December 7, 2021 **Industry Update**

2022 Equity Outlook

Mundane Returns In A Low Interest Rate Environment

Sector:
From The Director's Desk

Our Conclusion

Almost two years into the pandemic, we continue to believe equities are the superior asset class in an overall low-return environment. From an operational standpoint, earnings across both the S&P 500 and the S&P/TSX have shown a remarkable resilience in weathering previously unimaginable headwinds over the last two years. Stretched equity valuations are supported by unusually low interest rates.

This is the fourth edition of our CIBC Equity Outlook, a 50+ page collaborative report succinctly featuring the most impactful investment themes across the S&P/TSX Composite's 11 GICS. This year's outlook also incorporates a Sustainability and a Technical Analysis overview to complement our fundamental insights.

Key Points

Inflation is the main investment concern for 2022, and its expected transiency is perhaps the most debated topic in the investment community. Historically, equities have shown an ability to manage inflationary periods; the focus should be on *which* equities to own rather than *whether* to own equities. Equities (in aggregate) have an ability to pass through input cost escalation.

Rising inflation in periods of economic weakness, however, could disrupt the equity rally. Stagflation would nullify much of equities' "inflation resistance" as corporate margins contract amidst minimal or negative earnings growth. We would describe this as a low-risk, high-impact scenario.

In the final analysis, we prefer Canadian equities over U.S. stocks. Forward P/E on the S&P/TSX is in line with its historical average, while the S&P 500 is trading over one standard deviation above its historical norm. Payouts across the S&P/TSX should also be elevated, as we expect record dollar level dividends and buybacks in 2022.

Our expectation for higher interest rates bodes well for Financials, but the group also has excellent balance sheets and high levels of profitability. We also believe the two Consumer sectors look attractive given the more stable business models that comprise the Canadian consumer indices. We rate the three sectors Overweight heading into 2022.

Higher rates are likely to drag on Technology valuations and provide challenges for Utilities. The moderation in the gold price will weigh on Materials. We rate these three sectors Underweight next year.

The Omicron variant may disrupt some of our holiday plans, but as we conclude this year we wish all of our clients a safe and wonderful holiday season with family and loved ones.

All figures in Canadian dollars unless otherwise stated.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 55.

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Perspectives From The Director Of Research

Whoever thought that the market had topped out in 2020 was quickly proven wrong this past year as both the S&P 500 and S&P/TSX marched higher on the back of a COVID re-opening trade, monetary liquidity, and positive earnings revisions. For Canada-focused investors, the year also brought a record number of IPOs, a raft of new products and the ongoing evolution of ESG as an important investment metric.

Here in Research at CIBC, we also experienced significant development and change. Our coverage universe evolved significantly during the year, with the team initiating coverage on 49 companies, an increase of 36% Y/Y. Our challenge over the past year was ensuring that we had the resources to successfully grow and develop new products. We shifted roles from stable-to-consolidating sectors to growth sectors, added senior and junior talent, and provided an opportunity for several senior associates to assume coverage of their own. We grew our Technology, Healthcare, REIT and Renewables teams, and added talent to our top-ranked Consumer team and Portfolio Strategy teams. We did all this and managed to deliver on our diversity goal of achieving gender balance among new hires, and increased the STEM bench strength of our team. We are particularly proud to highlight that we have achieved a new record on female publishing analysts within the department, with seven fundamental or strategy coverage team members.

On Sustainability, CIBC declared a Net Zero ambition by 2050 and a commitment to mobilize sustainable finance to target $300B by 2030. Within Research, we continued to build upon our ESG product offering, which officially started in 2016 with our first conference on this important topic. We officially created a Sustainability Analyst role within the department to lead the charge on ESG research and our proprietary Carbon Tracker. As well, the team published 24 ESG-focused reports throughout the year, including reports on the government’s role in the energy transition, the impact of EVs on the oil sands, ESG in technology, the emerging role of agriculture in the carbon credit market, and a primer on carbon credit markets, and others.

As for new products, we launched coverage on ETFs at the beginning of the year and hired a dedicated research analyst. ETFs remain a significant area of growth, posting another year of record net inflows in Canada. We also launched a new-and-improved Research Central website that better serves all our clients, adhering to AODA standards. We developed a new ETF screening tool and enhanced our Quantitative online screener. We plan on further expanding our research offering and functionality in the coming year.

To all of our clients, and on behalf of all professionals in Research, I would like to thank you for your ongoing partnership and allowing us to play a role in your investment decision process. While investment returns will likely be more muted in 2022, we hope for a year with less disruption and better headlines.

All the best,

Giorgia Anton
Managing Director & Head, Equity Research

Canadian Equity Outlook

2021 At A Glance

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Equities have, by and large, had a strong year. Despite the emergence of concerning variants, businesses have shown an ability to adapt and corporate earnings have more than recovered, partially fueled by significant fiscal and monetary stimulus. As can be seen in the table in Exhibit 1, North American equity markets led the charge higher. U.S. returns this year have been particularly impressive, given the extremely strong absolute performance in 2020 as well. On the other hand, Asian markets gave back all (or almost all) of 2020's relative outperformance, as Western economies recovered more meaningfully from lockdowns.

After relative underperformance for several years, Canada finally had a great year. The S&P/TSX was the second-best-performing G7 stock market, in constant currency terms, in 2021. Despite the strong performance, we remain bullish on Canadian equities.

Exhibit 1: Major Developed Economies (G7 + Korea & Australia) – Ranked Equity Performance, 2021 (USD)

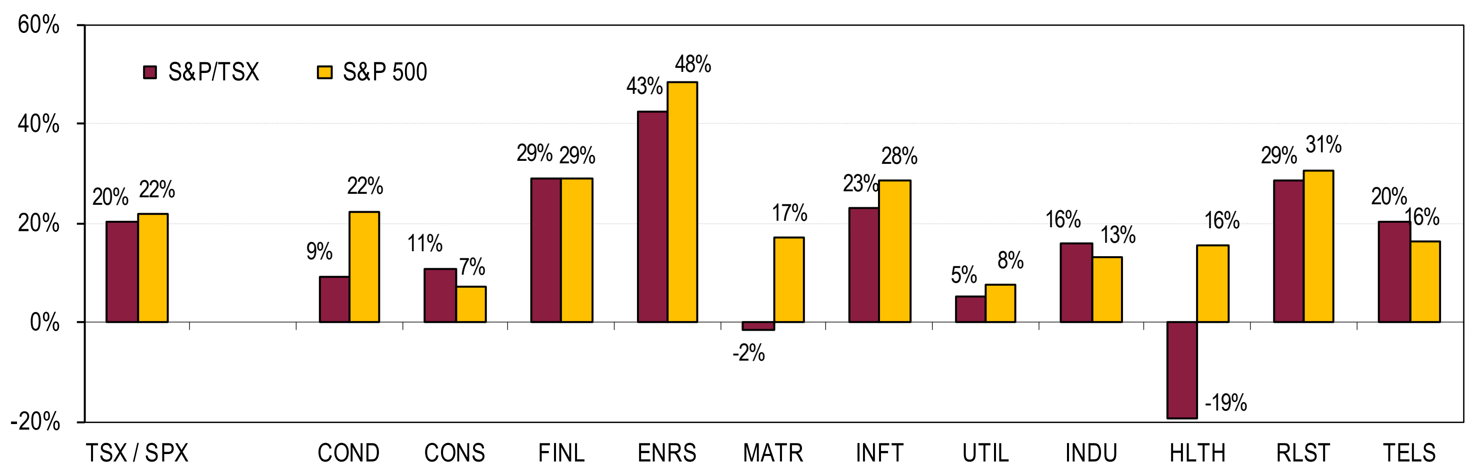
Total Return Performance		2020 Total Return		2021 YTD Total Return	
Country	Index	Local Terms	USD Terms	Local Terms	USD Terms
USA	S&P 500	18.4%	18.4%	21.7%	21.7%
Canada	**S&P/TSX Comp.**	**5.6%**	**7.3%**	**20.3%**	**19.9%**
France	CAC 40	-5.0%	3.5%	26.8%	17.5%
Italy	FTSE MIB	-3.3%	6.0%	22.3%	12.7%
UK	FTSE 100	-11.4%	-8.8%	14.8%	11.8%
Australia	S&P/ASX 200	2.3%	12.0%	15.2%	6.6%
Germany	DAX	3.5%	13.5%	12.8%	3.9%
Japan	Nikkei 225	18.3%	24.7%	3.3%	-5.4%
Korea	KOSPI 200	35.9%	44.4%	-1.0%	-8.2%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Canadian returns helped by relative sector performance.

Almost all North American sectors produced positive returns in 2021, save for the Materials and Health Care (Cannabis) sectors in Canada, as shown in the bar chart in Exhibit 2. From a relative perspective, Energy led the way, reflecting the rebound in oil and gas demand. Financials also benefitted from higher interest rates, while Technology stocks continued their secular longer-term outperformance. Given the make-up of the S&P/TSX Composite (Financials, Tech and Energy represent 55% of float cap), Canada's performance could arguably have been even stronger.

Exhibit 2: S&P/TSX Composite And S&P 500 – Index/Sector Performance, 2021 YTD (Local Currency)



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Equities Shrug Off Inflation Concerns

There is little doubt inflation and its expected duration remain amongst the most debated topics in capital markets – is it transient, and what exactly does transient mean? From the equity investor's perspective, the debate has largely focused on which equities to own, rather than a question of *whether* to own equities. The reality is many equities, and certainly broad groups of equities such as those that make up the S&P 500 or the S&P/TSX, have the ability to pass through input cost escalation.

This thesis was validated in the second half of 2021 in North America. Across the board, c-suite executives complained of high input costs, wage pressures and worker shortages. Regardless, bottom-line earnings exceeded expectations and forward-looking estimates for 2021 and 2022 rose during the year. This isn't to say every business can simply pass through inflation. Rather, the larger public companies, as a group, have sufficient pricing power to manage the current spate of inflation.

Some inflation is manageable, stagflation generally isn't.

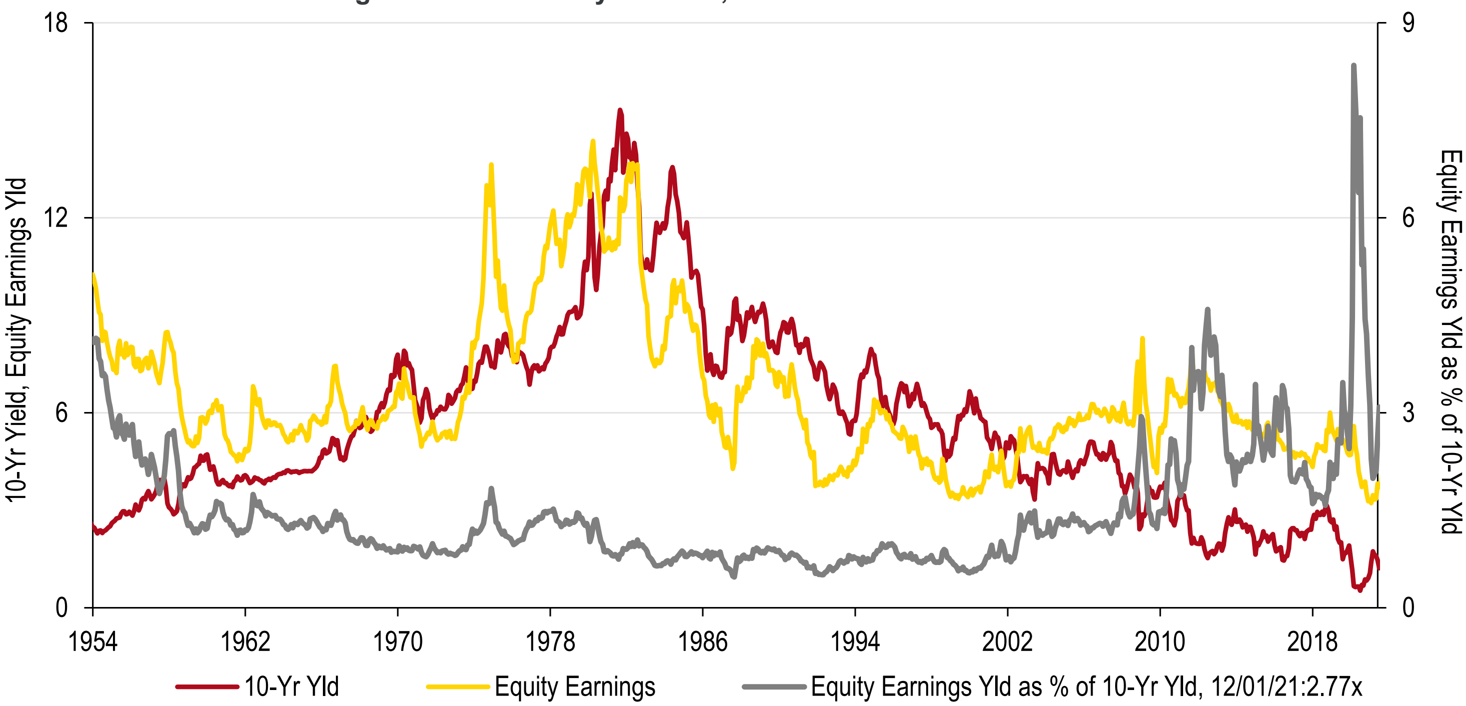
The one "inflationary" environment that would be particularly difficult for equities is stagflation. These periods are few and far between but history rightly suggests poor economic growth, i.e., weak demand, mitigates much of the "inflation resistance" equities provide. In stagflation, we expect corporate margins to contract and earnings growth to be de minimus or even negative. In simple terms, we describe this as a low-risk, high-impact scenario.

The Interest Rate Backdrop Is Important

Earnings yield (inverse of P/E) is supported by very low interest rates.

Granted equities look well positioned to handle most economic environments, but investors should not ignore the current robust valuations afforded to equities. Forward P/E for the S&P 500 is high by historical standards – it is only in the context of low interest rates could a 23x forward earnings really be justified. As we show in the line chart in Exhibit 3, the earnings yield (the inverse of the P/E, 4.4%) only looks cheap relative to interest rates. Specifically, the earnings yield relative to the bond yield has corrected substantially from the COVID spike, but is still almost twice as attractive as it has been for most of the post-war period. Further, remember that 2022 earnings will already have been boosted by significant fiscal and monetary action – neither of which are likely to reoccur as forcefully in the coming year.

Exhibit 3: S&P 500 – Earnings Yield Vs. US 10-year Yield, 1954 - Present



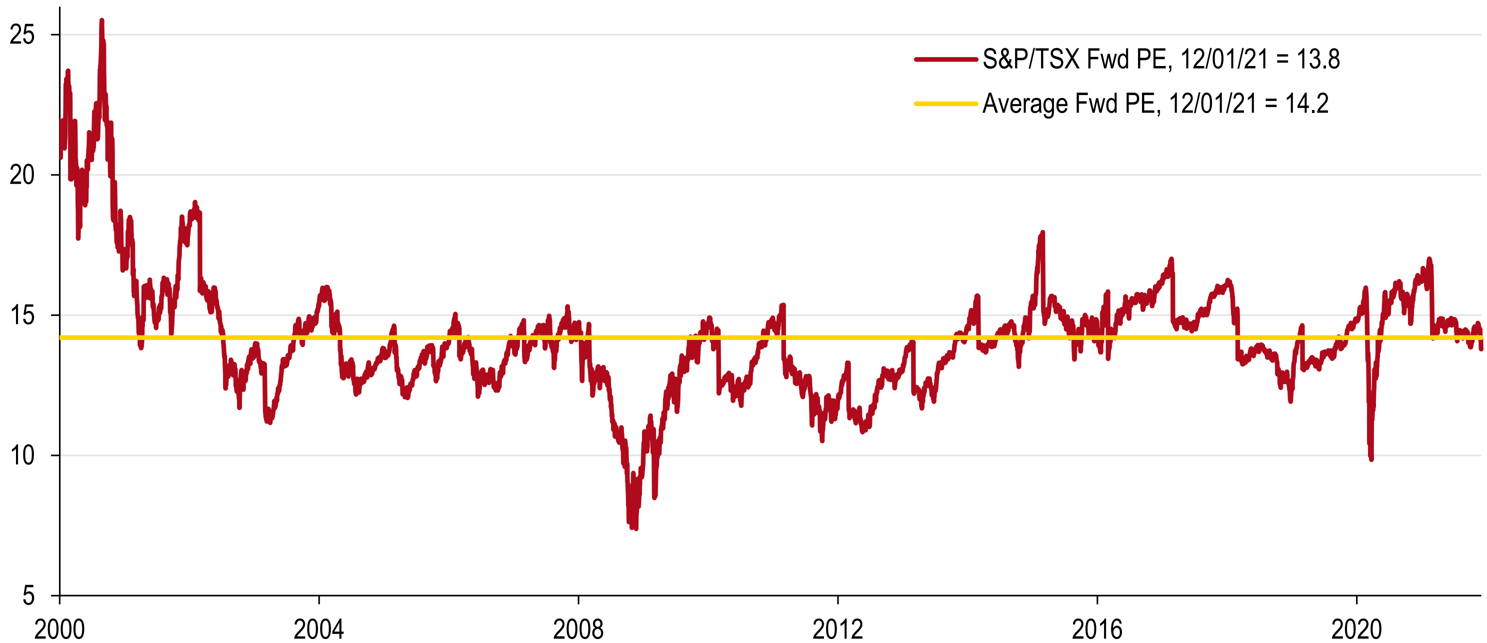
Source: Bloomberg and CIBC World Markets Inc.

Our point is relatively simple – equities should still outperform most other asset classes, but returns will likely be subdued. We also think dividends (now classified in a passé group along with “Your Father’s Oldsmobile”) will return to prominence. Remember, dividends have traditionally made up 25%-35% of equity returns in the longer term. In a single-digit-return world, even an extra 100 bps of dividend yield will be a difference maker.

Canada Looks Well Positioned In 2022

After a disappointing previous decade, 2021 was a year in which Canadian equities finally started to “catch a bid.” The S&P/TSX has much going for it in the next 12 months. First, valuation is largely in line with longer-term averages (see the line chart in Exhibit 4) – an attractive starting point given the unusually low level of “real interest rates.”

Exhibit 4: S&P/TSX – Historical And Average Forward P/E Ratio, 2000 - Present



Source: FactSet and CIBC World Markets Inc.

Expect strong payouts from Canadian equities.

Second, many Canadian companies are flush with liquidity – Financials and Energy companies seem committed to distributing significant amounts of their excess earnings and capital in relatively short order. Last, rising interest rates should, in aggregate, be helpful to the index given the significant weighting of Financials. Valuations across Technology stocks tend to be quite sensitive to rising interest rates, and even with the success of Shopify, the limited weight of the sector relative to the S&P 500 (11% versus 29%) should help the Canadian market outperform its southern peer.

Sector Recommendations

An expectation of a more “normal” economy and rising rates shape our calls.

In a world where developments on variants come frequently, it is difficult to have strong confidence in sector recommendations for all of 2022. In such an environment, we need to define our base-case assumptions. We expect COVID (and its variants) will remain largely under control and that re-opening will occur, but in a non-linear manner. In this environment, we expect more mundane economic growth, stable inflation and a slow, but concerted rise in interest rates.

Financials look well positioned to again lead the S&P/TSX in 2022. Given the high levels of profitability, the excellent balance sheets and the commitment to higher payouts (frankly, a return to more “normal” payouts relative to 2020 and 2021), banks and insurers are well positioned. Our expectation for high interest rates is also a factor here.

We think the two Consumer sectors also look attractive. In Canada, many discretionary consumer businesses are relatively stable, e.g., Dollarama and Canadian Tire, while a more typical auto cycle should benefit the auto parts companies, assuming chip shortages moderate. Stable business models with GDP-type earnings growth are likely to be attractive investments over the next year.

Tech's best days are likely behind it.

We expect Technology stocks to lag as we move forward. They have been leaders for some time, driven by tailwinds from work-from-home and continued declines in interest rates. These stocks have traditionally been the most sensitive to rising rates, and valuations for some are stretched. Likewise, we expect Utilities to be negatively impacted by rising interest rates.

Exhibit 5: S&P/TSX Sector Recommendations

S&P/TSX Sectors	Index Weight	Sector Rating	S&P/TSX Sectors	Index Weight	Sector Rating	S&P/TSX Sectors	Index Weight	Sector Rating
Financials	32.1%	Overweight	Energy	12.9%	Market Weight	Materials	11.5%	Underweight
Staples	3.6%	Overweight	Industrials	11.7%	Market Weight	Technology	11.5%	Underweight
Discretionary	3.5%	Overweight	Communications	4.8%	Market Weight	Utilities	4.5%	Underweight
			Real Estate	3.1%	Market Weight			
			Health Care	0.8%	Market Weight			

Source: FactSet and CIBC World Markets Inc.

Given our expectation for a moderation in gold prices in 2022 (due to rising interest rates) and little support from other commodities (save for copper), we expect Materials to lag again in 2022. Cash flows will be a positive but there is still some concern on prudent use of capital in some sub-sectors, particularly precious metals.

Our overall expectation is that the S&P/TSX will produce a return of 4%-6% in 2022. With a yield of 2.5%, this implies very little in terms of price performance. Having said this, we believe bonds will be negatively affected by rising rates, and the low level of current yield provides little reason for optimism for fixed income vehicles. In this low return environment, we believe equities remain the superior investment asset class.

ESG Outlook

2021 At A Glance

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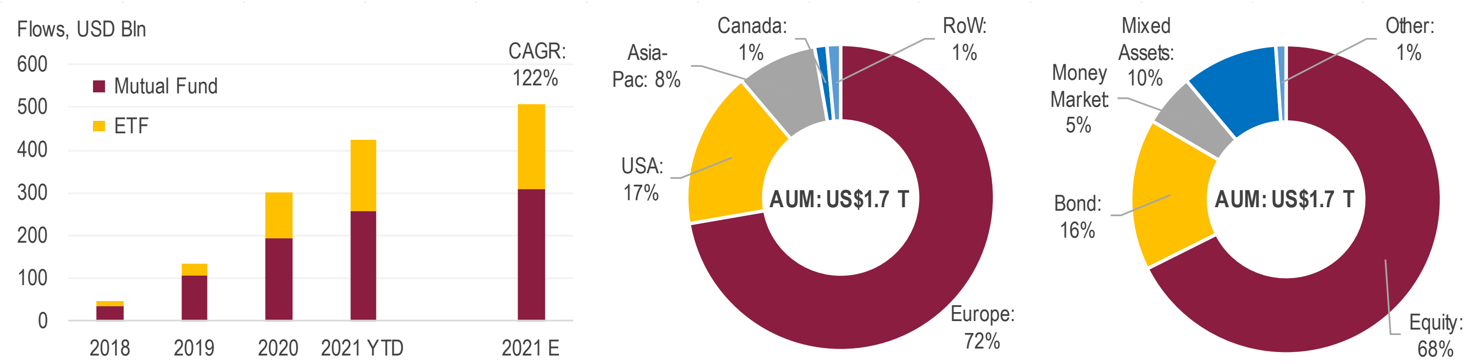
This year was another record year for ESG investing. Global flows into ESG mutual fund and ETFs will likely cross US$500B in 2021, growing at a CAGR of 122% over the last three years (see the bar chart on the left in Exhibit 6). In regards to total AUM, the ESG fund universe has now crossed US$1.7T, representing about 3% of global fund holdings. Europe and equities are the predominant geography and asset class, as seen in the donut charts in the middle and on the right in Exhibit 6.

Exhibit 6: ESG Investing – Global Fund Flows And AUM Across Mutual Funds And ETFs, 2021 YTD (October 31)



Note: 2021 YTD data as of October 31, 2021. ESG universe as shown above includes mutual funds and ETFs only. Source: Refinitiv Lipper and CIBC World Markets Inc.

Environmental Issues Remain The Focal Point In 2022

Sustainability investing was dominated by the "E" (environmental) component to "ESG" last year and this will carry into 2022. Breakthroughs at COP26 in Glasgow around methane, carbon trading, and (to an extent) coal emissions will drive current climate momentum as world leaders reconvene in Egypt next year to seek additional carbon cutting commitments.

The need to reduce emissions is about keeping onside of the 1.5 degree pathway. Net zero is gaining importance. All sectors should expect additional scrutiny over emission reductions, both on performance and targets. We expect this to span all associated emissions (Scope 3 emissions). This is an increasing focus for the Financials sector as investors look to disclosure around financed emissions and overall sustainability finance targets.

