



Economics

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THE WEEK AHEAD

October 29-November 2, 2018

Is a Powell Put Possible?

by Avery Shenfeld

Back in the day, equity market investors used to bank on the idea that there was a Greenspan put. The long-serving Fed Chair viewed stocks as both a signpost of economic fortunes and a factor guiding them. He was also a heavy metal fan. Not the music, but the price series for industrial metals, as an indicator of the ebb and flow of global growth.

The result was that both equity and commodity investors would speak about the "Greenspan put", the idea that if markets tumbled enough, a Fed rate cut would ride to their rescue. Greenspan did indeed cut rates after the October 1987 stock market crash, and in the turmoil following Russia's default in the late 1990s.

Is a "Powell put" also possible? A rate cut in 2018 or the first half of 2019 would be a stretch, given how low yields still are. The Fed wouldn't gripe about investors giving back some of their copious wins of the past few years. Powell would be in no hurry to rescue them for the sake of their 401Ks.

But market sentiment could be a factor leaning towards a less aggressive path for hikes than the central bank now contemplates, or markets might fear. Equity indicators are built into measures of financial conditions, and weaker multiples increase the cost of raising equity capital. There's also a wealth effect from lower stock values. A drop in house prices benefits younger cohorts who are saving up to buy; there's no similar winner in an equity pull-back.

Stock market performance is also a window on where investors think economic and

earnings fortunes lie ahead. By no means a perfect one, since as Paul Samuelson famously quipped, it's predicted nine of the past five recessions.

These days, both stocks and metals are flashing some warning signs. So-called Dr. Copper is off 15% since June's high. October's pull-back in the S&P 500 looks trivial relative to the prior multi-year rally, and to the extent that rate hikes are causing multiples to move lower as is usually the case, it's a circular argument to say that the Fed can't hike due to flagging equities.

But the market is also reacting to earnings concerns tied to developments beyond America's borders, including a slowdown in China and the IMF's recent downgrade to global growth. The latest numbers from the Eurozone and Chinese PMIs were not encouraging. Relative to the US, equity markets overseas have had a much tougher year, and it won't take much to tip them into correction territory.

Canadian stocks are down 9% year to date, and the struggles on this side of the border reflect issues tied to GDP growth prospects: punitive oil price differentials, softer prices for other global materials, and a slowing appetite for debt-financed consumer spending. The stock market doesn't seem to have caught Stephen Poloz's attention just yet, with only a single mention in the MPR of global equity "volatility". But if what equity markets are worried about comes to fruition, in an economy now growing at roughly 2%, it's hard to see the need for a lot of rate hikes to slow it to the 1.9% growth rate the central bank has in mind for 2020.



Week Ahead Calendar And Forecast

| | CANADA | | | UNITED STATES | | |
|-------------------------|--|--------------------------|---|---|-----------|-----------------------------|
| | CIBC | Consensus | Prior | CIBC | Consensus | Prior |
| Monday October 29 | | | | | | |
| Tuesday October 30 | AUCTION: 3-M BILLS \$5.6B, 6-M BILLS \$2.2B, 1-YR BILLS \$2.2B CASH MANAGEMENT BUYBACK (May '19 - May '20) - \$0.5B | | | | | |
| Wednesday October 31 | Speaker: 3:30 PM Stephen S. Poloz (Governor) & Carolyn Wilkins (Sr. Dep Gov.) AUCTION: 30-YR CANADAS \$1B | | | | | |
| | 8:30 AM INDUSTRIAL PROD. PRICES M/M RAW MATERIALS M/M GDP M/M | (M) (M) (H) | -0.5% -4.6% 0.2% | | | |
| Thursday November 1 | Speaker: 4:15 PM Stephen S. Poloz (Governor) & Carolyn Wilkins (Sr. Dep Gov.) | | | | | |
| | 8:30 AM INITIAL CLAIMS CONTINUING CLAIMS NON-FARM PRODUCTIVITY MARKET US MANUFACTURING PMI | (M) (L) (M) (L) | (Oct 27) (Oct 20) (Q3 P) Oct F | 215K 1636K 2.9% 55.9 | | |
| | 10:00 AM ISM - MANUFACTURING CONSTRUCTION SPENDING M/M | (H) (M) | (Oct) (Sep) | 58.7 59.0 0.2% | | 59.8 0.1% |
| | NEW VEHICLE SALES | (M) | (Oct) | 17.0M | | 17.4M |
| Friday November 2 | 8:30 AM MERCHANDISE TRADE BALANCE EMPLOYMENT CHANGE UNEMPLOYMENT RATE | (H) (H) (H) | (Sep) (Oct) (Oct) | -\$0.5B 10K 5.9% | | -\$53.2B 134K 3.7% |
| | AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M AVERAGE WEEKLY HOURS ALL EMPLOYEES MANUFACTURING PAYROLLS | (H) (H) (H) | (Oct) (Oct) (Oct) | 3.7% 0.1% | | 3.7% 0.3% 34.5 18K |
| | 10:00 AM FACTORY ORDERS M/M | (M) | (Sep) | 0.5% | | 0.3% |

