Second Quarter 2017

Financial Markets Monitor

CIBC ATLANTIC TRUST
PRIVATE WEALTH MANAGEMENT

A Look Back: Market Scorecard

Q2 2017

2017: Off and Running

A weaker dollar and healthier growth abroad helped international stocks outperform in Q1. Long-term results have favored domestic equities.

Bond prices recovered after a late 2016 sell-off. High-yield bonds continue to trade in sympathy with equities.

Commodities were broadly volatile in the first quarter. Precious metals recovered some of the 2H 2016 weakness while crude oil prices weakened on rising inventories.

TOTAL RETURNS as of March 31, 2017

	Year-to-Date	Trailing 3-Year	Trailing 5-Year
Stocks			
U.S.	6.1%	10.3%	13.3%
Developed International	7.3%	0.5%	5.8%
Emerging Markets	11.4%	1.2%	0.8%
Bonds			
Long-Term Treasuries	1.4%	6.0%	4.2%
Intermediate Govt/Corp	0.8%	2.0%	1.9%
Corporate High-Yield	2.7%	4.6%	6.8%
Commodities			
Bloomberg Commodity Index	-2.3%	-13.9%	-9.5%
Oil (Brent)	-7.8%	-30.6%	-19.9%
Gold	8.0%	-1.6%	-6.3%

Source: FactSet, Bloomberg, L.P., MSCI.com as of 03.31.2017. 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.

2017 Investment Themes

- U.S. economic expansion is on solid ground, aided by improving growth trends overseas.

- Despite full valuations the equity bull market is intact, supported by:
  - Low recession risk and tame inflation
  - A gradual path for interest rate hikes by the Fed
  - Earnings growth, with potential upside from corporate tax cuts

- The ebullient post-election “Trump Trade” is over, and we anticipate a lower return profile for stocks in the months ahead.

- Policy outcomes a likely source of market focus and volatility:
  - There is a less-than-unified governing majority in Washington, D.C.
  - “Great expectations” on tax reform may disappoint.
  - Will silence on trade/protectionist issues continue?

U.S. Economy

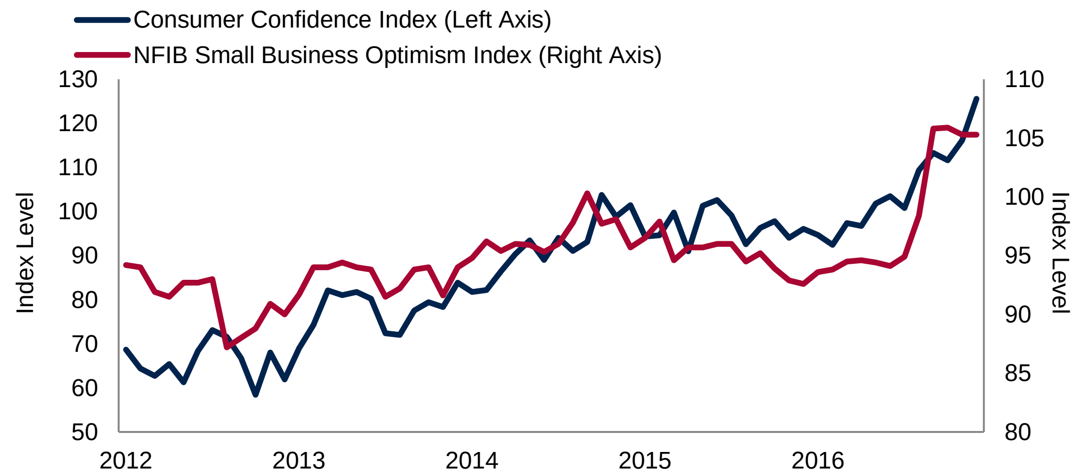
Will Action Follow Words?

