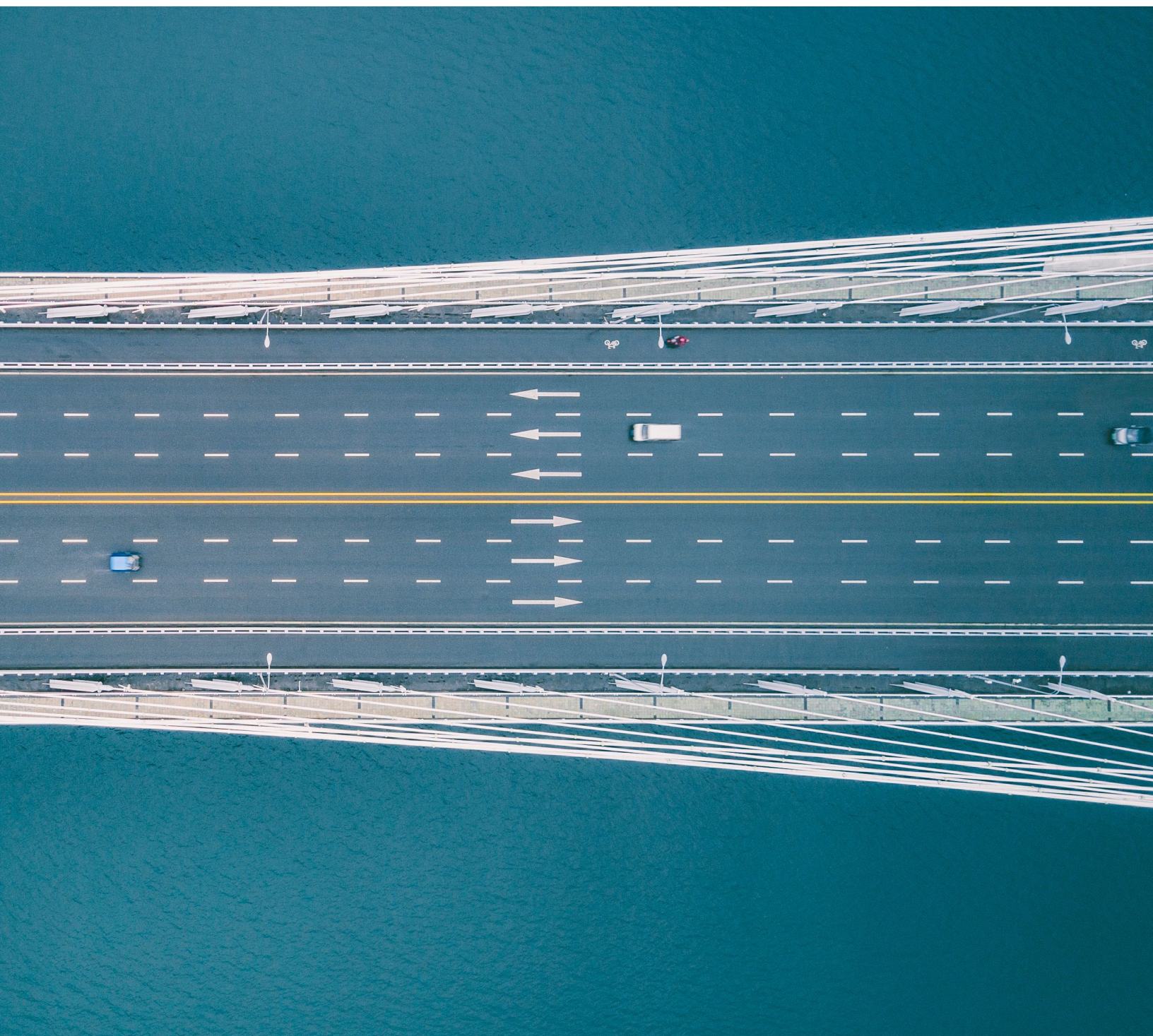


Perspectives

Quarterly economic views and asset class outlook

Winter 2025





Overall, the global economy has scope to deliver decent growth in 2025.



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Cautious optimism alongside elevated tariff risks

Welcome to the 2025 winter edition of Perspectives

With the return of Donald Trump to the White House, we are experiencing particularly uncertain times. From a fundamental viewpoint, the US economy remains resilient. Activity is expected to broaden with investment spending likely to join the consumer in delivering healthy, trend-like growth. Other developed economies haven't yet delivered the gross domestic product (GDP) growth recovery we expected. But there are tentative signs that this is changing—particularly in Canada. Thanks to aggressive policy easing by the Bank of Canada (BoC), robust real incomes and signs of improvement in residential construction, we expect a meaningful growth recovery in the second half of the year. We also foresee a modest improvement in Europe. By contrast, we remain relatively pessimistic regarding the economic outlook in China. Overall, the global economy has scope to deliver decent growth in 2025, with less reliance on the US.

Also based upon economic fundamentals, global inflation is likely to continue its gradual path lower. That said, in the US there are several factors—some cyclical, related to the growth outlook, and others more structural—that will keep inflation sticky and at least several tenths above the US Federal Reserve's (Fed) 2% policy target throughout 2025. Putting the pieces together, a combination of decent growth in the US and slightly elevated inflation likely mean we're closer to the end of the Fed's rate cutting cycle than its start. By contrast, we expect the BoC the European Central Bank (ECB) to keep reducing interest rates for longer than the Fed. Decent economic growth can drive corporate earnings higher and deliver another year of positive equity returns. Bonds look attractive too given the relatively high level of starting yields. They also serve as a source of purposeful portfolio diversification which is always an attractive feature. This is particularly true in a world like today with heightened uncertainty and a broader range of possible outcomes for the economy and markets.

There are always risks to any forecast and this is certainly the case today. Our constructive fundamental view assumes an increase in tariffs imposed on US imports from China, as well as some tariffs on a limited set of Canadian exports, amongst other countries. At the beginning of February, the validity of this assumption came into question when the US announced far more stringent tariffs than expected on both Canada and Mexico. As of February 3, 2025, implementation of these tariffs was postponed for one month. Tariffs are equivalent to a tax hike and are negative for growth. This is true for Canada. And because of extensive integration between American and Canadian supply chains, an extended period of punitive US tariffs will likely also inflict pain on the US economy—including auto producers and consumers. Tariffs would also likely cause a temporary boost in US inflation. Under the risk of more significant

tariffs, the US dollar is likely to gain further strength while the Loonie would likely come under additional pressure, pushing it well below current levels.

