Europe was centered in Germany. More recently, growth has accelerated throughout the Eurozone (top chart). This is one factor behind a surge in profitability of European companies (bottom chart).**

- Economic activity has also improved in Japan, as deflationary risk subsides. The "snap election" called for late October presents some risk to markets, but the stimulative "Abenomics" fiscal policy is likely to continue even if Abe himself loses.

- The generally positive reflationary trends in the regions above lead us to retain a positive outlook on developed international equity markets.

Europe: Growth Broadening, Profitability Accelerating





Sources: Strategas, data as of 09.30.2017.

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U.S. Economy

Improvement Abroad Reinforces U.S. Economic Expansion

- The destructive hurricane season will distort economic data in the short-term. But, we believe the underlying trend—solid, but unspectacular growth—is intact into 2018.
- **A key support for an elongated period of prosperity at home is a pickup in growth overseas. The Global PMI Index is a broad measure of industrial activity; it has accelerated in most parts of the world this year.**
- We rate recession risk over the next 12 months as low. Separate models from the Federal Reserve Banks of Atlanta and St. Louis forecast less than a 10% recession likelihood in this timeframe.
- Inflation readings continue to be tame. The “low inflation forever” expectation embedded in economic and market assumptions may be called into question in 2018 as the U.S. attains full employment and spare capacity is absorbed in the rest of the world.

Synchronized—and Strengthening—Global Expansion

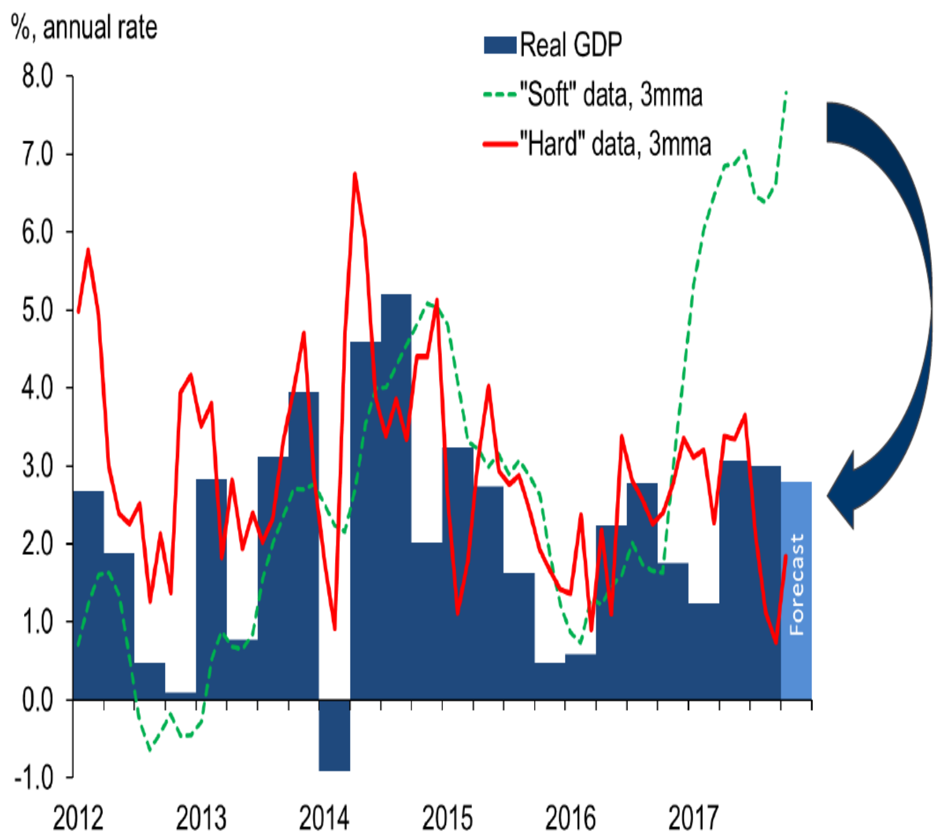
Source: JP Morgan, Bloomberg L.P., data as of 09.30.2017.
PMI is the Global Manufacturing Purchasing Manager's Index.

U.S. Data Remains Positive

Soft Data vs. Hard Data Has Been Moving In Opposite Direction

- There is no doubt the U.S. economy has continued to gain momentum and could actually see a 3% annual growth rate in 2017 for the first time since 2015
- "Hard data" (what we actually experience) vs "Soft data" (survey's for expectations) have been moving in the opposite direction since late 2016. Survey's are important but the hard data is what will drive the economy.
- We don't see a high risk of recession in 2018

U.S. Economic Momentum Indicator



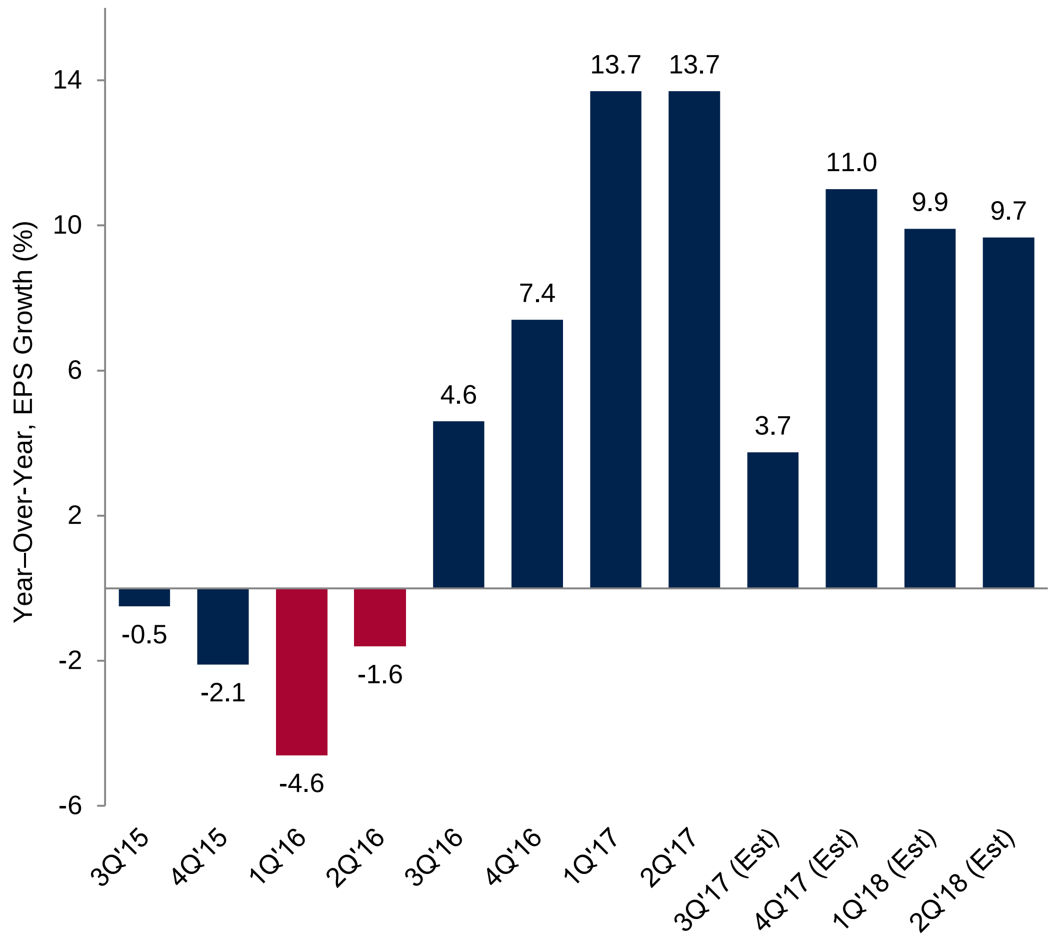
Source: Oxford Economics

Equities

U.S. Corporate Profits: The Outlook is Bright

- Second quarter 2017 S&P 500 corporate profits posted the first consecutive double-digit growth since 2011.
- **Year-over-year comparisons should be slightly challenged for the third quarter; however, consensus expectations are for another healthy reporting season on a stand-alone basis. Continued global economic growth and currency effects should become a more significant tailwind for profits in future quarters.**
- Earnings revisions have turned increasingly optimistic for this cycle and also when compared to historical trends. Corporate confidence remains on a similar trajectory.