- **Economic optimism has risen dramatically since the election. Hard economic data—while decent—has not yet reflected a significant acceleration in activity. A key question for the markets: Is the surge in sentiment a leading indicator of future strength or will it be unfulfilled hope?**

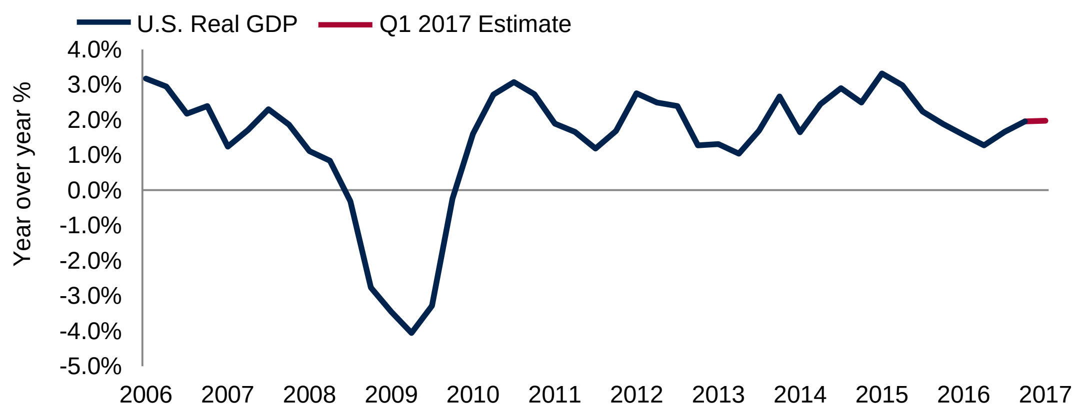
- Optimism has been driven by expectations of pro-growth deregulation and tax cuts. While the regulatory trend is likely to unfold favorably for business over time, the intensifying partisanship—and fractures within the GOP—may produce a tax package later than desired and short of the president's promise of "massive" tax cuts.

- Bottom line: Over the short and intermediate term, we view recession risk as low. Growth should accelerate a bit over the next year, but reports of an impending "boom" are greatly exaggerated. As a result, inflation should remain well contained, and the Fed can continue with its gradual pace of rate hikes.

Consumers and Businesses Express Rising Confidence…



…But This Has Not Translated into an Economic Surge.



Source: FactSet, Federal Reserve Bank of Atlanta estimates, data as of 3.31.2017.

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Global Economy

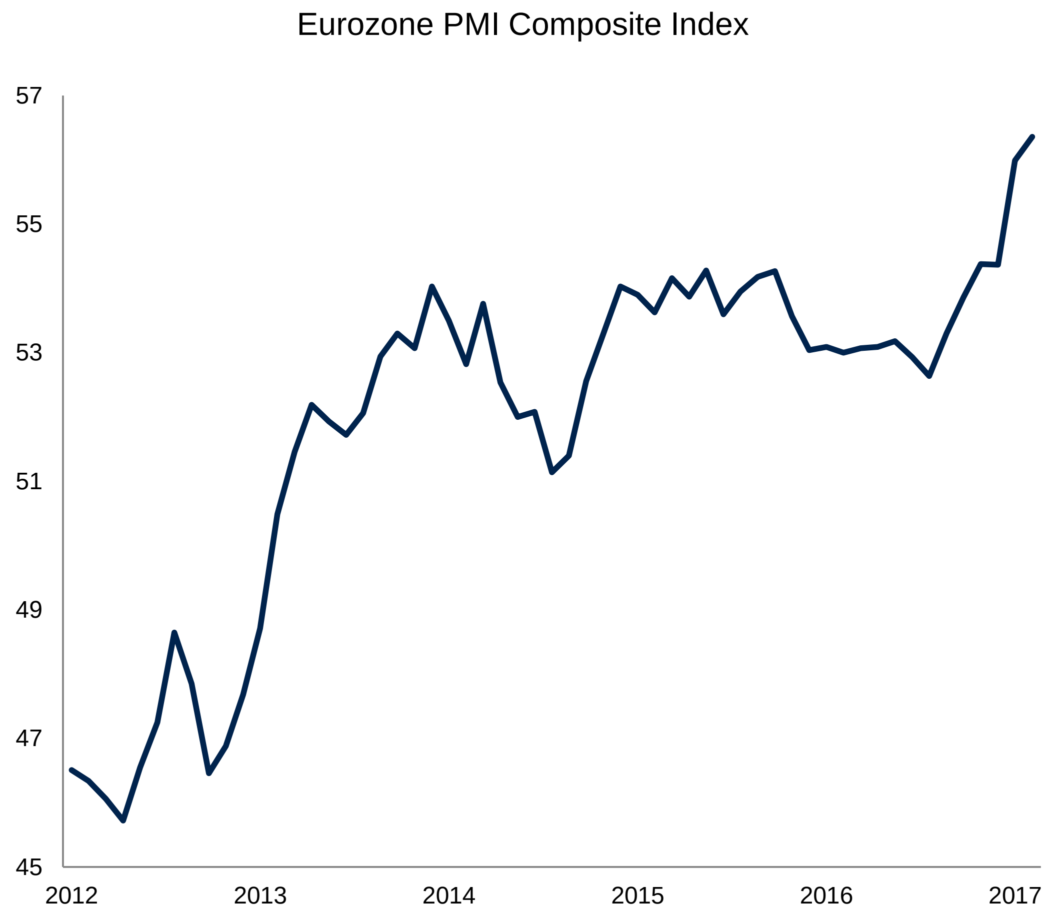
Most Global Growth Trends Flashing Green