Because of their painful economic—and political—consequences, we expect that the majority of any US tariffs ultimately levied on Canadian goods will be short lived. This means the negative hit to Canadian and US growth could be limited and our constructive fundamental view for the global economy and financial markets could prevail relatively intact. That said, the policy environment is highly uncertain and far less predictable than usual. Unfortunately, a heightened tariff risk will likely remain for the foreseeable future. In this context, it's particularly important for investors to stay disciplined and focus on long-term objectives. Attempting to time exposure to markets often proves to be unhelpful for long-term investment results. In periods like these, we expect to benefit from having prepared portfolios by maintaining a well-diversified asset allocation that encompasses a purposeful mix of asset classes, geographies and styles.

Three handwritten signatures in black ink, arranged horizontally. The first signature on the left is 'Richard Legg'. The middle signature is 'F. C. T. S.'. The signature on the right is 'J. J.'.

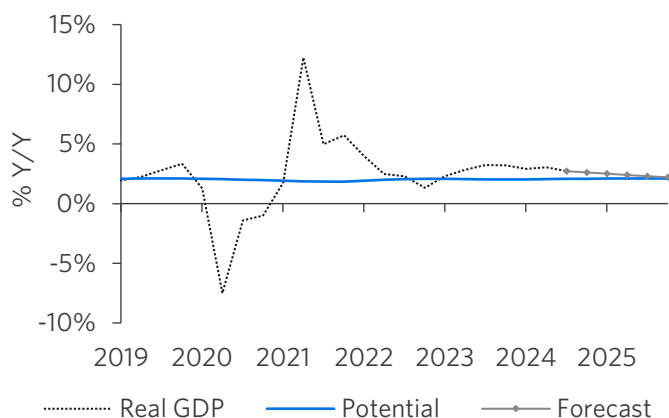
Global markets strategy

Continued expansion, US policy agenda is the wild-card

The global economy is expected to continue its expansion in 2025. This will be led by the US, for which growth is expected to remain resilient and grow broadly in line with its long-term trend. Economic recovery outside the US is proceeding at a slower pace than we expected, particularly in Europe and China. Overall, our economic forecasts paint the picture of a global economy that is gradually reverting back to its equilibrium trend. There are currently no major economic dislocations—although there are regional divergences. Our baseline scenario doesn't forecast any significant shift in the cycle.

US economy expected to settle near potential growth rate

US real GDP growth



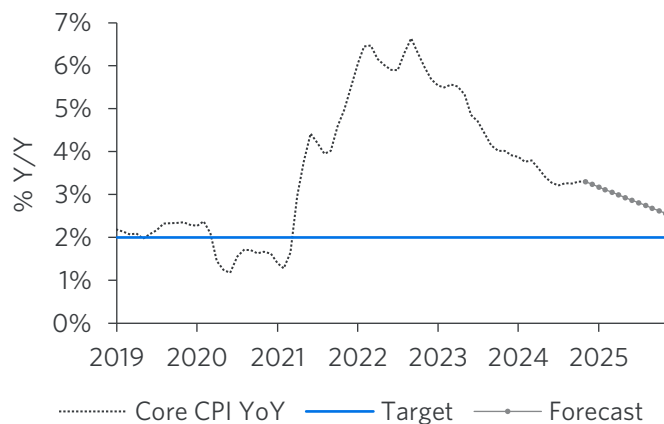
Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at January 4, 2025.

In the context of this benign economic outlook, the Trump administration's policy agenda could be the tipping factor that either pushes the economy to overheat or causes it to unexpectedly slow to a sub-trend growth rate. The US elections delivered a significant Republican victory with the GOP winning the White House, the Senate and the House of Representatives. This will give President Trump political leeway to implement his policy agenda. That being said, it remains to be seen how far he'll push some of his campaign pledges. His program is filled with contradictions. For example, he wants to bring down inflation and generate strong economic growth, but his plans for tariffs and immigration are likely to have the opposite effect. Given that the balance of power could easily shift in the 2026 mid-term election, Trump will have to move carefully to avoid causing more harm than good. Overall, we expect the net impact of policy initiatives to result in a small drag on growth and some limited upward pressure on inflation.

Overall, our outlook of resilient US GDP growth and sticky inflation implies a stronger-for-longer US dollar, higher interest rates along the yield curve than would otherwise have been the case, a steeper yield curve and a likely near-term continuation of equity market outperformance, albeit at a slower pace than observed in 2023 and 2024. Some of these expected market shifts have already been priced into markets since late September 2024—notably in the US Treasury market, where participants have removed about 130 basis points (bps) of previously expected Fed rate cuts. This leaves only a modest further reduction in rates expected in 2025. As a result, we expect yields to remain in a range for this year and bonds to deliver mid-single digits returns.

US inflation decelerating but still above target

US core CPI



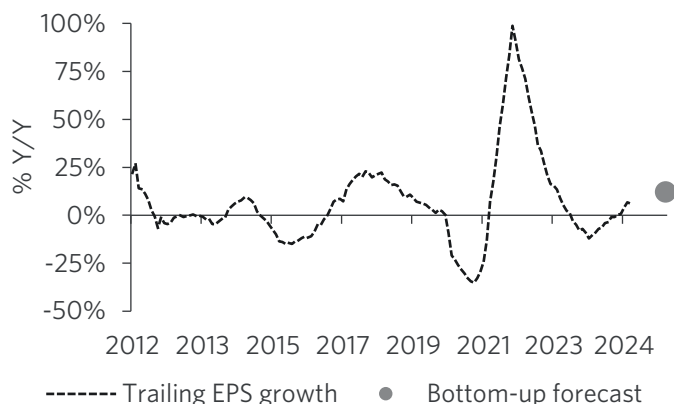
Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at January 4, 2025.

Further equity returns will likely be driven by earnings growth, which should remain resilient as long as the economy evolves consistent with our baseline scenario. Given the limited scope for equity outperformance and the negative balance of risks induced by the Trump administration, we maintain a tactical neutral stance in equities versus fixed income and continue to focus on relative strategies within each asset class. We closed our overweight in emerging market (EM) equities prior to the US election to lock in profits and manage political risk. We reduced our underweight in international equities and maintained an unchanged overweight position in Canadian equities—which are benefiting from the rapid easing in monetary policy amid signs that the domestic economy is stabilizing. In fixed income, we maintained an overweight in global bonds versus an underweight in Canadian bonds, reflecting a moderate carry pick-up. Notably, the spread between Canadian and US 10-year yields is at an all time high.