S&P 500 Earnings Growth



Source: FactSet, RBC Capital Markets. Data as of 10.04.2017.

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Monetary Policy

The End of Quantitative Easing

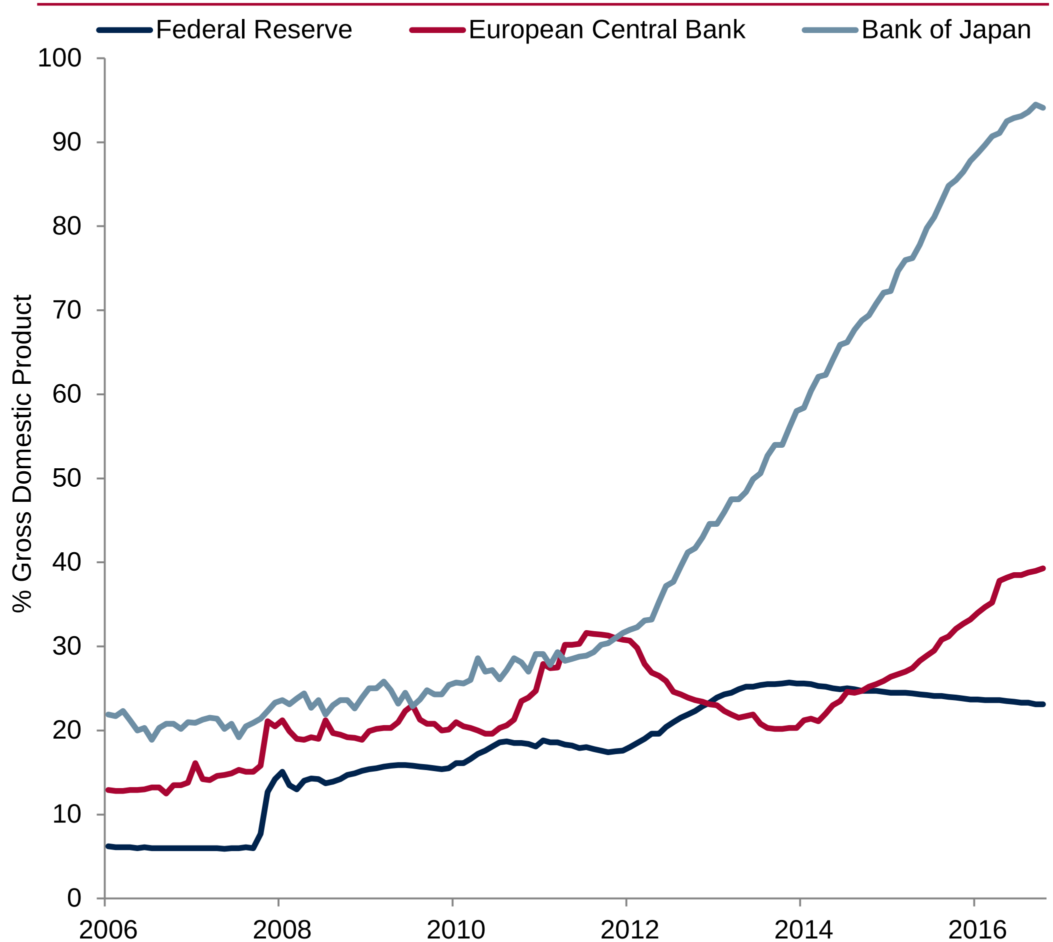
- The Federal Reserve announced the launch of a balance sheet reduction plan in September. Up to $10 billion in bond holdings will be reduced in the early going. While small relative to the $4.4 trillion portfolio, the run-off will likely step up over time.

- **The Federal Reserve's position in Treasuries, government agency debentures, and mortgage-backed securities has been held steady for nearly three years, but has been falling relative to U.S. GDP over that time. Since late 2014, the ECB and BOJ have more than doubled their holdings as a percent of GDP.**

- While the Fed seems to have built consensus for another rate hike prior to the end of 2017, the FOMC also projected a more moderate outlook for short-term rates at its most recent meeting than they had previously communicated.

- The gradual pace of both balance sheet reduction and rate normalization, regulations requiring larger Treasury holdings by banks, and the continuation of asset purchase programs in other countries makes it unlikely that the unwinding of quantitative easing will materially disrupt financial markets.

Central Bank Assets as a Percentage of GDP



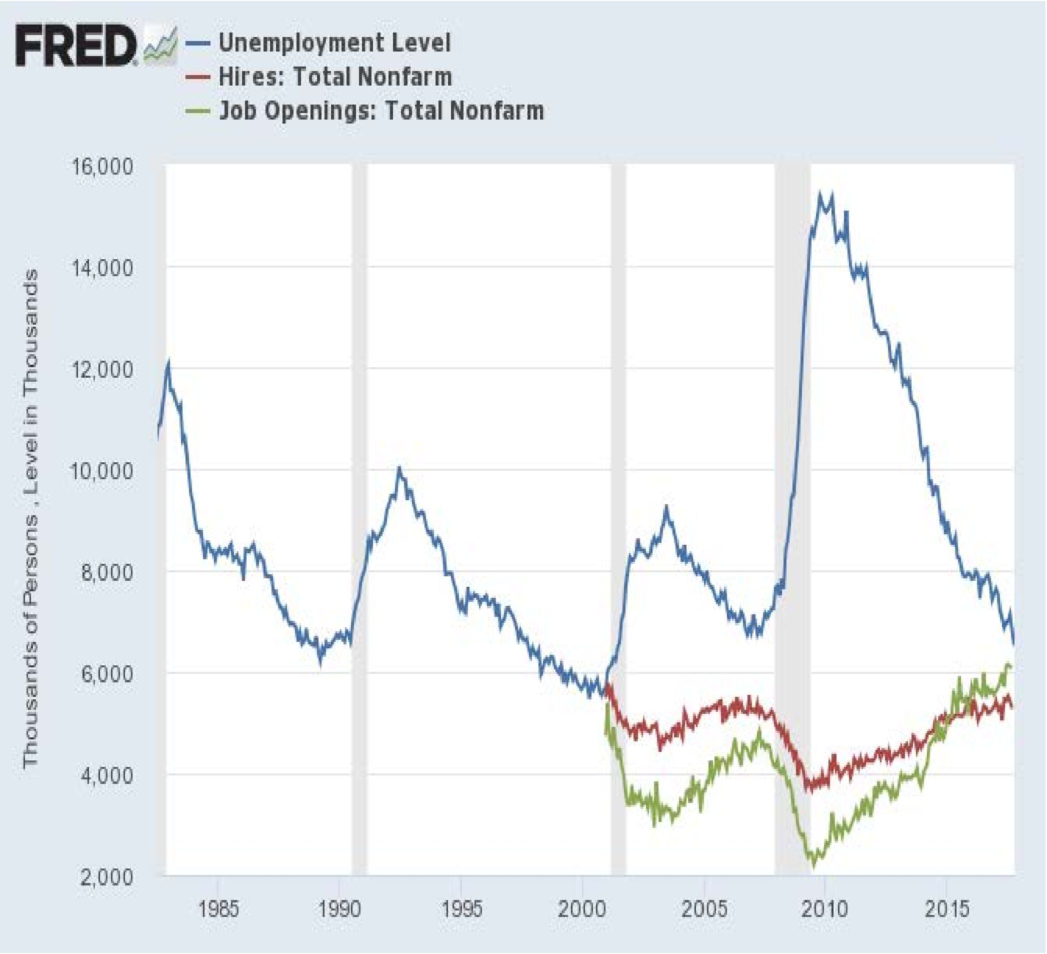
Source: Bloomberg as of 09.30.2017.