- **Economic news flowing from Europe has been the most consistently positive in almost a decade. The risk of deflation, which has hung over the continent for several years, is receding.**

- Risks of a disruptive populist insurgency in European elections have diminished somewhat. While polls cannot be relied on too heavily, they have moved toward a centrist presidential candidate in France and the two mainstream candidates for German chancellor.*

- Growth in China remains solid. However, rising interest rates from the central bank and an effort to rein in credit excesses will probably lead to a slowdown later in the year. The relative weakness seen in commodity prices may be a leading indicator.

Strong Industrial Activity in the Eurozone



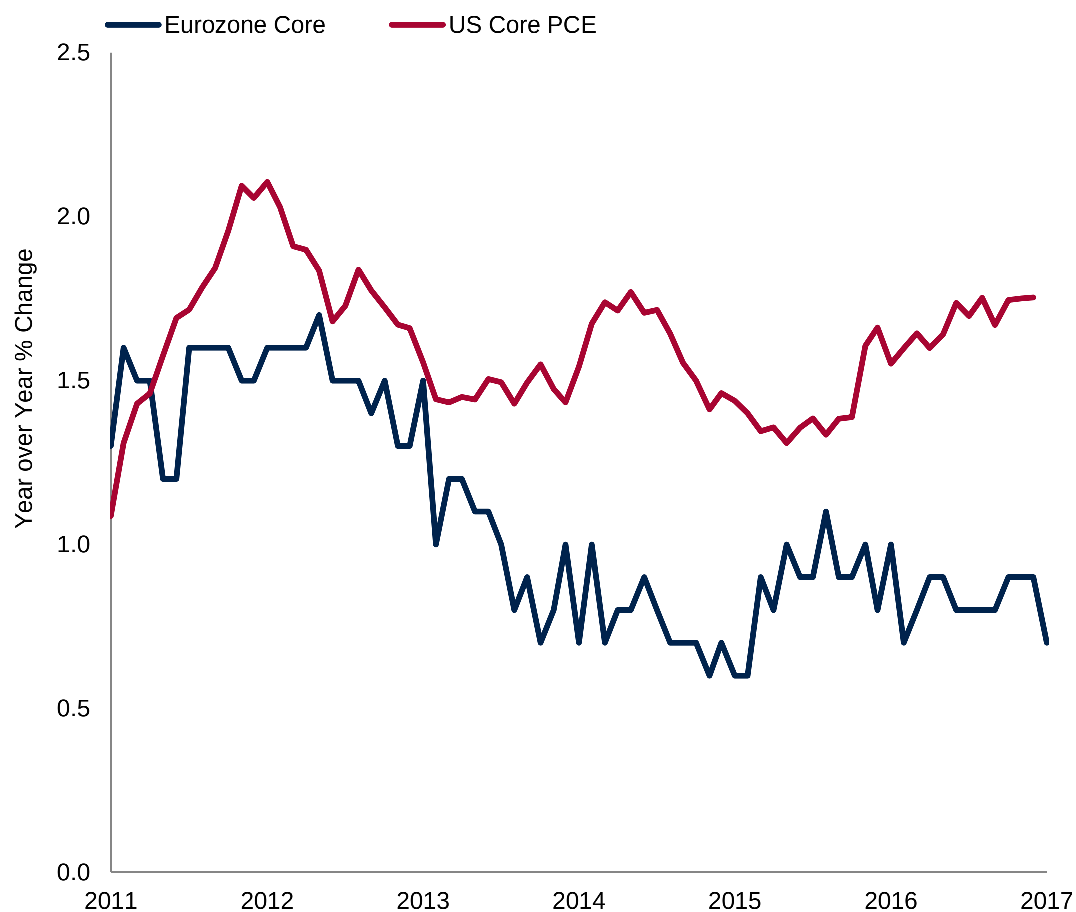
Source: FactSet, data as of 3.31.2017.
**Source: Strategas Quarterly Review in Charts, 4.03.2017*

