NOVEMBER 2017

Asset Allocation Committee Update

CIBC ATLANTIC TRUST
PRIVATE WEALTH MANAGEMENT

The CIBC Atlantic Trust Asset Allocation Committee recently increased exposure to the Developed International (EAFE) equity markets in its asset allocation models. The case for a higher relative weighting is driven by:

- A longer cyclical runway for most EAFE countries that will allow for some "reversion to the mean" in relative returns
- Accelerating economic and profit growth in most EAFE countries
- Relative valuations remaining attractive

THE GLOBAL BUSINESS CYCLE AND RELATIVE RETURNS

Since the Great Recession ended in 2009, the U.S. recovery advanced more quickly than those in Europe and Japan. This was due to two factors: a quicker and more aggressive policy response (by the Fed primarily, but also by legislation); and a corporate sector inclined to "face the music" and adapt its cost structure to the vagaries of a debt-driven recession. As a result, the U.S. economy bottomed and recovered ahead of most of the rest of the world. S&P 500 corporate profits rebounded to an all-time high by late 2011, and have grown substantially since then. Meanwhile, the economies of Europe and Japan continued to struggle with the risk of deflation for years, and aggregate corporate profits are still below where they were a decade ago.

This macro history goes a long way toward explaining relative returns over the last decade:

TRAILING TOTAL RETURNS as of September 30, 2017 (Annualized in U.S. dollars)

	3-YEAR	5-YEAR	10-YEAR
S&P 500	10.8%	14.1%	7.3%
MSCI EAFE Index	5.6%	9.0%	1.7%

Source: Bloomberg.

So far in 2017, we have witnessed a mean reverting trade, with EAFE outperforming for dollar-based investors. This relative strength has been more than fully accounted for by FX swings: double-digit percent increases in the euro and sterling versus the dollar, and a smaller advance by the yen:

TOTAL RETURNS as of October 30, 2017

	YTD
S&P 500	16.7%
MSCI EAFE ($ Based)	22.2%
MSCI EAFE (local FX)	13.5%

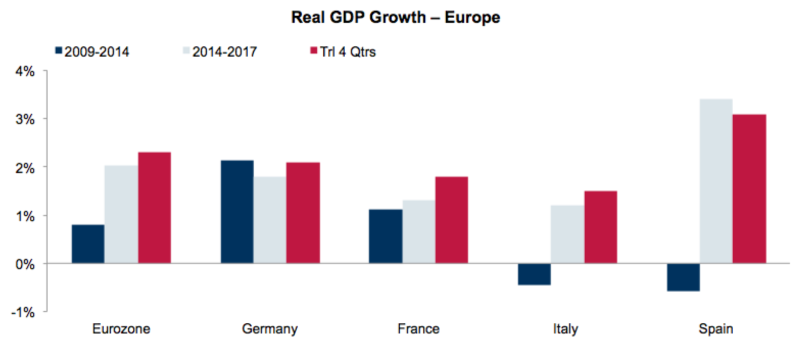
Source: Bloomberg.

Looking ahead, we believe currency will be less impactful, and we are more intrigued by the potential for an upward re-rating of EAFE valuations relative to the U.S. Viewed in isolation, the laggard nature of the economic and earnings cycles in the EAFE markets could be viewed as a negative—why bother with these stagnant economies when the U.S. has demonstrated a better ability to grow? This was, in fact, the Asset Allocation Committee's view for the early part of this decade. But, we see progress on both the economic and earnings fronts, catalysts that would allow the "reversion to the mean" trade to be sustainable.

GROWTH

Our thesis is that a broader and stronger economic expansion is unfolding in Europe:

EUROPE: GROWTH BROADENING, PROFITABILITY ACCELERATING

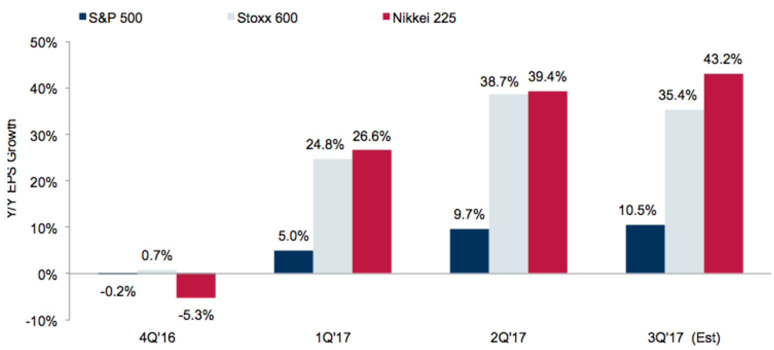


Sources: Strategas, data as of 09.30.2017.

Japan has also experienced consistent improvement in its economy over the last year. The election landslide for Prime Minister Abe reinforces that growth is the overwhelming policy priority.