Are We At Full Employment?

Current Levels Are Lower Than 2004 and Pushing Levels from 2000

- Overall improvement in labor market has been staggering in such a short period of time since 2010
- At 4.1% some economists are arguing we are at full employment
- Jobs that are hard to fill are increasing and the shortage of skilled labor will have an impact on the macro economy
- Total non-farm "hires" has recently stabilized
- Demographic shifts are also impacting labor markets with fewer people voluntarily in the workforce
- *Full employment coupled with potential wage pressures increases the chance for higher inflation and ultimately a more aggressive Fed = HIGHER INTEREST RATES*

Further Improvement In Labor Is Hard To Forecast



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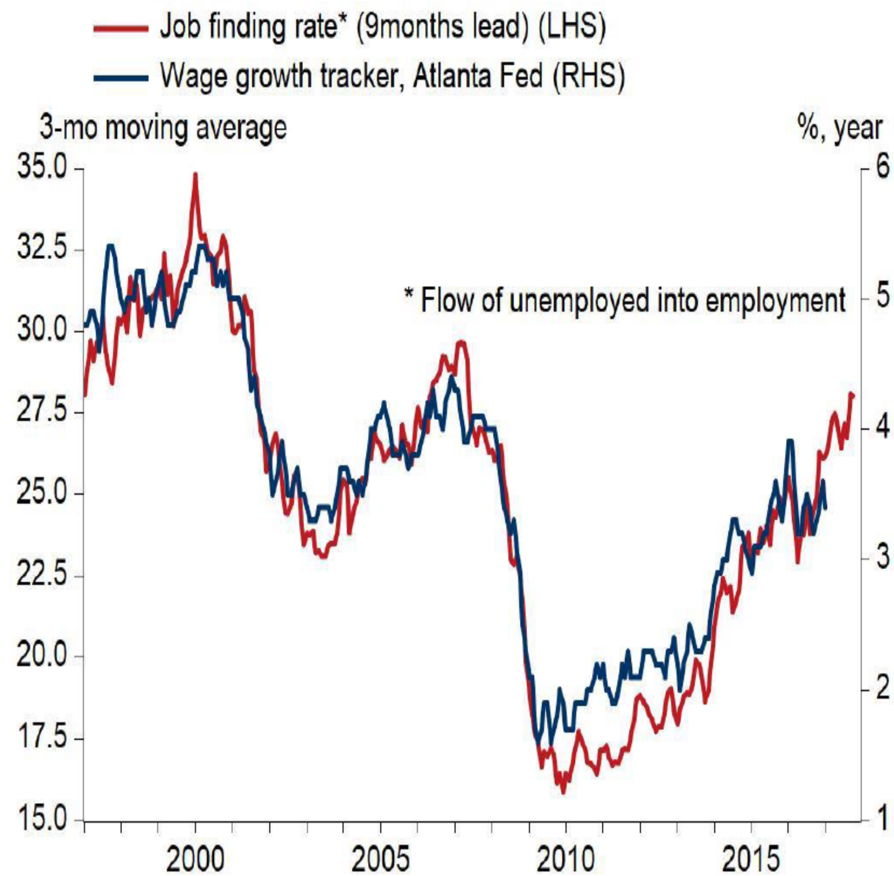
Inflation Will Drive Fed Policy in 2018

The Fed Has Been Eager to Normalize Policy Rates

- Inflation has remained stubbornly low for quite some time, although current 3 month annual change in core inflation is 2.4%
- The Fed has been targeting 2% price targets since 2010 but does not focus on CPI rather focuses on Personal Consumption Expenditures (PCE)
- The low inflationary environment is not just in the U.S. as inflation in the Eurozone remains well below ECB target
- The impact of improved labor market or "full employment" might very well change the inflationary backdrop in 2018
- Jobs hard to fill lead to higher wage demands which historically is one of the key driver of higher prices

Wages Are Likely To Move Higher



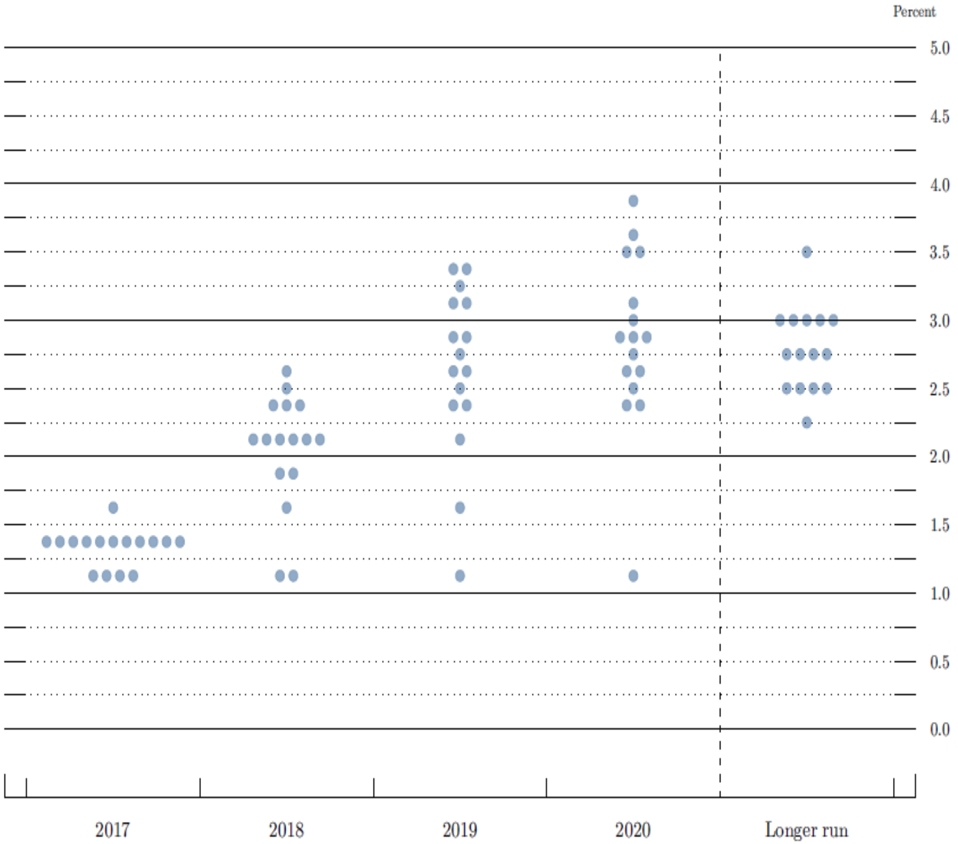
Source: Oxford Economics/Haver Analytics