On the policy side, expect a few developments next year from Canada's federal government – the most significant is formal legislation to increase the carbon tax from $50/ton to $170/ton by 2030. We also await details around the creation of the Federal GHG Offset System (a national voluntary carbon market), how to cap oil and gas emissions, and possible increased financial incentives (tax credits, direct funding, etc.) to spur additional clean technologies.

Disclosure requirements for both issuers and investors are evolving.

Investors and issuers would be well served to keep abreast of disclosure expectations. ESG reporting has coalesced across three standard setters: 1) the Sustainability Accounting Standards Board; 2) the Task Force on Climate-related Financial Disclosure; and, 3) the Science Based Targets Initiatives, or SBTi. These are becoming benchmarks for ESG disclosure. We note the E.U. and the U.K. have mandatory ESG disclosure requirements for issuers and investors. North American securities regulators are exploring this as well.

Emissions in 2021 have already rebounded to pre-pandemic levels as economies recovered. As well, the TSX Oil & Gas Producers Index has now outperformed the TSX Renewables Index since the start of 2020, i.e., even after including strong Renewables returns last year. Strong demand for fossil fuels and high Renewables valuations in an inflationary environment mean this outperformance could continue next year. There will be no overnight solution to climate change. The focus is to keep the momentum going, and 2022 appears very likely to deliver on this, as ESG has only now gone mainstream in the investment community.

S&P/TSX Communication Services – Marketweight

2021 At A Glance

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The S&P/TSX Communications Index posted a return of +20%, the best amongst peers in USD terms and ahead of the +16% return posted by the S&P 500 Communications Index. Of note, while the S&P 500 names include tech giants such as Netflix and Google, the return for large-cap U.S. telecoms was negative at -12%. In the pandemic years, U.S. Wireless absorbed the pain of the revenue melt from overage declines, but its revenue stream has become more resilient and stable. U.S. Cable operators continue to fire on all cylinders, as broadband has become a backbone for working from home.

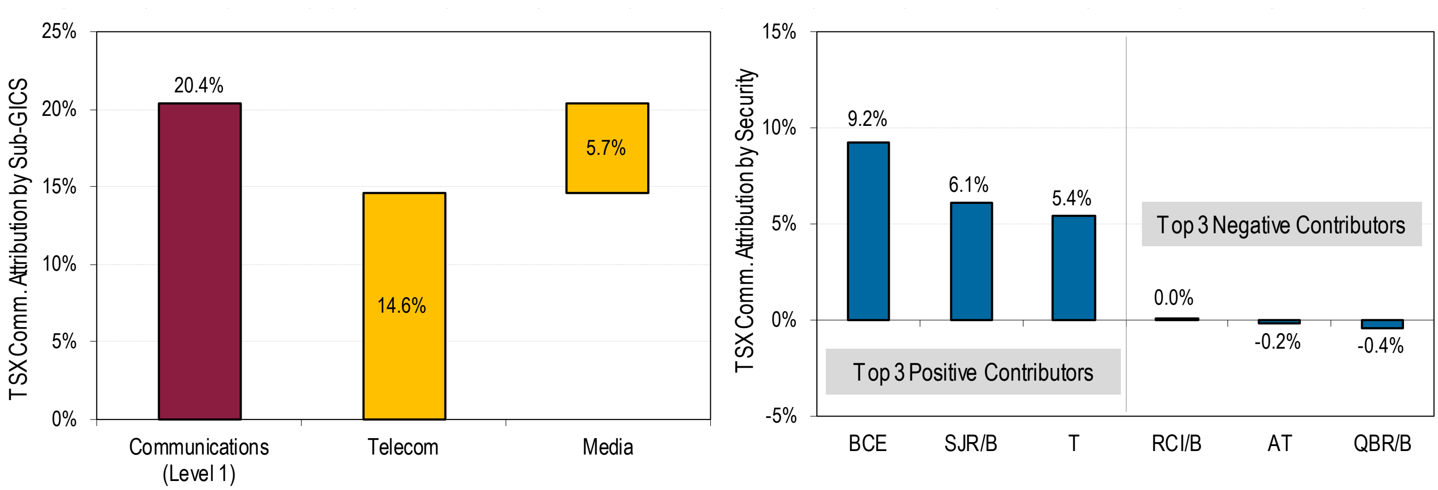
Exhibit 7: Total Return Performance – Communication Services, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Canada	**S&P/TSX Communications**	**20.4%**	**20.0%**
Korea	MSCI Korea Communications	28.1%	18.8%
USA	S&P 500 Communications	16.2%	16.2%
Australia	MSCI Australia Communications	25.1%	15.8%
France	MSCI France Communications	17.8%	9.1%
Italy	MSCI Italy Communications	14.7%	5.7%
UK	MSCI UK Communications	7.7%	4.9%
Germany	MSCI German Communications	8.0%	-0.5%
Japan	MSCI Japan Communications	-5.0%	-13.0%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The bar charts in Exhibit 8 highlight the sub-sector performance and the equities contributing most meaningfully to the overall sector this year. BCE led the sub-index, reflecting a bounce from a weak start to the year on concerns over free cash flow trends, followed by gains in H2 on the back of a greater safety/yield focus by sector investors. Quebecor was the weakest contributor under our coverage, reflecting the risks associated with an expansionist Wireless strategy that requires visibility which is still not apparent as we close off 2021.

Exhibit 8: Total Return – S&P/TSX Communication Services Attribution By Sub-Index And Major Security, 2021 YTD



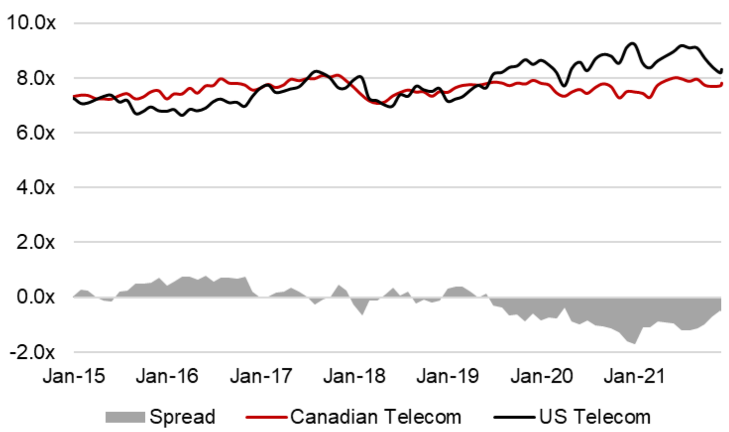
Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

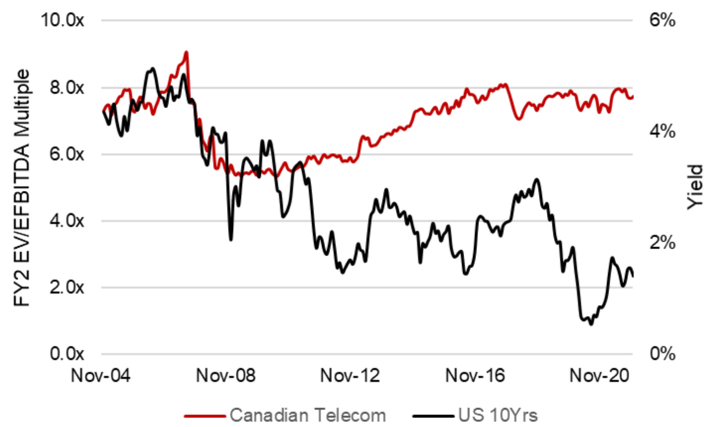
Rising Rate Environment Could Pressure The Yield Strengths Of The Canadian Telecom Space

Over the last decade, Canadian cable/telecom stocks have offered stability and safety, supported by a largely benign regulatory environment and disciplined behaviour from industry participants. Visible long-tail opportunities in a late-cycle market have been amplified by the low interest rate environment of late. Even with ongoing pandemic pressures and potential disruptions to the competitive balance from M&A, sector valuations have continued to range between 7.5x-8.5x forward EBITDA, reflecting a discount to U.S. peers that first developed in early 2019; see the line chart on the left in Exhibit 9. Of note, however, the Canadian discount to U.S. peers has narrowed very recently, as U.S. maturity concerns have finally materialised, something that is already well understood in the Canadian sector.

Expected headwinds in 2021 from a rising interest rate environment remain relevant. The Canadian 10-year yield (as illustrated in the line chart on the right in Exhibit 9) has bounced from historic lows, with expectations of a continued rise in 2022. As such, Canadian cable/telecom names could see their strong yield positioning lose some favor with investors.

Exhibit 9: Canadian Telecom – FY2 EBITDA Multiple Vs. U.S. Peers, 2015 - 2021 (left) And Vs. 10Yr Interest Rates 2004 - 2021 (right)





Source: FactSet and CIBC World Markets Inc.

Conclusion: Cable/Telecom To Follow Consistent Thesis – Valuation Range-bound, But Still A Core Portfolio Holding

Many equities within the Canadian telecom sector possess strong quasi-bond defensive characteristics, which should continue to influence investor sentiment. While rising rates are a headwind, the current 10-year Canadian bond yield at 1.50% still compares to dividend yields in the 4%-5% territory offered by BCE and TELUS, followed by cablecos at a 3%-4% yield. Short of approaching a 3% bond yield, the Canadian telecom sector should remain supported on yield analysis.

These stable Canadian companies operate in a high-profit oligopoly ecosystem, with regulatory barriers limiting foreign entrants. While the wireless competitive landscape is again in flux, downside risks remain limited, as the long tail of FCF growth and strong dividend yields should continue to dominate the thesis.

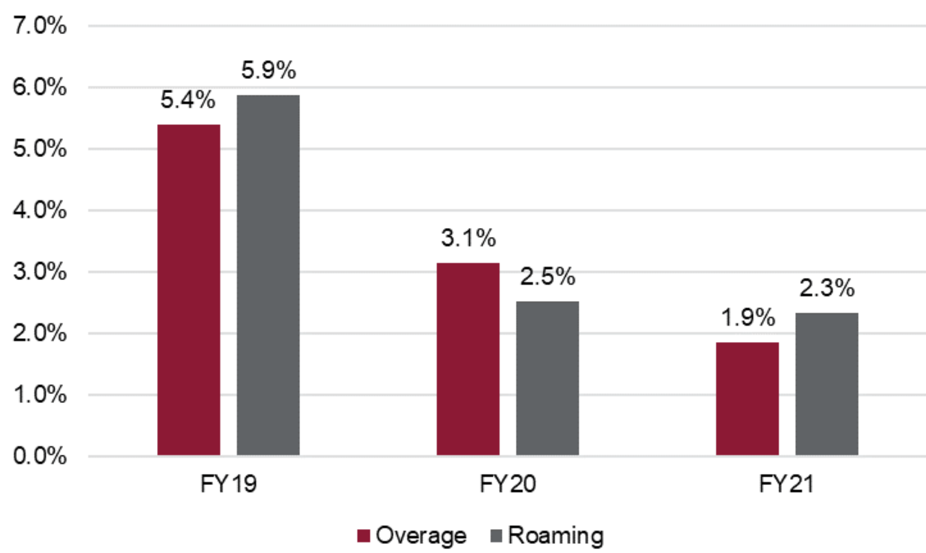
Headwinds In Wireless Should Finally Abate In 2022 – Visibility Required For Competitive Landscape

While temporary pandemic pressures continue to cloud the outlook, Canadian wireless assets still deliver superior returns compared to wireline businesses. While maturity of the industry has become more apparent, especially for the Big 3, we expect headwinds from the pandemic and the move to unlimited plans to finally ease into 2022. The bar chart in Exhibit 10 illustrates the decline in Big 3 revenue contribution from overage and roaming over the past two years. One counter to this near-term pressure is the continuing (albeit elusive) prospect of medium- to long-term opportunities from 5G. While a meaningful contribution from 5G is finally expected at some point in 2022, progress in networks, spectrum, handsets and global use cases should finally begin to support financial models this time next year. Then again, that was the thesis a year ago as well.

The proposed acquisition of Shaw Communications by Rogers Communications added an element of uncertainty for the Canadian wireless sector in 2021. Given Rogers' material role within the Big 3, and Shaw's Freedom Mobile as an alternative player, the proposed transaction and regulatory response could alter the landscape in Canada somewhat.

The past year did see some resolution to the regulatory landscape around wholesale wireless, with a facilities-based bias remaining from the Canadian regulator. That being said, negotiated MVNO (mobile virtual network operator) rates remain to be negotiated, and the role for this wholesale access in the changing competitive landscape is yet to be seen.

Exhibit 10: Canadian Telecom Big 3 – Estimated Overage And Roaming As % Of Wireless Service Revenue, F2019 - F2021



Source: CIBC World Markets Inc.

Conclusion: Wireless Players Should Exit 2021 Positioned To Rebound, With All Eyes On The Competitive Landscape

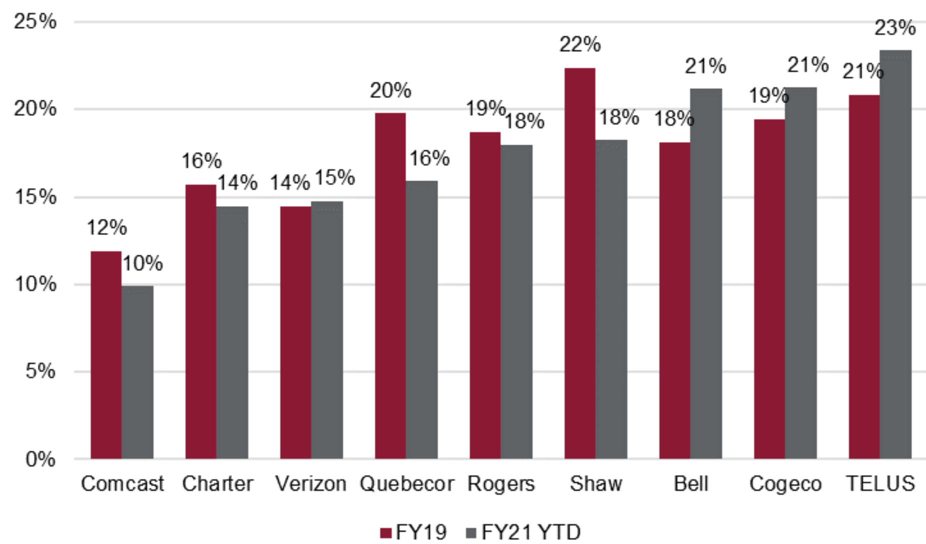
Looking to 2022 and beyond, we continue to favour wireless assets within the sector, as they remain an important source of growth and value potential. The wireless industry is passing an inflection point, marked by the elimination of overage revenues, but we expect market participants to be proactive and disciplined, even after competitive landscape questions are answered.

Heavy Capex Spending In Canada Likely To Pressure FCF In 2022, But Positions For Growth Over Medium Term

One important element of the FCF analysis of the sector is a focus on capital expenditure plans for the next few years. Broadband expansion is key, supported by customer demand for higher-speed Internet but also by provincial and federal government incentive programs to deliver essential broadband to rural communities. In addition to the ramped-up spending required for this expansion, BCE and TELUS have also materially increased capex spending into the next few years as both look to increase and fill-in fiber-to-the-premises coverage.

As a result of this spending, capex intensity has increased meaningfully YTD (versus a 2019 pre-pandemic base year) for the majority of names under coverage, a theme which should carry into 2022-2023, as illustrated in the bar chart in Exhibit 11. In comparison, U.S. telecom players have operated YTD on leaner capex versus 2019 levels. The elevated capex spending by Canadian telcos sacrifices near-term FCF growth in exchange for what the companies believe will be stronger revenue/EBITDA growth in the medium term, which should combine with reduced capex at that point to provide greater FCF levels and potential towards the longer term.

Exhibit 11. U.S. And Canadian Cable/Telcos – Capital Intensity %, 2019 - YTD 2021



Note: Telecom includes Wireless and Wireline segments disclosed by the companies.

Source: Company reports and CIBC World Markets Inc.

While companies within our research universe continue to demonstrate progress in ESG, governance concerns remain. Specifically, dual-class share structures, with voting control in the hands of founders/founding families, remain problematic to many investors.

Conclusion: Heavy Capex Spending In The Next Few Years Should Position The Space For Better Medium- To Long-term FCF

Given increased capex investments for broadband expansion, and the ongoing requirements for wireless network improvements/5G, the sector’s FCF profile will be muted for 2022 and into 2023. However, on the back of continued stability in execution and competitiveness, the sector should maintain its positioning with investors. Dividends remain sacrosanct, notwithstanding reduced near-term FCF coverage characteristics, and we don’t expect debt levels to prompt investor concern about liquidity. Our medium-term improvement thesis should support valuations in the current range at 7.5x-8.5x EV/EBITDA.

S&P/TSX Consumer Discretionary – Overweight

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2021 At A Glance

Although North American discretionary stocks underperformed the broader market, the sector had another respectable year. Domestic returns in 2021 of +9% came in below 2020's +17% gain, with retailers, autos & parts, and durables & apparel all contributing meaningfully to the index. Once again, U.S. consumer discretionary outperformed their global peers on a USD basis (bested only by France), partly a product of unprecedented (and unmatched) stimulus spending and a penchant for a quicker "return to normal" behaviour among consumers.

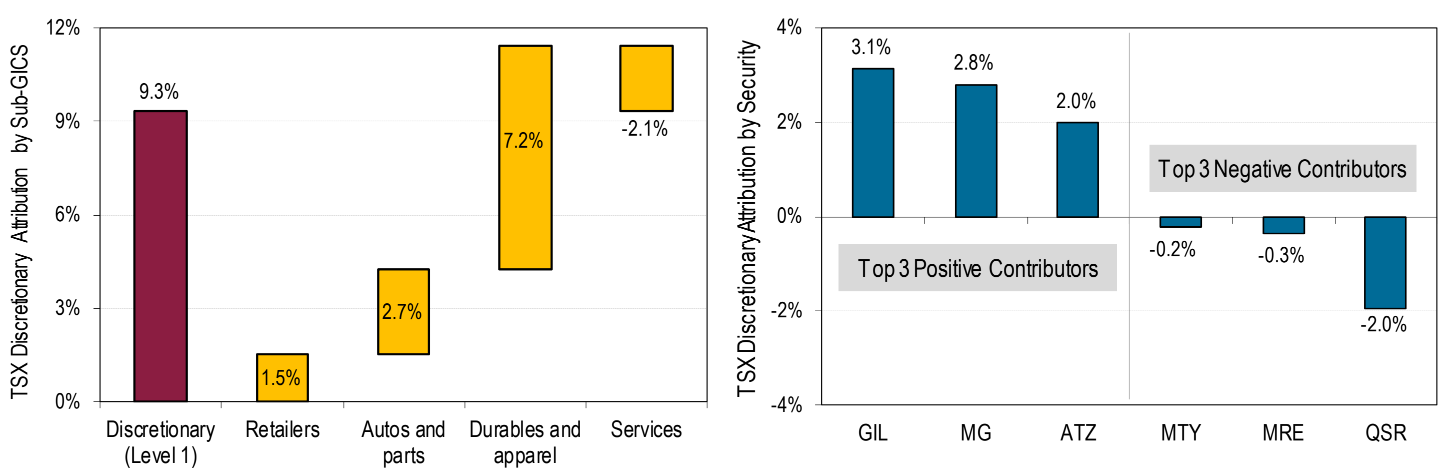
Exhibit 12: Total Return Performance – Consumer Discretionary, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
France	MSCI France Discretionary	35.1%	25.1%
USA	S&P 500 Discretionary	22.5%	22.5%
Italy	MSCI Italy Discretionary	30.6%	20.3%
Australia	MSCI Australia Discretionary	27.8%	18.4%
Canada	**S&P/TSX Discretionary**	**9.3%**	**9.0%**
Japan	MSCI Japan Discretionary	16.8%	6.9%
UK	MSCI UK Discretionary	8.4%	5.6%
Germany	MSCI German Discretionary	14.4%	5.4%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The largest individual contributors to the index in 2021 were Gildan, Magna, and Aritzia. Among the auto names, Magna added meaningfully to index returns as the company benefited from its sector bellwether status and from its investments in electric vehicles and advanced driver-assistance systems (ADAS). On the negative side, Martinrea was notably impacted by the chip shortage and supply chain issues. GIL's resurgence in 2021 partly reflected a rebound from the prior year, in which it was the index's biggest drag, but a resurgence in demand and execution of its Back To Basics strategy drove the stock to all-time highs. Aritzia was another name initially hurt by the pandemic, but its accelerating momentum in the U.S. has led to outsized returns. Within our coverage universe, BRP, Canada Goose and Sleep Country all had strong years but are smaller components of the index, while MTY and Restaurant Brands underperformed again in 2021 as Canada's foodservice recovery is still ongoing.

Exhibit 13: Total Return – S&P/TSX Consumer Discretionary Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

S&P/TSX Consumer Staples – Overweight

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2021 At A Glance

Initially, many investors may have anticipated that Staples stocks would be outperformers in the pandemic, but this did not occur in either 2020 or 2021. After a total return of just +4% last year, Canadian Staples returned nearly +11% in domestic terms in 2021. The Canadian names were relative outperformers worldwide, outpacing all but their Italian and French Staples peers. The stocks had a relatively quiet start to the year, but ongoing earnings beats lifted returns mostly uniformly throughout 2021. While performance checked back with the Omicron downturn, the sector has held in well relative to the greater S&P/TSX Composite.

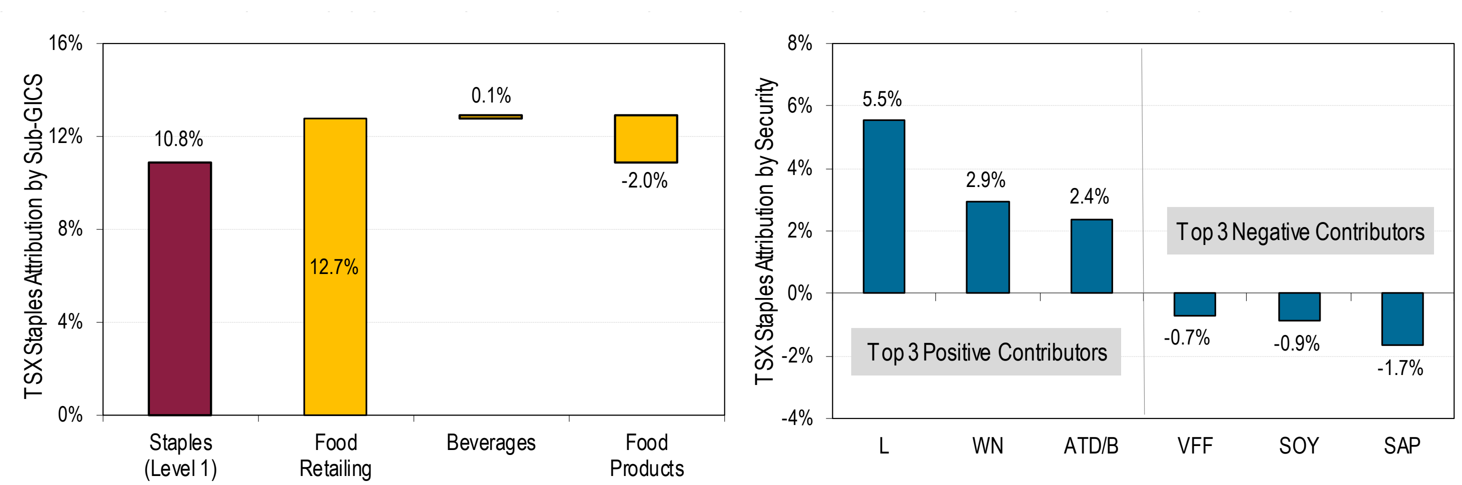
Exhibit 14: Total Return Performance – Consumer Staples, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	**GICS Level 1 Index**	**Local Terms**	**USD Terms**
Italy	MSCI Italy Staples	38.3%	27.4%
France	MSCI France Staples	24.2%	15.0%
Canada	**S&P/TSX Staples**	**10.8%**	**10.5%**
Australia	MSCI Australia Staples	17.9%	9.1%
USA	S&P 500 Staples	7.1%	7.1%
UK	MSCI UK Staples	6.1%	3.4%
Japan	MSCI Japan Staples	-4.2%	-12.3%
Germany	MSCI German Staples	-7.8%	-15.0%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The S&P/TSX Staples is dominated by the grocers and Alimentation Couche-Tard and, unsurprisingly, these stocks were the largest contributors to overall sector performance. Loblaw, and parent company George Weston, comprise nearly 25% of the index, and both had very strong years. Loblaw's strong performance reflected a focus on execution and growing optimism the company will generate outsized growth driven by asset leverage and margin expansion. It was also boosted by a recovery in its drug retail segment, as well as the grocery discount channel, where it over-indexes versus peers. Other grocers contributed positively as well, albeit more modestly. Couche-Tard, the largest constituent in the index, continued to benefit from robust fuel margins and increased confidence in organic growth. Saputo was once again the biggest drag on the index in 2021, as the commodity environment remains unfavourable and labour and supply chain headwinds escalated through the year.