H, M, L = High, Medium or Low Significance

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Week Ahead's Market Call

by Royce Mendes

In the US, markets will have to wait until Thursday for any real news on the economic front, when the ISM Manufacturing Index is likely to slide a bit more than the consensus expects, but even that would still leave it in very healthy territory. Non-farm payrolls on Friday are likely to have both upside and downside surprises relative to what the consensus has penciled in, with the headline rebounding more following the hurricane induced slowdown last month, but wages seeing a more muted than expected gain.

In Canada, the August GDP reading will be closely watched for signs of whether or not the data-dependent central bank will be able to hike rates again in December. A modest gain, however, won't do the trick. Neither will a swing back into deficit territory for the trade balance on Friday, nor an only trend-like gain in jobs released alongside those numbers. Govern Poloz and Senior Deputy Governor Wilkins could use their testimony in front of House and Senate Committees next week to clarify their thinking on how much further monetary tightening is needed with the economy barely running ahead of potential growth estimates.

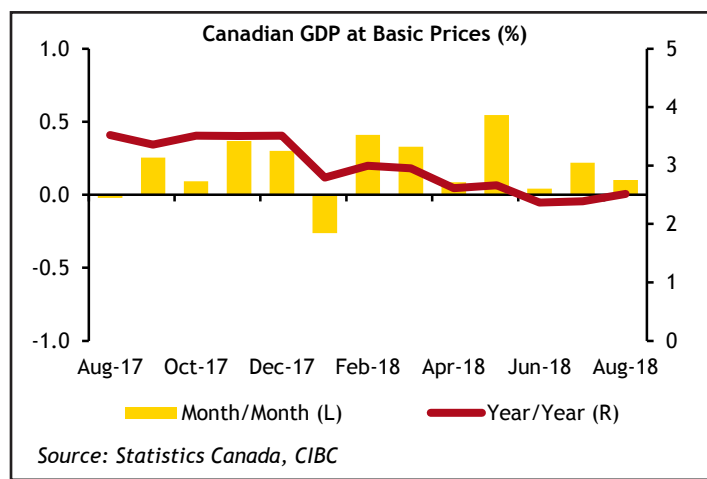
Week Ahead’s Key Canadian Number:

Real GDP (at Basic Prices)—August

(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

| | CIBC | Mkt | Prior |
|---------|------|-----|-------|
| GDP m/m | 0.1% | na | 0.2% |



The Bank of Canada hiked rates this week to cool growth, but it looks like growth was already simmering down. Retail sales will show up as a drag on monthly GDP, as will utilities which are set to see slower growth in August after an unusually hot July had Canadians blasting their A/C units. While the mining, oil and gas category could post a decent advance as a major oil sands facility gradually came back online during the month, overall the economy is still likely to have only eked out a 0.1% advance in August.

Forecast Implications—A slight gain in August will have the economy tracking just above a 2% growth rate for Q3 as a whole, not exactly blasting ahead. We’re sticking with our call that the Bank of Canada only needs to raise rates once more in January to keep the economy from overheating in the next couple of years.

Other Canadian Releases:

Labour Force Survey—October

(Friday, 8:30 a.m.)

A surprising increase in job creation last month isn’t likely to have vanished in October. The LFS has been lagging the more reliable payroll survey in Canada and the gain was a first sign of convergence between the two. But still it’s always difficult to forecast the monthly employment change in the Labour Force Survey, so we’re not exactly sticking our necks out calling for a trend-like gain of 10K jobs, which would leave the unemployment rate at 5.9%.