The Outlook For Interest Rates

Years Of "Zero Bound" Rates May Be Coming To An End

- The Federal Reserve is going through changes and coupled with the underlying trends in the macro economy, we could see a more aggressive stance on policy rates in 2018
- The "Dot Plot" guidance from the Fed suggests increased rate hikes in 2018 and well into 2020

The Fed "Dot Plot": Federal Open Market Committee As of September 2017



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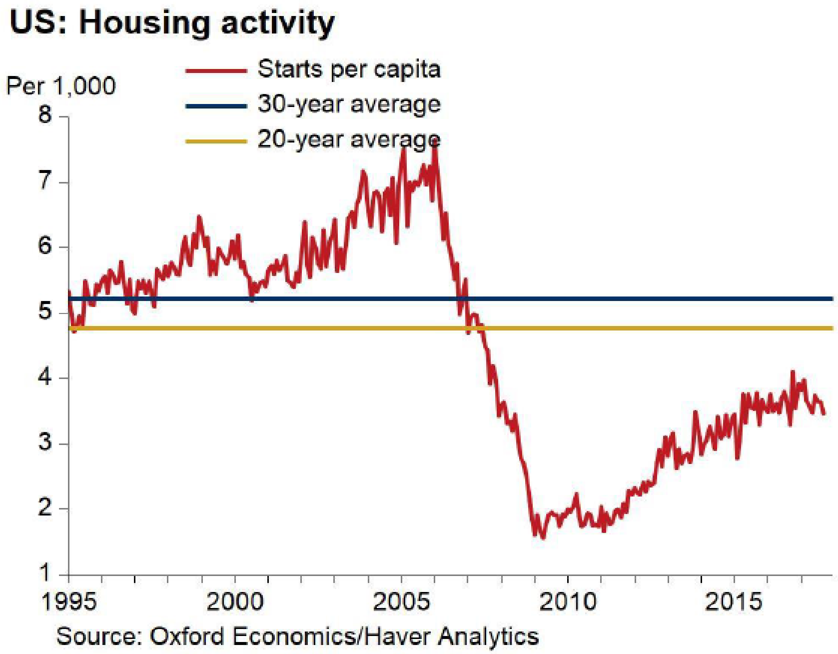
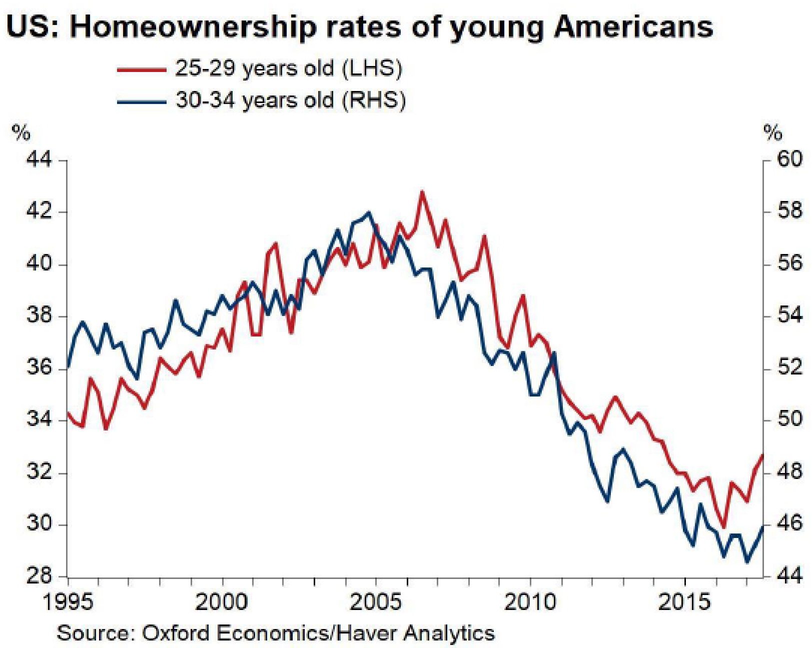
Financing Rates Are Reacting To Fed Policy

In The Past Year Alone We Have Seen A Substantial Increase In 30 Libor

A Look At U.S. Housing Market

There Are Various Drivers That Will Impact Housing In 2018 and Beyond





- **DRIVERS**
  - Labor market
  - Income growth
  - Interest Rates
  - Homeownership rates

- **HEADWINDS**
  - Inflation
  - Interest Rates
  - Demographics
  - Supply

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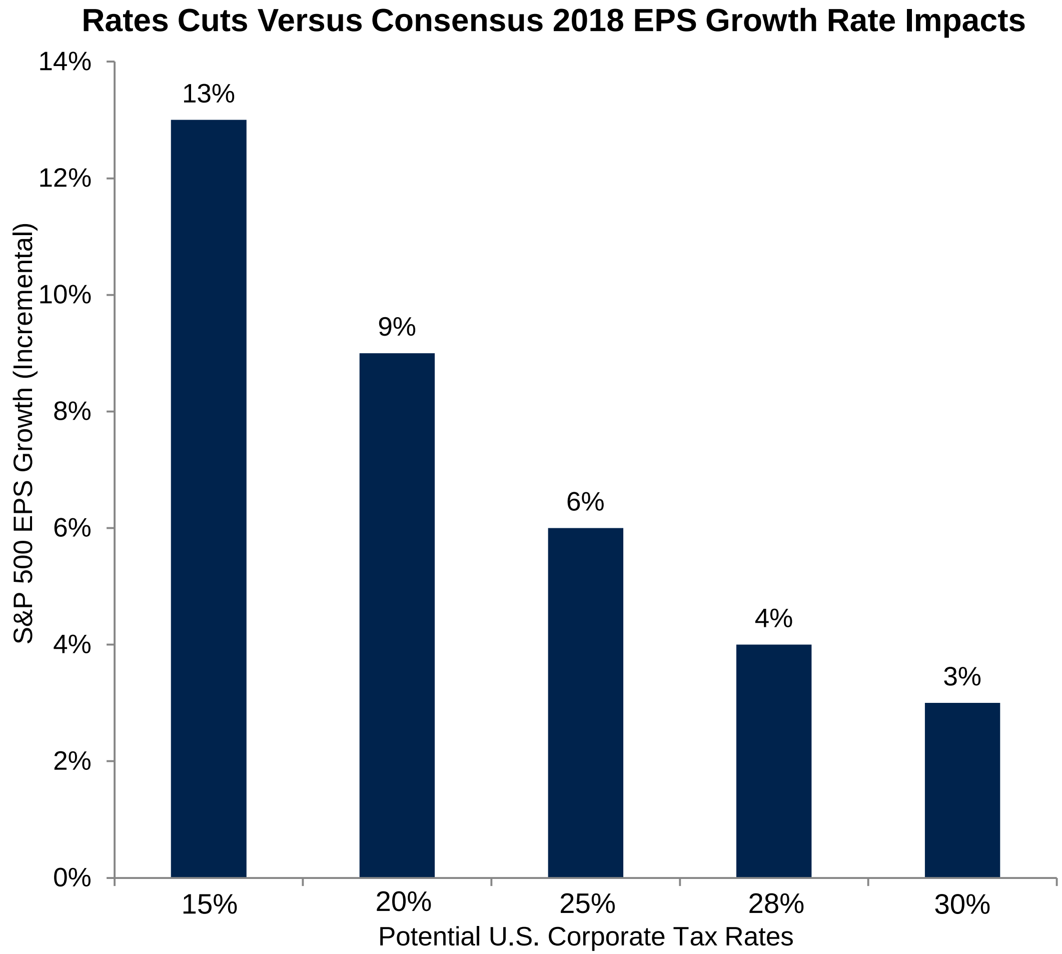
Equities