Global equities: Expect moderate positive returns driven by earnings growth

Canadian equities performed strongly over the last few months which leaves them vulnerable to a short-term pull back. Valuation is less attractive than it previously was, but interest rates are falling at a faster pace than P/E ratios are rising, resulting in an increase of the equity risk premium—which is positive. Where Canada stands out is an upbeat outlook for sales and corporate earnings expectations in relative terms over the next year. Both are currently low, which leaves room for some upside surprise, given that our forecast for the Canadian economy is more upbeat than the consensus.

Canadian earnings are solid but unspectacular TSX earnings growth



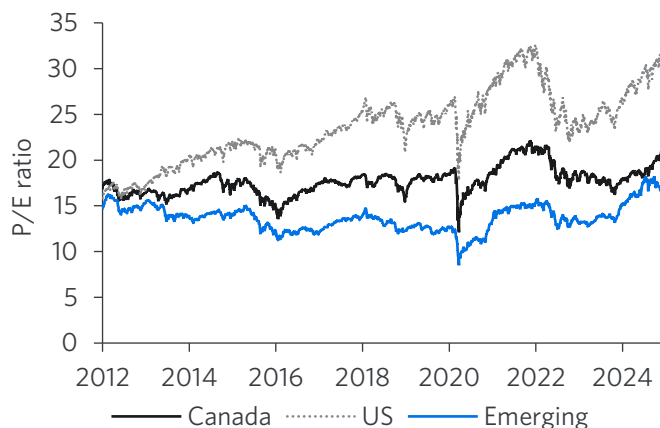
Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at September 30, 2024.

US stocks reacted positively after the US elections. Taking into account performance since the beginning of 2023, US equities have been rising at a pace far above the growth rate of the economy. This isn't sustainable over long sweeps of time. As a result, valuation appears increasingly expensive, making the market more vulnerable to potential earnings disappointment or unexpected upside pressures on yields. That said, there are also upside risks to equity returns from resilient economic growth and a potentially positive impact on margins from a faster adoption of artificial intelligence (AI). As such, with two-sided risks, we prefer to maintain a neutral tactical position on US equities.

EM equities underperformed their global peers in the post-election period, weighed down by renewed political uncertainty and a strengthening US dollar (USD). Both factors present challenges to the policy outlook for many EM economies. Chinese equities also remain under pressure post-election. China is likely to be the main target for US tariffs. Despite persistent signs of weakening domestic demand, Chinese authorities have so far done no more than minimize further downside growth risks. The risk is that EM will be adversely

affected by negative spillovers from China and political uncertainty. For the near future, we intend to stay neutral EM equities until we see some evidence of positive catalysts.

Equity valuations are rising Cyclically-adjusted P/E ratio



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at December 31, 2024.

Global fixed income: Bond yields are expected to trade in a range

Global bond market performance was slightly negative in Q4 2024. The WGBI Index (Canadian dollar hedged) lost 95 bps during the period. Bond market performance was less synchronized across countries in Q4 than had been the case recently. European bonds were outperformers as the eurozone economy continued to disappoint and ECB turned more dovish. Latin America bonds underperformed mainly due to idiosyncratic factors such as disappointing fiscal reform announcements in Brazil. And in the US, the "Trump trade" and better than expected US economic data pushed US Treasury yields higher, completely unwinding the decline seen in Q3 2024. This resulted in losses on US Treasuries. Over the next 12 months, US 10-year bond yields will most likely fluctuate in a wide range of 3.25% to 5.00%, with an equilibrium around 4.25%. Following their recent rise, yields are now in the upper half of this range. Elsewhere, credit spreads on global high yield bonds and EM USD bonds remain too tight to provide any buffer in the case of an unexpected economic slowdown.

CIBC AM Risk Indicator

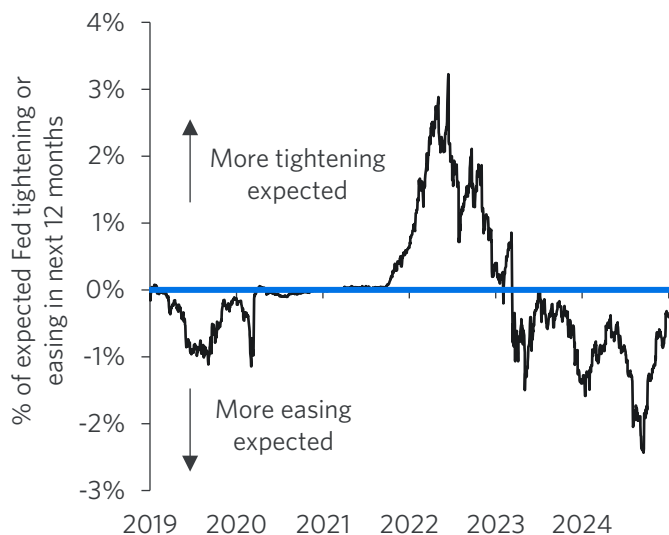
Multi-asset outlook

Asset class	Current 31-Dec-24	Most likely range for the next 12 months	
		Minimum	Maximum
Canada 3-Month T-Bills Rate	3.25%	2.25%	3.25%
Canada 2-Year Government Bond Yield	2.93%	2.55%	3.05%
Canada 10-Year Government Bond Yield	3.23%	3.00%	3.50%
US 10-Year Government Bond Yield	4.57%	3.25%	5.00%
Germany 10-Year Government Bond Yield	2.36%	1.50%	3.00%
Japan 10-Year government Bond Yield	1.09%	0.65%	1.50%
Canada Investment Grade Corporate Spreads	0.98%	0.80%	1.30%
US High Yield Corporate Spreads	2.67%	2.50%	3.50%
EM Sovereign (USD dominated) Bond Spreads	297	250	500
S&P/TSX Price Index	24,728	23,300	28,300
S&P 500 Price Index	5,882	5,350	6,500
Euro Stoxx 50 Price Index	4,896	4,550	5,550
Japan Topix Price Index	2,785	2,625	3,175
MSCI Emerging Markets	68,031	64,000	77,500
USD/CAD	1.4384	1.350	1.490
EUR/USD	1.0354	1.00	1.100
USD/JPY	157.20	142.00	162.00
USD/CNH	7.34	6.80	7.50
Gold	2,625	2,500	3,000
Oil price, WTI	71.72	55.00	85.00

Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at December 31, 2024.