Monetary Policy

Converging Global Policies?

- In March, the FOMC's move to raise rates was accompanied by an unchanged set of projections through the end of 2017 and 2018, and included no guidance on the size of the Fed's balance sheet.
- Concurrently, improved economic data within the euro area has led the market to increase its expectations for asset purchase tapering and/or higher rates by the ECB in the coming months.
- Why is this important? A convergence of policies and interest rates between the U.S. and the rest of the developed world could reverse a key support for U.S. rate markets. Low global yields relative to the U.S. led to strong demand for dollar-denominated fixed income securities over the past several years.
- **It may be a little early for this particular theme to take hold, however. While data has improved in the EU, the inflation and employment stories in the U.S. remain more advanced and will likely lead to a faster pace of tightening by the Fed.**

Core Inflation, Year-over-Year



Source: Bloomberg as of 3.31.2017.

Credit

Corporate Credit Strategies Remain Viable

- The high-yield corporate sector has been a strong performer since early 2016, thanks in large part to a recovery in energy. Credit spreads approached the mid-2014 low, which coincided with crude prices over $100/barrel.
- **Recent widening of credit spreads against the backdrop of lower oil prices and Fed tightening led some to wonder if high yield was on the verge of another correction.**
- Unlike the 2014 episode, the corporate energy sector and high yield more generally are moving coincidentally with equities and other post-election outperformers.
- The composition of today's high-yield energy market is also different. Only four of the top 10 HY energy issuers from June 2014 remain index-eligible. Upgrades, M&A and defaults have claimed the other six issuers.
- We see high yield as fairly valued based on an expectation for further declines in defaults by lower-quality borrowers. Within enhanced yield, we continue to prefer vehicles with greater floating rate exposure such as bank loans and certain sectors of the mortgage market.