Tax Cuts or Reform Would Support Equity Valuations

- After a failed healthcare overhaul, Congress is turning its attention to U.S. tax policy. The heavy emphasis on reform of the corporate tax code makes this effort highly relevant for the stock market.
- Much of the valuation expansion since the November election is likely due to investors expecting improved corporate profits. More recently, it could be attributable to the market discounting the effects of the proposed fiscal package.
- **As the adjacent chart shows, a reduction from 35% to 20% in the corporate tax rate (as outlined in the GOP proposal) could increase profits meaningfully, and in turn, mitigate concerns about overvaluation.**
- Passage of a tax plan is far from assured, given its complexity and divisions within the Republican party. If no plan is passed, or the legislation is substantially diluted, this would be a negative for market sentiment.

Corporate Tax Cut: Potential Boost to Profits



Source: Wolfe Securities, as of 09.29.2017.

2018 Outlook

Commercial Real Estate

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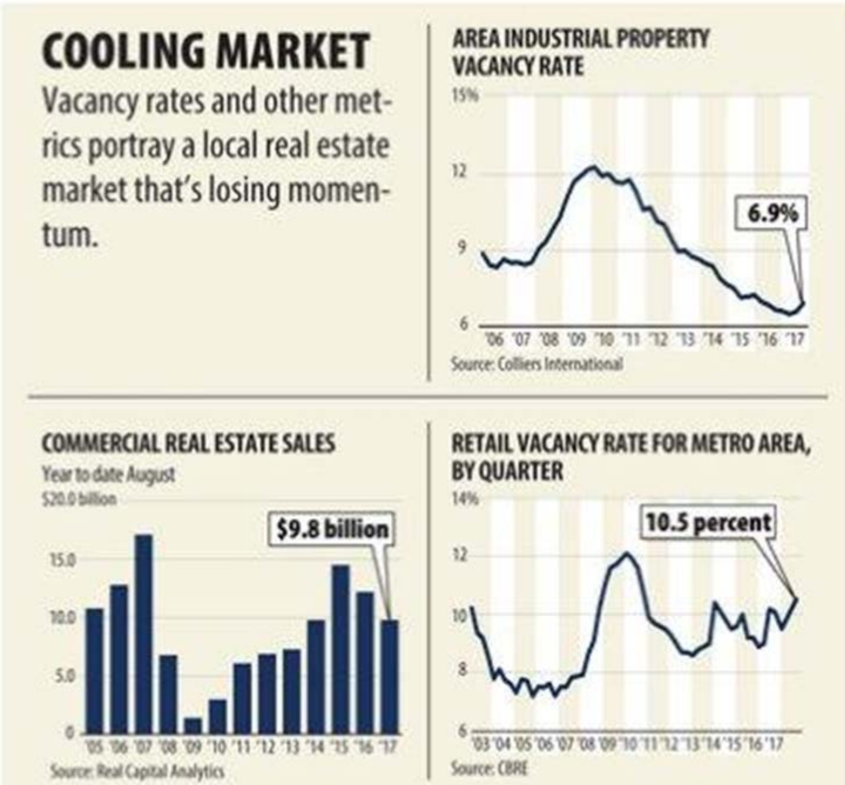
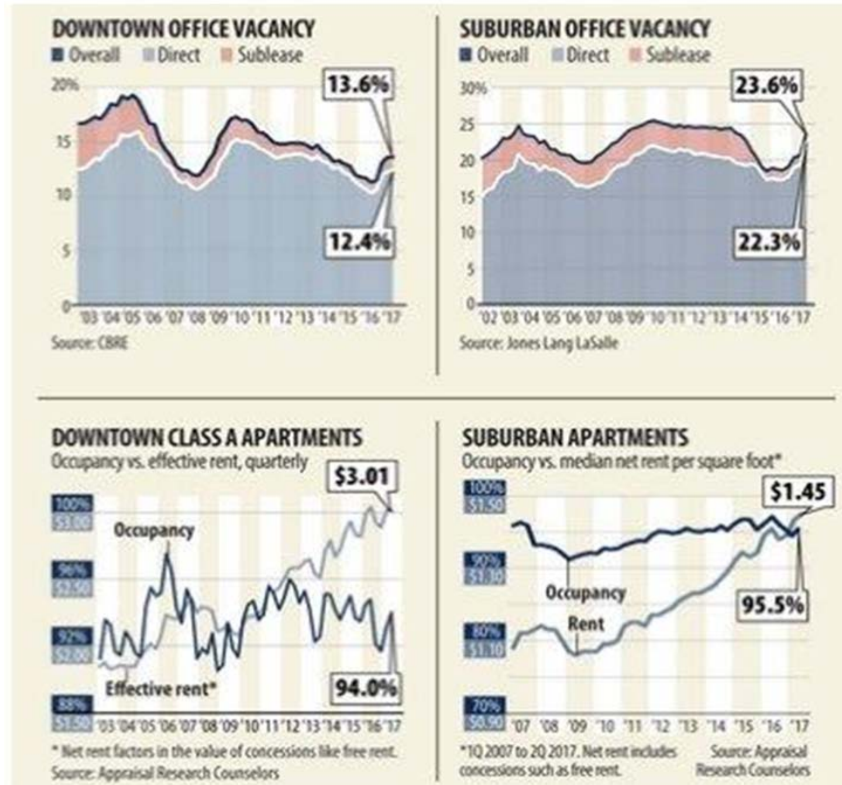
The Chicago Real Estate Market is normalizing

- After years of positive trends in the Chicago Real Estate Market, indicators are moderating
- Rent increases are slowing, vacancies are either leveling off or increasing
- Apartment construction is beginning to slow
- Investor demand for triple net industrial and warehouse leased properties continues to be strong
- Real Estate Allocations for High Net Worth Investors continues to climb
- Financing is active for new commercial real estate projects
- The market is in a state of equilibrium; we are in the later stages of the recovery