Markets have priced out expected Fed easing

1-year expected change in Fed funds rate

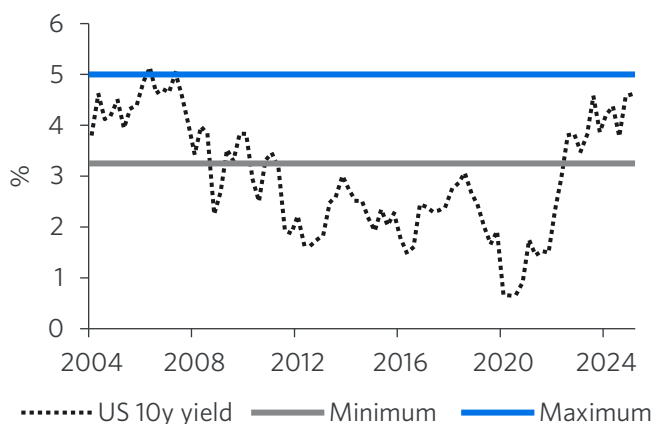


Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

We maintain a balanced portfolio in our global bond strategy, combining positions in a set of attractive pro-cyclical bonds—for instance, Brazil and Chile—with more defensive positioning, including Japan and New Zealand. We favour an underweight in developed markets like the eurozone and Canada where valuation seems stretched by historical standards. We're selectively overweight in EM local currency bonds, preferring markets with high carry and good valuation like Brazil and Chile. We have low appetite for EM USD bonds because valuation is too rich considering the under-priced risks of a global slowdown.

Bond yields expected to trade in a range

US 10-year Treasury yield



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at December 31, 2024.

Currencies

US dollar: Stronger for longer

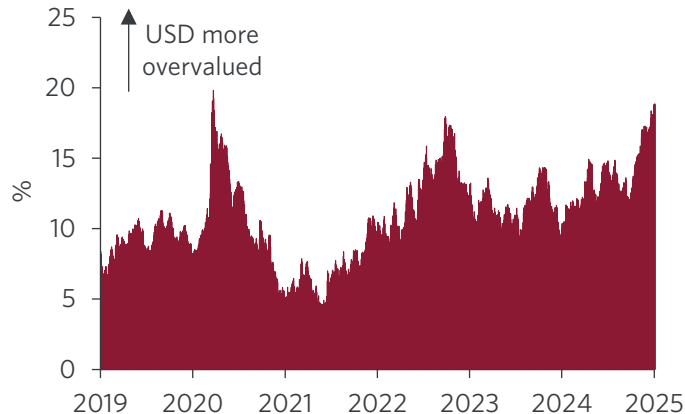
2024 was a good year for USD. On a trade-weighted basis, USD appreciated by 9%, its best year since 2020. Strength was broad-based, although appreciation was particularly noteworthy against many EM currencies.

The performance of USD in 2025 will depend to a large extent on US trade, fiscal and monetary policy. Trade policy appears particularly uncertain with market participants still looking to identify and differentiate likely actions from negotiating threats. This uncertainty suggests a more volatile currency market. Directionally, the threat of additional US tariffs on trade allies and foes alike is likely USD supportive.

Fiscal developments are likely to offer some mitigation. Fading foreign appetite for US Treasuries in the context of fast-growing US federal government borrowing needs will, by themselves, increasingly limit USD's attractiveness. Finally, the Fed's recent hawkish tilt is to USD's advantage. That said, the upside in 2025 is likely limited given that USD already trades deep in overvalued territory.

US dollar appears increasingly overvalued

US dollar trade-weighted index – deviation from fair value



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at 4 January 2025.

Canadian dollar: Tariff risk and BoC easing suggest further weakness before a sustained recovery

Over the last year, one flipside of USD strength was weakness in the Canadian dollar (CAD). The Loonie depreciated by 9% against USD in 2024, driven by a widening monetary policy rate differential as the BoC bucked market expectations and delivered a markedly more aggressive easing than the Fed.

With the BoC-Fed policy rate differential dropping deep into negative territory, Canadian bonds outperformed US Treasuries with CAD-USD 10-year sovereign yield spreads reaching their lowest level in 147 years.

CAD now trades near its lows of 2016 and 2020 and well below its estimated fair value (US\$1.17). Given the threat of tariffs on Canadian goods exports to the US, the continued relative dovishness of the BoC, and heightened domestic Canadian political uncertainty, downward pressures on CAD will likely persist a while longer. The CAD/USD bilateral exchange rate is expected to stay weak to its fair value through 2025 and trade in a range between \$1.35 and \$1.49.

Canadian dollar revisiting cyclical lows

CAD / USD bilateral exchange rate



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; LSEG Datastream. Data as at 4 January 2025.

Euro: Headwinds and risks threaten more euro weakness

The euro (EUR) held its ground against USD in the early months of 2024, before weakening from €1.12 in late summer to end the year 7% lower and close to €1.03. This reflected a shift in expectations for ECB and Fed policy easing. For most of 2024, market participants were pricing in roughly the same amount of cuts by both central banks on a 1-year ahead basis. This changed as the expected eurozone recovery continued to stall concurrent to continued US resilience. A year ago, the consensus erroneously expected that US GDP growth would decelerate from more than 3% to less than 1%. These projections turned out to be completely off-track with the US economy expanding through Q3 2024 at a 2.7% Year-over-Year (Y/Y) pace. By contrast, eurozone GDP grew two times slower than expected over the same period. As a result, the ECB turned increasingly dovish while the Fed became more hawkish. In 2025, we expect a more volatile EUR/USD bilateral exchange rate that trades between €0.96 and €1.10.

Japanese yen: Gradual policy normalization suggests incremental yen strength

The Japanese yen (JPY) experienced substantial volatility in 2024. After eight years, the Bank of Japan (BoJ) ended its negative interest rate policy (NIRP) in March 2024 when it raised its policy rate to 0.1%. It raised its policy rate by another 15 bps in July 2024, and by a further 25bps in January 2025. It also announced plans in July to reduce its purchases of Japanese government bonds (JGBs). These policy changes signal the start of a normalization of the BoJ's monetary policy as the economy shows signs of achieving a self-sustaining recovery. The USD/JPY bilateral exchange rate strongly reacted, depreciating from above ¥160 to ¥140 in September 2024. Thereafter, it appears the BoJ temporarily got cold feet, dampening rate hike expectations on concerns about financial instability and the need for prudence. The JPY depreciation resumed, taking the currency back to ¥157 at the end of 2024.

