EQUITY RESEARCH

December 11, 2023 **Industry Update**

2024 Equity Outlook

A Year Of More Moderate Equity Returns

Sector:
From The Director's Desk

Our Conclusion

We expect modest mid-single-digit returns for equities in 2024 as corporate profits rebound. Strong equity returns in 2023 have obviously been boosted by a narrow group of stocks, 'The Magnificent Seven,' due to optimism on AI and solid growth. Look for more broad-based stock participation in 2024, with moderate interest rate reductions providing a boost to left-behind sectors. Canadian equity returns should be similar to those in the U.S., assuming bank losses rise modestly and energy prices stabilize.

This report is a collaboration of our entire team, featuring the most impactful investment themes across all S&P/TSX sectors. While fundamental equity insights are at the core of our Research product, we remain committed to integrating a variety of other disciplines, approaches and market variables. As such, this document includes insights on ESG, ETFs and Technical Analysis.

Key Points

2023 threw up its own unique issues, but after a very difficult year in 2022 for both equity and bond investors, solid overall equity returns for the year were a welcome development. Yet as we look to 2024, the goal for both fiscal and monetary authorities remains the same—control inflation while minimizing the impact on the economy. So far so good, as inflation has moderated and a typical recession looks avoidable.

Particularly impressive this past year was the ability of businesses and equities to manage through the difficult inflation and interest rate environment. S&P 500 earnings in 2023 were essentially flat with 2022. Canadian earnings were less resilient, falling 8%, with banks and energy companies shouldering the blame.

Assuming rates fall, the overall outlook for earnings is better in 2024, particularly in the second half of the year, but there are still a host of political and geopolitical challenges. Two 'hot wars' rage on and the China-U.S. face-off continues. For 2024, we expect more close calls on a possible U.S. government shutdown and a hyper-aggressive, partisan U.S. Presidential election is in store.

Against this backdrop, we believe a more defensive equity stance is appropriate, with a focus on companies with either low-risk earnings streams or higher leverage to the U.S. Our recommended Canadian sectors are Communications, Utilities, and Industrials, with the latter likely to lead more meaningfully as the U.S. economy regains steam later in 2024.

All figures in Canadian dollars unless otherwise stated.

For required regulatory disclosures please refer to "Important Disclosures" beginning on page 59.

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Perspectives From The Director Of Research

For Canadian investors, this was a challenging year. Yes, Canadian equities generated positive mid-single-digit total returns in 2023 but the Index had to deal with very narrow leadership, coming overwhelmingly from the relatively small IT sector. On the other hand, Financials, a traditional outperformer, again lagged, while Energy had little to cheer about. All in, Canadian equities underperformed most global benchmarks and diverged meaningfully from U.S. peers.

As we look to 2024, we expect equity market performance to broaden out as some sectors benefit from falling rates, and the economic outlook stabilizes. U.S. equities will likely provide 4%-7% overall total returns, coming from earnings growth of 7%-9% somewhat offset by compression on valuations. We also expect a more mundane environment for interest rates—higher but not for 'that much' longer. Having said that, Canada with its over-leveraged consumers will see the gradual impact of higher mortgage repricing and struggle to keep pace with U.S. equity price returns. The good news for Canadian equities is valuations are already very compressed and dividend yields remain much juicier so we don't expect much divergence.

The market continues to surprise in the speed at which it adjusts to news flow and starts to price in higher expectations, as demonstrated by the modest impact of the SVB collapse earlier in the year. Investors have become increasingly sophisticated and diversified in the tools used to manage market risk, and that trend is likely to continue. ETFs also continue to displace traditional mutual funds as large and small investors focus on investment costs and liquidity.

On our side, we continue to focus not only on fundamental research, but have also worked to increase our cross-sector collaboration. We published several reports throughout the year that leverage our industry and portfolio strategy team members. Our Year Ahead Report continues to be our most read research product of the year, followed by reports that delve into diversification, federal government policy changes, fund flows, energy transition, AI and corporate governance.

Our coverage universe evolved throughout the year, despite the pause in the IPO market. We added several more companies to our coverage universe in a variety of sectors, including a few U.S.-domiciled names to provide a broader investment perspective. As investors increasingly take a global approach to portfolio construction, we are ensuring an international lens is factored into our sector and fundamental recommendations.

To all of our clients, and on behalf of the Equity Research team, I would like to thank you for your ongoing partnership and for allowing us to play a role in your investment decision-making process.

All the best,
Giorgia Anton
Managing Director & Head, Equity

Top Picks For 2024

Our 2024 Equity Outlook is a comprehensive, department-wide, thematic-based preview of key investment themes across the 11 GIC sectors of the S&P/TSX Composite, Canada's premier equity benchmark. This year, our fundamental analysts have highlighted their most impactful Top Picks, i.e., 31 equities across all sectors best positioned within our entire coverage universe. Combined, this is a well-diversified group of high-quality stocks that together account for almost 25% of the S&P/TSX Composite Index capitalization.

Sector Weight	Sector Name	Top Picks	S&P/TSX Ticker	Analyst	Rating	Price	Price Target	S&P/TSX Weight
30.2%	Financials	Brookfield Corp.	BN	Wilkinson	OP	US$35.54	US$42.00	2.36%
		National Bank	NA	Holden	OP	C$94.15	C$102.00	1.09%
		Fairfax Financial Holdings	FFH	Priebe	OP	C$1,209.28	C$1,700.00	0.93%
		Definity Financial Corp.	DFY	Holden	OP	C$37.07	C$42.50	0.10%
18.0%	Energy	Suncor Energy Inc.	SU	Fong	OP	C$43.53	C$61.00	1.96%
		Pembina Pipeline Corp.	PPL	Catellier	OP	C$45.68	C$52.00	0.86%
		ARC Resources Ltd.	ARX	Kubik	OP	C$20.98	C$28.00	0.44%
13.5%	Industrials	Waste Connections	WCN	Chiang	OP	US$140.12	US$167.00	1.68%
		Element Fleet Mgmt Corp.	EFN	Holden	OP	C$21.89	C$24.00	0.29%
		SNC-Lavalin Group	ATRL	Bout	OP	C$41.78	C$51.00	0.25%
11.0%	Materials	Nutrien Ltd.	NTR	Bout	OP	US$53.36	US$87.00	1.23%
		Agnico-Eagle Mines Ltd.	AEM	Soni	OP	US$52.90	US$72.00	1.22%
		Wheaton Precious Metals Corp.	WPM	Chiu	OP	US$48.13	US$66.00	1.02%
		CCL Industries Inc.	CCL.B	Patel	OP	C$55.92	C$72.00	0.28%
8.8%	Information Technology	Shopify Inc.	SHOP	Coupland	OP	US$74.72	US$82.00	4.17%
		CGI Inc.	GIB.A	Price	OP	C$140.27	C$155.00	1.01%
4.3%	Consumer Staples	Loblaw Companies Ltd.	L	Petrie	OP	C$120.94	C$150.00	0.62%
		Primo Water Corp.	PRMW	Zamparo	OP	US$14.76	US$20.00	0.11%
		Maple Leaf Foods Inc.	MFI	Petrie	OP	C$24.29	C$36.00	0.06%
4.0%	Utilities	Brookfield Infrastructure Partners LP	BIP-U	Catellier	OP	US$26.98	US$40.00	0.58%
		Boralex Inc.	BLX	Jarvi	OP	C$31.20	C$39.00	0.10%
4.0%	Communication Services	TELUS Corp.	T	Price	OP	C$25.31	C$26.00	1.26%
		Rogers Communications Inc.	RCI.B	Price	OP	C$60.87	C$69.00	0.78%
		Quebecor Inc.	QBR.B	Price	OP	C$31.09	C$38.00	0.16%
3.7%	Consumer Discretionary	Restaurant Brands Intl.	QSR	Petrie	OP	US$73.01	US$82.00	1.06%
		MTY Food Group	MTY	Zamparo	OP	C$52.06	C$71.00	0.04%
		Pet Valu Holdings	PET	Petrie	OP	C$26.36	C$31.00	0.03%
2.3%	Real Estate	Dream Industrial REIT	DIR-U	Syed	OP	C$13.04	C$16.00	0.12%
		Tricon Residential Inc.	TCN	Wilkinson	OP	US$7.99	US$10.00	0.10%
		Crombie REIT	CRR-U	Syed	OP	C$13.35	C$17.00	0.05%
0.3%	Health Care	Chartwell Retirement Residences	CSH-U	Wilkinson	OP	C$11.14	C$14.00	0.09%