Exhibit 15: Total Return – S&P/TSX Consumer Staples Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Consumer Environment For 2022: Will It Ever Be Normal?

As much as it may be discouraging to concede, we prepare to enter 2022 with continued uncertainty on how the economic environment will unfold. The expectation—from this very outlook a year ago—was for “the end of the year to look very different than the beginning.” Although this is technically true, and strong vaccination rates across Canada have now been achieved, we remain in a consumer environment that faces unknowns on supply chains, consumer mobility, government stimulus, share of wallet, and overall willingness to spend. And this phrase could’ve been written before Omicron entered the vernacular.

Regardless of the operating environment, we believe that recent strategies—some from pre-pandemic, some post—will once again be prevalent this year. Effective omnichannel execution (and leveraging store networks), ability to harness and monetize customer data, use of owned brands, a focus on health and wellness, greater operating efficiency, and proper achievement and communication of sustainability efforts are likely to be areas of focus across consumer businesses in 2022.

Furthermore, consumer trends may also sustain. The presumed shift from spending on goods to services has already been deferred, as has the correction in at-home food consumption. We suspect these could prove sticky still. On the flip side, companies’ openness to—and workers’ preference for—remote work will be tested. Not unlike the stickiness of in-store shopping vs. online, Canadians have a clear draw toward in-person interaction.

Bottom Line: Favouring Small-ticket, Scale And Pricing Power

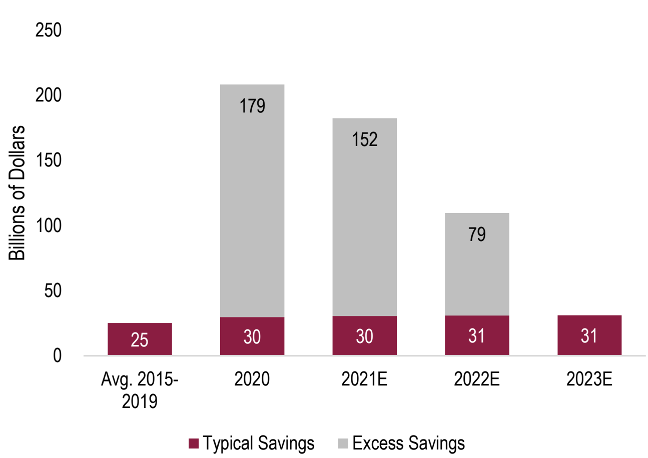
In our opinion, these market dynamics do not clearly favour either Discretionary or Staples. Rather, with uncertainty in supply, and some cloudiness in demand—relative to non-plague years, at least—we expect those with both scale and agility, and ability to navigate a dynamic environment, will thrive. We generally favour those who skew towards small-ticket items, domestic production, and demonstrated pricing power, ideally with some U.S. exposure. Favourite names include Pet Valu, Couche-Tard, Loblaw and Sleep Country.

Economic Picture Gaining Some Clarity

Spending Growth Solid, If Unspectacular

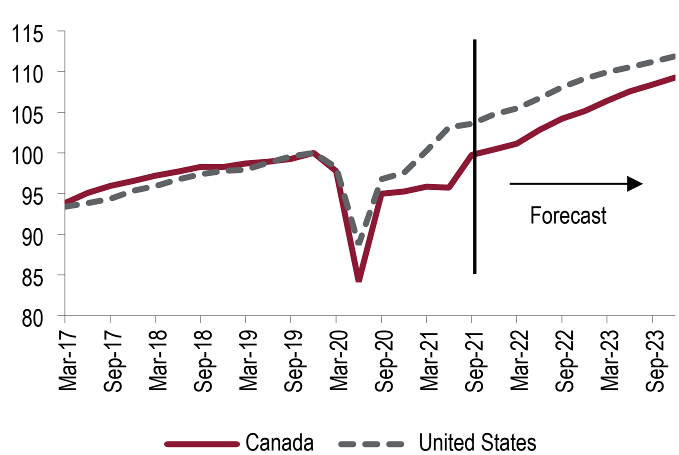
Considerable wealth remains on the sidelines from robust and prolonged stimulus programs in Canada. In the bar chart in Exhibit 16 the CIBC Economics team highlights three years of material excess savings that could potentially be deployed.

Exhibit 16: Canadian Consumer – Savings, 2015 - 2023E ($B)



Source: Statistics Canada and CIBC Economics.

Exhibit 17: Canadian And U.S. Consumers – Real Consumer Spending, 2017 - 2023E



Note: Index 2019 Q4 = 100. Source: BEA, Statistics Canada, and CIBC Economics.

Interestingly though, because of higher mortgage debt (and likely increasing rates), an aspiration not to return to previously meagre savings rates, and the overall relatively conservative nature of Canadian consumers, our Economics team believes consumer spending growth will be somewhat moderate in Canada, but will recover to pre-pandemic levels by early 2022. As seen in the line chart in Exhibit 17 above, this growth would imply relative underperformance vs. the U.S. well into 2023.

Interest Rates (And Housing Prices?) To Become Topical Again

Surely one sign that life is returning to normal is that Canadian homeowners will once again expend mental energy on interest rates. Our CIBC Economics team forecasts two rate increases in 2022. The relevance of this is twofold in our opinion.

First, mortgage originations and average mortgage size both surged during the pandemic. Recent buyers may be immune in the near term, but they face the prospect of higher interest rate trajectory over time, perhaps inspiring more caution. Second, higher rates will likely have a cooling effect on housing prices, although maybe not until later in 2022. If consumers no longer have the assumption of ever-increasing housing prices, this reverse "wealth effect" may defer or decrease spending on indulgences or higher-ticket items. This would negatively impact names like DOO and ZZZ.

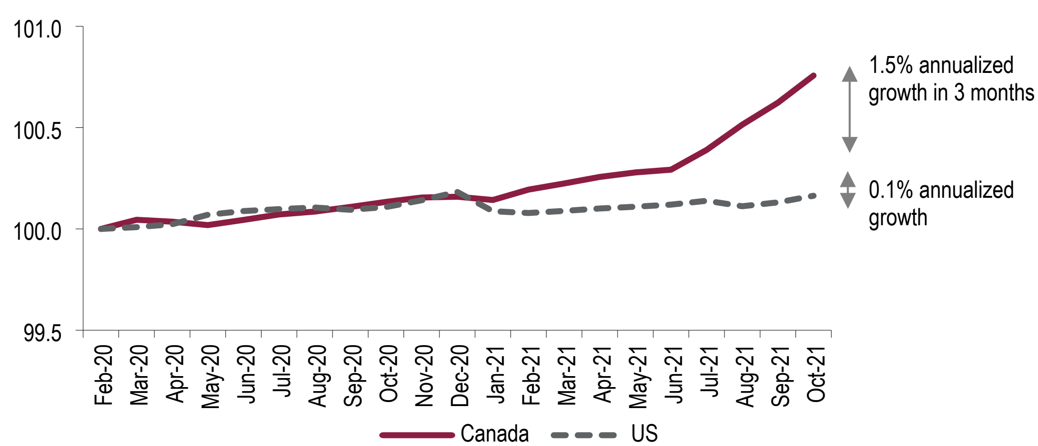
On the other hand, relatively lower-ticket consumer spending categories, such as clothing, sporting goods and toys, are areas in which consumer spending in Canada has lagged vs. 2019. We expect these will see continued rebound in 2022, benefitting ATZ, CTC and TOY.

Inflation Might Not Be So Transitory

Pandemic-induced inflation is no new topic, but it does not appear to be disappearing any time soon. The sharp rise in inflation can be sorted into three categories: commodities, freight and labour. We expect that commodity inflation will persist selectively, but will likely be very commodity-specific. We also anticipate freight inflation will continue to trend at all-time highs. Labour shortages remain a pressing issue across the board, and while some regions are more impacted than others, we anticipate higher wage rates will be a permanent feature in the future, as these historically have been much stickier than changes in commodities, which can decline with more ease.

Firms with greater exposure to Canadian labour are not immune, but they appear to have an advantage over those with more U.S. presence due to increased domestic immigration. This has already supported population growth and eased labour supply shortages, and should continue to do so. The population growth differential between Canada and the U.S. has widened in 2021 and can be seen in the line chart in Exhibit 18.

Exhibit 18: Canadian & U.S. Population – Population Growth For Ages 25-54, 2020 - 2021



Note: 25-54 population (indexed February 2020 = 100). Source: Statistics Canada, BLS, and CIBC Economics.

Much has been written about "the great resignation" across North America, owing to workers' heightened fears of contracting the virus but also to a greater propensity for career shifts following a reassessment of priorities engendered by the pandemic. Interestingly, it is possible that wage inflation is one of the drivers of the "great resignation" as workers leave jobs for higher-paying ones in more desirable workplaces, driving shortages in low-wage sectors like manufacturing or hospitality, all contributing to rising costs of consumer products.

Consumer companies best positioned to face such an inflationary environment will be those with the strongest pricing power. In this regard, we believe Staples do have the edge, and the grocers (Loblaw, Metro and Empire, in order) should fare well in these conditions. Among the Discretionary names, we highlight GOOS, ZZZ, and DOO as best positioned. The graphic in Exhibit 19 represents our views on ability to navigate ongoing elevated inflation.

Exhibit 19: Consumer Companies – Relative Strength In Pricing Power, December 2021

Source: CIBC World Markets Inc.

Supply Chains Will Be Tested, But Likely Navigated Well

While we may have seen the worst of the supply chain disruptions, clearing backed-up ports and returning factory capacity to pre-pandemic levels will likely extend well into 2022. Amidst such disruption, we characterize Canadian consumer businesses as having navigated supply chain choppiness well: inventory levels are generally healthy, reflecting higher safety stocks in day-to-day-goods, but also prudent management and forecasting. In most cases, we expect elevated inventory levels to continue into 2022, as retailers do not want to leave sales on the table and the seasonal nature of our climate means retailers will order early.

There are clear differences among our coverage universe for susceptibility to supply chain disruptions. Those with more reliance on Asian production, greater distance to market, microchips, and labour-intensive processes will be naturally disadvantaged. Meanwhile, those with multiple potential suppliers, a more domestic presence, or automated processes will be better placed. The graphic in Exhibit 20 summarizes our views.

Exhibit 20: Consumer Companies – Relative Exposure To Supply Chain Disruptions, December 2021

Source: CIBC World Markets Inc.

Peak Margins: Temporary Blip Or Permanent Reset?

Over the course of the pandemic, elevated demand and uncertain inventory supply have resulted in an adjustment of normal promotional cadence. For some (i.e., grocers), the pullback was short-lived and promo penetration has already returned to pre-pandemic levels.

However, for select companies we believe the pandemic has the potential to permanently reset margins higher. This would be driven by an absolute reduction in promotional depth or frequency, and supported by better utilization of data analytics to optimize promotion strategy and tactics. BRP is a good example with management noting it expects to retain half (or 150 bps) of the benefit from lower sales programs compared to pre-pandemic levels. We also see Canadian Tire as well positioned in this regard, particularly given its highly promotional business model. Even pre-pandemic, CTC improved its use of customer data from its Triangle loyalty program to deliver more targeted promotions but also adjust promotions based on insights to consumer elasticities. Aritzia has also acknowledged that it does not expect to return to the full slate of pre-pandemic sales events.

Generally speaking, consumer businesses are extremely shy to reduce promotional spending, and outright cutting sales programs would be done in only the most extreme situations. But the pandemic has presented a once-in-a-lifetime (hopefully) opportunity that could prove to be very beneficial for a handful of consumer companies.

Sustainability Is Here To Stay

The global pandemic and increased number of extreme weather events occurring closer to home have pushed sustainability front-of-mind for many consumers, and we expect this trend to gather further momentum into 2022. According to NYU Stern, sustainability-marketed CPG products accounted for 55% of total growth of CPG sales from 2015-2019. Even with that outperformance, there remains a notable gap between intentions and behaviour when it comes to purchasing sustainably-marketed products. In other words, there are a lot of consumers who want to purchase sustainable products, but don't actually follow through.

We believe this is related to premium pricing and lack of awareness and availability of these products, and see several consumer companies as poised to address these gaps by leaning more towards locally produced goods and sustainable sourcing initiatives. More detail on the topic of how sustainability shapes consumer choices in food purchases can be found in our recent report here, but we highlight Maple Leaf Foods as best positioned in our coverage universe to benefit from the increasing consumer focus on sustainability.

S&P/TSX Energy – Marketweight

2021 At A Glance

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How the world can change in a year – we have gone from a glut in energy supply to a potential shortfall given a combination of under-investment, balance sheet preservation and a faster-than-expected recovery from the pandemic. While variants still pose risk to the recovery, pricing improvements have been meaningful, with vaccines opening the door for an economic resurgence. We continue to advocate a view of cautious optimism for the oil price given the risks of further waves of the pandemic and an eventual resumption of OPEC+ production, balanced against the timing of a global re-opening. Despite the strong 2021 YTD performance in S&P/TSX Energy, we continue to see value in the Canadian names on free cash flow yield versus their U.S. peers, especially against the Supermajors.

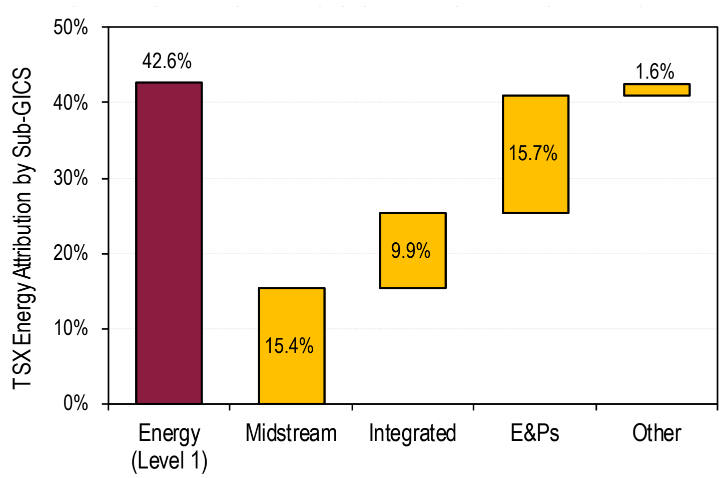
Exhibit 21: Total Return Performance – Energy, Globally, 2021 YTD

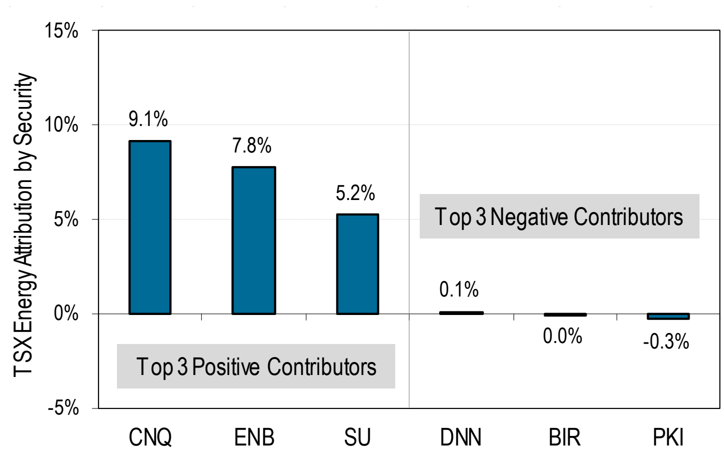
Total Return Performance		2021 Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Energy	48.4%	48.4%
Russia	MSCI Russia Energy	43.3%	43.2%
Canada	**S&P/TSX Energy**	**42.6%**	**42.2%**
Italy	MSCI Italy Energy	47.2%	35.7%
UK	MSCI UK Energy	33.0%	29.6%
Japan	MSCI Japan Energy	37.3%	25.7%
France	MSCI France Energy	27.3%	17.9%
Korea	MSCI Korea Energy	7.7%	-0.1%
Australia	MSCI Australia Energy	-1.4%	-8.7%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Large, liquid and oil-weighted Energy stocks performed favorably this year. Given the weightings of CNQ, ENB and SU within the index, these stocks were the largest positive contributors to index returns. On an individual stock basis, the small-/mid-cap E&Ps performed very well in 2021, although their impact on the index was more muted. We highlight that the negative (smallest) contributors to index performance were impacted by the timing of index inclusion, with PKI the only energy stock with meaningfully negative returns on the year.

Exhibit 22: Total Return – S&P/TSX Energy Attribution By Sub-Index And Major Security, 2021 YTD





Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Back In Black – Commodity Strength Improves Profitability

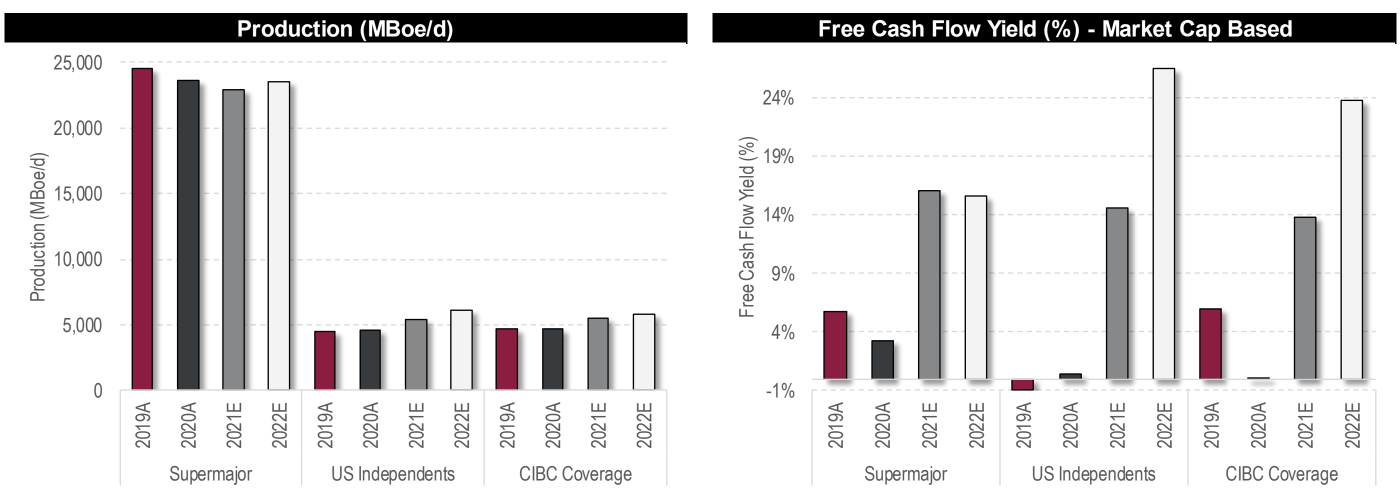
Companies reacted immediately to the pullback in the oil price at the start of the pandemic and significantly cut cost structures. Further, capital spending on major projects or growth was shelved in favour of improving financial resiliency given the commodity price volatility. E&Ps and integrated entities have reaped significant free cash flow as oil and natural gas prices have improved throughout 2021. Investors have continued to emphasize reining in capital spending and accelerating cash returns, which suggests production will remain flat Y/Y or that organic growth will remain relatively muted, reducing visibility for infrastructure projects in the short term. In the medium term, new petrochemical initiatives, such as the DOW ethylene cracker, should spur projects for supporting infrastructure (fractionators, pipeline capacity and storage).

Debt Reduction Remains Priority One, But Accelerating Cash Returns To Shareholders Coming Further Into Focus

Capital-allocation priorities for producers still start with lowering outstanding leverage. This is likely driven by a desire to improve financial resiliency, but also from overarching energy transition concerns that have pushed companies to become more guarded about assuming additional financial leverage.

Progress on debt reduction has opened the door to accelerating the return of cash to shareholders: Balance sheets have improved materially for the SMID-cap E&Ps, with a 2022E D/CF average on strip pricing of 0.3x vs. 2.4x in 2020 and 1.1x in 2021E. For the large caps, we forecast D/CF will decline to 0.9x in 2022 from 1.7x in 2021. We estimate that the producer group will show an average 2022 free cash flow yield on strip pricing (US$71/Bbl WTI) of 19% for the SMID-cap names and 25% for the Canadian large caps, which remain competitive vs. U.S. peers (see the bar charts in Exhibit 23). Given the significant improvement in balance sheet strength, we expect a disproportionate amount of this free cash flow will accrue to shareholders through some combination of dividend increases, special dividends, normal course issuer bids (NCIBs) or substantial issuer bids (SIBs). Despite manageable payout ratios for energy infrastructure companies, high dividend yields have prompted us to moderate our 2022 dividend growth expectations in favor of eventual share buybacks (which may not start until 2022). We see more benefit to lowering debt or buying back stock than adding to an already attractive dividend yield. Resuming contractually supported growth projects is still the preferred use of capital for infrastructure companies.

Exhibit 23: Oil & Gas – Industry Production (left) And Free Cash Flow Yield Estimates (right), 2019 - 2022E



Note: Consensus estimates used for non-covered companies derived from FactSet and Bloomberg. Companies in Supermajor category include BP, ExxonMobil, Chevron, ConocoPhillips, ENI, Occidental, Shell, Equinor, TOTAL, and EOG. "US Independents" include Continental, Cabot, EQT, Range, Southwestern, Apache, Callon, Devon, Diamondback, Laredo, Marathon, Matador, Pioneer Natural Resources and Hess. "CIBC Coverage" includes ARC, Canadian Natural, Cenovus, Imperial, MEG, Ovintiv, Suncor, Tourmaline, Baytex, Crescent Point, Enerplus, Tamarack Valley, Vermilion, Whitecap, Advantage, Birchcliff, Kelt, NuVista, Peyto, Paramount and Storm.
Source: FactSet, Bloomberg, Company reports and CIBC World Markets Inc.

Impacts of higher oil and gas prices on capital spending and costs: Given the relative strength in the underlying commodity and the improvement in financial liquidity, we expect capital spending, royalties and cash taxes will increase Y/Y. Further, and similar to 2021, we expect producers to show first-half-weighted spending, with lower activity currently planned for H2.

Should commodity prices strengthen, we could hear about modest upticks in second-half capital spending. We suspect that, while this incremental spending will come at the margin, capital-allocation discipline will still be a mantra held dear by producers. Higher commodity prices, as hedge books are reset higher, should help those midstream companies with commodity price exposure generate EBITDA growth and improve balance sheets, supporting modest repurchases. Most energy infrastructure names have reiterated capital spending outlooks for now as focus remains on returning capital. At some point, however, with netbacks at such high levels, we would expect production to ramp up and volumes to increase within various infrastructure systems, renewing demand for infrastructure projects.

Inflation will play a role in 2022, potentially more so than most are anticipating: The energy sector should benefit from rising commodity prices, but it is certainly not immune to supply chain disruptions. We expect the cost of services to rise considerably in 2022, and although most operators have put forth conservative budgets for next year, there is the potential that rising cost pressures dampen free cash flows. A silver lining can perhaps be found in the fact that the industry is more focused on sustaining volumes than on growing production, and, therefore, the pace of activity is likely to remain slower than in previous years that were focused on growth. Existing infrastructure projects have priced in much of the risk in capital equipment costs, but labor inflation is still a risk to project economics.

Egress Less Of A Concern, But What’s Next?