Merchandise Trade Balance—September

(Friday, 8:30 a.m.)

Canada’s trade balance likely swung back into deficit in September, if for no other reason than the lower prices and volumes for crude being sent to the US. Refinery shutdowns south of the border lowered demand for Canadian heavy crude, sending the price plummeting for the remaining oil being shipped. Weekly EIA data also showed oil volumes shipped to the US tailing off toward the back half of September. As a result, look for a deficit of roughly half a billion dollars when the numbers are released a week from today.

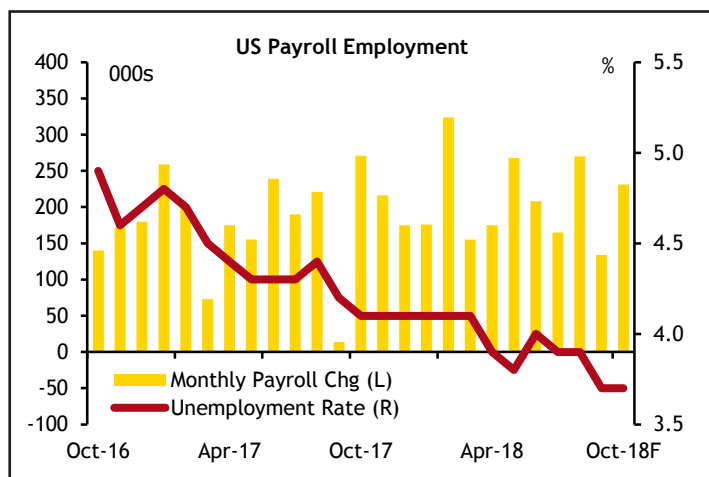
Week Ahead’s Key US Number:

Employment Situation—October

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

| | CIBC | Mkt | Prior |
|-----------------------------|------|------|-------|
| Employment (change) | 231K | 190K | 134K |
| Unemployment rate | 3.7% | 3.7% | 3.7% |
| Average Hourly Earnings (%) | 0.1% | 0.2% | 0.3% |



Hiring slowed in September, partly reflecting distortions from hurricane Florence. But a return to more normal levels of activity in October should have boosted payrolls by an above-trend 231K. However, the unemployment rate which is measured from a different survey than payrolls should have seen minimal impact from Florence and is therefore likely to remain at 3.7% after falling by two ticks in September.

September’s monthly wage gain was likely inflated due to the exclusion of lower-paying jobs that were impacted by weather which could see a more modest 0.1% wage advance in October. Base effects should still lead annual wage growth to 3% for the first time since the recession.

Forecast Implications—Following hurricane distortions, job growth should moderate closer to trend over the remainder of the year as full employment is reached, something that will likely help stoke more significant wage pressures. Although a 3% annual wage gain owes largely to base effects, wage growth of 3-4% is consistent with what the Fed would be comfortable with.

Market Impact—Even though our payrolls forecast is above consensus, markets tend to react more to wage growth these days, which would be negative for the US dollar and see long yields come down a little.

Other U.S. Releases:

ISM Manufacturing Index—October

(Thursday, 10:00 a.m.)

Following their international counterparts, regional US manufacturing PMIs largely pulled back in October and the ISM manufacturing index should do the same. Still, a 58.7 reading is representative of healthy, expansionary activity and is just below the cycle-high reached in August. That said, a slowdown in global growth in the quarters ahead could weigh on manufacturing in the form of weaker demand.