Note: Table priced as of December 5, 2023.

Price targets are 12 to 18 months.

OP – Outperformer.

Source: Bloomberg and CIBC World Markets Inc.

Canadian Equity Outlook

2023 At A Glance

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If there was any doubt the U.S. equity market is the most resilient in the world, performance over the past year, and indeed over the past three years, should dispel any argument. The rise, collapse and subsequent bounce from the S&P 500 over the past few years reflect a market and an economy that experience periodic excess but are capable of rapidly rejuvenating. In 2023, as shown in the table in Exhibit 1, only Italy bested the S&P 500, while Canada, the U.K. and Australia lagged substantially.

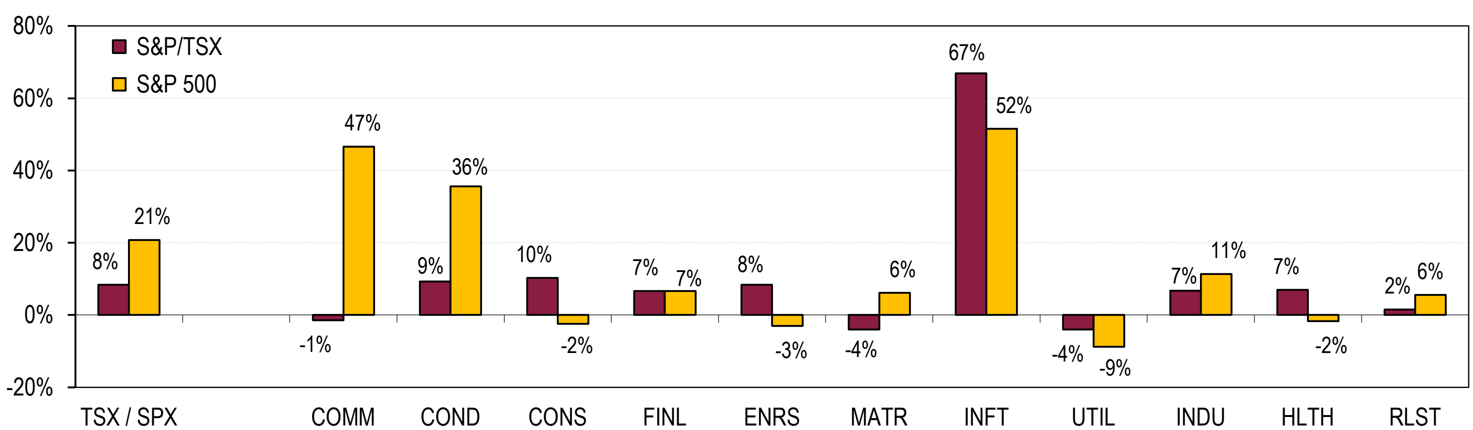
Exhibit 1: Equity Performance Of Major Developed Economies (G7 + Korea & Australia), Ranked By 2023 (USD)

Total Return Performance		2022 Total Return		2023 YTD Total Return	
Country	Index	Local Terms	USD Terms	Local Terms	USD Terms
Italy	FTSE MIB	-9.4%	-14.2%	33.1%	34.2%
USA	S&P 500	-18.1%	-18.1%	20.8%	20.8%
Germany	DAX	-12.3%	-17.0%	18.7%	19.6%
France	CAC 40	-6.7%	-12.2%	17.6%	18.5%
Japan	Nikkei 225	-7.3%	-18.5%	28.1%	14.0%
Korea	KOSPI 200	-24.4%	-28.6%	15.4%	10.8%
UK	FTSE 100	4.6%	-6.5%	4.2%	8.5%
Canada	**S&P/TSX Comp.**	**-5.8%**	**-11.9%**	**8.4%**	**8.0%**
Australia	S&P/ASX 200	0.5%	-5.8%	5.9%	1.8%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

A cursory look at the bar chart in Exhibit 2 explains a large proportion of the variance across the various global markets. Note the dramatic performance of the Information Technology, Consumer Discretionary and Communications sectors in the U.S. The well-known 'Magnificent Seven,' which represent almost 30% of the market capitalization of the S&P 500, are spread out over these three sectors and drove the strong aggregate U.S. results. Nvidia (up 230% and 3% of the capitalization of the S&P 500) and MSFT (up 58%) were particularly strong contributors.

Exhibit 2: 2023 YTD Index/Sector Performance, S&P/TSX Composite And S&P 500 (Local Currency)



Note: Exhibit priced as of December 5, 2023 close.

Note: Canadian Health Care is a very small sector and the underperformance largely reflects challenges facing cannabis companies.