The WCS-WTI basis has widened from US$13/Bbl to US$19/Bbl in mid-2022. While egress is less of a concern with the completion and ramp-up of the Line 3 Replacement (L3R) in October 2021, we highlight the re-emergence of a quality differential between light and heavy grades of crude oil. We attribute the wider basis to a number of factors, both seasonal and more structural in nature, including higher energy-related processing costs for heavier grades, higher cost of sourcing hydrogen to upgrade heavy barrels, increased competition vs. global heavy oil supply, and elevated local storage. Despite these wider differentials, the absolute price for WCS remains high, supporting strong oil sands margins. These factors steer our preference for the integrateds, as they shoulder less of an impact on their cash flow from a potentially volatile crude oil price, and should benefit from a tailwind of improving refined product demand associated with the global re-opening. We highlight CVE and SU as Outperformer-rated integrated names in our coverage universe, with PPL and GEI having positive exposure to wider differentials through their crude oil marketing businesses.

The AECO/NYMEX basis has improved following the build-out of capacity expansions on multiple pipelines, which should result in less constraint-driven price weakness for local supplies moving forward. We also believe operators are acutely aware that excess capacity on local pipelines is far from limitless, and excessive volume growth could widen basis differentials to impair price realizations. Barring an outsized increase in gas pricing, we expect that growth beyond ~5% for WCSB natural gas supply is unlikely in 2022 as operators prioritize debt reduction and the return of capital. We believe increasing local demand from rising oil sands production and coal-to-gas power conversions should help maintain a healthy AECO basis relative to NYMEX in the coming years. In addition, when Canadian LNG exports increase by 2025, we expect the shift in basin supply and demand could be net beneficial for local pricing.

Energy Transition And Carbon Intensity Remain Concerns

The CER recently ruled that while it views Enbridge as having volume risk due to decarbonization, it did not view this risk as being substantiated in the Enbridge Mainline volume outlook. Despite the CER’s views, carbon emissions are a global issue that has received significant attention. Investor concern continues to focus on terminal value risk and the future demand for hydrocarbons. Over the past year, companies have made significant headway in providing improved ESG disclosure, setting GHG emission-reduction goals, and progressing on initiatives which could help lower energy intensity and CO_2e emissions.

Canada is targeting a 45% emissions reduction by 2030 to 420 MT (from 730 MT in 2019) and we believe that the Western Canadian energy industry is aligned with these goals. We expect 2022 could be a pivotal year for the pace of decarbonization of the country as industry waits for the government to provide a more defined financial and regulatory framework. Without such a framework, we believe companies will be relegated to funding more modest returns-focused sustainability projects rather than major efforts to decarbonize given the risk of allocating capital to build large-scale facilities using early-stage technology.

Methane emissions will remain an industry focus in 2022: If the recent COP26 meeting was any indication, methane will come under greater scrutiny in numerous jurisdictions, as over 90 countries joined the E.U.-U.S. pledge to reduce methane emissions by 30% by 2030 (from 2020 levels). Canada also announced a 75% target in reducing methane emissions from the sector by 2030 (from 2012 levels), which is ambitious considering Canada already screens as one of the more advanced nations in the world in measuring and managing methane emissions from its energy sector (see our recent publication for additional details, **Methane: A Good News ESG Story For Canada's Natural Gas Producers**). We believe operators in Canada have a meaningful head start versus those in other jurisdictions, providing better footing to continue to adapt to increasing stringency and maintain leadership. Many natural gas producers are already well down the path of reducing methane emissions, and most carry explicit targets. We believe, however, that the future battleground for natural gas supplies will centre largely around methane intensity, and we expect to see increasing operator competition to certify natural gas supplies as being responsibly sourced. ARX and TOU are already significantly reducing the methane emissions of natural gas supplies, and screen favorably relative to ultra-dry gas operators in the Appalachia and Haynesville.

Government can help with a financial framework and more clarity around regulation: We view the deployment of carbon capture as integral to achieving Canada's net zero goals. Western Canada represents a concentrated geographic area with existing infrastructure and a high degree of geological understanding to find, monitor and maintain carbon storage reservoirs. Further, much of the expertise around the capture, storage and upkeep of these reservoirs already exists within current operators of the basin. We view the role of government and regulators as one of creating an environment which is amenable to capital investment or to helping companies de-risk accelerated deployment of capital in technologies which are still early stage and yet unproven at larger scale. We highlight these concepts in our report **Government's Role In the Energy Transition**.

Terminal value risk more than priced in for energy equities: We estimate that at US$50/Bbl WTI the oil sands companies could free cash flow their enterprise value over ~12 years (on average). This timeline shortens to about eight years at US$60/Bbl WTI. Given that these accelerated returns come well before the nearest start of an energy transition via the Sustainable Development Scenario in 2030, we believe a capital-allocation strategy that focuses on buybacks could help moderate terminal value risk. We wrote further about this topic in our piece entitled **Oil Sands: The Self-buyout**. We continue to like CNQ, CVE and SU on this theme.

More energy infrastructure projects on the horizon: With energy needs continuing to rise, we view energy infrastructure as playing a meaningful role in achieving ESG goals, and actively leading the transition to a lower-emissions energy future. Energy infrastructure companies have spent 2021 bolstering ESG reporting and initiating a number of new targets. 2022 will likely be an important year as new initiatives continue to develop and targets continue to become more concrete. There are many opportunities for midstreamers to decarbonize in the shorter term, including decarbonizing current operations and pursuing energy transition opportunities. Longer-term methods include using lower-carbon sources of power, increasing carbon capture, utilization and storage (CCUS), and exploring hydrogen options.

S&P/TSX Financials – Overweight

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2021 At A Glance

Global Financials largely outperformed across major developed equity indices with an average YTD return of nearly 23%. Canadian Financials handily outperformed the S&P/TSX Composite with a YTD return of 29% versus 20%. Returns for Canadian Financials in local currency were above the average for Financials in other jurisdictions, and in U.S. dollar terms were essentially in line with other top performers (U.S. and France).

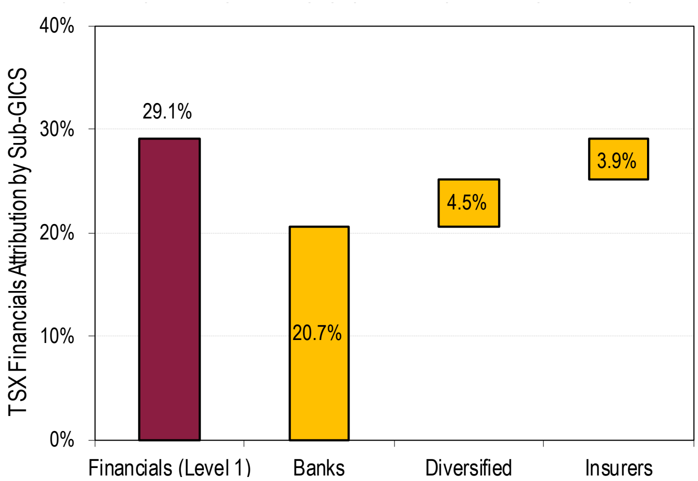
Exhibit 24: Total Return Performance – Financials, Globally, 2021 YTD

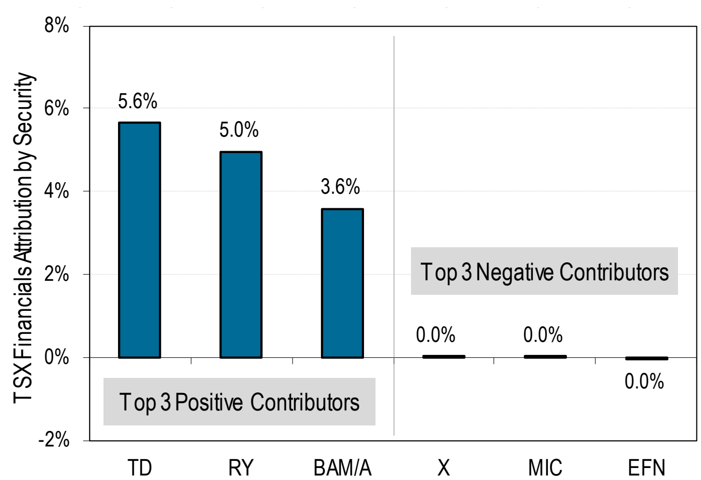
Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Financials	29.2%	29.2%
France	MSCI France Financials	39.2%	28.9%
Canada	**S&P/TSX Financials**	**29.1%**	**28.7%**
Italy	MSCI Italy Financials	29.9%	19.7%
Australia	MSCI Australia Financials	23.2%	14.1%
Japan	MSCI Japan Financials	20.9%	10.7%
UK	MSCI UK Financials	12.4%	9.5%
Korea	MSCI Korea Financials	11.4%	3.4%
Germany	MSCI German Financials	7.3%	-1.1%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The Canadian Banks made the largest contribution to the rise in the TSX Financials due to a stabilization in credit and revenue recovery (see the bar charts in Exhibit 25). As such, the top two largest positive contributors in the year have been TD Bank and Royal Bank. The sector's other large sub-industry, the Insurers, showed resilience during the pandemic, but the low rate environment hindered additional upside. The Diversified Financials made a strong contribution relative to their index weighting, largely driven by strong returns from BAM.A. Element Fleet was one of the few names under coverage that delivered a negative YTD return and, correspondingly, it was the top negative contributor to the Financials Index.

Exhibit 25: Total Return – S&P/TSX Financials Attribution By Sub-Index And Major Security, 2021 YTD





Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Entering A Rate Tightening Environment

Central banks cut rates to near zero in response to the COVID-19 pandemic, resulting in an earnings drag for many financials. It appears that we are on the cusp of a turn in the rate cycle, with central banks in certain parts of the world already moving rates higher in response to inflationary forces. CIBC Economics expects two hikes starting in 2022, followed by three or four in 2023 for Canada and the U.S. Even though the banks have been very resilient during this time, holding net interest income (NII) growth steady and finding other sources of revenue for growth, given that NII makes up roughly 50% of the banks' total revenues, the forecast rate hikes would bring significant upside to bank earnings.

Based on bank disclosures and the table in Exhibit 26, the average upside related to a single interest rate hike (25 bps) is roughly 1.1% relative to our F2022 EPS estimates. TD shows to be the most interest rate sensitive at 2.5% per rate hike; most other banks average around 1%. While the impact would be minimal in F2022, given the first hikes are expected in mid-calendar 2022, we forecast a significant boost in NIM for F2023 (+1 bps-2 bps per hike on average, coming to +8 bps, on average, Y/Y). Given the expected timing of rate hikes, earnings growth and operating leverage are likely to look much better in F2023 than F2022.

We see the rate tightening cycle as being less beneficial for life insurers for two primary reasons. First, we expect rates to move more at the short end of the curve versus the long end of the curve. Life insurers tend to have fairly long duration assets. Second, while higher rates are structurally positive over the long term, the immediate earnings impact is not that material. Life insurers will benefit from higher rates in terms of earnings on surplus and the impact from new business. However, the Canadian life insurers have taken significant actions since the financial crisis to hedge earnings on in-force business from changes in interest rates and, hence, higher rates will largely benefit new policies versus existing policies. That being said, higher yields at the long end of the curve could boost sentiment on the space, resulting in higher valuation multiples versus today's low multiples.

The private equity industry also stands out as a sector with above-average interest rate sensitivity. It is not uncommon for portfolio companies to contain six or seven turns of leverage in the capital structure. As a consequence, higher rates translate into higher debt servicing obligations and lower free cash flow. In an ordinary environment, we would expect buyout multiples to adjust accordingly to reflect the cash flow impact. It is difficult to quantify the degree of interest rate risk, but we feel that the macro theme of higher rates could temper enthusiasm (to some extent) for the PE names under coverage (i.e., Onex and BBU).

Exhibit 26: Banks – Interest Rate Sensitivity From A 25 Bps Hike (F2022E), As Of Q4/F21

Sensitivity To Interest Rate (25bps)	NII Impact (Post-Tax, $ MM)	% of F2022E Earnings	Estimated Lift To NIM Per Hike
BMO	72	0.8%	1bps
BNS	39	0.4%	1bps
CM	84	n/a	n/a
NA	20	0.7%	1bps
RY	177	1.1%	1bps
TD	362	2.5%	3bps

Source: CIBC World Markets Inc.

Putting Capital To Work

OSFI removed capital restrictions on dividend increases and share repurchases on November 4, and we believe Federally Regulated Financial Institutions (FRFIs) will utilize excess capital sooner rather than later. The Big 6 banks have built significant excess capital, with CET1 ratios increasing 210 bps since the beginning of the pandemic and resulting in ratios at record levels (13.3% on average). Assuming a minimum CET1 ratio of 11.25%, the banks are 200 bps over this goalpost on average, and have over $45B of excess capital in aggregate. Further, since the banks continue to carry excess allowance buffers (we estimate ~$6B in total), the banks should have even more capital available when additional provisions are released.

We believe the banks will pursue several avenues of capital deployment to maximize value to shareholders, with organic growth being the top priority. We are positive on the outlook for loan growth, including loans with higher RWA density (e.g., commercial and unsecured personal), which is expected to result in higher RWA growth over the coming 12 months versus the prior 12 months. The second priority for a number of banks is share repurchases. We estimate that the banks have sufficient excess capital to buy back 6% of outstanding shares on average. Because there are other capital priorities and based on recent FQ4 announcements, we think that actual amounts repurchased will be something less. All the banks announced NCIBs with FQ4 results, with the average equating to 2.6% of outstanding shares. The average dividend increase with FQ4 results was 17% and we expect further dividend increases from some of the banks around mid-2022. The Canadian banks have been quiet over the last year with respect to acquisitions while there has been a flurry of activity with U.S. banks. Acquisition multiples may have increased over the last year, but we are still early in the cycle, and deploying excess capital should still be EPS accretive.

The capital story for the lifecos looks quite different. Most were active with acquisitions during the pandemic, which in many cases involved taking on higher financial leverage. De-levering has, therefore, become a capital priority for some. There is still some potential for acquisitions, but those are likely to be smaller in size. Share repurchases do not top the list of capital priorities other than for MFC, which recently announced an NCIB for up to 5% of outstanding shares (partly enabled by its variable annuity reinsurance transaction). Capital deployment was a catalyst for the life insurers in 2020 and 2021, but looks less likely to be a catalyst in 2022.

In the diversified financials space, there are very few FRFIs. However, certain companies have either direct or indirect exposure to OSFI's decision on capital restrictions. BBU, for example, stands to benefit from its investment in Sagen MI Canada. The company recently signalled a special dividend, and the easing of restrictions provides greater flexibility going forward. POW is also indirectly affected through its investment in GWO. The company recently announced an 11% increase in its dividend rate, reflecting GWO's raised dividend. Any further capital actions that enhance shareholder value would impact POW as well. We expect M&A to remain a theme against the backdrop of normalized market conditions. We believe TMX Group has both the capacity and willingness to transact if the right opportunity presents itself. We also expect the asset managers to remain active in the pursuit of scale, particularly CI on the build-out of its U.S. wealth platform (albeit at a slower pace than 2021).

Exhibit 27: Banks – Capital Optionality Analysis, As Of Q4/F21

Bank	Updated Dividend Payout Ratio	Announced Share Repurchase Program (% of Shares O/S)	Maximum Share Repurchases Based On Excess Capital (% of Shares O/S)	Capital Adjusted P/E Ratio (2022 CIBCe)
BMO	40%	3.5%	8%	9.5x
BNS	47%	2.0%	4%	9.4x
NA	39%	2.0%	3%	10.4x
RY	42%	3.0%	7%	10.5x
TD	44%	2.7%	10%	10.7x
Average	**42%**	**2.6%**	**6%**	**10.1x**

Source: Company reports and CIBC World Markets Inc.

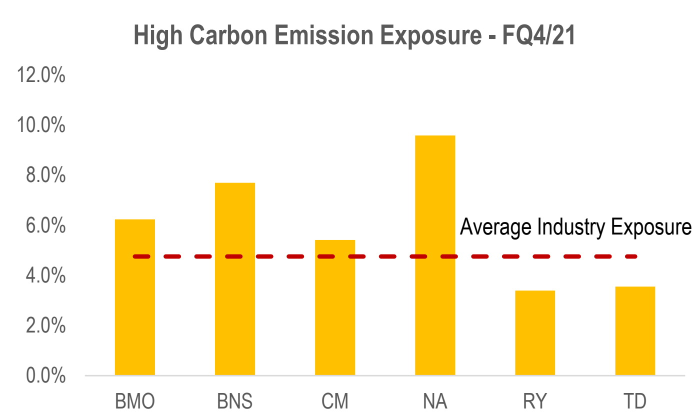
Climate-related Requirements To Increase

Sustainability will be a growing area of interest across all sectors of the market. It is without question an important theme for financial services companies, but the implications are a little less obvious than for many other sectors. We will be watching for policy direction from central banks and financial regulators that have made public statements regarding the importance of climate-related financial risks. These institutions, which are central to formulating financial services policy, are working to better understand the risks, planning new disclosure requirements, and considering actions to incentivize lower emissions. Specifically for Canada, OSFI plans to release a report by the end of 2021 that assesses the risk to the financial system related to the transition to a low-carbon economy. Further, the current superintendent, Peter Routledge, has committed to improving climate risk disclosures and climate risk management mandates for federally regulated financial institutions. We believe this step will be very important given the lack of consistency and clarity in ESG reporting.

The major Canadian banks have acknowledged the global movement to lower emissions by joining the Net-Zero Banking Alliance with a goal to produce net-zero emissions by 2050. The Big 6 banks have limited their exposure to sectors with a high carbon footprint, as less than 5% of all current loans were made to carbon-intensive industries (oil & gas, mining, forestry, agriculture and utilities). Aside from setting internal targets to gradually lower emissions, the Canadian banks have also introduced new products to address climate change and sustainability. The banks have issued green/sustainability bonds with proceeds used to finance projects that support “green” initiatives. In addition to bonds, the banks have also rolled out green loans and sustainability-linked loans that connect client sustainability strategies to financing activities. These loans are structured so that the cost of financing is linked to ESG performance targets. While there is still work to be done, such as improving disclosure requirements for Scope 3 emissions (emissions as a result of activities from assets not owned or controlled by the reporting organization, such as loans), there is an opportunity for the banks to increase “green” offerings and services given the growing demand.

From a policy perspective, the banks will be a greater focus because of the role they play in capital funding. Insurance companies are also developing sustainability strategies and this should have some influence on investment allocation, but we expect less regulatory influence, at least for the time being. Similarly, for investment firms (most notably private equity investors and asset managers), we believe the theme of climate-related risks will continue to play an increasingly important role in the investment decision-making process. Clients on both ends of the spectrum (institutional to retail) are demanding greater transparency and accountability on ESG more broadly, and we believe that the forces driving this momentum are unlikely to subside any time soon.

Exhibit 28: Banks – High Carbon Emission Exposure, Q4/F21



Source: Company reports and CIBC World Markets Inc.

S&P/TSX Health Care – Marketweight

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2021 At A Glance

For three years running, Canada's Health Care sector has underperformed the broader S&P/TSX Index, this year posting a decline of -19% (shown in the table in Exhibit 29). In addition, the domestic index underperformed global Health Care indices, and materially so. Of note, Canada's Health Care sector is unique: it consists of just nine names and nearly half the index is weighted to cannabis firms that arguably should be reclassified elsewhere. Overall index performance is generally driven by three names: Tilray Inc., Canopy Growth Corporation and Bausch Health Companies Inc., which together account for over 70% of the index.

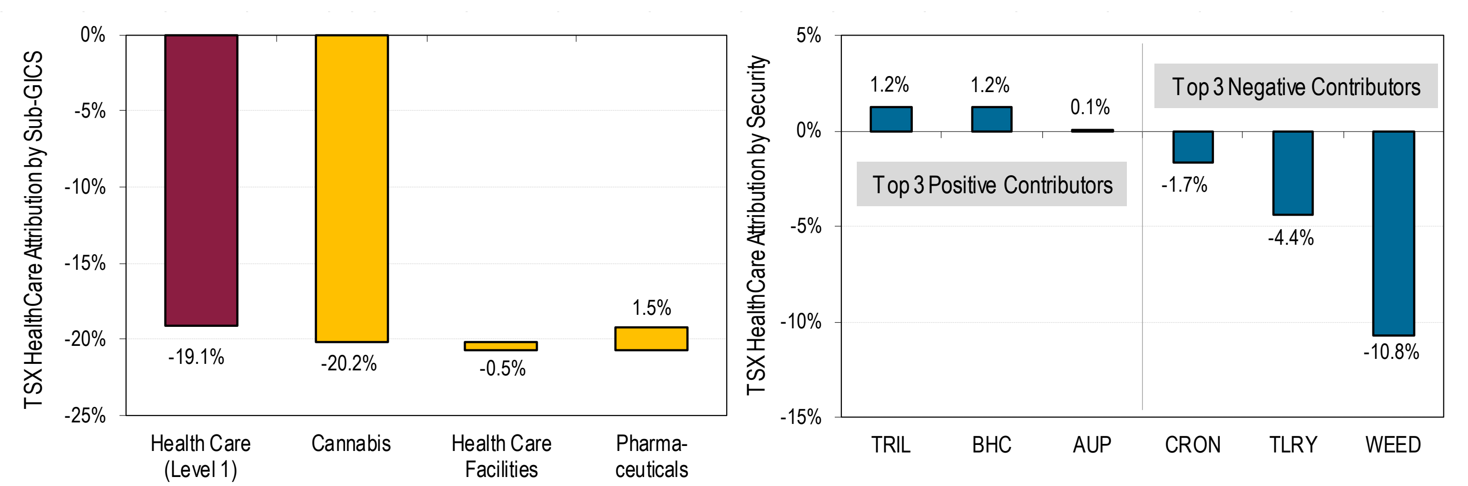
Exhibit 29: Total Return Performance – Health Care, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Health Care	15.5%	15.5%
UK	MSCI UK Health Care	15.0%	12.1%
Italy	MSCI Italy Health Care	20.0%	10.6%
France	MSCI France Health Care	19.1%	10.3%
Switzerland	MSCI Switzerland Health Care	13.8%	9.4%
Germany	MSCI German Health Care	17.1%	7.9%
Japan	MSCI Japan Health Care	-5.6%	-13.5%
Canada	**S&P/TSX Health Care**	**-19.1%**	**-19.4%**
Korea	MSCI Korea Health Care	-35.2%	-39.9%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

After a rollercoaster ride in 2020, cannabis experienced another topsy-turvy 2021. The sector peaked mid-February, shortly after two key catalysts: the Biden electoral victory and a Democratic sweep of Senate run-off elections in Georgia. Furthermore, the Aphria/Tilray merger buoyed expectations for further M&A throughout the year. However, a lack of action on U.S. legalization and a continuation of underwhelming results from the industry's largest names led cannabis stocks to a ~40% decline in 2021. Health Care Facilities had a year of halves: our seniors housing coverage names rose ~24% on average through mid-year, to then pull back as it became apparent vaccinations didn't signal a near-term pandemic end.

Exhibit 30: Total Return – S&P/TSX Health Care Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Pharmaceuticals as shown above exclude Cannabis. Source: Bloomberg and CIBC World Markets Inc.

Seniors Housing: Ongoing Recovery Year Ahead

The YTD returns for Chartwell (down ~3%), Extendicare (around flat) and Sienna (down ~5%) compare well with Health Care's ~19% decline, but fall well short of the Real Estate sector's ~29% return. The implication from the mid-year pullback was that pandemic protraction would delay occupancy recovery, operating costs would remain elevated and regulatory and reputational risks would persist, all contributing to NOI margin pressure. The late November emergence of the Omicron variant reinforced this cautious investor view. We see a better year ahead in 2022 as occupancy upswings and normalizing costs should drive improved performance. Demographics provide a massive long-term demand driver for both retirement residence and long-term care: the 75 and over cohort is forecast to grow at a ~4% CAGR over the next 15 years. As set out in our initiation, **A Seniors Housing Reset**, we favour exposure to private-pay retirement residence over government-funded long-term care.

Retirement Residence: Longer-tailed Recovery, Longer-term Advantage

Occupancy recovery for retirement residence should increase through 2022 as deferred tour activity picks up and prospective residents get more comfortable with living in close social proximity. Operators will try to balance occupancy gains with preserving rental rates; CMHC data shows almost 4% Y/Y rental rate growth through the early part of 2021, suggesting owners are being patient. Thus, recovery to pre-pandemic occupancy levels will likely continue into 2023. As COVID-19 likely transitions from pandemic to endemic through 2022, we believe investors will look beyond the near-term challenges towards longer-term fundamental growth drivers; these favour retirement residence, for which Chartwell offers the most exposure (~91% of NOI on ~70% of revenues). Compared to long-term care, retirement residence has greater revenue and margin growth upside, lower operational, regulatory and reputational risks, uncapped returns and better ability to capture discretionary spending from wealthy Baby Boomers.