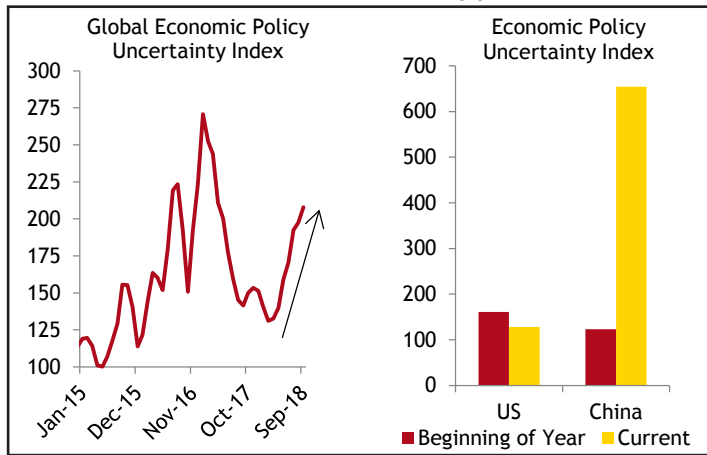
Equity Insights

Katherine Judge and Royce Mendes

Further Selloff Could Hinge on China

It's been difficult to pinpoint exactly what's driving equities lower of late. It's likely some combination of higher interest rates, diminished global growth expectations and the brewing trade-war between the US and China. The US has far more firepower than China on the protectionism front, and at least one measure suggests that concern about what policy responses China has left at its disposal to offset the drag from US tariffs has risen. Remember global growth in recent decades has been heavily reliant on China. If officials in Beijing can't shore up confidence in their ability to prop up economic activity, a further slide in equities could result. Next week's Chinese PMI release will therefore be closely watched.

Concerns About the Global Economy Have Increased (L) And China Seems Like It's at the Centre (R)

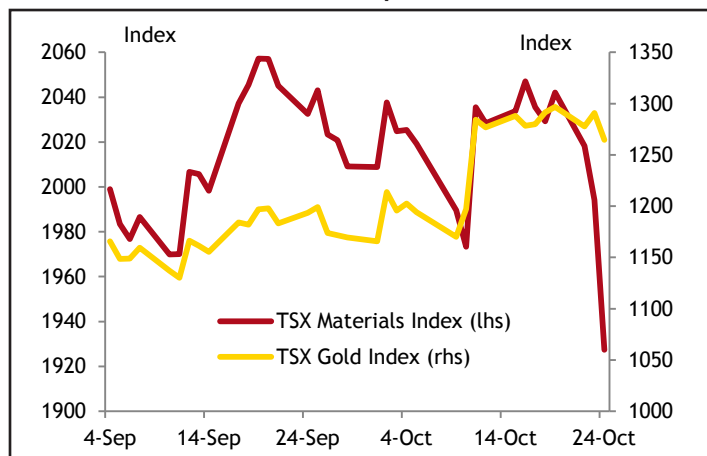


Source: Baker, Bloom and Davis, CIBC

Gold Stocks Spared From Materials Downturn

The recent move lower in Canadian equities has been driven in part by an outsized fall in the materials sector. And although gold stocks have also slid since the summer months, they have held up better than other materials equities recently. That's due in large part to the reliance of base metal prices on global growth, something that is slowing and will limit growth in the mining sector. At the same time, further upside for gold stocks remains palpable owing to prospects for a weaker greenback over the next year, provided they deliver on mine performance.

Gold Stocks Remain Resilient Despite Materials Sector Declines

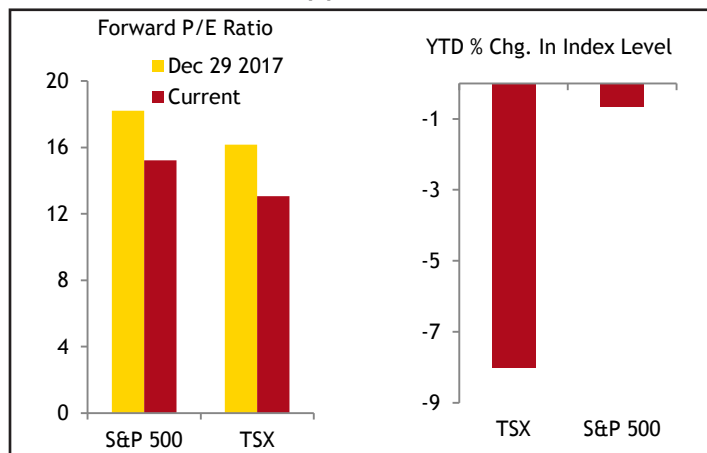


Source: Bloomberg, CIBC

Canadian Equities Have Upside Ahead

Although valuations of both the S&P 500 and TSX, as measured by the 12-month forward P/E ratio, have come down this year and now align more closely with their long-run average levels, the change has been driven by different factors. Indeed, stateside stocks have benefitted from more robust earnings expectations, while the TSX has experienced a more significant drop in prices since the start of the year. While solid growth in the US so far in 2018 is likely propelling loftier earnings expectations, markets may be overestimating growth ahead that will be limited further by less of a fiscal boost and more of a drag from interest rates.