In terms of monetary policy, the European Central Bank and Bank of Japan are "behind the curve" relative to the Fed, in that they are still employing negative interest rates and quantitative easing while the Fed is moving in the other direction. This reinforces the notion that while the U.S. business cycle is in the latter stages, most EAFE countries are closer to mid-cycle, potentially providing a longer runway for improved economic and profit growth.

The profit story is also one in which the major EAFE markets are beginning to shirk the "laggard" label. As seen below, while U.S. profit growth is quite solid, earnings are showing dramatic acceleration in Europe (Stoxx 600) and Japan (Nikkei):

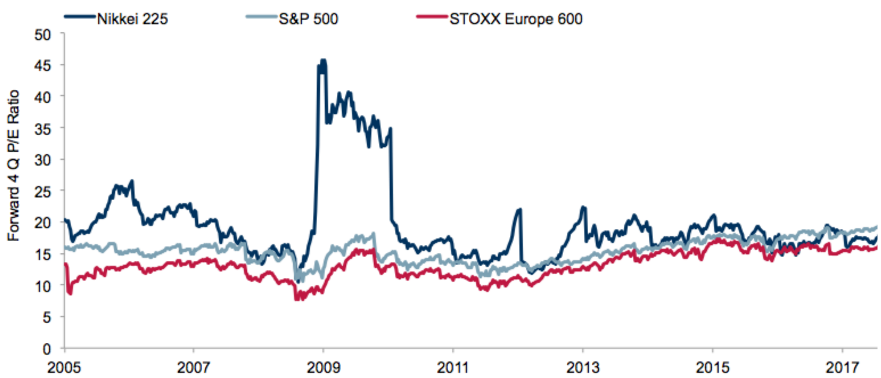


Source: Strategas. Data as of 10.31.2017.

VALUATION

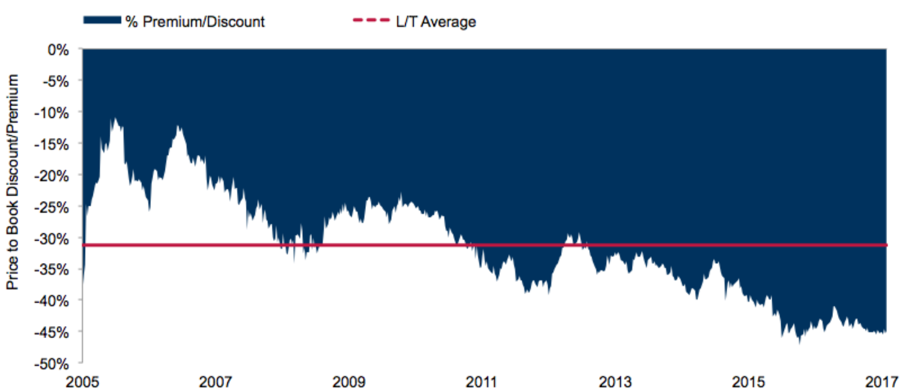
There are dozens of different ways to value equity markets. The first chart shows the most common, the price-to-earnings (P/E) ratio. By this metric, Europe and Japan's relative valuations are interesting—but perhaps not compelling. The price-to-book ratio compares the market price to the underlying companies' net asset value. As the second chart indicates, the non-U.S. developed countries sell at a significant discount relative to the U.S. on this measure. Other metrics based on return on investment also indicate that EAFE markets are relatively cheap.

P/E: JAPAN NIKKEI 225, EURO STOXX 600 AND S&P 500



Source: Bloomberg L.P. Data as of 10.31.2017.

WORLD EX U.S. VALUATION DISCOUNT TO THE US ON PRICE-TO-BOOK RATIO



Source: Bloomberg L.P. Data as of 10.31.2017.

FUNDING THE INCREASED EAFE INVESTMENT

While portfolio allocations vary, we recommend first looking to U.S. large-cap equities as a potential funding source for additional investment in the EAFE space. This is based on the Committee's aversion to increasing overall equity exposure at this stage of the cycle and our belief that a middle-of-the-range allocation to large cap U.S. is more appropriate than an overweight given relative valuations.

The Committee is leaving its underweight in Emerging Markets (EM) at this time. EM has done extremely well in 2017, but we are not inclined to chase it here. While there is also a longer-term reversion to the mean story in EM, we believe the fundamentals are more solid in the EAFE markets and would rather add to EM after a "risk off" repricing.

Please contact your relationship manager if you have any questions.

CIBC Atlantic Trust's Asset Allocation Committee recommendations express our views on directional portfolio shifts driven by an assessment of relative risk and reward and do not take into consideration individual suitability requirements. At CIBC Atlantic Trust, asset allocation may be customized for each client, so a client's particular portfolio allocation may not follow these recommendations. Some recommendations referenced may not be appropriate for your specific situation, so you should consult with your financial advisor regarding your unique circumstances. ■