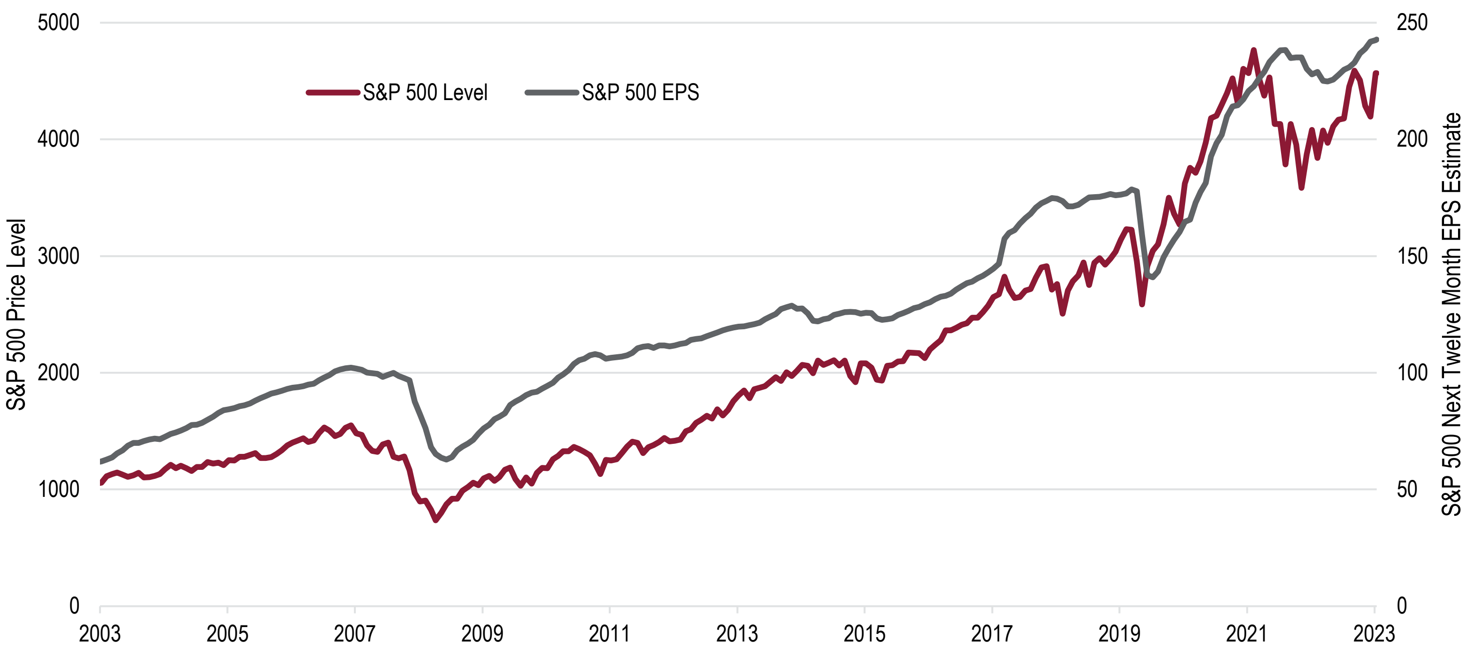
Source: Bloomberg and CIBC World Markets Inc.

The weakness in commodities hurt Energy and Materials as shown in Exhibit 2, and is the simplest explanation of the poor performance from Canada, the U.K. and Australia—markets that are overweight these areas. The above-average returns for European markets (shown in Exhibit 1) can best be attributed to a 'bounce' for many European Financials after an awful 2022, and in the case of Italy to strong performance from Ferrari (close to 10% of that index).

Earnings Resilience To Be Tested In 2024

Underpinning the strong equity returns in 2023 were a relatively robust economy and better-than-feared earnings performance by corporate North America. Clearly, the combined effect of spiking inflation and the resultant rapid boost in interest rates had less effect than we expected. As can be seen in the line chart in Exhibit 3, forward estimates dipped in 2023 modestly, but have again moved higher.

Exhibit 3: S&P 500, Price And Next-12-month EPS, Last 20 Years



Note: Exhibit priced as of December 5, 2023 close.

Source: FactSet and CIBC World Markets Inc.

In our minds, the question is whether the earnings resilience is a reflection of the increased pricing power of large companies (such as those within the S&P 500 and the S&P/TSX) or whether it is simply a question of timing. While we accept that a handful of companies (particularly in Technology) have developed quasi-monopoly market positions, it is still likely that estimates need to be reduced as pressure on consumers manifests in the fourth quarter of 2023 and into 2024.

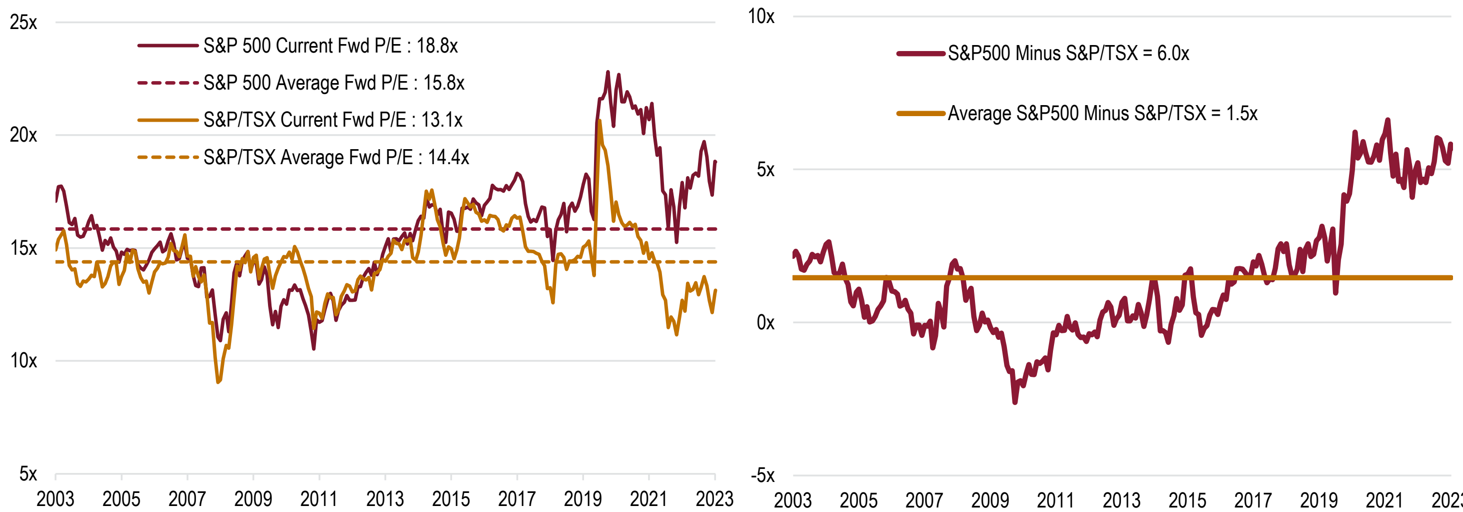
Current bottom-up estimates call for 12% EPS growth for the S&P 500 into 2024—this probably needs to be reduced by 3%-5% with meaningful impact in the first half of 2024. All in, we are looking for 7%-9% EPS growth. This forecast assumes only modest real GDP growth in 2024, with North American economies skirting a recession, continued slowdown in China and high likelihood of recession in Europe.

Canadian Equities And Sector Recommendations

Canadian equities had few of the tailwinds that helped other markets in 2023. S&P/TSX earnings are always vulnerable to commodity swings (a quarter of index earnings are directly affected by energy, precious metals and other commodity prices), and the past year also saw some pressure on earnings in the traditionally stable Telecom and Bank sectors. The good news is the headwinds in these two sectors are well telegraphed; the bad news is the recent weakness in Energy prices will crimp earnings growth in that sector.

The bottom line is that Canadian EPS forecasts likely need as much downward revision as is warranted for the S&P 500. Against this backdrop, Canadian equities still look extremely cheap. As we show in the line chart in Exhibit 4, the S&P/TSX normally trades at a discount to the S&P 500 but the variance is now extreme–a five multiple point discount.

Exhibit 4: S&P 500 And S&P/TSX, 12-month Forward P/E Ratio And Delta, Last 20 Years



Note: Exhibit priced as of December 5, 2023 close. Source: FactSet and CIBC World Markets Inc.

The single-biggest surprise relative to our 2023 outlook related to the strong rebound in U.S. Technology stocks after a very weak 2022. The emerging Artificial Intelligence (AI) narrative and the ability to navigate higher rates propelled the sector meaningfully higher—and dragged the Canadian names along.

For 2024, we expect Communication, Utility and Industrial stocks to outperform. The two former sectors have had a difficult 2023 as interest rates spiked and as stock-specific issues arose (more competitive pricing within Telecom, cost overruns for Renewables) but look better positioned currently. Both sectors offer above-average yields and should benefit from declining rates in 2024. Outperformance of Industrials will likely be weighted to the second half of the year (particularly for Rails), but given the above-average exposure to the U.S. economy, we expect these stocks to lead over the year.