Long-term Care: Near-term Normalization, Longer-term Issues

In our view, essential-service long-term care should continue its quick rebound; operators will likely hit full occupancy by H2/22. The cost picture is improving as the staffing situation normalizes and pandemic expenses decline; operators believe that provincial governments will continue to fund some portion of extraordinary expenses, though with time lags. Over the longer term, we believe operating, regulatory and reputational risks will remain issues. Regarding development, we'll watch for signs as to whether Ontario's rejigged facility development funding structure provides sufficient incentive in the face of construction and materials cost inflation, rising land values and high development charges. Extendicare is the most exposed to government funding for revenues at ~92%. Sienna is somewhere in the middle, skewed towards long-term care (~78% of revenues, ~60% of NOI), but with meaningful retirement residence exposure.

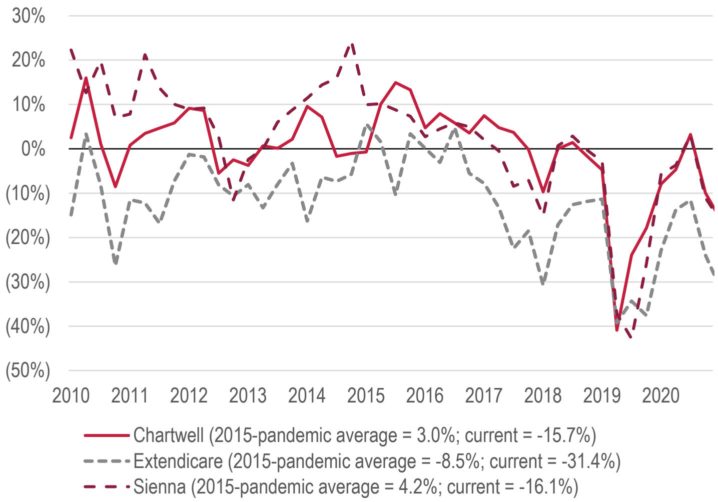
ESG Focus Is On The "S" (For Staffing)

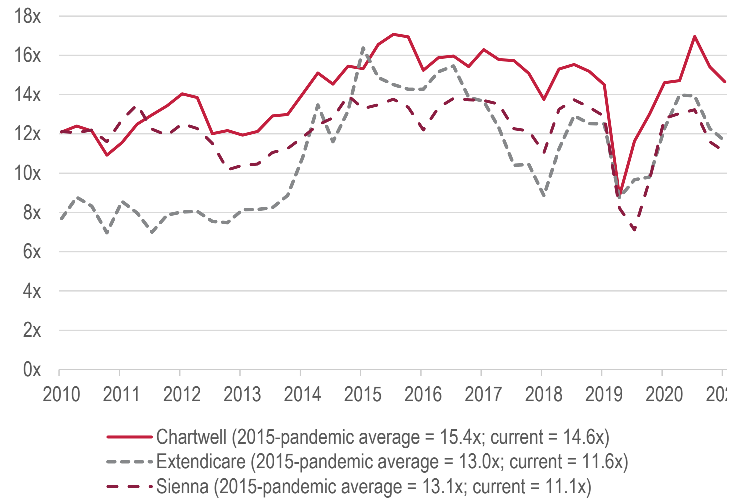
The severity of the pandemic's impact has resulted in an ongoing ESG focus on social issues. Ontario's Long-Term Care COVID-19 Commission identified staffing as a major concern: the work environment was cited as one of "constant shortages, excessive workloads (and) high turnover rates." Women, many of whom are immigrants and/or visible minorities, make up the vast majority of front-line workers. We expect the staffing issue to remain front and centre for the foreseeable future; the Ontario government has responded with training program investment, but results will take several years to become apparent.

Valuations: We See Upside, Especially For Chartwell

Valuations for all three seniors housing names remain well below their historical averages as calculated over the period from January 2015 up to the WHO declaring COVID-19 a pandemic in early March 2020. The line charts in Exhibit 31 show historical premium/discount to estimated NAV and P/FFO from 2010 to 2021. We see room for valuation expansion for Chartwell and Sienna (to a lesser degree) as the retirement residence occupancy recovery gains momentum through the year. Extendicare has experienced the shallowest recovery from the sell-off and largest mid-year retraction, reflecting its peer-high government funding exposure and ongoing risks associated with COVID-19.

Exhibit 31: Chartwell, Extendicare & Sienna – Historical Premium/Discount To Estimated NAV (left) And Historical Price/FFO (right), 2010 - 2021





Source: FactSet, company reports and CIBC World Markets Inc.

Politics As Usual: U.S. Legalization Still The Driver

We expect that, once again, by far the most important driver of cannabis equities in the coming year will be the fluctuating prospects of U.S. legalization. In an industry in which predictions sometimes border on fools' errands, this same prognostication a year ago proved completely accurate for 2021. The Democrats' sweep of both Georgia's Senate seats meant a (technical) majority in America's upper chamber, lifting expectations for regulatory reform, and leading to cannabis stocks peaking in February 2021. However, the euphoria was relatively short-lived, as reality set in that President Biden is little more interested in legalization than his predecessor, and that finalizing any legislation in America's congress is inherently difficult. That being said, we believe modest banking legislation could pass in 2022 (i.e., the SAFE Banking Act) and that, at one point or another, investor optimism towards U.S. legalization will return, and again serve as the primary driver of stocks.

A History Of Catalysts

In the table in Exhibit 32, we display a history of industry catalysts, including duration until peak performance, shift in valuations and price movement (as measured by the HMMJ ETF).

Exhibit 32: Canadian Cannabis – Impact Of Historical Events On Cannabis Stocks, 2017 - 2021

Catalyst	Starting Date	Weeks Until Peak Reached	Starting EV/FY2 Sales*	Peak EV/FY2 Sales*	Price Move (%) HMMJ
Constellation (STZ) Investment in Canopy Growth - Round 1	10/27/2017	11	6.5x	17.5x	137%
Canada Moving to Legalize Recreational Cannabis (Bill C-45)	4/9/2018	10	8.2x	12.1x	21%
STZ - Investment in Canopy Growth - Round 2	8/14/2018	9	5.2x	13.2x	60%
Altria Investment in Cronos & Signing of U.S. Farm Bill	12/5/2018	13	7.6x	11.9x	41%
Biden Elected	10/30/2020	4	4.8x	8.2x	51%
Democrats Sweep Georgia Run-off Election	12/31/2020	6	6.7x	16.8x	131%

*Multiples based on a portfolio of WEED, CRON, APHA, ACB, VFF, OGI, HEXO. Source: FactSet and CIBC World Markets Inc.

Sitting Here On Capitol Hill: Potential Paths To U.S. Legalization

In the table in Exhibit 33, we provide a description of U.S. cannabis legislation options.

Exhibit 33: U.S. Cannabis Legalization – Current Legislative Possibilities, 2021

	Secure and Fair Enforcement Banking Act of 2021 (SAFE)	States Reform Act (SRA)	Cannabis Administration & Opportunity Act (CAOA)
What Is It?	Would provide safe harbour to financial institutions serving state-legal cannabis businesses.	A reasoned, measured, should-be-bipartisan bill from Rep. Mace (R) that would federally de-schedule cannabis from the Controlled Substances Act (CSA), regulate it similar to alcohol, give some state-level autonomy, facilitate inter-state commerce, and fund social spending through a modest excise tax.	A full-scale legalization bill proposed by Senate Majority Leader Chuck Schumer. Its scope is quite broad and aims to address multiple aspects of legalization, including states' rights, record expungement, social justice, and interstate commerce.
Probability of Passage in 2022	Moderate	Low to moderate	Slim to none
Impact on Businesses	**Quite modest**. This law provides some protection, but cannabis would remain on the CSA, likely side-lining many financial firms. The largest U.S. cannabis businesses currently can find ways of accessing most banking services. Primary benefits would flow to SMEs. For Canadian operators, SAFE is unlikely to allow for U.S. THC asset ownership.	**Significantly positive**. Canadian producers could buy and build U.S. THC assets and exercise options on existing holdings. American firms would see significantly improved access to capital at much lower costs (including listing on larger exchanges and seeing standard income tax rates). Interstate commerce would shake up valuations of different assets, but ultimately provide a net positive effect.	**Significantly positive**. Impact would be very similar to the SRA. Canadian firms could own/operate U.S. THC assets. American firms could up-list to larger exchanges and see better access to/lower cost of capital, while removing punitive tax laws. One downside: Sen. Schumer has sought to limit participation from large tobacco/alcohol firms, potentially hurting Canopy Growth (37% owned by Constellation Brands) or Cronos Group (43% owned by Altria Group).
Impact on Stocks	**Positive, but difficult to measure**. SAFE lacks the more impactful provisions of the other bills. However, passage would improve industry sentiment and would serve as a positive catalyst for both Canadian and U.S. stocks.	**Significantly positive**. We believe valuations would soar for both Canadian and U.S. cannabis stocks if the SRA has a credible probability of passage. Stocks would likely move well in advance of actual passage. Impact on U.S. stocks may be somewhat delayed until they can trade on larger exchanges.	**Significantly positive**. We believe the outcome would be similar to the SRA, seeing valuations expand materially, and that investors would mostly ignore the comments made by Sen. Schumer about large tobacco and alcohol firms.

Source: CIBC World Markets Inc.

Back To Canada – 2022E Retail Sales Of $4.9B; Introducing 2023E Of $5.6B

Canada's retail cannabis sales will reach nearly $4B in 2021E, +49% Y/Y, and in line with our estimate from last year. We project $4.9B in 2022, matching our prior view, and we introduce 2023E of $5.6B. Historical sales and our forecasts can be seen in the table in Exhibit 34.

Exhibit 34: Canadian Cannabis – Retail Sales, 2019 - 2023E ($B, unless noted)

	2019	2020	2021E	2022E	2023E
Retail Sales	1.2	2.6	3.9	4.9	5.6
Y/Y Growth		121%	49%	26%	14%

Source: StatsCan and CIBC World Markets Inc.

Entering Year 4, Yet Profitability (And Institutional Investors) Still Scarce

For various reasons—sharp competition, heavy taxation and regulation, and far too much capacity—only three of the nine largest Canadian cannabis stocks by market cap posted positive EBITDA in CQ3, and none with positive operating cash flow, even as we enter Year 4 of legalization. Growth, profitability and valuation objectively favour U.S. operators, and this underscores the importance of investor accessibility. However, for Canadian firms, the lack of profitability remains the most important factor in limiting institutional investors.

What Does ESG Mean For Cannabis Companies?

Since cannabis is usually treated the same as tobacco or alcohol, firms are excluded from most ESG-focused ETFs that use negative screening. Therefore, the primary opportunity for cannabis companies lies in inclusionary funds, where company-level ESG initiatives can positively impact ESG ratings. For example, iShares ESG MSCI Canada Leaders Index ETF (XCLR) selects companies based on ESG performance relative to their sector and has a less punitive exclusions list, resulting in the historical inclusion of WEED, ACB, CRON and OGI.

S&P/TSX Industrials – Marketweight

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2021 At A Glance

The Canadian Industrials sector was a beneficiary of the COVID-19 re-opening trade in 2021 and has been the third-best performer relative to its developed world peers in local currency terms, bested only by the U.K. Most notably, the Canadian names outperformed their U.S. peers within the S&P 500 (see the table in Exhibit 35).

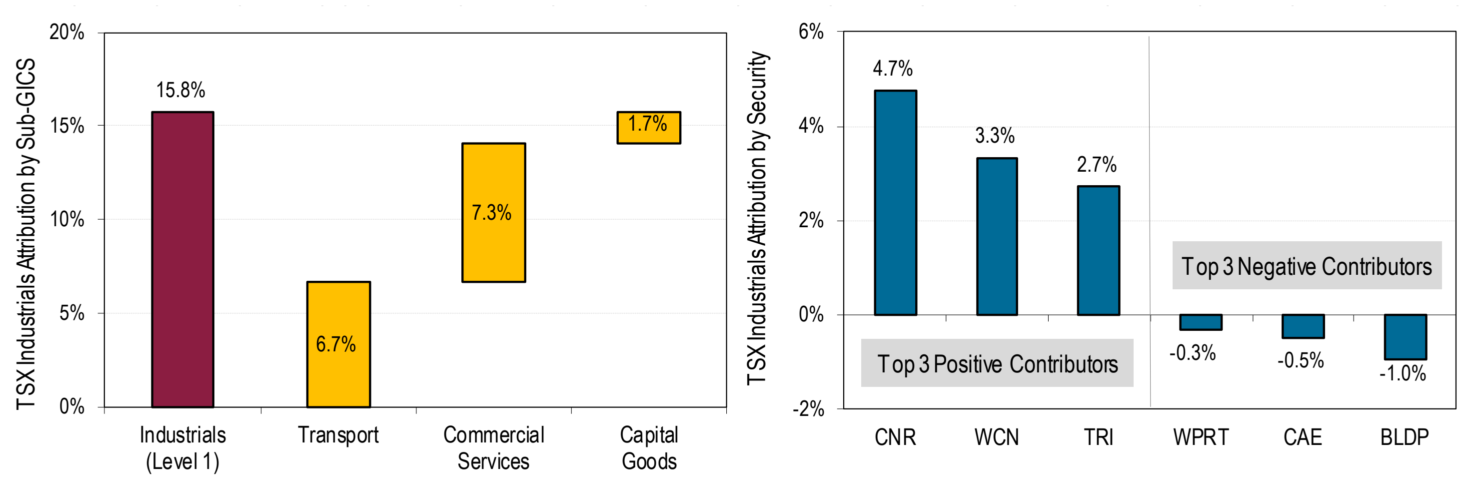
Exhibit 35: Total Return Performance – Industrials, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
UK	MSCI UK Industrials	27.8%	24.5%
Italy	MSCI Italy Industrials	28.7%	18.6%
Canada	**S&P/TSX Industrials**	**15.8%**	**15.4%**
USA	S&P 500 Industrials	13.3%	13.3%
Germany	MSCI German Industrials	21.2%	11.7%
France	MSCI France Industrials	17.8%	9.1%
Japan	MSCI Japan Industrials	12.9%	3.4%
Australia	MSCI Australia Industrials	3.3%	-4.3%
Korea	MSCI Korea Industrials	-4.5%	-11.5%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The bar charts in Exhibit 36 highlight the equities that most meaningfully contributed to the Canadian Industrial sector's total return performance in 2021. The largest contributor to the index was the Commercial Services sub-index. WCN is up 31% YTD and is the second-largest security contributor to the index. The Transportation sub-index was the second-largest contributor. Within this, CN specifically is up 16% YTD and is also the number one security contributor to the index. The remainder comes from Capital Goods. After a strong 2020, the top three negative contributors for 2021 were CAE, WPRT, and BLDP.

Exhibit 36: Total Return – S&P/TSX Industrials Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The Pandemic Is Still The Elephant In The Room

While supply chain issues, labour availability and inflation have dominated the headlines in H2/21 as economic activity continues to rebound, Omicron highlighted again that the pandemic remains front and centre as we look out into 2022. While rising vaccination rates, especially in Canada (80% fully vaccinated according to Our World data), have put us on the path towards some sort of normalization, it is also clear that we have not turned the page fully on COVID-19. While we remain positive on the re-opening theme, we also recognize it is not going to be a linear recovery. From that perspective, we continue to view a number of sub-segments within the Industrial sector as offering both good downside protection, as evidenced by their performance over the past two years, and good upside potential tied to accelerating economic activity.

Exhibit 37: Industrials – Sectors And Comments, December 2021

Sector	Comments
Waste	The North American solid waste sector offers an essential service and has exhibited a high level of resiliency. We believe the risks of material lockdowns in the U.S. remain remote and, thus, continue to see the sector as well positioned to benefit from low-single-digit % organic volume growth, mid-single-digit % pricing, and a deep M&A pipeline.
Transportation	The transportation sector is bifurcated. To state the obvious, the passenger airline equities have been hit hard by the pandemic and face a non-linear recovery, which means their share prices will likely continue to reflect a higher level of volatility. We remain optimistic that air passenger traffic will continue to climb in 2022, especially in North America, but this segment remains highly sensitive to headlines around COVID-19. On the other hand, we remain positive on the freight transportation names, reflecting the strength of the consumer and e-commerce trends, tight capacity conditions that are driving more favourable pricing, and an improving outlook for the industrial economy. We see these factors driving good top-line growth as well as margin expansion.
E&C	While concerns regarding ballooning material costs and labour shortages remain, we believe the outlook for the E&C space remains robust, reflecting leverage to large upcoming infrastructure stimulus (STN/WSP big beneficiaries from U.S. infrastructure plan), torque to an improving macro backdrop/easing of pandemic-related restrictions, and the possibility of further M&A. While valuations for WSP/STN are close to the high end of their historical five-year ranges, the entire sector (North American and European comps) has seen multiples expand, reflecting the much better outlook. Amongst the engineers, SNC has the most attractive valuation (but headline risk persists). We remain optimistic on ARE and BDT for 2022, but we do note that both names are relatively vulnerable to further possible (but unlikely at this point) pandemic construction restrictions should the Omicron impact be larger than expected.
Heavy Equipment	FTT and TIH's consolidated backlog levels are up 145% and 253% Y/Y, respectively, pointing to strong demand ahead. Despite modest supply constraints (equipment/part availability from OEMs), we expect strong top-line growth with margins holding (benefit of operating leverage, recovering higher-margin product support/rental revenue streams, and the tight/strong equipment demand environment). From a valuation perspective, we continue to favour FTT over TIH (FTT is at a ~10x 2022E P/E multiple discount to TIH, which is near historical highs).

Source: Company reports and CIBC World Markets Inc.

Supply Chain Issues And Inflation – It's Transitory Right?

Supply chain issues and inflation have dominated the headlines in 2021, especially since the summer. The question remains when do these issues begin to ease given the consensus view that these are transient headwinds. We are seeing signs that freight congestion, which is one of the driving forces behind the higher inflation, could begin to ease as we look out into next year.

First, a look at import container dwell reports at the Ports of LA/LB finds an improving situation. As of December 1, there were a total of 21,817 containers sitting at the port of Los Angeles for more than nine days, down significantly from 42,277 containers on November 1. Similarly, there were a total of 19,828 containers sitting at the port of Long Beach for more than nine days, versus 28,358 containers back on November 1.

Second, as we look past the peak season, the congestion issues should also be helped by the typical sequential decline in volumes. Looking at the Port of LA/Long Beach, on average, total TEUs in the months of January/February have been down ~7% from fourth-quarter levels from 2015 to 2020. Further, the Lunar New Year is February 1, which should provide additional reprieve for the shipping industry as China's factories and manufacturers are closed during this holiday season, which should alleviate import volumes.

Third, a look at the Logistics Manager's Index (LMI) shows some optimism about the availability of warehousing and transportation capacity in the next 12 months. The future prediction for warehousing capacity is 60.2 vs. 47.6 in October 2021. Similarly, the future prediction for transportation capacity is 55.7 vs. 34.1 in October 2021. 50+ is expansion territory.

Fourth, some of the supply chain disruptions have been caused by a sequence of events that hopefully do not repeat in 2022. The chip shortage that has hit OEMs, for instance, was exacerbated this past year by the Renesas plant fire, Texas winter storms, and economic lockdowns in Malaysia and other Asian countries. Even if supply chains do not return to normal next year, which is our view, they are positioned to function more smoothly than they have in recent months.

Within the capital goods segment, OEMs such as NFI and LEV should benefit as supply chain issues ease. Their ability to deliver into their backlog and healthy demand environment has been hampered by the lack of key components. This has also resulted in inefficient working capital. We expect a pick-up in deliveries, especially as we look into 2022, resulting in a normalization in earnings and a step-up in FCF from the working capital release.

Infrastructure Spending

As governments look to "build back better," infrastructure spending remains a tailwind for the industrial sector. On November 15, the U.S. House passed the US$1.2T Bipartisan Infrastructure Investment and Jobs Act. In addition to the broad impact this would have on economic activity (i.e., increased special waste), we view the E&C and commercial vehicle OEMs as clear winners as it improves their medium- to longer-term revenue visibility.

For the E&C space, the passage of the U.S. infrastructure plan (the U.S. represents ~55% and ~35% of STN's and WSP's sales, respectively) should speed up the conversion of WSP/STN's soft backlog levels to hard backlog. WSP's soft backlog (i.e., not yet awarded) in the Americas is at a record high (60% higher Y/Y). Over half of STN's $1.2B in award notifications (not included in backlog) is U.S.-related. The American Council of Engineering Companies (ACEC) estimates that the infrastructure plan will boost spending by ~6%/year on top of ACEC's no-plan forecast over the next six years, pushing annual output to US$416B by 2026. Given that roughly two-thirds of STN's/WSP's U.S. business is relevant to the U.S. infrastructure plan, this could translate to a 4%-5%/year U.S. organic growth boost between 2022 and 2026 (translating to a mid- to high-single-digit U.S. growth rate in the years ahead). For context, U.S. organic growth has lagged and been roughly flat for WSP and negative for STN year to date in 2021. SNC would also benefit, but to a lesser extent (U.S. about ~17% of sales).

For LEV, included in President Biden's US$1.2T infrastructure spending plan is a US$5B provision for school buses. The U.S. school bus market comprises ~500,000 buses, making it the country's largest public transportation network. Currently ~95% of those buses run on diesel, and just 1,164 of the 500,000 buses are electric. It has been estimated that the funds from the infrastructure bill could boost that number to 10,000 in five years. We would note, however, that of that US$5B, US$2.5B is dedicated solely to electric buses while the remainder is for "clean buses," which includes those that run on propane and natural gas. On the transit bus side, the infrastructure bill provides US$91.2B in funding for the Federal Transportation Authority (FTA) over five years, and authorizes an additional US$15.8B in supplemental appropriations from general revenues, for a total of US$107B. Looking at the bill's impact on bus program funding specifically, the Bus and Bus Facility Program increases by 172%, from US$808MM in 2021 to US$3.2B in F2026; the Low or No Emission Vehicle Grant Program, under which NFI was named partner by nine agencies in 2021, increases by 1,270% to US$5.63B by F2026; and, the US$3.2B Buses and Bus Facilities Formula program and US$7.6B Buses and Bus Facilities Discretionary program could affect the procurement of zero-emission and traditional buses.

2022 To Be Another Active Year For M&A

We expect 2022 to be another active year in the industrial space, driven by potential U.S. tax law changes, succession planning, and rising costs for smaller operators in the current environment. As well, the companies under coverage are generally sitting on excess liquidity and strong balance sheets to continue funding these inorganic investments. Sub-sectors we see continuing to bolster their growth with acquisitions are the waste sector, trucking sector, and engineering/design sector (WSP/STN balance sheet in good position, with net debt / EBITDA below 1.5x). Within the rail space, we would note that CP and KSU continue to achieve a number of critical milestones, positioning this merger to close in Q4/22.

ESG More In Focus

With ESG becoming a more important factor to both investors and management teams, we highlight below some of the notable targets and initiatives observed in our sectors.

Exhibit 38: Industrials – ESG Comments, December 2021

Sector	ESG Targets, Initiatives, And Focus
Waste	The waste sector will continue to focus on reducing its carbon footprint through capturing landfill gas, capturing more recyclable materials at materials recovery facilities, and implementing lower emission intensity propulsions in its refuse collection vehicles.
Transportation (Air & Surface)	The focus for the transportation names remains on reducing emissions through new technologies (SAF) and/or implementing lower emission intensity propulsion systems in ground operations. The aviation sector will look to new technologies such as SAF (Sustainable Aviation Fuel) for emissions reduction. AC, as an example, has set a net zero emission goal by 2050 with 2030 absolute targets of 20% GHG net reductions from flights plus 30% GHG net reductions from ground operations compared to 2019 baseline. The company has also committed to investing $40MM in SAF and carbon reductions and removal. The focus for the surface transportation names remains on deploying alternative propulsion systems in ground fleets, which should help reduce the overall carbon footprint. CN, as an example, has put out net zero emission targets for 2050 with short-term goals of reducing GHG emissions by 43% (of 2019 baseline) by 2030. Additionally, the transportation sector will continue to focus on inclusivity and diversity.
E&C	During the year, STN (by 2030), WSP (by 2040), SNC (by 2040), and ARE (by 2050) all announced net zero carbon emission targets. Specifically, we see the global transition to net zero as a revenue tailwind for the engineering / design sector. Recent M&A activity (WSP acquisition of Golder and STN acquisition of Cardno) highlights the increased focus / improved outlook for the Environment engineering/design space. The Environment sector now comprises ~25% and ~20% of WSP and STN's net revenues, respectively.