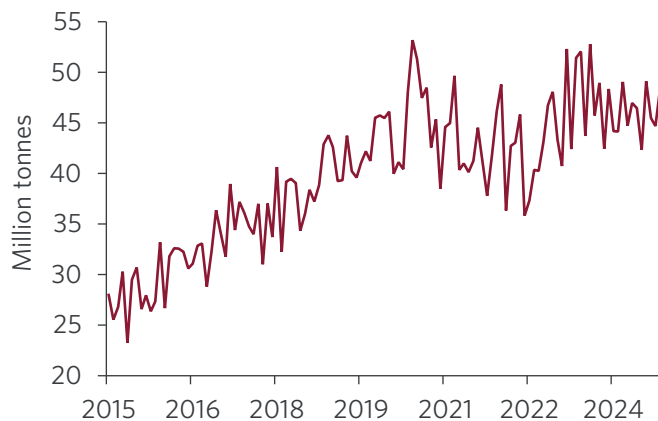
We're in the early stages of an important BoJ regime shift that will likely be accompanied over time by renewed strengthening of JPY against USD. The starting point is one where the yen screens as significantly undervalued against USD and more broadly. However, given the BoJ's back and forth about the appropriate speed for its policy normalization, higher than usual volatility is expected to prevail a while longer. USD/JPY is expected to trade between ¥142 and ¥162 in 2025. As heightened uncertainty and volatility broadly expected themes, the JPY's traditional role as a portfolio hedge will likely remain attractive, particularly against currencies most exposed to US tariff risk including the Chinese renminbi.

Commodities

Oil: Rangebound as we await clarity on 2025 supply and demand

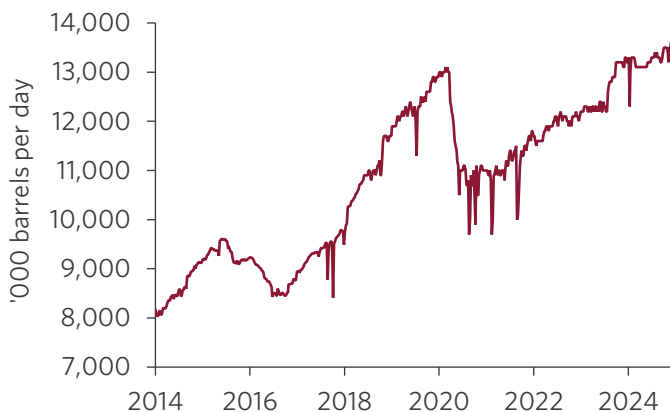
Oil generally traded sideways throughout Fall 2024 with the price going both above and below US\$70/bbl as the market waited for signals on the direction of the [global economic outlook](#) in 2025. In early January 2025, this range broke when oil traded closer to US\$75/bbl.

On the demand side, data out of key end user markets has been OK, but not great. We expect uncertainty around Chinese domestic demand and the impact of potential US tariffs on Chinese goods exports will likely keep a lid on oil prices in the near term, at least until we have some clarity on the policies of the new US administration and their potential impact on China.

Chinese crude oil imports have remained steady**Chinese crude oil imports**

Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

On the supply side there remain a number of unknowns. President Trump campaigned on a promise to “drill, baby, drill” to increase US oil and gas production on his return to the White House. We note that there hasn’t been real constraint on US oil production in the recent past and the US is already producing at record-high levels. We don’t see an incentive for US producers to materially increase oil production as demand uncertainty remains a theme and increasing production could put the oil price under pressure. At the same time, investors in US energy producers remain focused on shareholder returns, not growth. We expect this theme to continue this year. We expect to see some incremental growth from Canada as producers finally have egress to fill as the TMX pipeline started in 2024. Importantly, we’ll be watching OPEC+ closely to see if it continues to try to balance the market in 2025. We expect the new US administration could impose and enforce sanctions on Iran, which could give Saudi Arabia room to bring some of its voluntary production cuts back this year.

US oil production already at record levels – there has been no constraint on supply**US weekly oil production**

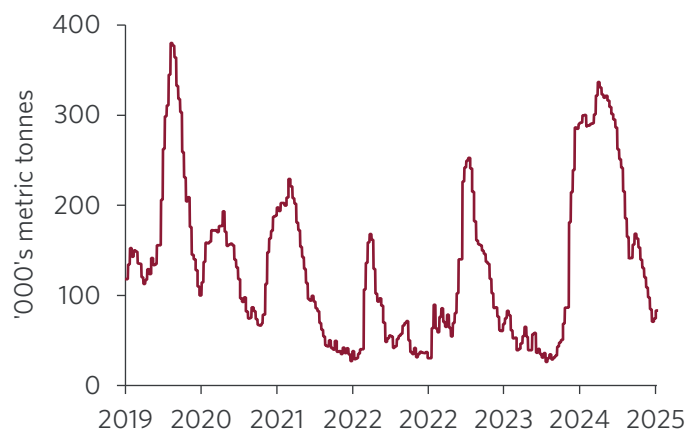
Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

In the near term we see support for oil at US\$65/bbl and continue to think that West Texas Intermediate (WTI) will trade in a US\$70-80/bbl range during coming quarters. Temporary deviations outside this range will likely be dictated by the ebb and flow of geopolitical risks and macroeconomic data. This range would represent a healthy price for Canadian producers who will likely continue to generate meaningful free cash flow at these levels. Cash flow that can be used to support further deleveraging efforts and capital returns to shareholders.

Copper: Electrification driving incremental demand

Copper generally traded lower throughout Fall 2024 and into the winter months after peaking at \$4.65/lb in early October 2024. It finished the year closer to \$4.00/lb. Demand data was mixed throughout the period and market participants moved to the sidelines to await signals on the direction for 2025.

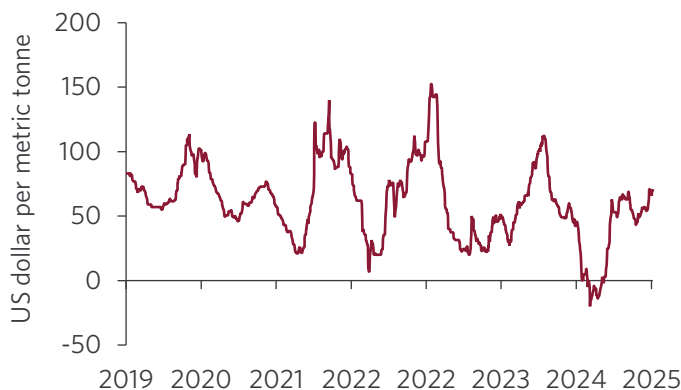
On the demand side, we continue to see signs that Chinese buyers are engaged with copper as inventory levels on the Shanghai Futures Exchange continue to fall. At the same time, the China copper cathode premium hung in well throughout Fall 2024, also signaling reasonable buyer interest. Chinese property sector demand remains a risk for copper (and other commodities) into 2025, but we note that the Chinese housing sector is not as big of a driver for copper as it was a few years ago. Spending on electrification in China remains strong, which emerged as a significant source of copper demand, offsetting weakness in housing.