High-Yield Corporate Bond Spread over Treasuries

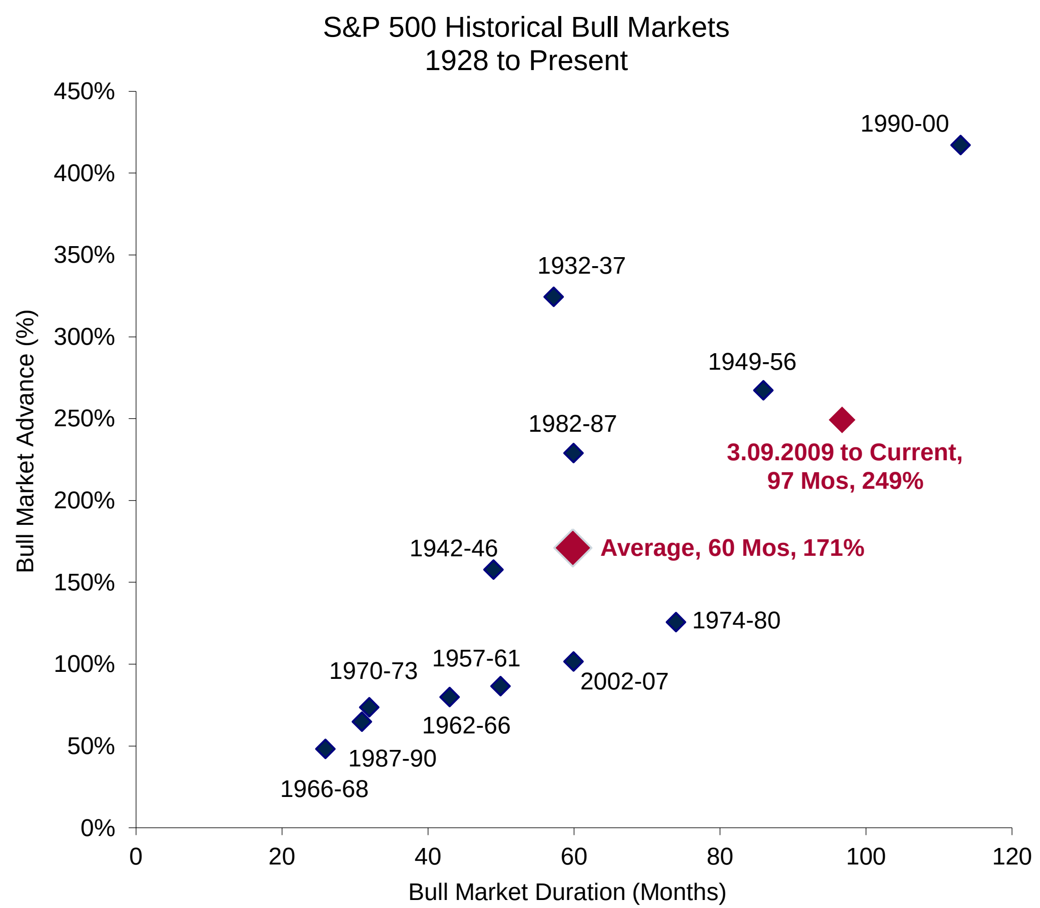
Source: Bloomberg as of 3.31.2017.

Equities

Profits Support an Aging Bull Market

- **On March 9, the current equity bull market turned eight years old. This makes the current run the second-longest bull market in history. Over this period, stocks (as represented by the S&P 500 index) returned 250% (19% annualized) when incorporating dividends.**
- Fortunately, bull markets don't die of old age. They deteriorate due to worsening economic and market fundamentals. Few of those adverse factors are present today.
- Perhaps a blessing in disguise is that the economic recovery from 2008-2009 has been the shallowest in 70 years. Therefore, few economic excesses have built up and the economy is not yet showing signs of overheating. This will likely assist in extending the equity bull market.
- Corporate profits are rising after a sluggish 2016. This trend is key to sustaining the bull market.