Source: Company reports and CIBC World Markets Inc.

S&P/TSX Information Technology – Underweight

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2021 At A Glance

This year marks the end of Canada's four-year-long streak of placing as the strongest tech market globally. Instead, the S&P/TSX Technology Index fell to second place in 2021, trailing the U.S. S&P 500 Technology Index by 590 bps (in USD terms), as shown in the table in Exhibit 39. While Canadian tech still undoubtedly benefitted from accelerated digitization and cloud demand in the ongoing pandemic, the U.S. high-growth tech names saw strength driven by similar trends in 2021.

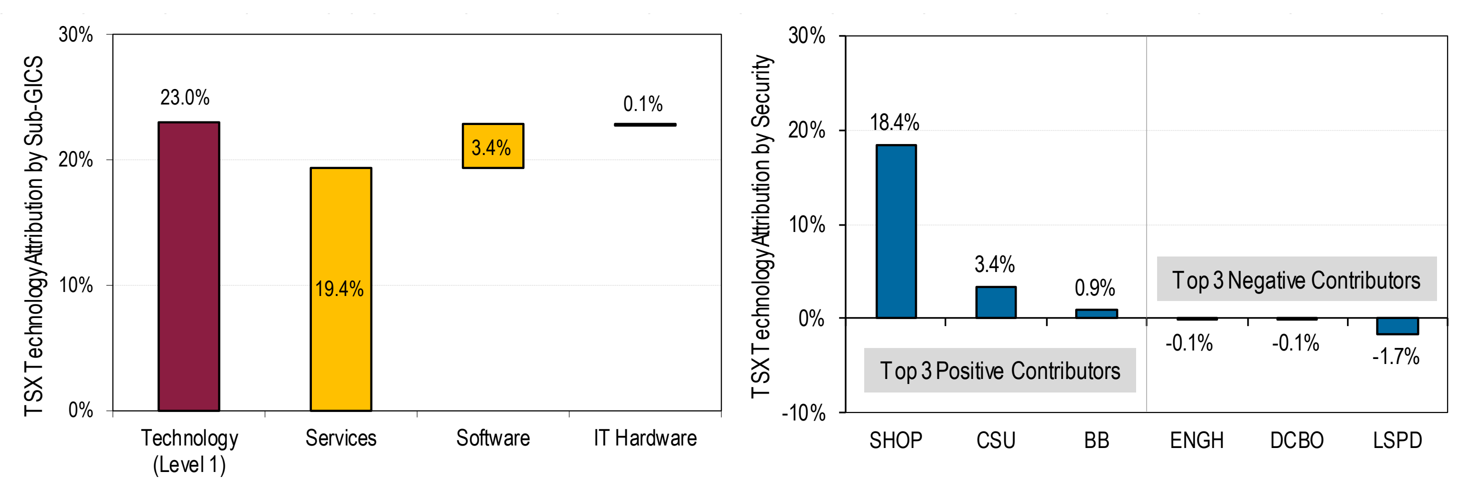
Exhibit 39: Total Return Performance – Information Technology, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Technology	28.5%	28.5%
Canada	**S&P/TSX Technology**	**23.0%**	**22.6%**
UK	MSCI UK Technology	24.7%	21.5%
Japan	MSCI Japan Technology	26.5%	15.8%
France	MSCI France Technology	24.3%	15.1%
Germany	MSCI German Technology	14.9%	5.9%
Australia	MSCI Australia Technology	6.3%	-1.6%
Korea	MSCI Korea Technology	-5.0%	-11.9%
China	MSCI China Technology	-20.1%	-20.5%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The bar graphs in Exhibit 40 highlight the equities contributing most meaningfully to the technology sector's total return in 2021. Of the 15 names in the S&P/TSX Technology Index, 12 posted positive total returns. The companies that produced the strongest total returns were diverse, with Shopify continuing to benefit as it enabled the economy in an increasingly digital setting throughout the pandemic, while Constellation benefited from a renewed focus on M&A. Interestingly, some of the strongest 2020 performers saw more muted returns in 2021, including Docebo and Lightspeed.

Exhibit 40: Total Return – S&P/TSX Information Technology Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

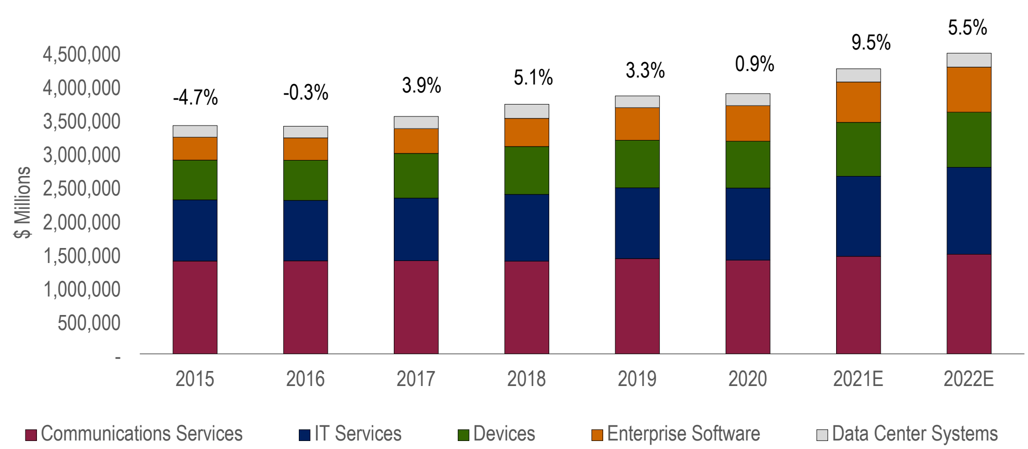
Digital Acceleration To Continue Into 2022 And Beyond

Much has been made of the acceleration of digitization and digital spending brought on by the pandemic, and data shows that organizations are continuing to invest in technology. Estimates of total IT spending from Gartner illustrate the impact of that spending, with IT spending in 2021 expected to be up nearly 10% after slowing during the pandemic. Growth in IT spending is expected to remain elevated in 2022 as the public and private sectors continue to invest in modernizing their technological capabilities.

Gartner once again expects enterprise software spending to be the fastest-growing category of IT spending in 2022, projected to grow 11.5% versus an overall IT spend environment expected to grow at 5.5%. It is also important to note that spending on IT services is expected to grow 8.6% in 2022, second only to enterprise software. IT services remain critical for the design and implementation of digital transformations, especially with talent shortages for IT professionals making it more difficult to complete complex projects in-house. The bar chart in Exhibit 41 shows the Gartner forecast.

Within our coverage, we see a number of companies that stand to benefit from growing IT spending, specifically within the enterprise software and IT services spending. With supply chains expected to remain disrupted into 2022, Kinaxis' RapidResponse software offers a solution to a complex challenge. While Kinaxis' long sales cycle and implementation timelines don't provide an immediate boost to sales, we see the company as a strategic way to benefit from supply chain concerns. We also see CGI and TELUS International as beneficiaries of increasing IT services spending. With 60% of bookings made up of digital work, CGI is positioned to benefit from digital transformations, while TELUS International is seeing digital acceleration in a number of different areas, including growth from its recent data annotation acquisitions (LionBridge and Playment).

Exhibit 41: Information Technology – IT Spending, 2015 - 2022E



All statements in this report attributable to Gartner represent CIBC Capital Markets interpretation of data, research opinion or viewpoints published as part of a syndicated subscription service by Gartner, Inc., and have not been reviewed by Gartner. Each Gartner publication speaks as of its original publication date (and not as of the date of this report). The opinions expressed in Gartner publications are not representations of fact and are subject to change without notice.

Source: Gartner Inc.

E-commerce Payments Innovation Drives Merchant Success

The profound innovation within the e-commerce space showed no sign of slowing in 2021, and the inherent link between e-commerce and fintech is a trend we expect will continue to grow in 2022. This is largely due to the frictionless shopping experience that integrated payments provide, allowing consumers to transact with a single click of a button, among many other benefits. Unsurprisingly, we notice that the growth of e-commerce platforms is increasingly tied to the financial services they provide. We see this most prominently with

Shopify's Merchant Solutions, which represent ~70% of total revenue, largely due to Shopify Payments which processed nearly half of the $41B in gross transaction volume (GMV) processed by Shopify in Q3. Lightspeed is also moving in this direction. In its Q2/F21, it derived ~50% of total revenue from Transactions, most of which came from Lightspeed Payments. It is noteworthy that Lightspeed only processed 11% of its gross transaction volume (GTV) on Lightspeed Payments. Thinkific too will benefit from integrating payments into its platform, which the company successfully rolled out in Q3/21.

Innovation in financial services and the creation of a frictionless buying experience are critical for merchants. Indeed, $260B worth of lost purchases in the U.S. and Europe could have been recovered through better checkout flow and design (Baymard Institute). Buy Now Pay Later (BNPL) offerings are part of the solution to this thorny issue by allowing customers to split the cost of a purchase at little or no added interest expense. We expect BNPL will continue to gain momentum in 2022. Already, 56% of U.S. consumers have used a BNPL service (up 50% Y/Y from ~38% penetration last July) and we expect there is more room for growth in 2022 (The Ascent). Readers will recall that Shopify announced its own BNPL offering – Shop Pay Installments – in May and benefits from an ~8% equity stake in Affirm.

As we look to 2022, we wonder about the staying power of e-commerce and its ability to sustain the share it gained over the last two years. eMarketer predicts that the penetration of e-commerce as a percent of global retail sales will remain high, at 21% (or $5.5T), representing Y/Y e-commerce growth of ~13%. This compares to growth of 18% and 17% in 2020 and 2021, respectively. As economies return to normal, we expect there will be an initial resurgence in brick-and-mortar shopping as consumers rediscover the novelty of shopping in-person, and agree that e-commerce growth is likely to fall Y/Y in 2022. However, the undeniable convenience of e-commerce, shifts in consumer behaviour, and the innovations we've witnessed over the last two years, like BNPL, will ensure, in our view, that e-commerce penetration will not lose any ground as a percentage of global retail sales in 2022.

U.S. Online Gaming Set To Expand In 2022

Like e-commerce, the regulated gaming market is undergoing a shift away from physical locations towards online platforms. This market is an important focus for Nuvei now that states can decide whether and how to legalize online regulated gaming and sports betting within their borders following the 2018 repeal of the Professional and Amateur Sports Protection Act (PASPA). The online regulated gaming market was valued at $2.2B in 2020 and is projected to grow at a 17.3% CAGR by 2026, representing a significant opportunity for Nuvei (Mordor Intelligence).

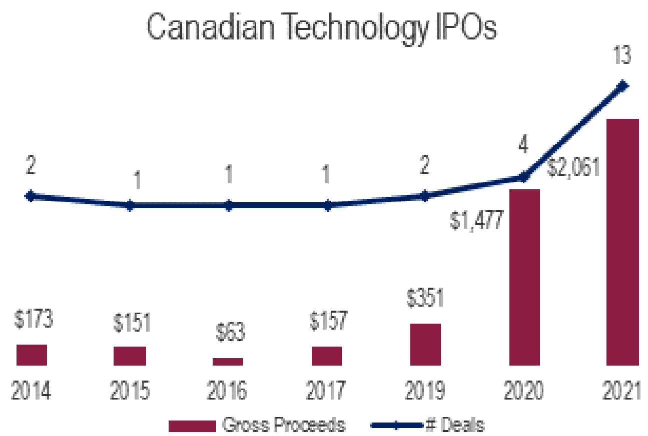
Thus far, 19 states have legalized some form of online regulated gaming, and this list is expected to further increase in 2022 as large states like New York move ahead with legalization. The legalization plans of other larger states, such as Florida, Texas, and California, are not yet known. Nuvei stands to benefit as this market develops and it recently added Louisiana and Arizona to the list of 17 states for which it now has online sports betting licenses. Notable clients include Carousel Group, 888, BetMGM, SI Sportsbook, PrizePicks, and Triplebet/Matchbet.

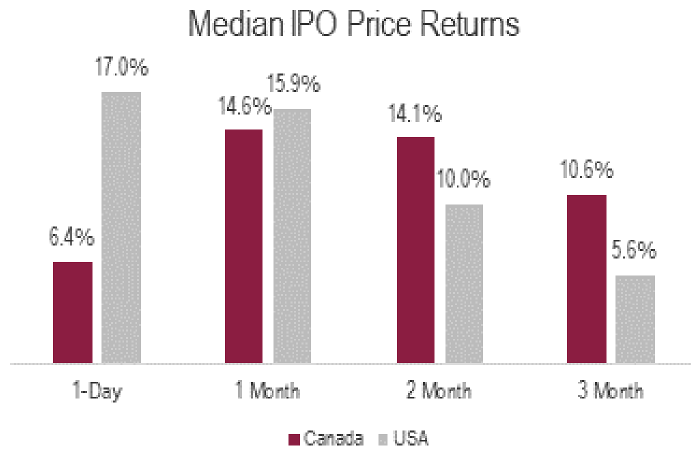
A Record Tech IPO Year

With strong returns in the Tech Index over the past several years and accelerated demand for digitization and cloud solutions, 2021 was a banner year for Canadian technology IPOs. More tech companies went public in 2021 than in the previous decade combined. There were 13 tech IPOs on the TSX in 2021 that raised $50MM or more since July 2020. By contrast, there were 12 Canadian tech IPOs on the TSX in the 11 years ended December 2019. While Canadian tech IPOs have underperformed their U.S. counterparts on the first day and first month post-IPO, returns have been stable and actually outperformed U.S. names' median returns over the first three months. The bar chart in Exhibit 42 shows Canadian IPO activity.

For 2022, the IPO pipeline appears to be less stocked given the numbers of deals in 2021. Despite the likelihood of fewer IPOs in 2022, we expect investors to be selective in those they support, ultimately resulting in elevated demand for those higher-quality companies.

Exhibit 42: Information Technology – Canadian IPO Activity, 2014 - 2021 YTD (Gross Proceeds >C$50MM)





Source: FactSet and CIBC World Markets Inc.

The Impact Of Rising Interest Rates

A major question for technology stocks is the impact of interest rate hikes as central banks look to control inflation and guide economies through the pandemic recovery. The timing and number of rate hikes in 2022 and the extent to which rising rates have already been priced into equity values remain key questions. It is important to note that the fundamental outlook of companies under our coverage would be relatively unchanged by rising rates given strong cash positions, and limited capital expenditure, with downside likely stemming more from market-specific factors.

While rising rates are likely to negatively impact technology valuations, they may also lead to an increase in the amount of strategic M&A within the sector. M&A activity within our coverage has been suppressed since the onset of the pandemic, particularly amongst the serial acquirers. Elevated valuations have kept consolidators on the sidelines as private equity took advantage of low-cost debt to finance acquisitions. If technology valuations slide on rising cost of debt, we would not be surprised to see firms like Descartes, Enghouse, and Open Text look to deploy additional capital.

ESG In Tech

Technology is considered one of the most ESG-friendly sectors, with our research suggesting that most ESG funds are overweight the major U.S. technology names (Apple, Amazon, Alphabet, Microsoft). ESG funds are typically overweight technology given that tech firms have a smaller carbon footprint than companies in many other sectors, with emissions potentially easier to reduce than in other sectors. That being said, we see the bigger ESG issues for tech companies being diversity, data privacy/security, and governance (director independence/dual-class shares). Many also fall short of the 30% Club Canadian Investor Group Statement of Intent, which readers will recall campaigns for greater representation of women on boards and senior management, with a target of 30% representation by 2020 (30% Club). More details can be found in our full note, linked here.

S&P/TSX Materials – Underweight

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2021 At A Glance

While the COVID-19 re-opening trade was positive for many sectors, that was not the case for all constituents within the S&P/TSX Materials. Canada's Materials sector was down 1.6% in 2021 YTD, as seen in the table in Exhibit 43, underperforming its U.S. peers by 19% and the market as a whole. The sector was weighed down by lacklustre returns from precious metals producers and a sharp pullback in lumber prices, as vaccine deployment and efficacy surprised to the upside. The vaccine re-opening trade proved to be swift and significant, lifting many growth sectors and taking momentum away from the safety trade in precious metals. Many companies within the Materials GIC strengthened balance sheets over the past year, but margin pressures have already started to appear and these companies are more limited in their ability to benefit from an inflationary environment, unlike some sectors (Financials).

Exhibit 43: Total Return Performance – Materials, Globally, 2021 YTD

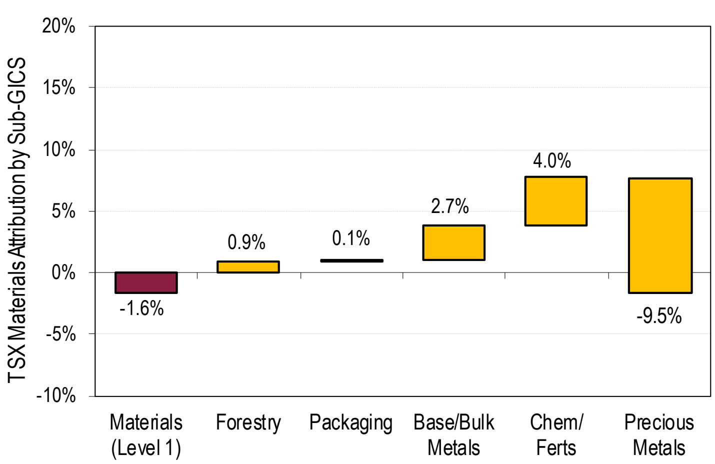
Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Materials	17.0%	17.0%
UK	MSCI UK Materials	17.9%	14.9%
France	MSCI France Materials	16.7%	8.1%
Canada	**S&P/TSX Materials**	**-1.6%**	**-1.9%**
Australia	MSCI Australia Materials	5.4%	-2.4%
Japan	MSCI Japan Materials	5.2%	-3.7%
Germany	MSCI German Materials	-0.3%	-8.2%
Korea	MSCI Korea Materials	-4.8%	-11.7%

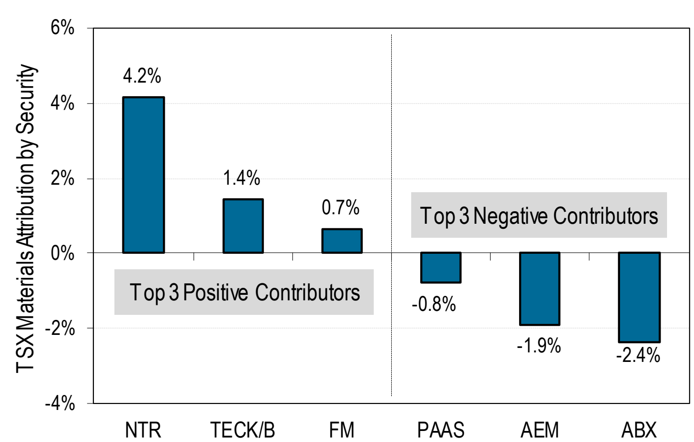
Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Supply chain disruptions and an increased ESG focus had a positive benefit on some industries within Materials, as can be seen in the bar charts in Exhibit 44. Fertilizer and base metals companies generated positive returns during the year given the strong performance of their underlying commodities, post-pandemic restocking, and increased focus on renewables. Although we expect positive momentum for those industries to continue in the year ahead, it will likely not be enough to offset the pressures facing other constituents in 2022.

Exhibit 44: Total Return – S&P/TSX Materials Attribution By Sub-Index And Major Security, 2021 YTD

Index/Commodity Tot Rtrn Performance	Precious Metals	Gold US$/oz	Base/Bulk Metals	Copper US$/lb	Forestry/ Paper	Lumber US$/Mbf	Chem/ Ferts	Potash US$/MT	Polypropelene Packaging	CNY/MT
2021 YTD Total Return	-14.1%	-6.1%	27.1%	20.7%	23.3%	-0.4%	35.9%	179.6%	5.0%	0.5%





Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

As we look into 2022, COVID-19 uncertainty, global supply chain disruptions and a rising rate environment will likely continue to pose some challenges for the Materials GIC. CIBC Economics is calling for the U.S. Federal Reserve and the Bank of Canada to remain on hold until Q3/22, but the winds appear to be changing quickly given lofty inflation rates, and the timing of rate hikes in the U.S. could come much sooner than expected, perhaps as soon as early Q2. An accelerated rate hike environment in the U.S. would create further headwinds for precious metals companies and push investors to seek higher yield, thereby benefiting companies with sustainable and expanding FCF/dividend yields, as well as those companies with an ability to pass along cost increases.

Inflation will clearly be one of the key themes impacting this sector over the coming year, along with ESG. In fact, pressures to de-carbonize as well as the focus on other social and environmental considerations will also likely add to cost pressures facing companies within the Materials GIC.

A Balancing Act – Fading Re-opening Trade Vs. Inflation

Inflation at last reared its head, coming in above 6% in the U.S. for the month of October, well above consensus estimates, and now expected to stay at elevated levels into Q1/22. Although expectations remain for inflation to subside and rate hikes to emerge during the latter part of 2022, it will be difficult to see a substantial recovery in real rates in the near term, as central banks will need to walk a fine line between controlling inflation and managing debt level.

Sectors that should continue to deliver strong results heading into 2022 include base metals, agriculture, and fertilizers, while the outlook for forestry equities appears fairly neutral. However, it is clear that some sectors will be facing some headwinds and, in our view, precious metals and metallurgical coal would fall in that bucket.

Top picks for leverage to higher copper prices and operational momentum include First Quantum Minerals and Hudbay Minerals.

Copper prices over the last 12 months have been supported by a global economic recovery from COVID-19, government stimulus packages, and tight inventory levels. With inflationary pressure in the industry being fueled not only by global supply chain disruptions, but also by prolonged permitting timelines, risk of higher mining taxes globally, and social unrest, we expect copper prices to remain well supported in 2022. Chile continues to discuss a new royalty bill, is heading to the polls in December 2021, and represents the largest annual producer of copper at ~27%. These cost pressures will be somewhat offset by a higher copper price not only in the near term, but also in terms of a higher long-term price for the commodity in order to support the development of new, much-needed mine supply.

As for zinc prices, that commodity also performed well in 2021; notably, an October power crunch in European markets saw zinc prices rally, and since stabilize around $1.50/lb. In the year ahead, demand growth is expected to continue its recovery as countries in Asia (ex. China) lift COVID-19 restrictions. In our view, zinc prices should continue to be supported, but lag copper prices in 2022, as copper remains a better inflation proxy.

Top pick in the agricultural space is NTR (expected growth in retail and FCF in 2022).

Agriculture fundamentals also appear positive over the coming year given low inventory levels and the prospect of continued strong crop pricing. While fertilizer prices are expected to moderate from near-record levels with increasing supply, several other factors, including improving fertilizer affordability, eventual easing of coal and gas costs and growth in retail demand, should all help drive Nutrien's earnings estimates higher Y/Y in 2022. Those improving fundamentals should also support strong FCF generation, a dividend increase, and potential share repurchases. That being said, while Nutrien was one of the best performers in the Materials GIC sector in 2021, we would not expect the same degree of outperformance in 2022.

Our preferred packaging pick is CCL Industries for its diversified platform, end-market exposure, ability to pass on rising input costs, and flexibility to pursue M&A opportunities.

For Forestry, Building Products & Packaging, we are generally on the sidelines on most wood product equities, with the exception of Canfor. We see more attractive opportunities among the plastic packaging companies under coverage. After record FCF generation over the past year (given the pandemic-fueled boom in housing and associated labour constraints on wood product production), we see limited catalysts on the horizon for lumber stocks. While lumber prices are likely to set a record high for 2021, and remain at elevated levels in 2022, current valuations look relatively full. At the same time, the housing backdrop is only likely to get more cloudy as rising mortgage rates impact affordability concerns, with home prices already at record highs.

Recent M&A in the precious metals sector has sparked some renewed interest, but the list of candidates is limited.

In the large-cap space, top picks include Barrick Gold, Franco-Nevada, and Wheaton Precious Metals.