Shanghai copper inventories trended lower in 2024**Shanghai Futures Exchange copper inventory**

Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

A healthy copper cathode premium signals reasonable buyer interest

China copper cathode premium



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

As we've discussed before, over the medium term we continue to see a compelling case for copper price appreciation. The transition to a lower carbon economy will be copper intensive both to build out the sources of renewable energy and to build out the electrical grid to support the transition. We expect the impact of this energy transition demand for copper will outweigh slowing demand from traditional sources like the Chinese property sector. At the same time, we expect the supply of copper will be challenged to meet this growing demand. New discoveries are few and far between. Construction costs for new assets are rising and geopolitical risks are high, making major investments in developing countries a challenge. Put together, we think growing demand and challenging new supply will put upward pressure on the copper price over the medium term.

Gold: A reasonable hedge for a wide range of risks

After peaking at \$2,787/oz at the end of October 2024, gold sold off with the US election results as USD strengthened and investors looked for more risk-on trades in the post-election environment. Since then, gold rallied off a bottom below \$2,600/oz and traded between \$2,600/oz and \$2,700/oz into year end.

We continue to see a compelling case for owning gold in 2025. In the very near term, we're in a period of heightened uncertainty with the new US administration. Risks around tariffs, trade wars and (to a lesser extent) global economic growth uncertainty could be supportive for gold this year. We also expect further US rate cuts—albeit fewer than was previously priced by the consensus—to also be a tailwind. This will reduce the opportunity cost of owning gold. We also expect de-dollarization to remain a theme in some EMs in 2025 and expect central bank purchases of gold in these markets to remain a good source of demand this year. Finally, geopolitical uncertainty remains high with ongoing wars in Ukraine and the Middle East. Gold is often used as a hedge for geopolitical risks.

Risks to the outlook for gold include higher than expected US interest rates, limited tariffs and trade war impacts, and a resolution to conflicts in key regions. All of which would drive the geopolitical risk premium in gold lower.

Economic analysis

US: Healthy expansion continues with limited room for further Fed rate cuts

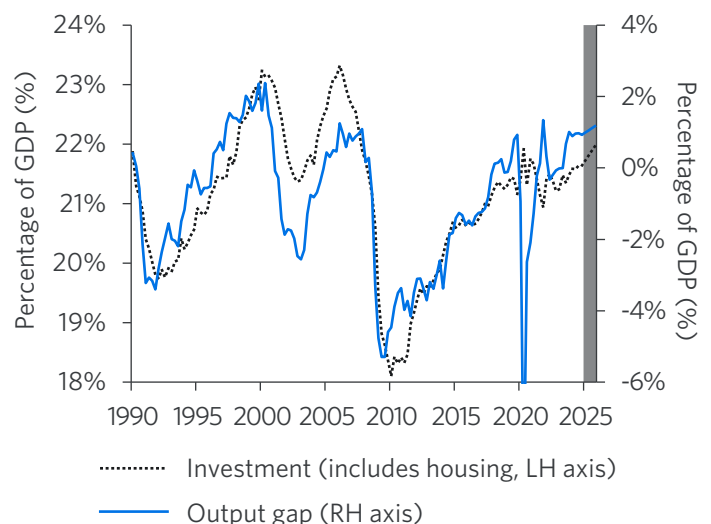
Exceptionalism remains evident in the US economy. Once again in 2024, growth exceeded expectations and its long-term trend rate despite restrictive monetary policy implemented by the Fed. Consistent with recent years, robust consumer spending remained the primary driver of growth.

For 2025, we expect a benign slowing in GDP growth back to trend. This outlook is consistent with continued excess demand—and a positive output gap. This means that inflation, measured as the Y/Y percentage change in the core Personal Consumption Expenditure (PCE) Price Index, is likely to remain at least a few tenths above the Fed's 2.0% policy target rate.

Despite an outlook of slowing consumption, household fundamentals remain solid, supported by healthy growth in disposable income, low credit usage relative to income, and high accumulated savings held in checkable deposits. In a change from the second half of last year, private investment is expected to rival the consumer and become a more important driver of growth. As a result, investment as a share of GDP should increase, moving closer to patterns observed during previous economic expansions.

Investment spending to drive US growth

US investment spending and output gap



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

At this stage of the business cycle, excess demand and cost-push pressures are key factors incentivizing companies to invest. Objectives include maintaining competitive advantages, positioning to meet future demand, and enhancing productivity. Housing is likely to be another investment tailwind, bolstered by a shortage of units and significant pent-up demand. Additionally, incentives encompassed by the 2022 CHIPS and Science Act and the 2023 Inflation Reduction Act are expected to continue incentivizing additional business investment.

Our growth outlook is similar to market consensus. We expect GDP to rise by 2.2% in 2025. Our PCE inflation outlook of

2.2% is slightly below consensus expectations. The labour market continues to adjust and looks reasonably balanced pointing to further slowdown of wage growth and services inflation. With GDP growth remaining healthy and inflation a little above target, we don't expect the Fed to ease its policy stance too much further in 2025. We forecast the policy interest rate to reach 3.75% in 12 months, consistent with three more 25 bps cuts. Markets are now broadly aligned with our view of higher-for-longer US interest rates, albeit they now expect a little less than two 25 bps cuts in 2025.

US tariff risks

Large-scale tariffs represent the most important risk to our global outlook, particularly the risk of simultaneous tariffs implemented on Canada, Mexico, China and possibly on European countries. Due to potentially elevated inflation and growth costs, we expect the Trump administration to limit the extent of imposed tariffs on goods imported from countries other than China. Instead, we expect the new US administration to prioritize targeted tariffs with wider tariffs mooted as a blunt negotiating tool. However, given recent increasingly aggressive rhetoric and heightened domestic political vulnerabilities in Canada and Europe, we acknowledge blanket tariffs are a growing negotiation risk.

Our baseline scenario assumes [tariffs on Canadian imports](#), if any, will be short lived for a number of reasons. First, US tariffs on Canada will bring targeted pain to US auto producers, oil refineries and consumers. Auto supply chains are particularly integrated between the US and Canada, implying significant economic pain for American auto manufacturers located in Michigan—a key political swing state. As a result, the impact of tariffs that last longer than one quarter could be politically costly for Republicans at the 2026 mid-term elections. A majority of Canada's exports to the US are crude oil followed by transportation equipment (including motor vehicles) and parts. Second, excluding energy, Canada has a trade deficit with the US—not a surplus. This excludes Canada from being a cause of US trade deficits—unlike Germany, Japan, China and Mexico. Finally, Canada has more aligned and complementary economic and geopolitical interests with the US than other country. Unfortunately, heightened tariff risks will likely remain for the foreseeable future. However, because of their painful economic—and political—consequences, we expect the majority of US tariffs imposed on Canadian goods will be short lived.