Similarly, our expectation for a weaker Canadian economy (as interest rates affect consumer disposable income more in Canada than in the U.S.) argues for the Consumer sectors to underperform. We also expect the Real Estate sector to underperform, even after a very difficult 2023. Modestly lower rates may help, but we still expect large swaths of the sector (office, retail) to be challenged.

One could argue that Financials (and Banks specifically) should lag given the dependence on the Canadian economy, but valuations are compelling and skepticism is already high. Our expectation that oil prices in 2024 will average similarly to 2023 argues for the Energy sector to perform in line with the market. In the case of IT, valuations are stretched but some of the leaders still have strong growth outlooks.

Exhibit 5: S&P/TSX Sector Recommendations

Overweight Sectors	Index Weight	Sector Rating	Marketweight Sectors	Index Weight	Sector Rating	Underweight Sectors	Index Weight	Sector Rating
Industrials	13.5%	Overweight	Financials	30.2%	Marketweight	Staples	4.3%	Underweight
Utilities	3.9%	Overweight	Energy	18.0%	Marketweight	Discretionary	3.7%	Underweight
Communications	3.9%	Overweight	Materials	11.0%	Marketweight	Real Estate	2.3%	Underweight
			Technology	8.8%	Marketweight			
			Health Care	0.3%	Marketweight			

Note: Exhibit priced as of December 5, 2023 close.

Source: FactSet and CIBC World Markets Inc.

ESG — The Year Of Compliance

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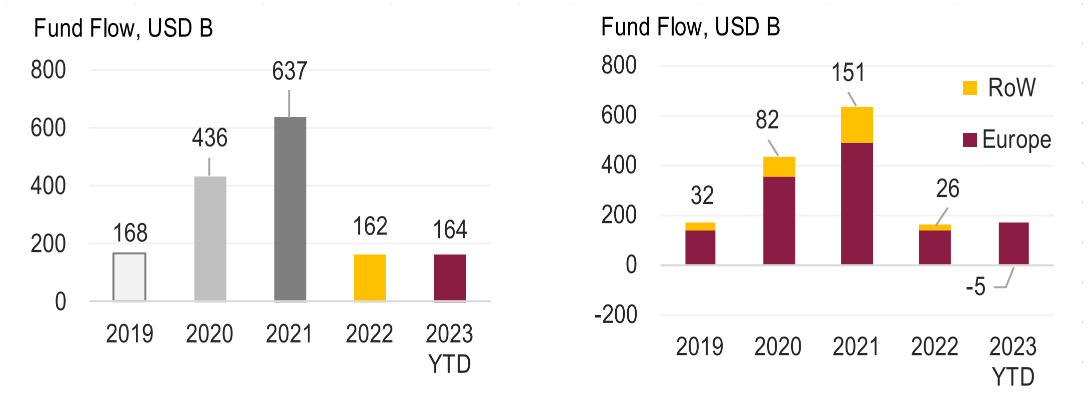
2023 At A Glance

ESG investing fared slightly better in 2023 relative to a difficult 2022, but we note key challenges still remain. On the positive side, ESG funds continue to see net inflows and are likely to reach US$170B-US$180B this year, a 10% increase from 2022 levels, as shown in the left-hand bar chart in Exhibit 6. On the negative side, fund flows are driven entirely by Europe—rest of world ESG flows have turned negative, as illustrated in the right-hand bar chart in Exhibit 6. We expect the same in 2024E.

Exhibit 6: ESG Fund Universe – Total Fund Flows And Flows By Region, 2019 - 2023 YTD



Note: Global ESG fund universe includes designated ESG-oriented mutual funds and ETFs, globally. 2023 YTD data as of November 30, 2023. Source: Refinitiv Lipper and CIBC World Markets Inc.

From a returns perspective, the results were mixed. We estimate globally-oriented ESG equity funds underperformed global benchmarks (MSCI ACWI) by 200 bps to 300 bps again this year, largely driven by security selection. These funds were overweight rate-sensitive Clean Energy names within Industrials/Materials/Utilities, which dragged down performance, as did a meaningful underweight within the Magnificent Seven group of stocks. However, we note U.S. equity ESG funds fared much better. These results can be seen in the line graphs in Exhibit 7.

Exhibit 7: ESG Equity Fund Universe – Total Return Across Global And U.S. Equity ESG Funds, 2023 YTD

Source: Refinitiv Lipper, Bloomberg and CIBC World Markets Inc.

The elevated interest rate environment over the last two years has weighed on ESG fund performance, which is structurally overweight long-duration equities (particularly Clean Energy, new age Materials/Industrials, etc.). Assuming a falling interest rate environment in 2024, we expect this recent underperformance to moderate. From a flows standpoint, we expect similar flows in 2024E (i.e., US$150B to US$180B) given the increased politicization of ESG in the U.S. and continued focus against greenwashing in the E.U.

Standardized Disclosures Will Spur A More Fulsome Integration Of ESG

The overarching theme next year will be the continued shift from voluntary to mandatory sustainability reporting. Disclosure requirements are coalescing to global standards, most notably the International Sustainability Standards Board (ISSB) standards which launched this year with prescribed mandatory climate-related disclosures. These come into force in January 2024. Next year will also involve finalizing non-climate-related ESG disclosure items. These ISSB standards play a key role in ESG's 'maturation,' ultimately streamlining reporting for companies and assisting investors in focusing on the most material ESG issues.

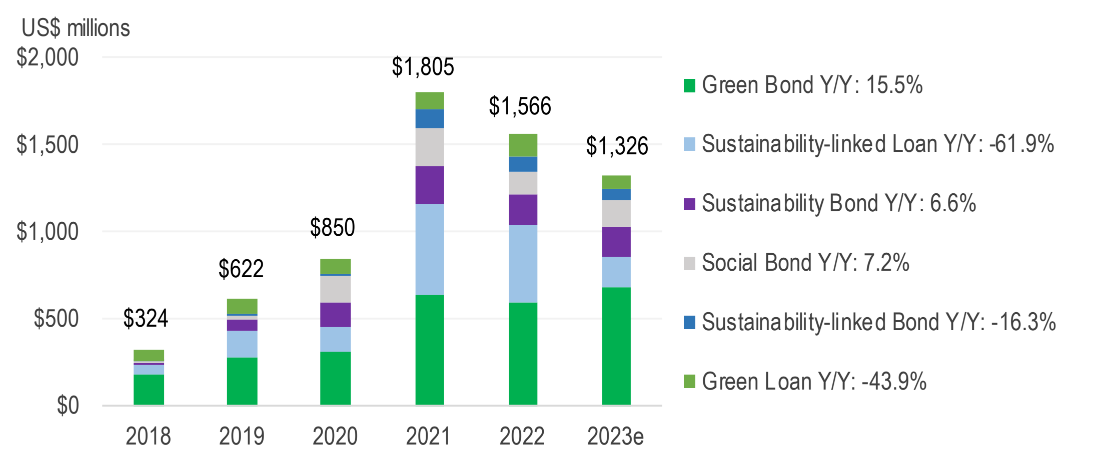
Global disclosure standards, in turn, are being leveraged by regulators taking a more active role in policing ESG—largely to minimize greenwashing. The most notable regulations to emerge recently are the Corporate Sustainability Reporting Directive (CSRD) in the E.U. (also comes into force in January 2024) and California's Climate Corporate Data Accountability Act (SB 253) and Climate-related Financial Risk Act (SB 261). In Canada, the Canadian Sustainability Standards Board is moving ahead in its uptake of ISSB standards.