Stock Valuations Have Come Down (L) But For Different Reasons (R)



Source: Bloomberg, CIBC

Currency Currents

Andrew Grantham

BoC and CAD: Once Bitten, Twice Shy?

An interest rate hike was expected, the hawkish tone from the BoC wasn't, and sent the Canadian dollar higher as investors re-priced expectations for further rate moves. However, the FX move paled in comparison to that seen when Poloz *and co* took a hawkish turn last September. Part of the explanation is that the September 2017 hike wasn't fully priced in before the move. However, it could also be because last time the hawkish turn never really materialized into a rapid hiking cycle. As such, investors appear to be second-guessing whether the BoC can/will actually get to neutral, with market expectations for the end of 2019 still slightly closer to the current rate than that 3% mid-point estimate of neutral. We are even more skeptical than the market, and as such see the Canadian dollar weakening after the next hike, which we expect to be in January.

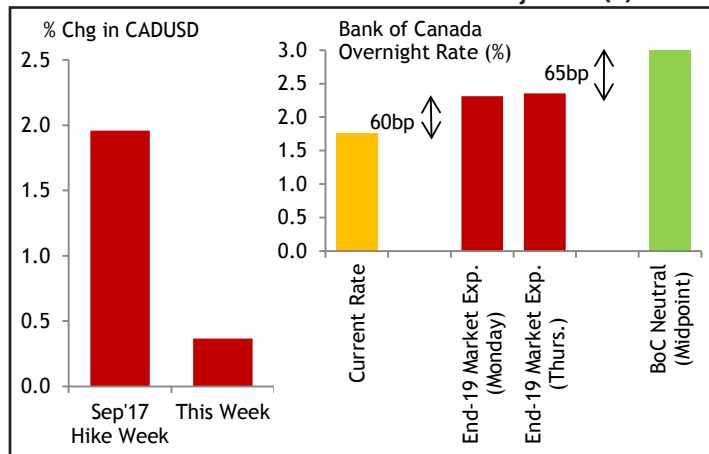
CADAUD to Fall Back into Range

BoC interest rate hikes have supported the C\$, while concerns regarding growth in China have weighed on its Aussie counterpart. As such, CADAUD, at around 1.08, is close to breaking above its post-2010 high. However, at this stage, sentiment could be too positive for CAD and also too negative for AUD. Looking at the commodity price indexes weighted by each countries' key products, shows a much stronger recovery for Australian prices, and that's already fed through to a more impressive improvement in overall trade position. Those factors, combined with some improvement in Chinese growth sentiment, could see the Aussie appreciate vs the Canadian dollar in the months ahead.

EZ Sentiment Approaching a Bottom?

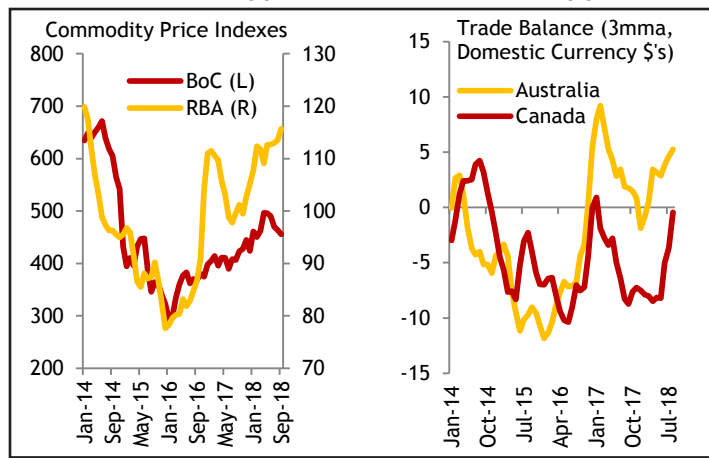
The Eurozone PMI's took another nasty fall last month, with the composite index back to levels at which it was trending in 2016. However, according to investors surveyed by the ZEW, expectations for growth are even more pessimistic with that index almost at levels not seen since the sovereign debt crisis. That negativity appears unjust, and should growth stabilize at current (but admittedly lower than 2017) levels, that negative sentiment should reverse and the euro could gain against the US\$.