Despite Its Longevity, Bull Market to Continue



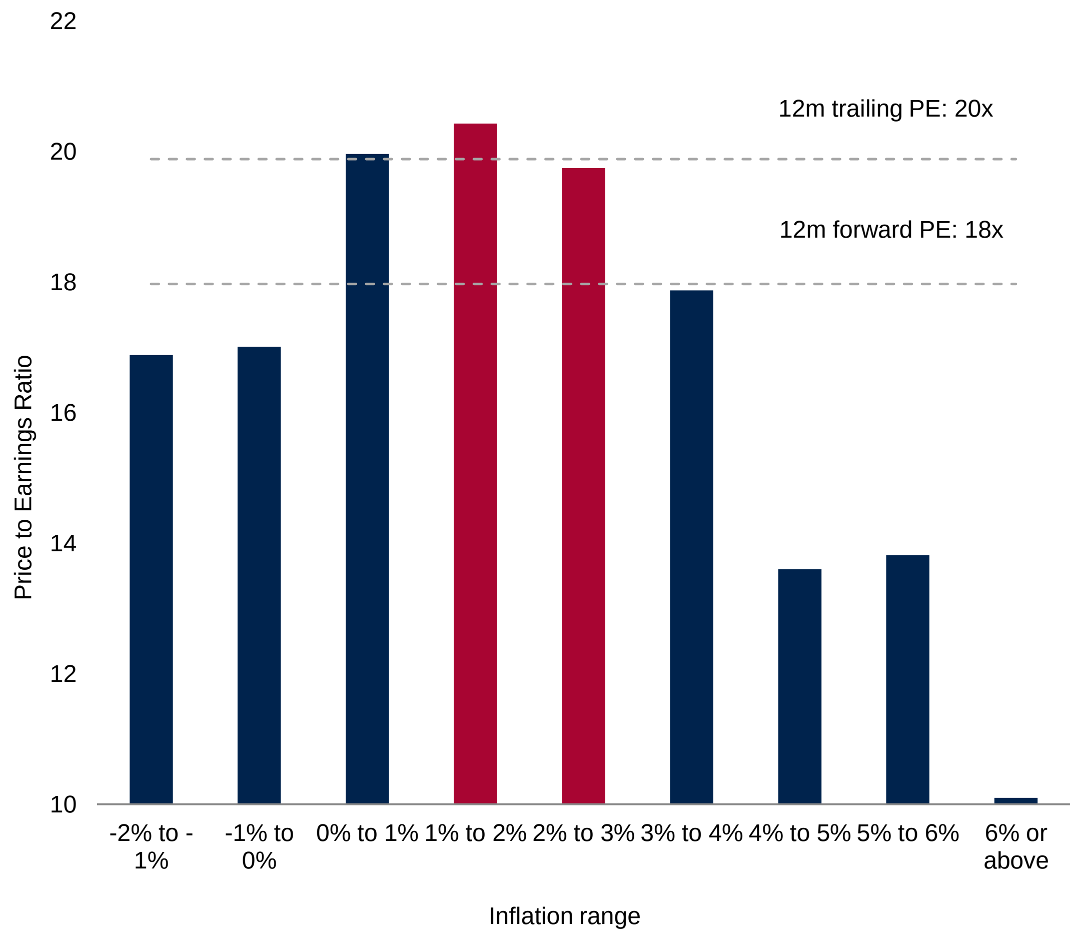
Source: Strategas as of 3.31.2017.

Equities

Valuations

- Current equity valuations are above the historical averages. Future performance will need to be driven by earnings rather than multiple expansion.
- **When valuing equities in the context of the inflation environment, P/E ratios are reasonable.**
- Relative to bonds, we believe equities look attractive. The equity risk premium remains elevated even when factoring in the rise in bond yields since the election.
- We believe that economic and profit growth will sustain the bull market. However, full valuations point to more subdued returns.

The Market's Not Cheap…But Defensible if Earnings Grow



Time Series: U.S. Average Trailing PE, 1972—Present. Source: Robert J. Shiller, Thomson Reuters, Credit Suisse research. Data as of 03.31.2017.