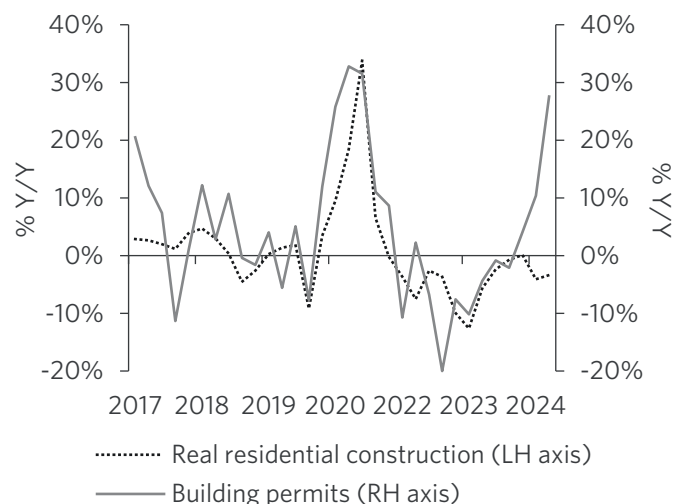
Canada: Insurance policy easing sparks growth, but inflation risks linger

The BoC delivered the most aggressive policy easing in the developed markets (DM) in an effort to stimulate the Canadian economy and staunch weakness in the labour market and housing sector. Additionally, core inflation below 2% provides more leeway for the BoC to deliver more insurance policy cuts. As of January 27, 2025, we expect an additional 75 bps of cuts by the BoC in the first half of 2025—leading to a policy rate of 2.5% within 12 months.

We expect this strategy to bear fruit in 2025 with the Canadian economy likely to experience more robust growth in the second half of this year. Notably, the housing sector is poised to serve as an important tailwind given its heightened sensitivity to interest rates amid a large housing shortage. Although residential construction has been in a recession since 2022, building permits are pointing to a rebound on the horizon.

Residential construction recovery ahead

Construction activity



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party provider: Bloomberg. Data as at 4 January 2025.

Constructive consumption fundamentals should also support the growth recovery. Lower inflation is boosting real wage growth and despite softening, labour markets are still facing shortages in a context of accelerating retirement. Households in aggregate also seem relatively well prepared for a growing volume of mortgage renewals with elevated amounts of excess savings.

We expect quarterly GDP growth to average 2.0% in 2025, above the consensus of 1.8%. This will be insufficient to materially reduce the slack in the economy. Significantly more policy easing than we expect would be required to close this negative output gap. That being said, the shortage of construction workers and strong pent-up demand for housing will likely represent constraints for the BoC due to concerns about reawakening inflation risks and creating vulnerabilities to the financial system. We expect inflation to be around the BoC's 2% target in 2025, marginally below the consensus.

The main risk to the Canadian economy is broad tariffs on Canadian goods exported to the US. This should speed up renegotiation of the terms of the United States-Mexico-Canada Agreement (USMCA). Under this risk scenario, the BoC would likely be much more aggressive in easing rates.

Eurozone: A more dovish central bank to support growth

In contrast to the US, the eurozone economy has been stagnant for more than two years. With a growing negative output gap and the ECB maintaining a restrictive monetary policy throughout 2024, consumer price inflation declined to 2.4% in December.

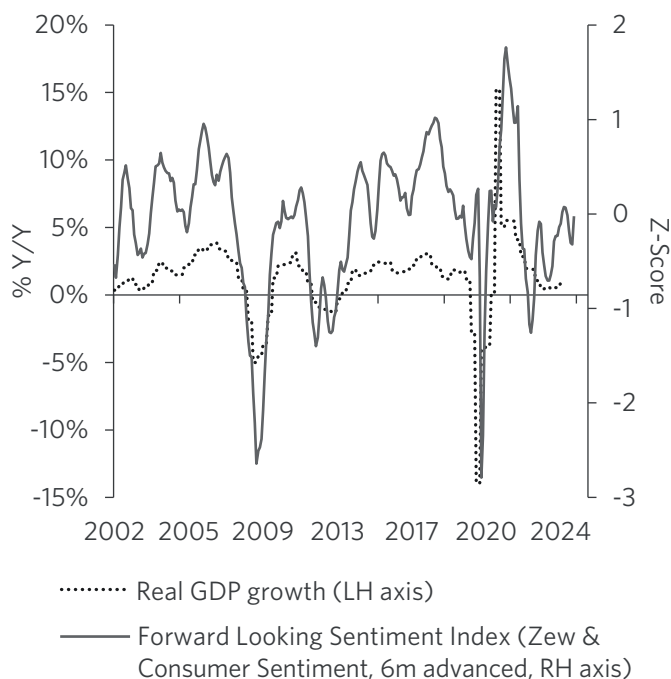
Inflation is expected to continue declining this year and be close to the ECB's 2% policy target by year-end. This starting point means the ECB has ample leeway to continue cutting its policy rate in an effort to stimulate economic activity and facilitate a meaningful growth recovery. We see an additional five 25 bps of cuts in 2025, with the ECB's policy rate reaching 1.75% at year-end. We expect this effort to begin seeing modest positive results, supported by rising real incomes, and resilient services demand. Concurrently, several headwinds to growth remain important. These include a rising fiscal drag in Germany and France, with both countries engaged in efforts to achieve additional fiscal discipline.

Heightened political uncertainty and weak external demand from China should also drag on the economy, particularly in Germany. In addition, China represents an increasing competitor to eurozone manufacturers, especially for German autos which are struggling to compete with Chinese electric vehicles (Evs). Furthermore, the European Union (EU) is exposed to two potential trade disputes: one with China related to large-scale Chinese subsidies of Evs and one looming with the US. The threat of targeted tariffs on European auto and

manufacturing industries is likely to dampen investment for the foreseeable future.

Putting all these competing factors together, we forecast GDP growth to average 1.0% over the next four quarters. Although this is a poor outcome relative to our expectations for the US and Canada, it represents an improvement on the 0.8% Y/Y increase achieved in 2024.

Leading indicators suggest a tepid recovery GDP growth and Sentiment Index



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China: Policy easing to continue with more aggressive stimulus being readied to confront US tariffs

The housing-led recession kept the Chinese economy in poor shape throughout 2024. In response, the Chinese government continued its policy pivot towards additional stimulus measures, including an increase in new special government bond issuance and a commitment to stabilizing the housing market.

