

SUSTAINABLE INVESTMENT SOLUTIONS

CIBC SUSTAINABLE CONSERVATIVE BALANCED SOLUTION

Portfolio commentary as of December 31, 2023

Market overview:

- The US Federal Reserve Board (the Fed) unexpectedly pivoted in December towards a more benign economic outlook, including a return of inflation back to target no later than 2025. This outcome would be consistent with earlier and more policy interest rate cuts than it had previously signaled.
- Although the probability of a Goldilocks soft landing has increased, we think markets are pricing too many rate cuts in 2024. In particular, the longer US activity data stay resilient, the higher the risk inflation reaccelerates a little in the back half of 2024.
- The calculus is a little different in Canada, where the Bank of Canada (BoC) will be aided in its continued efforts to bring inflation back to its policy target by already weak activity data. This suggests BoC policy easing may proceed a little quicker than the Fed.

Tactical tilting:

- Bond yields fell substantially in 2023 Q4 in response to central bank policy pivots and weaker inflation data than expected. This led us to take profit on part of our overweight fixed income position by shifting from Canada Universe bonds into cash.
- This move reduced the portfolio’s duration risk and lessened sensitivity to any temporary rise in yields that may occur if, as expected, market participants revise down the extent of expected policy interest rate cuts.
- We remain neutral Canadian equity. Although this market is vulnerable to a temporary back-up in yields, its valuation has improved meaningfully. This sets the stage for outperformance in the longer term. We remain underweight global equity markets, reflecting less attractive valuations.

Asset allocation

Asset class	Strategic weight	Current weight ¹	Relative to last quarter
Cash	0%	1%	Increased
Canadian Bond	60%	61%	Decreased
Canadian Equity	10%	10%	Unchanged
Global Equity	30%	28%	Unchanged

CIBC’s Sustainable Investment Solutions are actively managed portfolios designed to align investors’ wealth objectives with a values-based approach focused on responsible investing. The portfolios offer access to a broad range of investment opportunities through a mix of CIBC Sustainable Investment top funds.

For more information, visit the [CIBC Sustainable Investment Strategies](#) page.

Debt to equity ratio



Equity 40%
Fixed Income 60%

SAA: 40% Equity / 60% Fixed Income

Volatility



Underlying fund performance:

- Bond yields continued to move lower in December, as markets gained further confidence that both the Fed and the Bank of Canada were at the end of their rate hiking cycles. Markets are now pricing in rates cuts as early as March 2024. As a result of the move, the Canadian bond universe saw its first positive year since 2020. The Sustainable Canadian Core Plus Bond portfolio remains overweight the corporate sector and underweight the Government of Canada and provincial sectors. The yield of the portfolio is above the benchmark, due to the sector allocation strategy and duration is modestly short relative to the benchmark.
- The Sustainable Global Equity fund underperformed the MSCI World Index in Q4. Headwinds from relative performance of the fund's Financials and technology holdings were the biggest factors contributing to underperformance this quarter. Within the financials sector, the fund is overweight to Insurance names, which underperformed other segments of the sector. An allocation to AON was the biggest headwind to performance as the company experienced significant volatility after it announced an acquisition plan in December. Within technology, the fund's allocation to Samsung was a headwind, but was mitigated by allocations to Apple and ASML which both outperformed sector peers in Q4.
- The Sustainable Canadian Equity fund outperformed the S&P/TSX Composite Index in Q4. Sector allocations and strong relative performance from the fund's Materials and Consumer Discretionary holdings were the largest performance drivers during the quarter. Over the quarter, markets broadly moved upwards, with 10 of 11 Global Industry Classification Standard (GICS) sectors posting positive returns in Q4. Energy was the only sector to post a negative return in Q4, which, given the fund's fossil fuel exclusion policy and structural underweight to the sector, provided a significant tailwind to performance.

¹ Due to rounding, amounts presented herein may not add up precisely to the total.

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