CAD Bounce Lower Than Last September (L), Markets Doubt BoC Will Reach Its Neutral Projection (R)



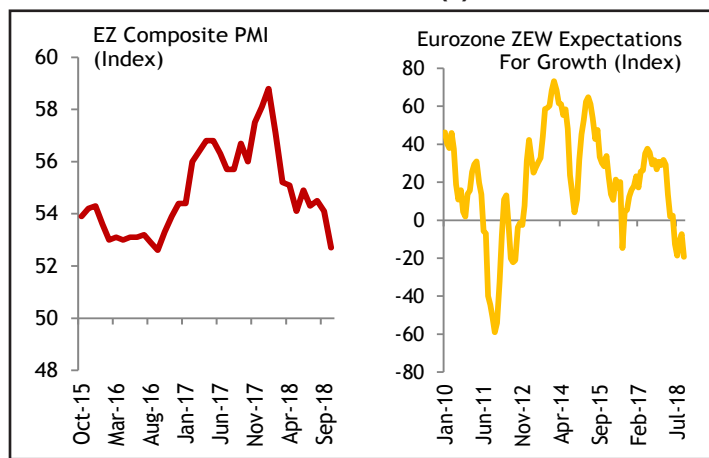
Source: Bloomberg, CIBC

Australia's Commodity Price Index Has Recovered More Than Canada's (L), So Has Its Trade Balance (R)



Source: Statistics Canada, Bloomberg, CIBC

Growth Has Slowed (L), But Sentiment Has Soured Even More (R)



Source: Markit, ZEW, Bloomberg, CIBC

CANADIAN RELEASE AND EVENT DATES October/November 2018



| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|--|--|---|--|--|
| 22 WHOLESALE TRADE 8:30 AM | 23 | 24 Bank of Canada Interest Rate Announcement Bank of Canada Monetary Policy Report | 25 PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM | 26 |
| 29 | 30 BoC Governor Poloz & Sr. Dep. Gov. Wilkins speak before the House Standing Comm. on Finance at 3:30 PM ET | 31 GDP BY INDUSTRY 8:30 AM (2002\$) GDP IND.PROD. M M JUN 0.0 0.0 JUL 0.2 0.6 AUG INDUSTRIAL PRICES 8:30 AM M (NSA) Y JUL -0.2 6.7 AUG -0.5 5.8 SEP BoC Governor Poloz & Sr. Dep. Gov. Wilkins speak before Senate Comm. on Banking, Trade, Comm. at 4:15 PM ET | 1 LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y AUG -0.3 0.9 6.0 2.6 SEP 0.3 1.2 5.9 2.2 OCT MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE JUL -189 -27,305 AUG 526 -23,907 SEP | 2 |
| 5 INTERNATIONAL RESERVES 8:15 AM \$BN \$BN CHANGE LEVEL AUG -0.579 81.2 SEP -0.555 80.7 OCT | 6 BUILDING PERMITS (\$) 8:30 AM M M (RES) (NON-RES) JUL -2.0 -0.5 AUG -4.4 8.8 SEP | 7 | 8 HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES AUG 199 52 SEP 189 53 OCT NEW HOUSING PRICE INDEX 8:30 AM | 9 |
| 12 | 13 | 14 | 15 ADP EMPLOYMENT SURVEY 8:30 AM | 16 INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET JUL 12.7 -0.4 3.0 15.3 AUG -7.4 4.9 5.3 2.8 SEP SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y JUL 1.2 10.9 AUG -0.4 9.0 SEP |
| 19 | 20 | 21 | 22 | 23 RETAIL TRADE 8:30 AM (Current\$) M Y JUL 0.2 3.5 AUG -0.1 3.6 SEP CPI 8:30 AM M Y AUG -0.1 2.8 SEP -0.4 2.2 OCT |