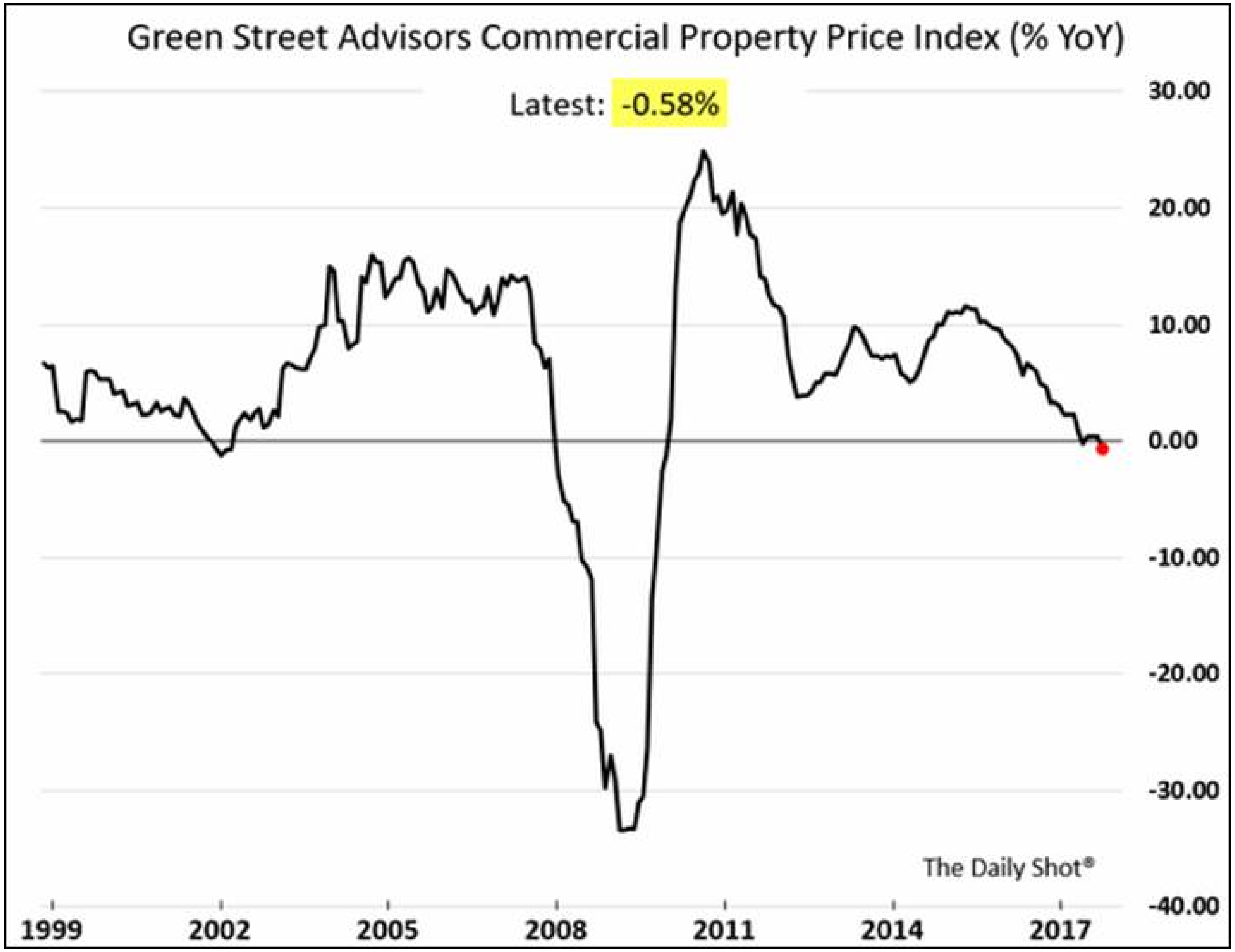
The market is slowing after years of growth





Source: Crain's Commercial Real Estate News November 3, 2017

The Commercial Property Price index has turned negative



The downturn in retail property prices has led the index down for the first time since the recession

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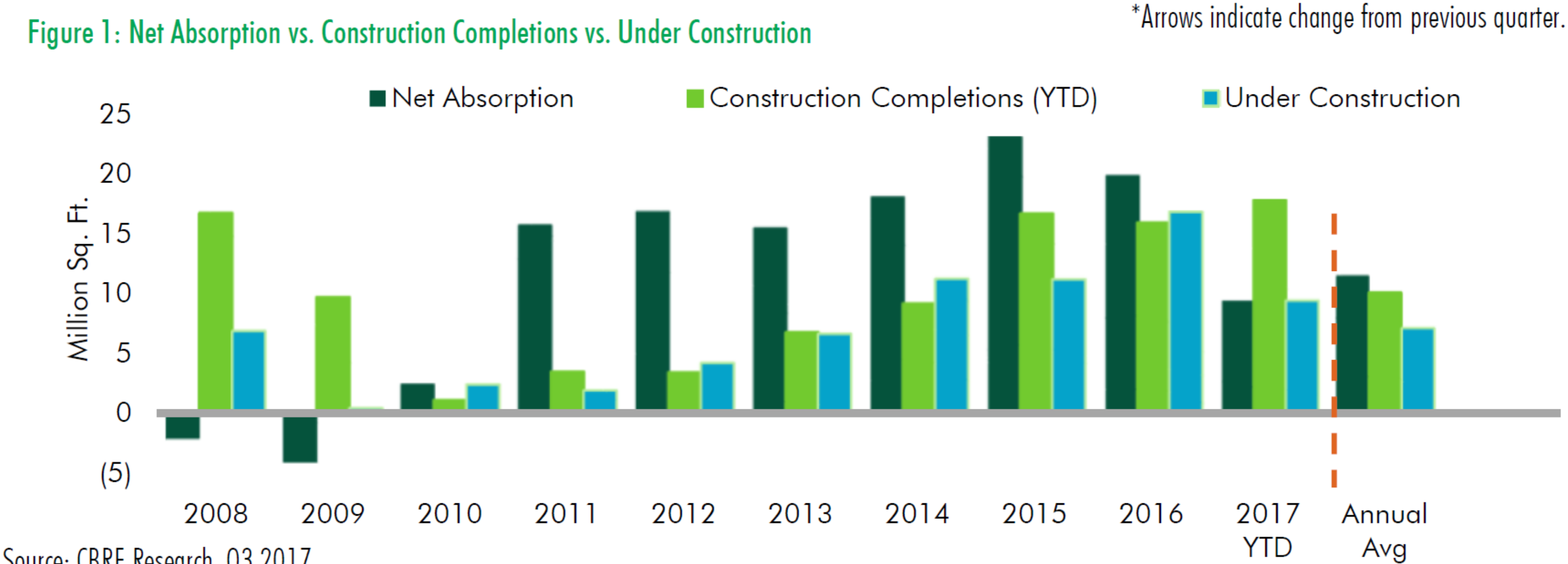
The market for industrial space remains solid