We still don't expect policymakers to deliver a major stimulus that would radically improve the economic outlook in China. This reflects high associated financial stability costs and a more important but targeted long-term focus on technology investment as a policy response. Previous major stimuli required large-scale infrastructure investment and housing construction that led to a strong increase in debt, excessive risk taking by local governments, corruption, low-performing assets, and excess supply imbalances.

Given growing vulnerabilities in the economy, we do expect the policy response to become more proportional to the size of shocks, such as potential US tariffs. Even though total government-related annual deficits have exceeded 15% of GDP in recent years, historically Beijing remained reluctant to breach a sacrosanct red line of a 3% deficit target for the central government. But this seems to be changing. In December 2024, the Central Economic Work Conference (CEWC) signaled a 2025 deficit target of 4%.

Higher and broader US tariffs imposed on Chinese goods exports are likely. China failed by a wide margin to meet its 2020 commitment to the previous Trump administration to increase imports from the US by US\$200 billion. That commitment was positioned as compensation for China's unfair commercial practices, including large-scale subsidies and market access restrictions. These remain unfettered and since 2020 the domestic US political consensus in favour of emasculating Chinese economic and military development has only hardened. Our working assumption is an additional 30% in tariffs.

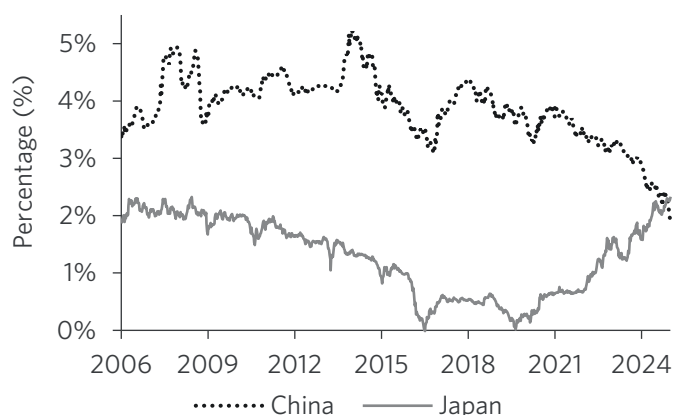
Tariff headwinds will significantly weaken the economy in 2025. Although Chinese companies have likely offshored some assembly segments to avoid tariffs, the economy remains vulnerable with significant slack and an ongoing property market crisis. In response to tariffs, we expect China to announce more economic measures including aid for local governments and stalled housing projects.

New policy initiatives will likely fall short of completely turning the Chinese economy around. However, these initiatives will be

welcome and will help minimize the risk of really bad outcomes for the economy. We project another year of disappointing GDP growth relative to the market consensus and increasingly entrenched expectations for secular stagnation. These expectations can be seen in the government bond market where 30-year Chinese yields continue to move down and are now trading well below the yield on 30-year Japanese JGBs. Our GDP forecast for the next four quarters is a mere 4.3%, below the consensus of 4.5%, and a disappointment for policymakers who will likely maintain a growth target of around 5% for 2025.

30-year government bond yield now lower in China than in Japan

30-year Government bond yields



Source: The information is provided by CIBC Asset Management Inc. using data from the following third-party providers: Bloomberg; Macrobond. Data as at 4 January 2025.

Economic forecasts (next 12 months)

Region	Current GDP	GDP - consensus	GDP - CIBC AM view	Current inflation	Inflation - consensus	Inflation - CIBC AM view	Policy rate - CIBC AM view
Canada	1.6%	1.7%	2.0%	1.9%	2.0%	2.0%	-75 bps
United States	2.7%	2.2%	2.2%	2.7%	2.5%	2.6%	-75 bps
Eurozone	0.9%	1.1%	1.0%	2.2%	2.0%	1.9%	-125 bps
China	4.6%	4.5%	4.4%	0.2%	0.8%	0.8%	-40 bps
Japan	0.5%	1.2%	1.3%	3.0%	2.3%	2.3%	+40 bps
World	2.5%	2.7%	2.8%	3.1%	2.8%		

Source: The information is provided by CIBC Asset Management Inc. Inflation refers to CPI.

Alternative economic scenarios

Global policy relief (baseline, 50%)

In this scenario, the US economic expansion continues. GDP growth will likely decelerate to a more sustainable 2.2% pace, aligning with potential growth and long-term trends. Inflation remains sticky and above the Fed's target rate of 2%. The Fed gradually reduces the target range for the federal funds rate down to 3.75%, which remains in restrictive territory. The US output gap stays positive for a second year in a row with excess demand prevailing, a typical feature of mature economic expansions. Global growth is projected to average 2.9%.

US 10-year Treasury yields are expected to fluctuate between 3.25% and 5.00% with an equilibrium around 4.25%. However, in the near term, 10-year yields should remain above that equilibrium level and the yield curve is at risk of further steepening. Equity markets are expected to deliver a positive return driven by moderate earnings growth. However, a lot of good news has been priced and expensive valuation is a headwind. Our overarching conclusion is that equities are expected to moderately outperform bonds in 2025.

Inflation upturn (30%)

The US economy defies expectations, growing well above its long-term potential rate at an average of 2.8%. In this scenario, the economy, and investment in particular, responds more vigorously to policy rate cuts implemented in 2024 and inflation is more sensitive on the high side to tariffs than widely expected. Excess demand conditions continue to prevail. Labour markets begin to retighten, in part as a result of curbs on immigration. Inflation troughs in the first half of the year and subsequently drifts higher to reach 3.1% Y/Y at year-end. The Fed doesn't cut any further and the yield curve experiences a bear-steepening. Equities do well initially because of stronger growth but the rally is cut short and equities roll over due to increasing inflation.

Global growth slowdown (20%)

Underestimating the negative growth impact of past monetary policy tightening remains an important risk to our view. However, as time passes this risk becomes less of a concern as the long and variable lags associated with past policy decisions increasingly behind us. Instead, a growing risk is the Trump administration's policies on tariffs and immigration, which could prove to have a more negative effect on economic activity than expected.

In this scenario, the US economy downshifts with 2025 GDP growth falling below 1%. China struggles to cushion the impact of its housing recession and sinks into a deeper crisis. US inflation declines towards 1%, owing to the output gap turning negative and weaker commodity prices. This provides the Fed with scope to deliver bigger rate cuts than assumed in our baseline scenario and takes the policy rate below its long-term neutral level. Bond markets rally with yields declining towards the bottom of our expected range. Corporate earnings disappoint markets and investors mark down P/E multiples leading to negative equity returns. Lower yields cushion the decline.

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