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

U.S. RELEASE AND EVENT DATES October/November 2018



| MONDAY | TUESDAY | WEDNESDAY | THURSDAY | FRIDAY |
|--|---|---|---|---|
| 22 | 23 | 24 | 25 | 26 |
| | | NEW HOME SALES 10:00 AM Beige Book 5-Yr NOTE AUCTION | ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM DURABLE GOODS ORDERS 8:30 AM M Y JUL -1.2 10.0 AUG 4.6 12.1 SEP 0.8 7.9 7-Yr NOTE AUCTION INITIAL JOBLESS CLAIMS (8:30) | GDP 8:30 AM (AR) REAL IMPLICIT GDP DEFLATOR 18:Q1(F) 2.2 2.0 18:Q2(F) 4.2 3.0 18:Q2(A) 3.5 1.7 MICHIGAN SENTIMENT (F) 10:00 AM |
| 29 | 30 | 31 | 1 | 2 |
| PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR JUL 0.3 0.5 6.6 AUG 0.3 0.3 6.6 SEP | 2-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55) S&P CORE LOGIC/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM | ADP SURVEY 8:15 AM ECI 8:30 AM WAGES & TOTAL SALARY BEN. 18:Q1 0.8 0.9 0.7 18:Q2 0.6 0.5 0.9 18:Q3 CHICAGO PMI 9:45 AM 30-Yr BOND ANNOUNCEMENT 3, 10-Yr NOTE ANNOUNCEMENT 2, 5-, 7-Yr NOTE SETTLEMENT | NON-FARM PRODUCTIVITY 8:30 AM Q/Q (AR) Y/Y 18:Q1 (F) 0.3 1.0 18:Q2 (F) 2.9 1.3 18:Q3 (A) ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX AUG 61.3 72.1 SEP 59.8 66.9 OCT LIGHT VEHICLES SALES MIL (AR) Y AUG 16,620 1.0 SEP 17,364 -4.0 OCT INITIAL JOBLESS CLAIMS (8:30) | EMPLOY. SITUATION 8:30 AM NON- CIV AVG FARM UNEMP HRLY PAYROLL RATE EARN AUG 270 3.9 2.9 SEP 134 3.7 2.7 OCT GOODS & SERV. BALANCE (BOP) \$B 8:30 AM GDS SERV TOT JUL -73.2 23.1 -50.0 AUG -76.7 23.5 -53.2 SEP FACTORY ORDERS 10:00 AM M(SA) Y(NSA) JUL -0.5 9.2 AUG 2.3 10.0 SEP |
| 5 | 6 | 7 | 8 | 9 |
| ISM NON-MFG SURVEY 10:00 AM | 3-Yr NOTE AUCTION BOT (9:00) REDBOOK (8:55) | CONSUMER CREDIT 3:00PM 10-Yr NOTE AUCTION | FOMC Rate Decision 30-Yr BOND AUCTION INITIAL JOBLESS CLAIMS (8:30) | PPI 8:30 AM M (SA) Y (NSA) AUG -0.1 2.8 SEP 0.2 2.7 OCT MICHIGAN SENTIMENT (P) 10:00 AM |
| 12 | 13 | 14 | 15 | 16 |
| | TREASURY BUDGET 2:00 PM BOT (9:00) REDBOOK (8:55) | CPI 8:30 AM M(SA) Y (NSA) AUG 0.2 2.7 SEP 0.1 2.3 OCT | PHILADELPHIA FED INDEX 8:30 PM RETAIL SALES 8:30 AM M Y AUG 0.1 6.5 SEP 0.1 4.7 OCT BUSINESS INVENTORIES 10:00 AM 3, 10-Yr NOTE ANNOUNCEMENT 30-Yr BOND SETTLEMENT INITIAL JOBLESS CLAIMS (8:30) | CAPACITY UTIL./IND. PROD. 9:15 AM LEV M Y AUG 78.1 0.4 4.8 SEP 78.1 0.3 5.1 OCT NET CAPITAL INFLOWS TICS 4:00 PM |
| 19 | 20 | 21 | 22 | 23 |
| | HOUSING STARTS 8:30 AM Mn. M/M AUG 1.268 7.1 SEP 1.201 -5.3 OCT BOT (9:00) REDBOOK (8:55) | DURABLE GOODS ORDERS 8:30 AM M Y AUG 4.4 11.8 SEP OCT LEADING INDICATOR 10:00 AM MICHIGAN SENTIMENT (F) 10:00 AM | THANKSGIVING DAY (HOLIDAY) (Markets Closed) INITIAL JOBLESS CLAIMS (8:30) | |

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