As mentioned previously, we believe precious metals will face some headwinds in 2022. Following a multi-year run, we continue to believe that gold and silver prices will peak in Q1/22, averaging US$1,875/oz gold and US$26.50/oz silver for the full year. While our forecast price for both commodities is for higher Y/Y average pricing (2022 vs. 2021), we are expecting a gradual decline in pricing for these two commodities over the next few years, reaching our long-term price deck of US$1,650/oz gold and US$20/oz silver by 2024. Despite the forecast pullback, both these commodities have established considerably higher base price levels for the foreseeable future. Over the next several quarters, we believe that companies exhibiting the highest-quality assets and that are best at mitigating inflation cost pressures and supply chain challenges are likely to benefit from elevated precious metals prices.

With downside in met coal prices and rising input costs, we expect margin contraction for coal producers to emerge over the coming quarters.

Metallurgical coal prices have been extremely volatile over the past year; benchmark prices soared to all-time highs as a trade dispute between Australia and China created supply issues and changed global trading routes. Spot prices have since retraced from highs, and we continue to see further downside in metallurgical coal pricing.

The ESG Train Keeps On Rolling

Since the onset of the pandemic, ESG has taken a front-and-centre role and continues to gain traction with investors and governments globally. Global infrastructure programs are clearly being targeted to encourage more renewable energy sources, and progress at COP26 on coal, methane, and international carbon trading will drive further growth in ESG initiatives. With that in mind, it is clear that some of the industries within the Materials GIC will be beneficiaries of expanding ESG initiatives, while others may incur higher costs as they transition towards a lower carbon footprint.

Climate change is top of mind for many countries, companies, and investors, with copper playing a key role in decarbonization objectives. Several key properties—including high electrical conductivity, ductility, thermal efficiency, and recyclability—make copper an essential component in electric vehicles (EVs), energy storage, and renewable energy solutions. As the globe adopts wind and solar technologies, copper demand should increase. The same is true for EV adoption, where copper requirements are up to four times higher than petrol vehicles. Other roles copper has to play in our future include electrical infrastructure, grid power storage, and 5G networks. All told, when it comes to themes of decarbonization, climate change, and renewables, copper is an essential metal in the journey to decarbonize. Our top copper exposed producers have differing Sustainalytics scores. First Quantum's rating is 'Severe Risk' with a slight decrease in its 2021 score versus 2020. However, Hudbay has a Medium Risk rating, with a Y/Y increase to its 2021 score, and sits in the top 11^{th} percentile of its sub-industry group.

Another major component of the Materials GIC, Nutrien, also saw an improvement in ESG metrics over the past year. Nutrien's Sustainalytics ESG Risk Score improved from High Risk to Medium Risk this year, reflecting an ~8 point positive improvement from a score of 35.7 last year to 27.8 this year. A key driver of NTR's ESG ranking improvement is the "Carbon – Own Operations" metric, which refers to a company's management of risks related to its own operational energy use and GHG emissions. NTR improved from High Risk to Medium Risk in this area. In addition, the company launched its sustainability-focused Carbon Program in 2020, which encourages growers to plan, plant and track sustainable farming practices and improve carbon performance. NTR has also updated its emissions-related targets, including reducing GHG emissions in nitrogen production by one million tonnes CO_2 by the end of 2023, and deploying self-generated wind and solar energy at four potash facilities by the end of 2025.

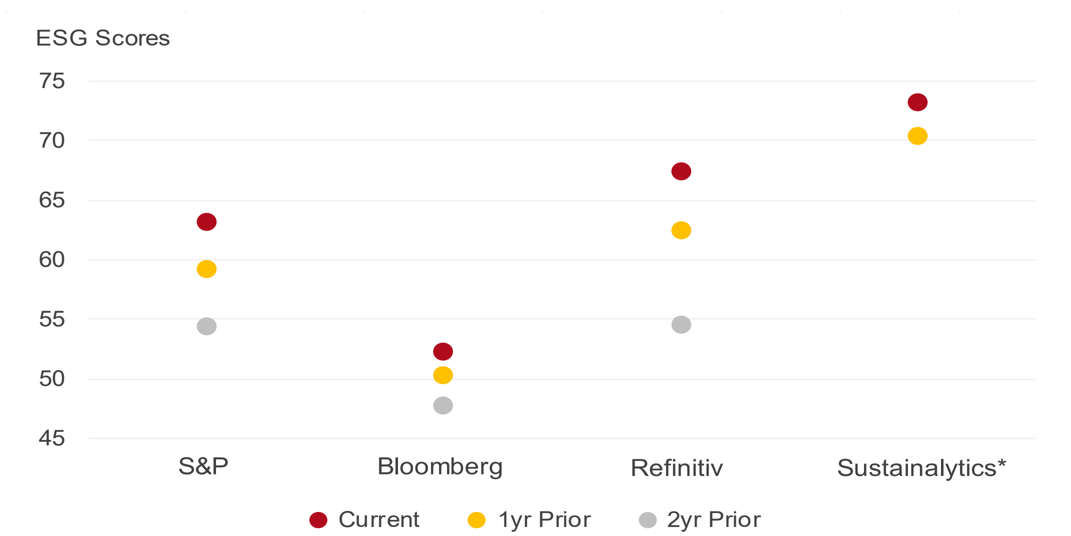
Forestry is generally well positioned on the ESG front given the attractive carbon sequestration benefits of wood (a renewable resource) over other building materials such as concrete and steel, favourable community relations, and a strong focus on health and safety at the mills. While the forestry sector has not generally attracted much controversy over governance issues, the industry still lags many other industries in advancing greater gender diversity at the c-suite level. At the Board level, several of the companies in our coverage universe have made substantial progress in recent years to improve gender diversity (though progress on other diversity characteristics has been slower). By comparison, our packaging names face greater environmental scrutiny given concerns about plastics, but generally have senior management teams and Boards with superior diversity characteristics. Our top pick in packaging, CCL Industries, boasts a Low Risk rating with Sustainalytics.

On the precious metals front, ESG due diligence is foundational to the investment decision-making process of royalty companies, and is well reflected in the strong ESG scores for royalty companies and streamers, consistently ranking near the top in the precious metals industry. Our producer top pick, Barrick, ranks well versus gold peers on ESG metrics, ranking in the top third in the precious metals industry. As for silver, a key area of growth has been photovoltaic demand (solar panels), which increased by 13% Y/Y in 2021 to >110 million ounces—a record high—and highlights silver's importance to the green economy.

A small percentage (~3%) of Global AUM is dedicated towards ESG, but with global ESG funds delivering a three-year AUM CAGR of 122%, these funds should continue to gain steam.

Over the past year, many companies within our research universe announced net zero targets, released sustainability reports, and improved disclosure on ESG targets. In general, we have seen improvements in ESG scores for the Materials GIC over the past two years (as shown in the plotted graph in Exhibit 45), which is important not only from a social responsibility point of view, but conceptually should also help to lower the cost of capital for these companies as funds flows continue to benefit companies with positive ESG momentum.

Exhibit 45: Materials GIC – ESG Scores, 2018 - 2020



Note: The Sustainalytics Risk Rating scores a company's sustainability risk exposure, where lower scores are better (lower risk). In the exhibit we show the inverse of the Sustainalytics Risk Rating (100 less Risk Rating) for better comparability with the other data providers, which score sustainability performance.
Source: S&P, Bloomberg, Refinitiv, Sustainalytics and CIBC World Markets Inc.

S&P/TSX Real Estate – Marketweight

2021 At A Glance

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The year 2021 began as one like no other; we were under strict lockdown measures, curfews were instituted and all but those retailers deemed "essential" were effectively shuttered – strange but now all too familiar times indeed. The Real Estate space was still reeling from the drubbing it took in 2020, and the answers to questions to such things as when we're going to return to "normal" were a guess, at best. But, as the spring thaw brought us out of the lockdown hibernation, things started to change, restrictions began to ease, outdoor dining was allowed and retail stores began to re-open. With this, sentiment began shifting and the sector experienced a resurgence, bringing all but the most economically sensitive back to pre-pandemic levels and outpacing the returns of the overall market, all the while pushing up against the higher boundary of our 2021 return expectations.

While valuations have largely recovered across most sub-sectors and the brunt (we certainly hope) of the most draconian COVID-related measures is behind us, questions ostensibly turn to the near-term implications for the sector. To this end, we'd note the headline risks do remain elevated, there will be no doubt more variants (and Greek letters), inflation will come in and out of focus with every data print, and interest rates will be nothing short of skittish. We believe all of this creates a backdrop of heightened short-term volatility.

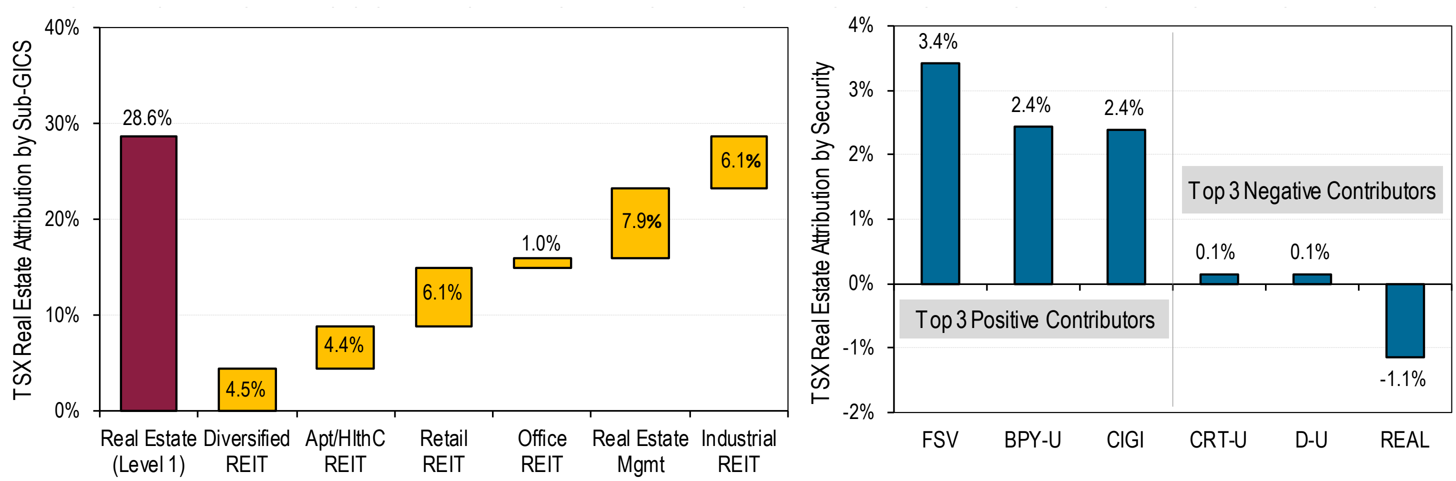
Exhibit 46: Total Return Performance – Real Estate, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
UK	MSCI UK Real Estate	35.6%	31.7%
USA	S&P 500 Real Estate	30.8%	30.8%
Canada	**S&P/TSX Real Estate**	**28.6%**	**28.3%**
Australia	MSCI Australia Real Estate	16.3%	7.4%
Japan	MSCI Japan Real Estate	12.7%	3.2%
Hong Kong	MSCI Hong Kong Real Estate	2.0%	1.4%
France	MSCI France Real Estate	-2.8%	-10.0%
Germany	MSCI German Real Estate	-5.5%	-12.4%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The bar chart on the right in Exhibit 47 highlights the equities that most meaningfully contributed to the Canadian Real Estate sector's total return performance in 2021. The majority of returns emanated from the "recovery trade" as the industrial and apartment upturn continued unabated.

Exhibit 47: Total Return – S&P/TSX Real Estate Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

2022: Fully Vaxxed, But Pay Attention To The VIX

Looking forward to 2022 the continued health and recovery of the Real Estate sector may ultimately take a back seat to broader macro issues, including new strains of COVID (as we are currently seeing with the Omicron variant), the eventual path of interest rates (and more importantly the term structure of the yield curve), inflation expectations and an unwinding of government bond purchases (we've seen tapering before). While our longer-term view of a low(ish) rate environment remains unchanged, we'd be remiss to think that the myriad near-term headline risks won't impact the overall sentiment towards equities for the duration of 2022. Real Estate will be no exception.

How this ultimately plays out will remain to be seen. However, we anticipate that 2022 will be characteristic of more moderate returns, with higher short-term volatility as these macro factors unfold. This suggests that the path to alpha generation is not merely security selection, but perhaps a more tactical approach (buy the dips) to trading around core positions as volatility increases and declines (much to Timmy's chagrin, George Costanza will more than likely have all the double dips he wants in 2022).

Retail

Arguably, no sub-sector bore the brunt of mandated closures like retail; there is certainly truth to the overarching view that the retail operating environment is under pressure (even with COVID-19 aside), with e-commerce and high-profile department store bankruptcies impacting performance. The pandemic – more specifically lockdowns that were implemented as a response to curb COVID-19 transmission – has resulted in the acceleration of a number of headwinds within the sub-sector (again, e-commerce), and has challenged the ability of some retailers to continue operations (i.e., the risk of bankruptcies has increased, especially for smaller retailers). We believe that a return to city centres and effective re-population of the more urban spaces should result in those more "economically sensitive" retail REITs continuing to "catch up" to the more defensive names. Our favoured way to gain exposure to urban revitalization is First Capital REIT.

Office

Not far behind retail, the purported demise of the traditional office space has been a prevalent headline for the better part of the pandemic. It's universally accepted that the office of the future will likely not resemble that of the past; however, what's more opaque are the ultimate space requirements that current and future users will require, as well as what those configurations may ultimately look like. While a return to the office is dependent on many factors, including the spread of variants, many companies have implemented vaccination policies that are expected to be in effect in 2022. As a result, with a further decrease in cases and continued vaccine uptake, we believe that 2022 may see the office space come back to life and catch up with the broader group. Our favoured way to gain exposure to the office recovery is Allied Properties REIT.

Industrial

In stark contrast to the arguably more economically sensitive sectors, the industrial group seemed to "not get the memo," with unit prices appreciating well above what were already pre-pandemic highs. A confluence of positive factors is largely still in play, such as exceptionally high lease renewal spreads, tight leasing markets, rapidly increasing land and construction costs and high investor demand. These have kept the "sheds" theme well in favour, a dynamic that we anticipate will continue into 2022, albeit perhaps at a more measured pace. Our favoured way to gain exposure to the industrial REITs is Granite REIT.

Multi-family

The multi-family sub-sector is widely (and rightly) considered to be one of the most defensive of the Real Estate asset classes; the operational performance of residential REITs thus far through the pandemic easily supports this notion. We believe that the “beds” component of the “beds and sheds” theme (apartments and industrial) will continue to perform well into 2022. That being said, it may be difficult for some residential REITs to revert to their premium valuations (i.e., 15%-25% premiums to NAV in some cases) even in a post-pandemic world. These premiums were largely justified by mark-to-market opportunities that were of a similar magnitude (i.e., 15%-25%). We believe that where the mark-to-market opportunity goes, so too, may valuations (i.e., if the mark-to-market opportunity falls to say 10%-15%, then a 10%-15% premium to NAV may be more justified, while acknowledging that myriad other factors impact individual REIT valuations). While the set-up for all of the residential REITs is quite positive, our favoured way to gain domestic exposure is through Killam Apartment REIT, U.S. exposure through BSR REIT, U.S. single-family rental exposure through Tricon Residential Inc. and European exposure through European Residential REIT.

Oh Deer, Is Stagflation Chasing Us?

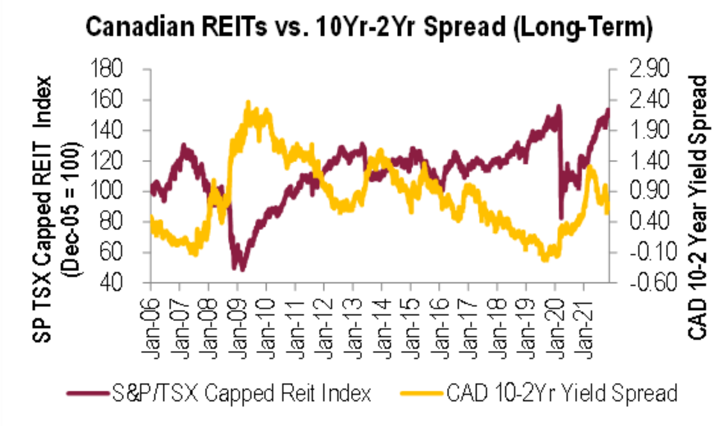
Given the unprecedented economic stimulus that has been directed to combat the pandemic around the world and the ensuing increased debt that comes along with it, we believe that the current rate environment may ultimately be more pervasive than even the most pessimistic projections. What’s less clear, however, is the outlook for inflationary pressures against a backdrop of potentially slower growth, i.e., is the current spate of data transitory or more permanent? While Real Estate has historically performed quite well in inflationary environments (asset vales increase while debt levels tend to stay static), the recent bout of outperformance may have already incorporated some of that expectation (acknowledging, of course, the depressed base off of which that performance is being measured).

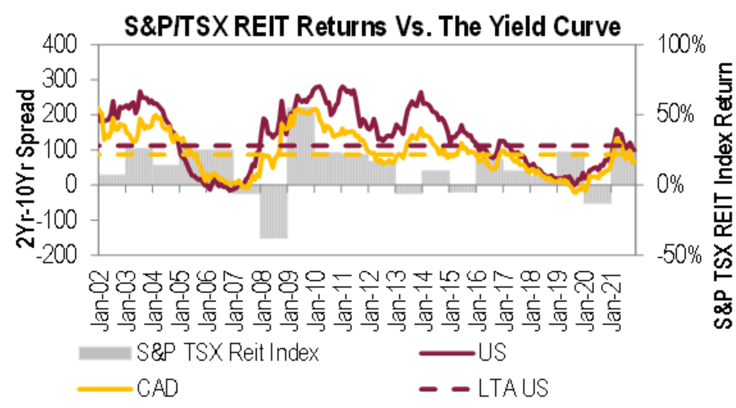
Indeed, it is the perception of future rate movements that is of importance for REIT investors. As we have highlighted in the past, a flat to declining yield curve has generally lined up with positive relative returns from the sector.

To this end, we are of the view that within an increasingly benign interest rate environment, valuation levels across all yield-oriented investments are likely to find support at levels that are perhaps higher than they have historically been (all things equal, of course):

- Once the COVID-19 situation is in the rear-view mirror, and if interest rates remain at such low(ish) levels, a rebound beyond pre-pandemic valuation levels is plausible (i.e., the yield trade).
- The entire complex should continue to demonstrate a heightened volatility to any sharp (i.e., unexpected) moves in interest rates (the natural convexity embedded in low rates).
- Should long-term interest rates increase, or should the yield curve steepen, valuation levels are more likely to eventually revert closer to historical levels (i.e., not the elevated pre-pandemic levels).

Exhibit 48: REITs – Yield Curve Vs. REIT Returns, 2006 - 2021 (left) And 2002 - 2021 (right)





Source: FactSet and CIBC World Markets Inc.

There's More Than Just "E" In ESG

The topic of ESG has, without a doubt, gained increasing importance – a statement that holds true globally and in Canada (although we are arguably further behind some regions outside of North America, such as Asia and Oceania). Investors are paying attention, and our conversations with non-domestic investors have highlighted the importance of ESG in their screening of investments. We expect this dynamic will increasingly find its way into the domestic investment space; we have certainly seen the introduction of ESG mandates by many investment managers in Canada. While still in its early days, we believe that ESG screening could become a mainstream component of many investors' decision-making process.

A number of certifications/benchmarks have grown in prominence over the years. From an asset-specific basis, LEED certification was the first to be recognized as an industry standard. In recent years, other certifications such as BOMA BESt (Building Environmental Standards) have seen an increase in recognition in Canada. On a more portfolio-wide basis, the Global Real Estate Sustainability Benchmark (GRESB), an evaluation system that measures the ESG performance of real assets, has become recognized as a global leader in ESG benchmarking for Real Estate and Infrastructure investments. In 2021, 95 publicly listed REITs and property companies in the Americas participated in GRESB (up from 64 in 2020). Globally, the total number of REITs, funds and developers that participated in GRESB rose by 24% Y/Y.

But We're Talking Real Estate—Why Should We Care?

We have seen a marked increase in the use of "green bonds" in the Real Estate space. While it may be a generalization, the pricing of such instruments continues to tighten, which we believe is a function of the growing investor demand for such types of investments. It's not hard to envision a dynamic, in the context of growing global investment mandates for green investments, that a cost-of-capital advantage emerges such that it behooves the industry to pay close attention, as doing "good" and doing "well" are not mutually exclusive concepts. It's a topic that continues to unfold and one we expect to address in greater detail.

S&P/TSX Utilities – Underweight

2021 At A Glance

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The S&P/TSX Utilities Index has posted a 5.1% total return year-to-date 2021. On a constant currency basis (priced in USD), the Canadian Utilities Index performed middle of the pack versus its global peers and underperformed the S&P 500 Utilities. Some European Utilities indices saw stronger performance, buoyed by solid returns by many water utilities in 2021.

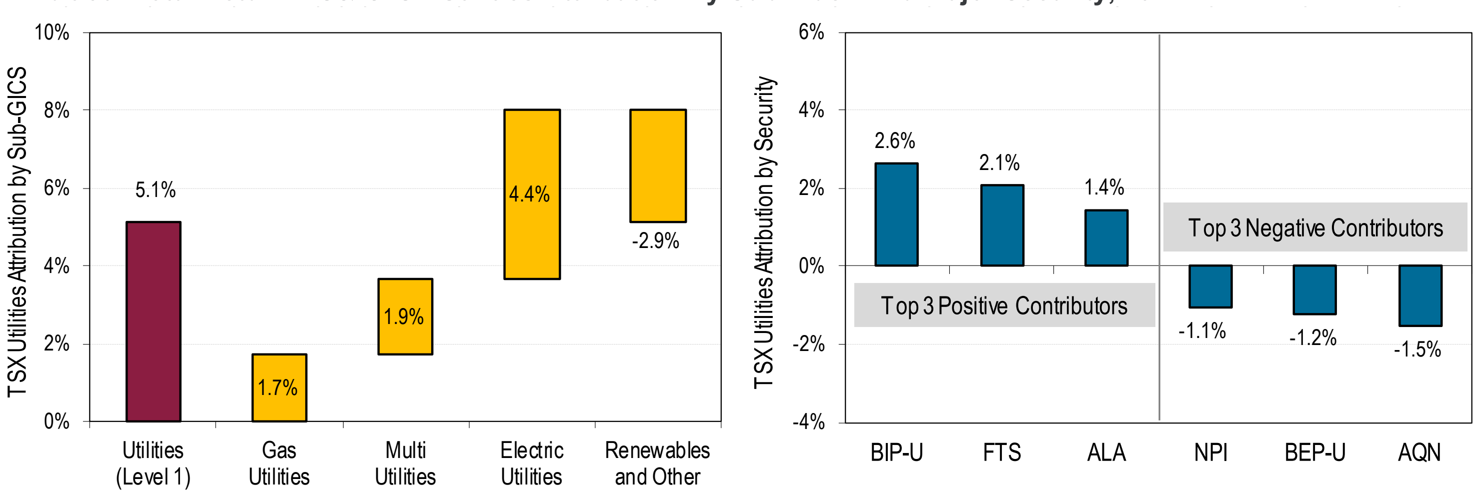
Exhibit 49: Total Return Performance – Utilities, Globally, 2021 YTD

Total Return Performance		2021 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
UK	MSCI UK Utilities	19.2%	16.2%
France	MSCI France Utilities	19.6%	10.8%
Germany	MSCI German Utilities	17.1%	7.9%
USA	S&P 500 Utilities	7.5%	7.5%
Canada	**S&P/TSX Utilities**	**5.1%**	**4.8%**
Spain	MSCI Spain Utilities	-1.2%	-8.4%
Australia	MSCI Australia Utilities	-4.6%	-11.7%
Italy	MSCI Italy Utilities	-8.9%	-16.1%
Japan	MSCI Japan Utilities	-10.8%	-18.3%

Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

The 2021 performance was effectively a reversal of 2020. Nearly all the renewable energy companies posted negative returns as the group saw a reset in valuations and faced a number of operational headwinds, including adverse weather conditions. This tempered overall TSX Utilities performance. AQN, BEP, and NPI all posted negative returns and were the largest detractors to index performance. On the other hand, the more-regulated utilities and/or those with commodity-exposed revenue streams performed best. BIP delivered a +19% return and was the largest contributor to performance. FTS was the second-largest positive contributor (lower return at 11%, but higher weighting). ALA had the third-largest positive impact (+35% return, but lower weighting). Lastly, TA had the highest return in 2021 (+39%), but only has a small index weighting.