Taken together, 2024 will shape into a 'Year of Compliance' as issuers increasingly integrate sustainability data into their financial reporting frameworks and protocols. This serves two main functions: 1) it minimizes the risk of corporate greenwashing; and, 2) it allows investors to better price ESG risks and opportunities based on audited, standardized data.

Sustainable Finance Outlook

On the Sustainable Finance side, total issuance across all ESG lending will be down again this year, as shown in the bar chart in Exhibit 8. Looking into 2024 we expect another decline as elevated rates against a weakening economic backdrop suggest lower capital expenditures and lending, overall. Further, the European Securities and Markets Authority (ESMA) is expected to release its final report on greenwashing risks and supervision in 2024. This likely impacts the issuance of 'softer' ESG products, e.g., Sustainability-linked bonds/loans.

Exhibit 8: Sustainable Finance – Issuance By ESG Bond Type, 2018 - 2023



Source: Bloomberg New Energy Finance and CIBC World Markets Inc.

However, there are bright spots. We note the issuance of Green Bonds has held up remarkably well over the last two years (and largely the same with Social and Sustainability Bonds). We expect this to continue in 2024. The actions taken by ESMA and Sustainable Finance Disclosure Regimes (which ensure ESG investment funds are appropriately labeled) to minimize greenwashing will ultimately shift demand to products that are able to transparently delineate use of proceeds tied to an ESG initiative.

ETF Assets Reach $400B+ Milestone

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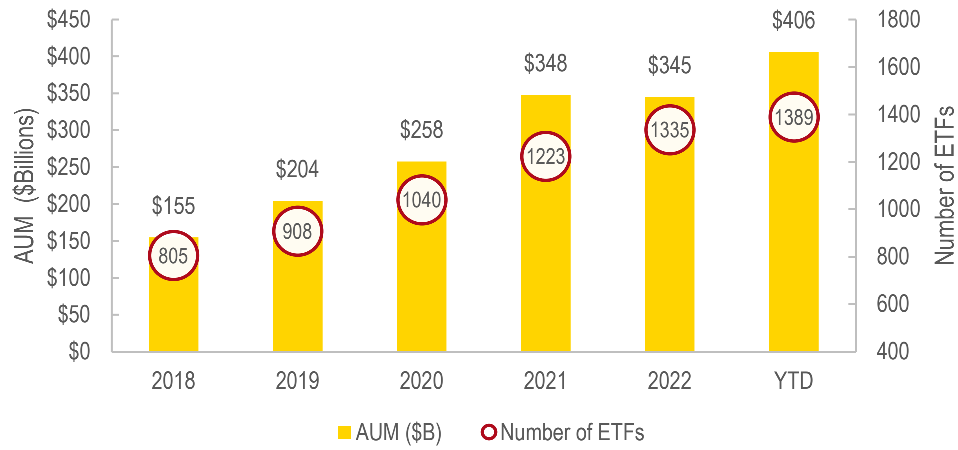
After a challenging year in 2022, ETF assets grew by 18% YTD to reach a record high of $406B, driven by fund inflows and positive asset performance (particularly strong returns from U.S. equities). The number of active ETF listings also continued to increase (as shown in the bar chart in Exhibit 9), although this number grew at a slower rate than in previous years as new launches were offset by a significant Y/Y increase in ETF closures. Clearly, a rising ETF tide does not lift all boats.

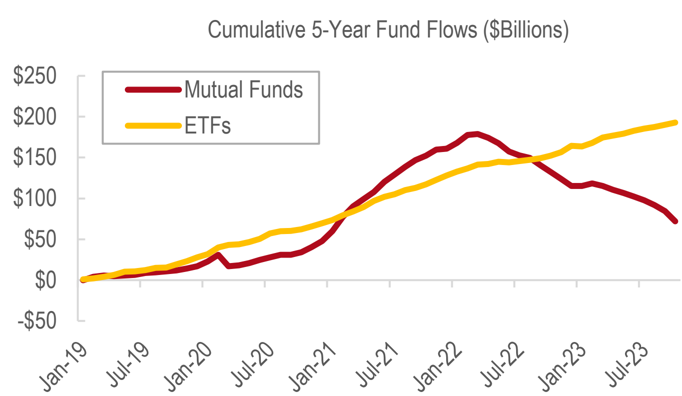
Exhibit 9: Canadian-listed ETFs – AUM & Number Of ETFs, 2018 - December 5, 2023



Source: Bloomberg and CIBC World Markets Inc.

Fund flows into ETFs continued to significantly outpace that into mutual funds this year. As the line chart in Exhibit 10 shows, mutual funds in aggregate experienced significant redemptions over the previous 19 months, while ETFs continued to post steady inflows. ETFs have continued to gain market share relative to mutual funds (link to report). We expect this trend is likely to continue driven by the growth in fee-based accounts, online/discount brokerages, and index investing.

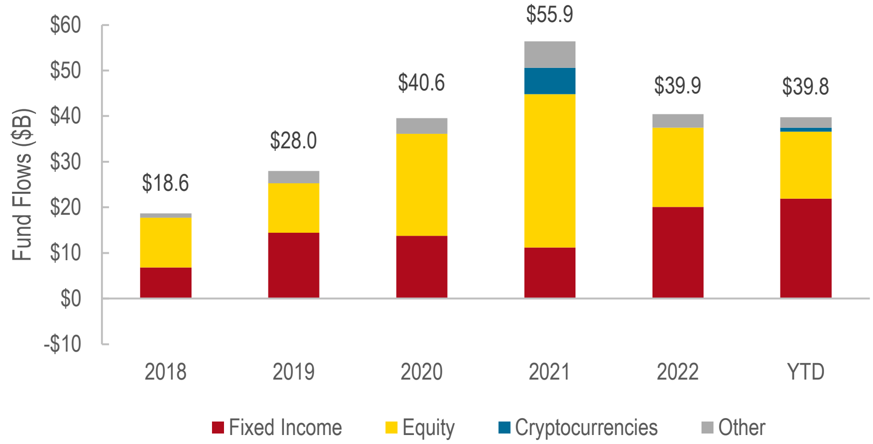
Exhibit 10: Mutual Funds & ETFs – Cumulative Fund Flows, January 2019 - October 2023



Source: IFIC and CIBC World Markets Inc.

Canadian-listed ETFs have taken in ~$40B of net inflows YTD, which is on pace to slightly exceed last year's net inflows (shown in the bar chart in Exhibit 11). Similar to last year, fixed income ETFs accounted for just over half of the net inflows, while equity ETF net inflows have been lower than in previous years. Crypto ETFs also saw renewed interest recently as several issuers south of the border raced to launch the first spot bitcoin ETF in the U.S. (recall Canada beat the U.S. to the punch on this front more than two years ago).

Exhibit 11: Canadian-listed ETFs – Annual Fund Flows, 2018 - December 5, 2023



Source: Bloomberg and CIBC World Markets Inc.