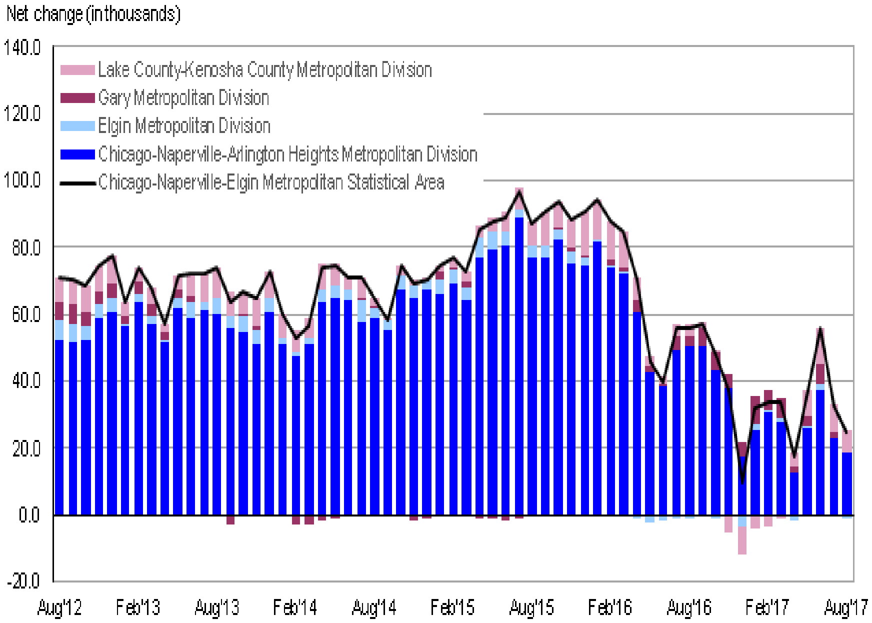


Source: CBRE Research, Q3 2017.

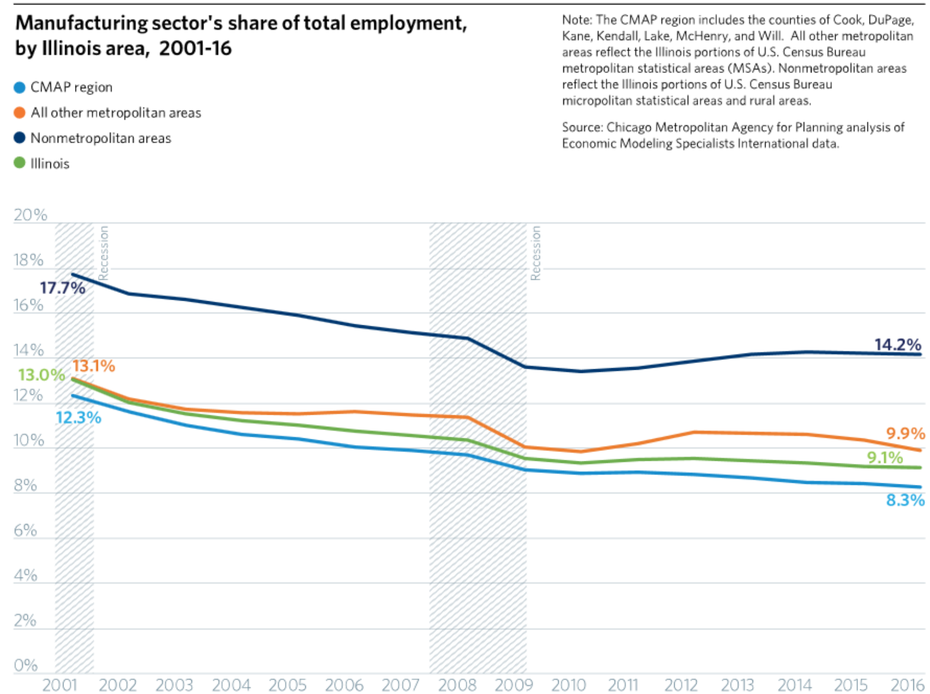
- Since 2010 the absorption of new industrial space in the Chicago region has been positive
- The demand for large blocks of Class A space exceeds supply
- The predominant users of space are transportation/logistics and manufacturing
- Investor demand for triple net leased properties continues to be strong

Employment in the region continues to be positive

Chart 1. Total nonfarm employment, over-the-year net change in the Chicago metropolitan area and its divisions, August 2012–August 2017



Source: U.S. Bureau of Labor Statistics.



Growth in commercial construction in 2018 and beyond is tied to the continued expansion of the greater Chicagoland economy

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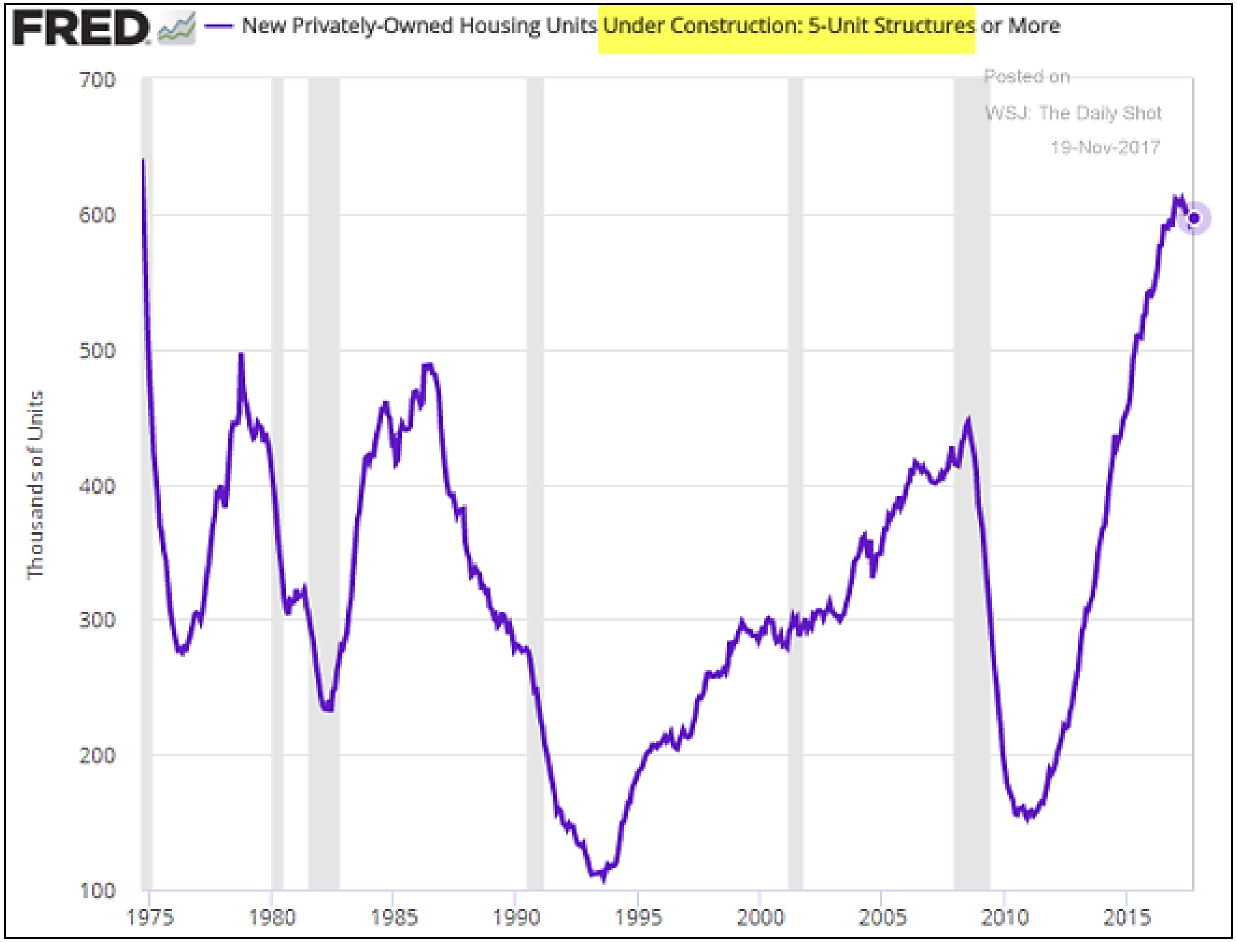
Multi-Family housing starts have peaked



Multi-Family construction is leveling off.