Exhibit 50: Total Return – S&P/TSX Utilities Attribution By Sub-Index And Major Security, 2021 YTD



Note: Exhibit priced as of December 1, 2021 close. Source: Bloomberg and CIBC World Markets Inc.

Renewables Looking To Rebound & Alberta Power Companies Should Carry Momentum Into 2022

Simply put, the renewable energy companies we cover underwhelmed this year. There was clearly a valuation reset. The average EV/EBITDA multiple fell 1.8x through 2021, which is quite substantial considering these are leveraged companies (average net debt/EBITDA of 6.0x) and all of the multiple contraction comes off the equity value. We believe there was a multitude of factors that contributed to the valuation reset and poor performance, including: 1) these stocks came into 2021 with extended valuations (average EV/EBITDA multiple was 2.2 standard deviations above the trailing five-year average); 2) a rise in bond yields, which resulted in higher discount rates; 3) acquisitions that underwhelmed investors; 4) inflation and supply chain concerns (negative impact on project returns); and, 5) weaker-than-expected earnings given adverse weather conditions, FX headwinds, and operating issues (e.g., unplanned outages for RNW, downtime for repairs at NPI's Nordsee 1 facility). Over the last 11 months, all but BEP saw a reduction in 2021 consensus EBITDA estimates, as shown in the table in Exhibit 51 (average reduction of 4.3%). That being said, as much as 2021 was a reset for valuations and share prices, these companies did make good progress on future growth (added new projects, de-risked existing projects) and diversification (often through acquisitions). Even with some lingering headwinds, consensus 2022 EBITDA estimates have risen by 2.1%. Further, each firm held an Investor Day in 2021 and all outlined very constructive outlooks with strong growth targets. We still believe the multi-year outlook for the renewable companies is quite positive and believe they should be included in a diversified equity portfolio.

Exhibit 51: Power – YTD Drivers Of Estimate Revisions, 2021 - 2022

	2021 Analysis	Consensus Revisions		2022 Analysis	Consensus Revisions	
	Drivers of Estimate Revisions	Trendline[1]	YTD Chg.	Drivers of Estimate Revisions	Trendline[1]	YTD Chg.
Canadian Renewable Power						
BEP	**Positive:** Asset sale gains, realized pricing, M&A, completed development projects **Negative:** Below-LTA generation, FX (EUR, COP)		2.7%	**Positive:** S. America power prices, development progress, full-year from acquired assets **Negative:** Lost EBITDA from asset sales. FX (EUR, COP, BRL)		1.7%
BLX	**Positive:** Better hydro and solar pricing/margins **Negative:** Below-LTA wind generation, FX (Euro)		-1.5%	**Positive:** Lower opex **Negative:** FX (EUR), sale of Blendecques		-0.8%
INE	**Positive:** Chile + Curtis Palmer acquisitions **Negative:** Below-LTA generation, Texas storms, BC wildfires, FX (EUR)		-8.7%	**Positive:** Chile + Curtis Palmer acquisitions **Negative:** N/A		1.5%
NPI	**Positive:** Spain acquisition **Negative:** Below-LTA generation, delayed La Lucha COD, Nordsee 1 repairs, FX (EUR), Gemini hedges		-10.9%	**Positive:** Full year of Spain acquisition **Negative:** Gemini hedge losses, delayed La Lucha COD, FX (EUR)		3.2%
RNW	**Positive:** NC Solar acquisition **Negative:** Below-LTA generation, unplanned Sarnia & Kent Hills outages		-4.6%	**Positive:** NC Solar acquisition, solar/battery project in Australia (COD H2/22) **Negative:** Unplanned Kent Hills outage		2.1%
Canadian Conventional Power						
CPX	**Positive:** AB spot pricing (slight drag from hedges) **Negative:** Genesee 2 outage, Texas storms, below-LTA		13.0%	**Positive:** AB forward price estimate revisions, higher power price hedging **Negative:** Island Generation recontracting		11.7%
TA	**Positive:** Strong AB spot/realized pricing; strong trading/marketing and US coal results **Negative:** Unplanned Sarnia & Kent Hills outages		37.9%	**Positive:** AB fwd price estimate revisions, power & gas price hedging, added assets **Negative:** Coal retirements, Kent Hills outage		18.4%

Notes: 1) Consensus revisions based on EBITDA. Source: Company reports, FactSet and CIBC World Markets Inc.

Conversely, the Alberta-based power companies (TA and CPX) had strong results and positive share price performance, largely driven by strong and higher-than-expected spot power prices in Alberta this year. TA saw the highest estimate revisions (and share price performance) as its trading and U.S. coal business also exceeded expectations. Further, 2022 Alberta power forward prices have strengthened all year and we believe both firms can carry the momentum into next year. We continue to prefer TA as we believe it is best positioned to capture premium pricing, has a slightly better hedge position, and its capital allocation/growth strategy is incrementally better compared to CPX.

Regulated Utilities Have Harder Y/Y Comps, But Still Trending Well

Regulated utility-focused companies saw a bounce back in earnings this year, but we expect more "typical" mid-single-digit EPS growth in 2022. This past year, utilities are on track to post 13% Y/Y EPS growth, on average, better than the ~9% we forecasted. Compared to our forecast at the beginning of the year, ACO.X, ALA, BIP, and H exceeded our expectations, while FTS lagged (though still posted 6% Y/Y EPS growth). BIP's strong performance was due partly to the impact of a recovery from the pandemic restoring volume levels and its positive exposure to inflation in rates and tariffs. With solid results this year, some firms will have tougher comps, but we believe all firms are trending toward positive EPS growth (~5% on average), with BIP leading the pack. Further, we are modestly above consensus (0%-5%) across our coverage. Beyond earnings, 2022 will be a reasonably busy year for regulatory decisions. The regulatory matters we see as most impactful for sentiment and the medium-term outlook are H's joint-rate application (will influence rate base, EPS, and dividend growth guidance) and FERC's likely ruling on electric transmission ROE incentives, which impacts FTS' ITC business.

Moreover, 2022 could be the year when some potential growth opportunities become reality. This includes likely clarity on the Lake Erie connector, Woodfibre LNG, and MISO transmission projects for FTS, and the Atlantic Loop project that would involve EMA.

Exhibit 52: Utilities – Earnings Performance & Regulatory Growth Expectations, 2020 - 2022E

	Y/Y EPS Growth			3-Year	CIBC vs	Expectations For 2022		
	2020A	2021E	2022E	CAGR[1]	Cons.[2]	Earnings	Regulatory	Longer-term Outlook
ACO.X	(3%)	10%	(1%)	2%	4%	Y/Y growth from core utilities & Neltume; assume slight moderation at S&L (contract mix).	Clarity on Alberta PBR 3.0 and 2023 GCOC ruling in H2/22.	Potential M&A at Neltume, incremental energy transition investments at CU (renewable, storage & clean fuels).
ALA	13%	33%	(1%)	14%	3%	Potential dividend increase when guidance is released Dec 15.	Update on CER application for the 25-year butane export license .	Continued strong operating results with strong propane export margins.
AQN	4%	R	R	R	R	R	R	R
BIP[3]	2%	15%	18%	11%	5%	Continued high organic growth and steps to evaluating IPL assets.		Potential M&A in the Data or Utilities segments using the $1B raised from the recent equity offering.
CU	(12%)	11%	5%	1%	4%	Higher contribution from LUMA; steady rate base growth at Alberta and Australia DX utilities.	Clarity on Alberta PBR 3.0 and 2023 GCOC ruling in H2/22.	Incremental upside from decarbonization/transition investments (renewable, storage & clean fuels).
EMA	(2%)	12%	9%	6%	(0%)	Stable earnings growth with recently completed rate cases at NMGC, PGS, and Tampa Electric.	Rate case rulings for Caribbean utilities, NGMC (for 2023), and a final cost ruling of Maritime Link.	Upside from incremental projects, including BlockEnergy (distributed energy) and Atlantic Loop.
FTS	1%	6%	7%	5%	1%	New rates at Central Hudson and continued steady rate base growth at most utilities.	FERC incentive adder (expect 75bps↓ ROE at ITC), Alberta PBR 3.0/GCOC & BC GCOC decisions.	TX investments (Lake Erie, MISO projects), UNS (renewables) & BC (RNG, hydrogen) decarbonization
H	(2%)	8%	4%	3%	3%	Further cost reductions driving solid earned ROEs (affirmed 4%-7% EPS CAGR)	JRAP (TX & DX) decision in H2/22.	Upside from LDC consolidation; growth in unregulated businesses; electrification & TX growth.
Avg.	**0%**	**13%**	**6%**	**6%**	**3%**			

Notes: 1) Three-Year CAGR for the period 2019-2022E; 2) Based on 2022 estimates; 3) BIP estimates are based on FFO/sh. R – Restricted.
Source: Company reports, FactSet and CIBC World Markets Inc.

Additionally, we believe most of the utilities are reasonably well protected against inflation and supply chain pressure (assuming bond yields don't move materially). We believe BIP and H are best positioned if we do see sustained inflation through 2022 given asset mix and regulatory/contract structures.

Most Utility Stocks Saw Improved ESG Scores & Advanced New Targets

Firms are increasingly aware of the importance of ESG and are making strides to improve their scores and positioning in the eyes of investors. Of the 16 stocks we cover in the Utilities sector, 13 posted improved ESG scores, according to Sustainalytics, as outlined in the table in Exhibit 53. Currently, H, BEP, and INE are ranked in the top decile of all global utilities. Certainly, having low-carbon footprint operations is a favourable starting point, but these firms are also generally quite progressive in terms of disclosures and score well in non-environmental categories too. Furthermore, the largest improvements were made by AQN, H, and CU through a mix of improved disclosures and strategic efforts on community relations, along with reductions in carbon intensity. With respect to Scope 1 and 2 GHG emissions, CU/ACO.X made the largest relative improvements (based on 2020 reported values), but there was also notable progress across a number of other power and regulated utility companies through sale, reduced usage, and phase-out/retirement of fossil fuel power assets. We see further opportunities to improve emissions intensity, particularly for some of the integrated electric utilities, and expect firms to continue to work toward established targets and new targets to come. Finally, seven of the companies we cover have linked executive compensation to ESG targets—we expect more firms to do so in the coming years.

Exhibit 53: Power & Utilities – Progress On ESG Score, Rank & Emissions, 2021

	Sustaintalytics Score[1,2]				Industry Rank[1,3]				Comp	Emissions (Kt CO2e)[4]		
Compar	Curr	Year Ago	Chg	Drivers of Chg	Curr	Year Ago	Chg	New Targets/Disclosures[5]	Tied To ESG?[5]	2020[5,6]	2019[5,6]	Chg
H	15.4	24.2	-8.8	Better CR & PG + lower EE&W	4	14	-10	30% lower emissions by 2030, net-zero by 2050	Yes	345	326	6%
BEP	16.1	21.6	-5.5	Better CR	4	7	-3	Double avoided carbon emissions by 2030	No	335	226	48%
INE	18.3	21.7	-3.4	Better CR	7	7	0	Contribute to 14 of 17 UN sustainable development	Yes	6	7	(17%)
BLX	22.3	23.7	-1.4	Better CR	13	12	1	First sustainability report/framework	No	NR	NR	-
AQN	22.4	35.2	-12.8	Lower EE&W & COO	14	43	-29	Reduce emissions by 1MM Mt from 2017	Yes	2,184	2,793	(22%)
RNW	23.6	27.3	-3.7	Better CR	17	20	-3	NA (covered by TA commitments)	NR	NR	NR	-
FTS	27.1	29.4	-2.3	Improved BE, HC & PG; Worse RU	24	27	-3	75% lower emissions by 2035	Yes	10,554	12,475	(15%)
CPX	29.0	29.7	-0.7	Lower COO & stornger CG	27	28	-1	65% lower emissions by 2030; carbon neutral by 2050	Yes	11,582	12,702	(9%)
SPB	34.1	35.8	-1.7	Better PG & CR	48	45	3	First ESG report	No	61	60	1%
NPI	35.3	39.2	-3.9	Lower EE&W	47	54	-7	65% emissions reduction by 2030	Yes	1,388	1,687	(18%)
CU	36.2	42.4	-6.2	Lower COO + better PG & LU&B	50	63	-13	Transition to a net-zero emissions future	No	1,086	8,409	(87%)
TA	36.2	37.4	-1.2	Better RU; Worse on EE&W	51	49	2	60% lower emissions by 2030, carbon neutral by 2050	Yes	16,380	20,599	(20%)
ALA	36.4	34.5	1.9	Better on CR; Worse on RU, BE & PG	52	34	18	WGL division to be carbon neutral by 2050.	No	1,995	2,362	(16%)
ACO.X	38.9	44.3	-5.4	Better CR, OH&S, COO & PG	57	69	-12	Transition to a net-zero emissions future	No	1,105	8,427	(87%)
EMA	39.1	34.7	4.4	Worse on EE&W	57	41	16	55% lower emissions by 2025, off-coal by 2040, net-zero by 2050	No	15,546	16,225	(4%)
BIP	41.7	35.9	5.8	Better COO; Worse on RU & IPS	38	44	-6	First ESG report	No	2,410	NR	-

Notes: 1) The lower score the better; 2) Drivers Include: BE = Business Ethics, CG = Corporate Governance, COO = Carbon - Own Operations, CR = Community Relations, EE&W = Emissions, Effluents and Waste, HC = Human Capital, IPS = Impact of Prod and Services, LU&B = Land Use & Biodiversity, OH&S = Occupational Health & Safety, PG = Product Governance, RU = Resource Use; 3) Based to industry percentiles; 4) Scope 1 & 2 only; 5) NR = Not Reported; 6) ALA reporting years are 2019 and 2018, NPI Scope 2 emissions not reported in 2019, SPB emissions include Energy Distribution Scope 1 only.
Source: Company reports, Sustainalytics and CIBC World Markets Inc.

Technical Analysis

2022 – The Bar Is Too High, Back-end-loaded Year

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In our technical estimation, the year 2022 is initially more about digesting the strong gains of the past two years, before resuming better traction toward the back half of the year. A return to normalcy in 2022 is probably the next technical narrative, as the Fed begins its tapering process and slowly pulls back the massive stimulus it provided during the pandemic. Hence, it would be reasonable to assume that H1 may prove to be more difficult and volatile as liquidity conditions begin to tighten following the Fed's tapering process.

We often run a regression through similar historical observations to establish a median for our baselines. Long-dated technical signals are tied to monthly trend and momentum indicators, along with investors' sentiment and historical cycle patterns. Technically, the broader markets are now entering the U.S. mid-term election cycle that, based on historical observations, has its own challenges with expectations for above-average volatility.

Our technical baseline for the 2022 roadmap is a challenging first half as the market consolidates the high double-digit gains of the past two successive years—the bar is too high for envisioning a similar set of returns. We are more optimistic for the back half of the year, as the first half may help reset market internals and momentum factors to resume secular uptrend forces in H2.

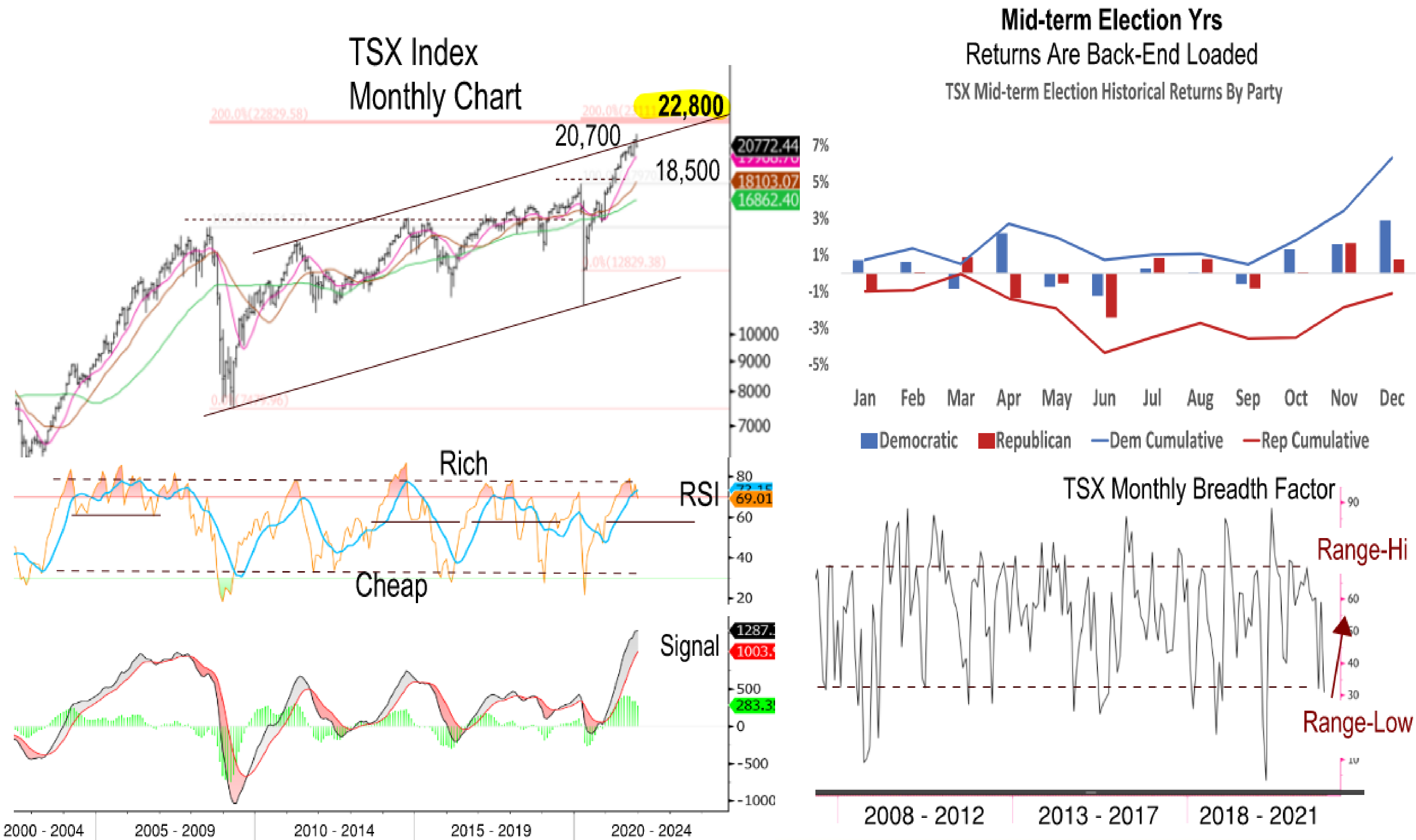
Breadth factors for both the S&P 500 and TSX indices are already reaching the lower range boundary of the previous trough observations, but with no clear evidence of any positive divergences that are often the precursor of a durable low. Hence, breadth recovery may prove transitory going into Q1/22. Beyond Q1, we should be able to identify breadth and momentum divergences, as well as leadership changes that may set the stage for a potential improvement in the second half of the year.

It also merits highlighting that the monthly RSI-factors for both the SPX and TSX indices are appearing rich (above 70), with some evidence of negative divergences that may support the narrative for a challenging H1 (mean-reversion in RSI). Conversely, we remind ourselves that the secular trend forces are still upward sloping, and that potential market corrections should be perceived as mean-reversion in an uptrend and not an alteration.

Return To Normalcy

Our mid-term election cycle analysis, along with historical time series observations, show that equity indices on average post a more normalized return when preceded by successive years in excess of 15%-20% gains. This suggests that 2022 is probably more about a return to normalcy (7%-10% average) with a back-end-loaded return attribute.

Exhibit 54: TSX Outlook – TSX Index (2000 - 2024), TSX Historical Mid-term Election Returns, TSX Monthly Breadth Factor (2008 - 2021)



Source: CIBC World Markets Inc., CIBC TrendSpotting Matrix (TSM), CIBC Technical Research, Bloomberg
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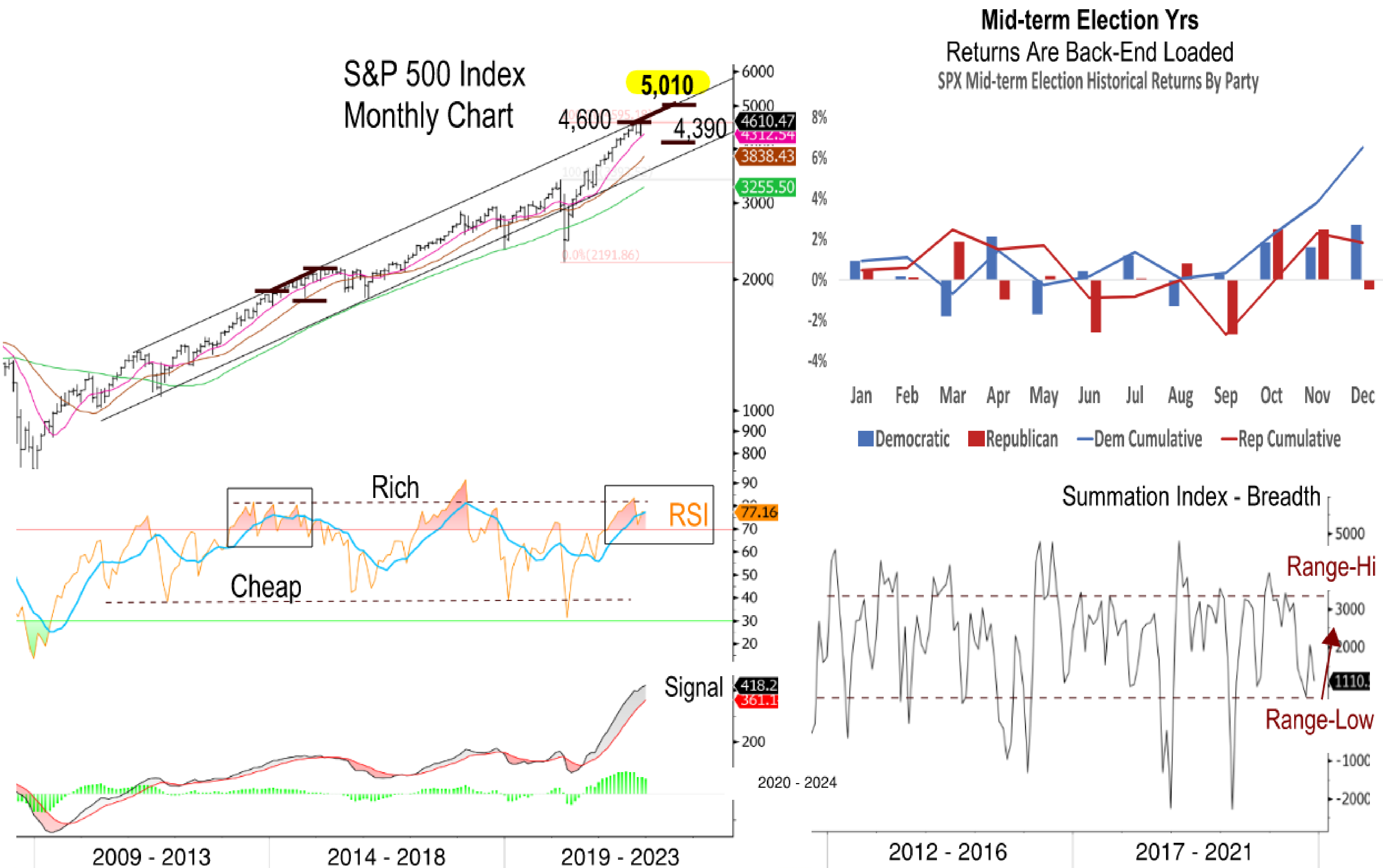
Exhibit 55: SPX Outlook – SPX Index (2009 - 2023), SPX Historical Mid-term Election Returns, Summation Index (2012 - 2021)



Source: CIBC World Markets Inc., CIBC TrendSpotting Matrix (TSM), CIBC Technical Research, Bloomberg

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