Our Top ETF Picks

Looking to the next 12 months, we expect the following ETFs to offer attractive risk-adjusted returns:

- **Utilities ETFs:** We expect the utilities sector to outperform as its earnings are more defensive and less prone to negative revisions than those of other sectors. Below are some ETFs that offer exposure to the utilities sector:
  - **iShares S&P/TSX Capped Utilities Index ETF (XUT):** The ETF invests in a cap-weighted portfolio of 15 Canadian utilities companies, with an individual security weight cap of 25%.
  - **BMO Equal Weight Utilities Index ETF (ZUT):** The ETF invests in an equal-weighted portfolio of 14 Canadian utilities companies. Relative to XUT, ZUT has a slightly higher beta due to its lower market cap bias and higher exposure to renewable power producers.
  - **BMO Covered Call Utilities ETF (ZWU):** The ETF invests in 23 Canadian and U.S. companies in the utilities, communications, and midstream energy sectors. It also writes covered calls on ~50% of the portfolio, which enhances the ETF's yield to ~8%.
- **Invesco S&P 500 Equal Weighted Index ETF (Unhedged: EQL; CAD-Hedged: EQL.F):** We view an equal-weight approach to investing in the same companies that comprise the S&P 500 Index as more prudent given the much lower concentration risk. The S&P 500 Equal Weight Index is trading at attractive valuations while the cap-weighted S&P 500 looks more stretched on earnings multiples.
- **Covered Call Fixed Income ETFs:** Implied volatilities have trended lower on many equity benchmarks but remain higher than normal on various fixed income indices. Covered call fixed income ETFs are a good way of capitalizing on higher volatilities through option premiums and yields, while adding some duration exposure which should act as a diversifier against equities' downside risk. These ETFs currently offer annual yields of 10%-15% and include products from **Harvest (HPYT)**, **Hamilton (HBND)**, **Horizons (LPAY & MPAY)**, and **Evolve (BOND)**.

S&P/TSX Communication Services — Overweight

2023 At A Glance

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The S&P/TSX Communications Index posted a -1% total return in local currency and -2% currency-adjusted total return (USD terms) in 2023 YTD, amongst the worst performances of global Communications peers. The S&P 500 Communications Index was the best-performing region, although skewed by the outperformance of the tech giants, with the telecom portion of the index returning +4%. While most regions outperformed in 2023 after a weak 2022, the Canadian telecoms were subject to several country-specific issues, including increased competition post the Rogers/Shaw transaction and a less benign regulatory environment.

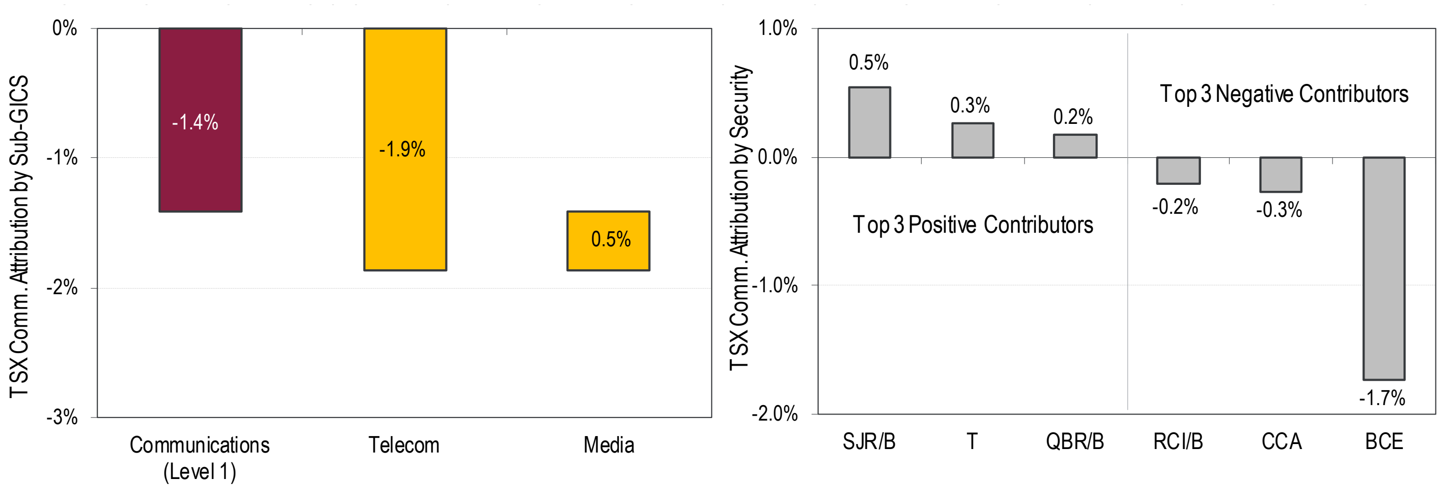
Exhibit 12: Total Return Performance – Communication Services, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
USA	S&P 500 Communications	46.6%	46.6%
Germany	MSCI German Communications	24.4%	25.3%
Italy	MSCI Italy Communications	23.4%	24.3%
France	MSCI France Communications	21.1%	22.0%
UK	MSCI UK Communications	7.3%	11.7%
Australia	MSCI Australia Communications	14.0%	9.7%
Japan	MSCI Japan Communications	15.3%	2.7%
Canada	**S&P/TSX Communications**	**-1.4%**	**-1.7%**
Korea	MSCI Korea Communications	2.0%	-2.1%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

The bar charts in Exhibit 13 highlight the sub-sector performance and the equities contributing most meaningfully to the results in the sector. Within our coverage, Shaw (+5%) and Quebecor (+7%) posted meaningful positive performance YTD, with Shaw benefiting from its acquisition by Rogers and Quebecor from the Freedom acquisition. TELUS returns turned positive (+1%) following a strong December rally. BCE (-3%) was the largest negative contributor amongst the telecom names, reflecting a more difficult competitive environment.

Exhibit 13: Total Return – S&P/TSX Communication Services Attribution By Sub-Index And Major Security, 2023 YTD



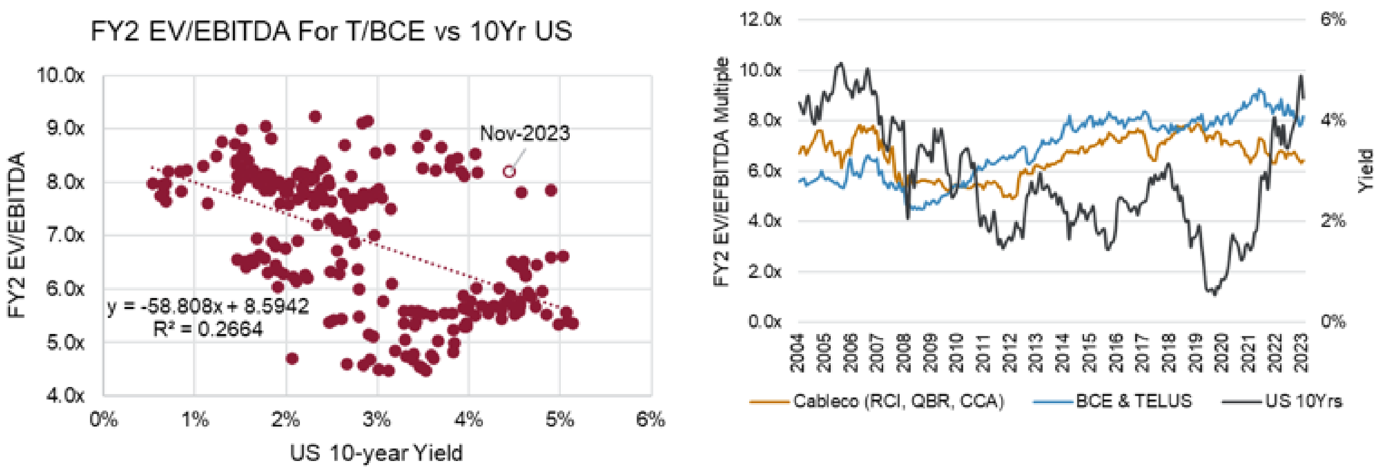
Note: Telecom contribution includes residuals of -18 bps from insertion/deletions. Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Looking Towards A Better 2024