Focus Chart

Q2 2017

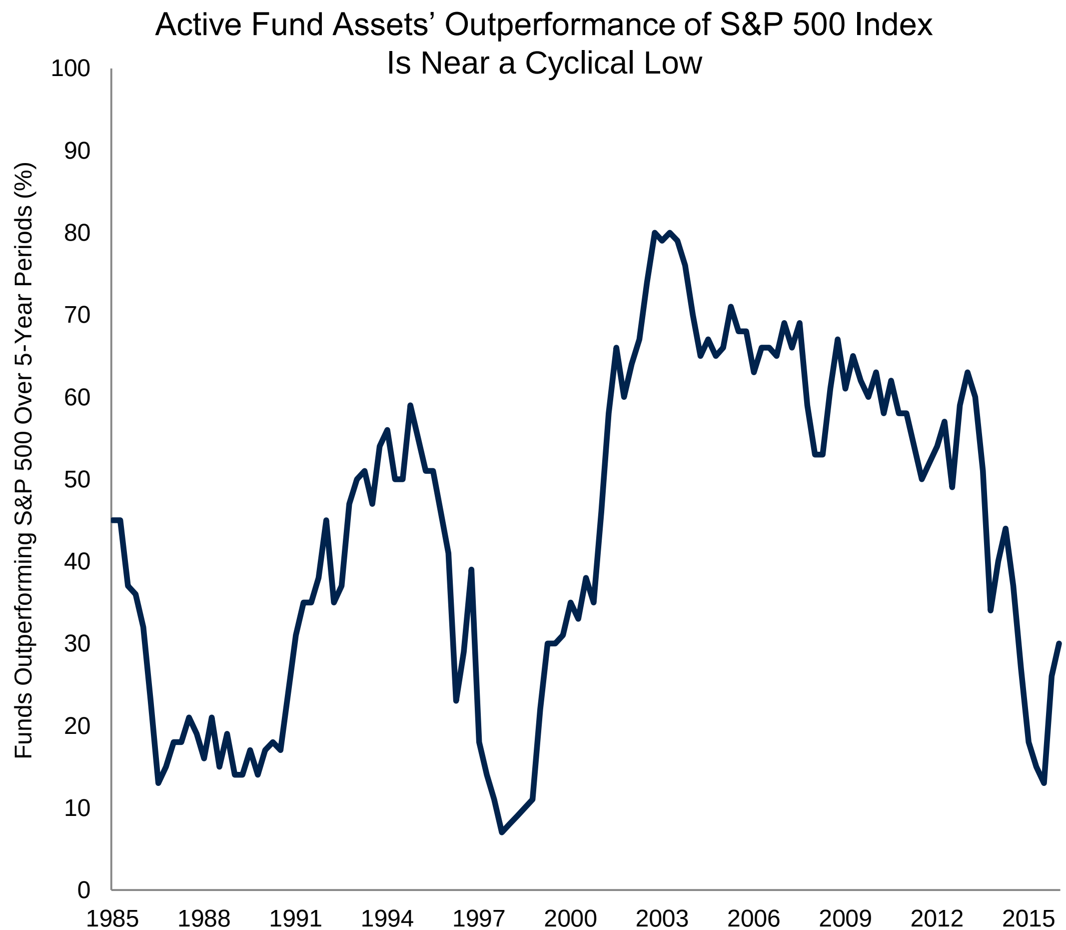
Passive-Aggressive: A Performance Perspective on Indexing and ETFs

- **Investors have been increasingly attracted to index mutual funds or ETFs that mimic market returns. Perceptions that they perform better than actively managed strategies is at the core of their popularity. A long-term view suggests a more cyclical relationship, with many periods where most active managers outperform.**

- We believe a key driver of this cyclical relationship is the direction of Fed policy and interest rates. Passive strategies excel in easy money, low interest rate environments—exactly where we have been for the last several years. The next few years are likely to be the opposite: tighter monetary policy and rising rates. A "reversion to the mean" is likely in the active/passive performance derby.

- Not captured here is risk management. Active managers have the ability to mitigate portfolio risk, whereas indexes must live with the embedded volatility.

Active vs. Passive: A Cyclical Relationship



Source: FactSet Style, Performance and Risk (SPAR). Data as of 12.31.2016.

Portfolio Takeaways

Q2 2017

ASSET CLASS	FUNDAMENTAL ASSESSMENT	ASSET ALLOCATION VIEW
U.S. Equities	Economic expansion is sustainable	Overweight U.S. equities vs. fixed income
	Moderate growth in corporate profits	Full valuations keep a lid on upside potential; expect single-digit market gains
	Policy volatility may produce market volatility	After lagging in Q1, small-/mid-cap equities relatively attractive
International Equities	Better economic news and perceived lower political risk supported Europe in Q1	Overweight U.S. vs. International equities
	Likely stronger dollar will diminish international equity returns for U.S.-based investors	Recent emerging market surge not likely sustainable
Fixed Income	Fed guidance toward slow but steady rate hikes	Below-average duration recommended as yields expected to rise
	Municipal and corporate credit sectors exposed to tax cut debate	Enhanced yield strategies, especially those with floating rates, should outperform

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