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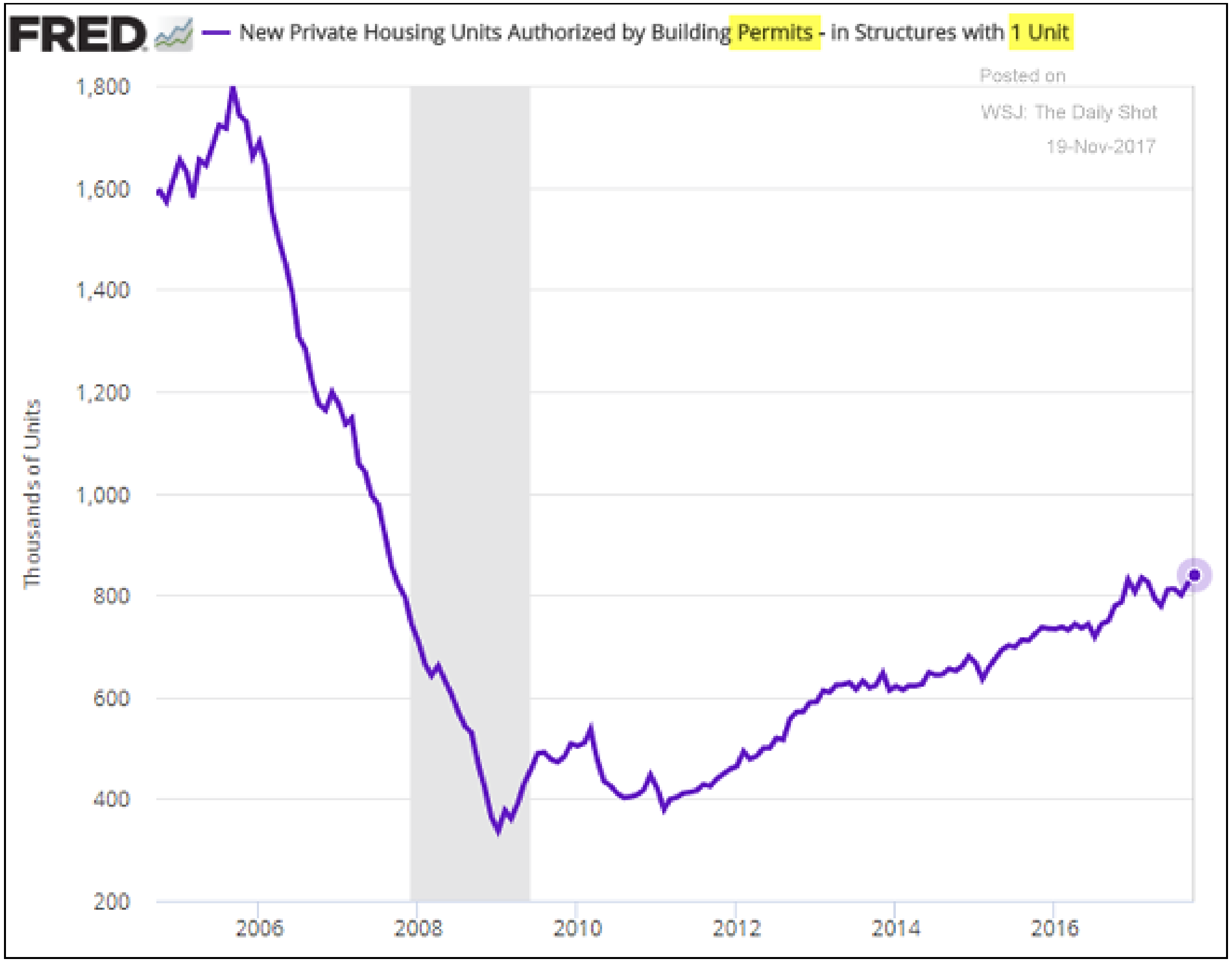
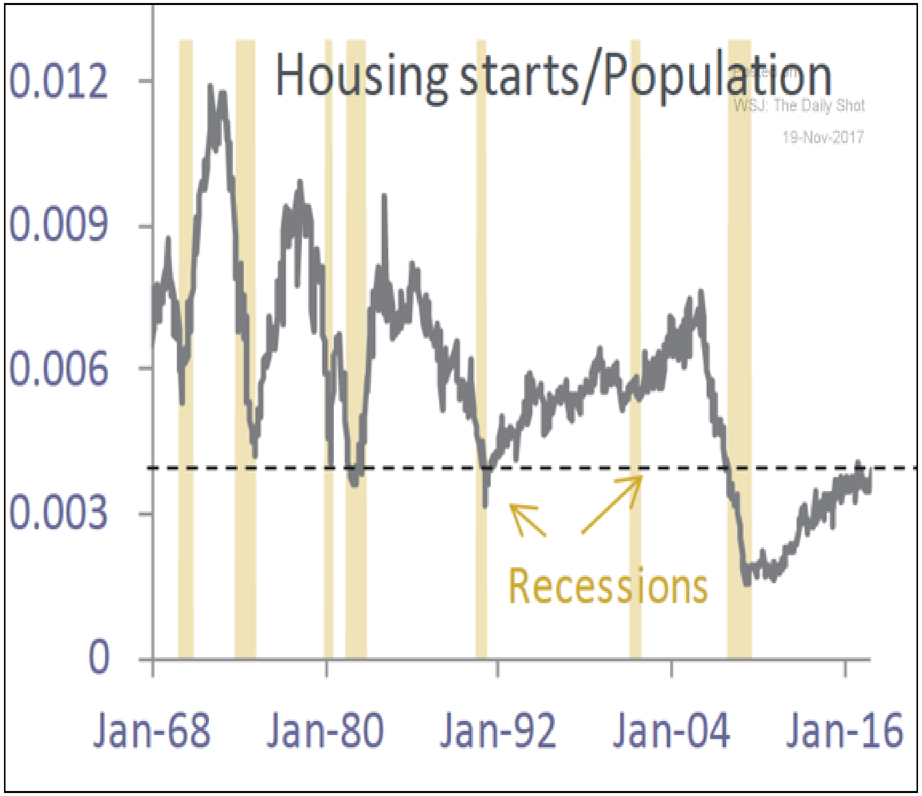
Single Family Home demand is improving



Single Family home construction continues to increase, especially at the starter home level.

The housing market is normalizing

Even with the larger number of housing starts, we are only getting back to a normal level of starts in comparison to our population.



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