Interest Rates Easing

Rising rates have impacted the sector, with telco yields now trailing the U.S. 10-year yield for the first time since 2010. Telco FY2 EV/EBITDA multiples have contracted ~30 bps since the end of 2022, as the U.S. 10-yr yields increased by ~60 bps YTD. Amidst this environment, sector valuations remain ~40 bps below the five-year average, with the historical relationship between telecom valuations and interest rates suggesting that a 1% change in interest rates equates to a ~0.6x valuation re-rate. As the interest rate environment normalizes, we expect this headwind to stabilize through 2024, with CIBC Economics forecasting that rates will decline 75 bps through 2024.

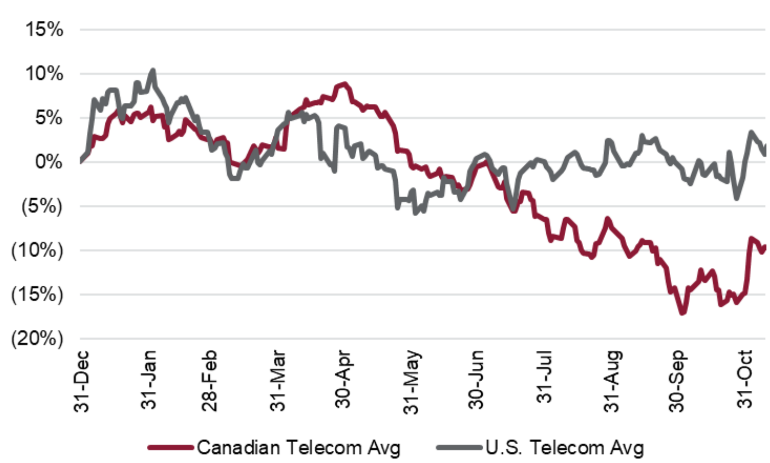
Exhibit 14: Canadian Telecom – FY2 EBITDA Multiple Vs. U.S. Peers, 2018 - 2023 YTD (left) And Vs. 10Yr Interest Rates 2004 - 2023 YTD (right)



Source: FactSet and CIBC World Markets Inc.

While we ascribe much of the 2023 sector underperformance to rising rates, we don't believe they are solely responsible. The interest rate environment in Canada and the U.S. is similar and yet the Canadian telecom sector notably underperformed U.S. peers since June, as illustrated in the line chart in Exhibit 15. We regard competition and regulatory headwinds as other factors weighing on the sector.

Exhibit 15: North American Telecom – Stock Performance, 2023 YTD



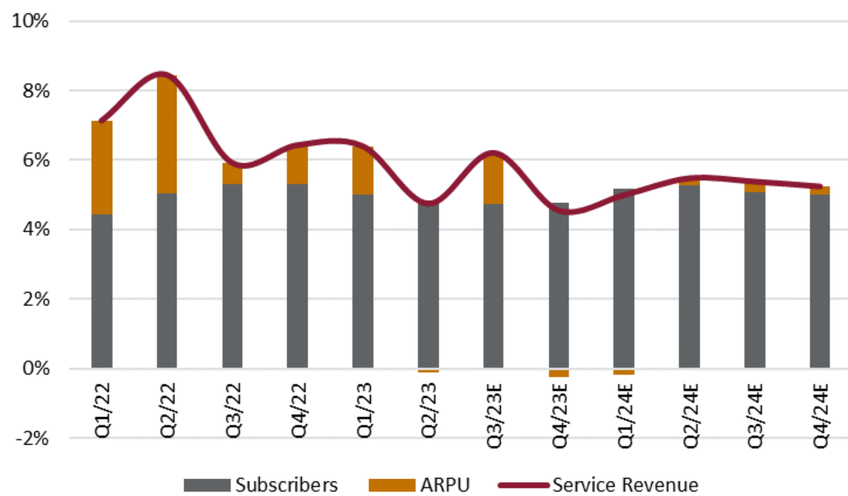
Source: FactSet and CIBC World Markets Inc.

Wireless Pricing Normalizing And Service Revenue Should Drive Growth

The telecom market became more competitive post the close of the Shaw and Freedom transactions, with the wireless market in particular seeing advertised pricing on flanker brands fall dramatically post Quebecor's acquisition of Freedom (from $65/20GB to $39/20GB). However, we see signs that wireless pricing is stabilizing, with promotions during the back-to-school and Black Friday periods focused on data allocations and 5G offerings, rather than additional ARPU dilution. In this environment, we expect flattish ARPU growth in 2024E, with ARPU pressures lessening in H2/24E as the market laps the first year of the Freedom acquisition.

As illustrated in the bar chart in Exhibit 16, we expect wireless service revenue to remain healthy (~5% Y/Y) but to garner a lesser contribution from ARPU growth and a slightly higher contribution from subscriber growth. We expect the subscriber growth to be driven primarily by immigration, with the government recently extending its 500K/year immigration target into 2026. To a lesser extent, we also expect the continued consumer transition to higher data/unlimited plans amid the 5G/5G+ rollouts to help drive service revenue.

Exhibit 16: Canadian Wireless – Drivers Of Service Revenue, Q1/22 - Q4/24E



Source: FactSet and CIBC World Markets Inc.

Heading Into 2024 With More Regulatory Certainty

In 2023, three regulatory files created market uncertainty, with the CRTC issuing new mobile virtual network operator (MVNO) guidelines, announcing a review of third-party Internet access (TPIA) and scheduling the 3.8GHz spectrum auction for Q4/23.

At the end of 2023, these files now have more certainty, with several MVNO arbitration decisions announced, with pricing that we do not expect to dramatically change market dynamics. The CRTC has also announced interim TPIA rates, opening up aggregated fibre access to wholesalers at a temporary $68-$78 price point in Ontario and Quebec. While the final TPIA decision is not expected until the end of next year at the earliest, the interim rates suggest that the TPIA review will not lead to a material increase in wholesale competition.

The 3.8GHz spectrum auction was completed at the end of November and total spend of $2.2B was below Street expectations of $5B-$6B. The lower-than-expected spend was due to spectrum caps and less aggressive bidding than in prior auctions. We note that the 3.8GHz auction will be the last material license investment for the Canadian telecom industry for some time.

Looking To Drive Cost Synergies & Revenue Opportunities From Automation

From an ESG perspective, we view telecom companies as uniquely positioned to benefit from AI-enabled decarbonization in that they can use AI to reduce their own carbon emissions and help customers do the same through Edge computing and AI-enabled asset optimization. We note that many of the Canadian telecoms under our coverage have announced hyperscaler partnerships as they seek to capitalize on these opportunities. We foresee additional opportunities for AI-related cost efficiencies and expect that the telecom providers will need to focus on cybersecurity risks and data privacy as they expand their internal AI and client-facing use cases. Please refer to our AI ESG report for further details.

Restructuring & Capex Step-down Should Provide A Boost To FCF

With increased competition, a number of firms in the telecom sector announced cost-optimization initiatives in 2023 as they sought to gain operating leverage. We expect these initiatives to benefit 2024E, and also note that capex spending has pulled back amidst a tougher macro environment, with Street capex estimates declining since mid-2023.

Exhibit 17: Canadian Telecom – Consensus 2024E Capex Revisions Through 2023, May 2023 - November 2023

	2024E Capex Street Revisions			Delta
	15-May-23	13-Aug-23	16-Nov-23	Since May
BCE	0%	0%	-7%	-6%
TELUS	1%	0%	-1%	-2%
Rogers	14%	17%	18%	4%
Quebecor	15%	14%	10%	-5%
Cogeco Communications	1%	-1%	5%	4%

Source: FactSet and CIBC World Markets Inc.

The level of capital intensity in Canada is now trending closer to the global average as telco fibre investments are completed or near completion (TELUS/BCE), companies reassess the timing of some fibre investments (BCE) or firms take advantage of recent MVNO decisions to delay some near-term capex spending (Quebecor) in addition to engaging in optimization initiatives.

Exhibit 18: Global Telecom – Consolidated Revenue And Capex Expectations, 2018 - 2024E

	Revenues	CAPEX	CI%						
	CAGR	CAGR	2018	2019	2020	2021	2022	2023E	2024E
Canada	4%	2%	18%	18%	18%	19%	20%	17%	16%
US	1%	2%	13%	12%	12%	12%	15%	15%	14%
Australia and Singapore	-2%	1%	14%	15%	13%	14%	15%	16%	16%
Japan	2%	3%	13%	14%	14%	14%	13%	14%	13%
Korea	2%	6%	12%	17%	16%	15%	16%	15%	15%
UK	-1%	2%	17%	17%	19%	20%	20%	20%	20%
Continental Europe	-2%	-4%	19%	18%	16%	21%	17%	16%	16%
Simple Average	**1%**	**2%**	**15%**	**16%**	**15%**	**17%**	**16%**	**16%**	**16%**

Source: FactSet and CIBC World Markets Inc.

We expect that capex moderation at telcos should support FCF growth and improve dividend payout ratios, providing more dividend cushion amid market uncertainties. With the capex step-down at the telcos, we view current dividends as well protected. Despite several headwinds through 2023, we continue to see the space as stable and supporting valuations for the Big 3 in the current range of 7.5x-8.5x FY2 EV/EBITDA, with an opportunity to re-rate higher on lower yields and FCF execution through 2024.

S&P/TSX Consumer Discretionary — Underweight

2023 At A Glance

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Despite underperforming global benchmarks, Canadian Discretionary outperformed the broader domestic markets this year; domestic Discretionary returns were +9% and well above last year's -6.0%. Similar to last year, this year the index gains were driven by DOL and QSR as the market prioritized defensive growth. The U.S. Discretionary Index benefitted from a rebound in index heavyweights such as AMZN and TSLA, which outperformed the U.S. market after the crash-landing in 2022.

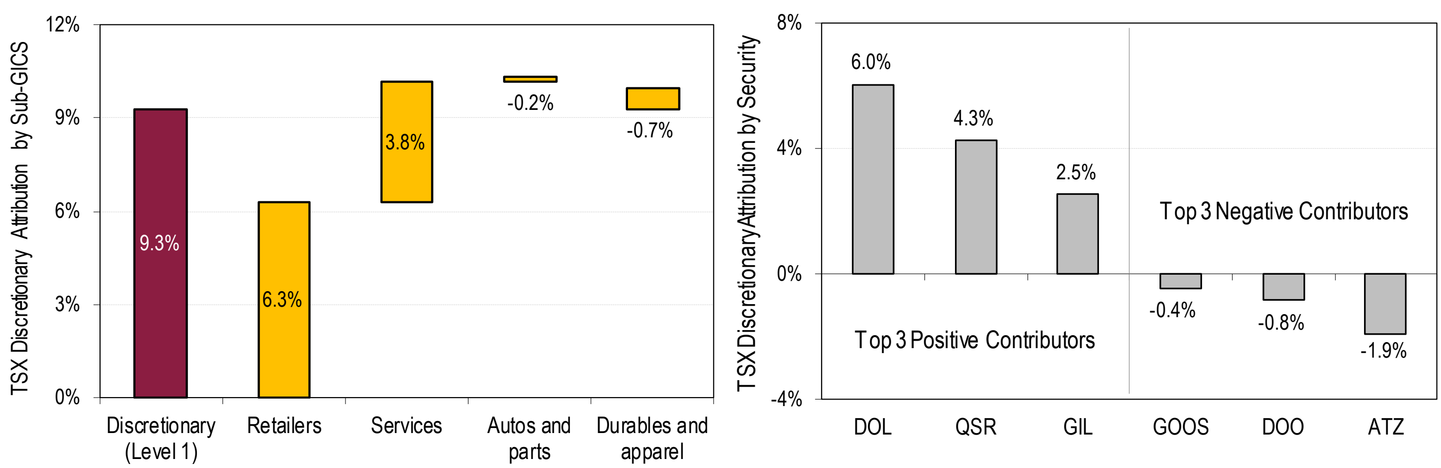
Exhibit 19: Total Return Performance – Consumer Discretionary, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Italy	MSCI Italy Discretionary	58.0%	59.2%
USA	S&P 500 Discretionary	35.6%	35.6%
Japan	MSCI Japan Discretionary	36.8%	21.8%
UK	MSCI UK Discretionary	11.4%	15.9%
Australia	MSCI Australia Discretionary	18.6%	14.0%
Germany	MSCI German Discretionary	10.7%	11.5%
France	MSCI France Discretionary	10.1%	10.9%
Canada	**S&P/TSX Discretionary**	**9.3%**	**8.9%**

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Growth in the index was driven predominantly by Retailers and Services, led by DOL and QSR. Dollarama's top line demonstrated impressive strength, despite lapping tough comps, as the retailer benefited from pricing and consumer trade-down. A reacceleration in comps and improved franchisee profitability supported QSR's outperformance. Gildan was another positive contributor as strong cost discipline reassured investors that underlying profitability and cash flows would be protected even with moderating sales growth. On the flip side, a deceleration in sales momentum and margin headwinds weighed on shares of Aritzia, BRP and Canada Goose. Other names which underperformed the benchmark were Spin Master, Canadian Tire, MTY, and the Auto names.

Exhibit 20: Total Return – S&P/TSX Consumer Discretionary Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

S&P/TSX Consumer Staples — Underweight

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2023 At A Glance

The TSX Staples Index saw a strong year once again, repeating last year's +10.1% return with another +10.3% in domestic terms in 2023. Canada's Staples ranked top third (in USD terms) versus other countries. The index showcased mixed performance during the first half of the year but gained momentum in the second half as more cautious commentary from management teams on the state of the Canadian consumer rippled through markets following consecutive 25 bps rate hikes by the Bank of Canada in the summer.

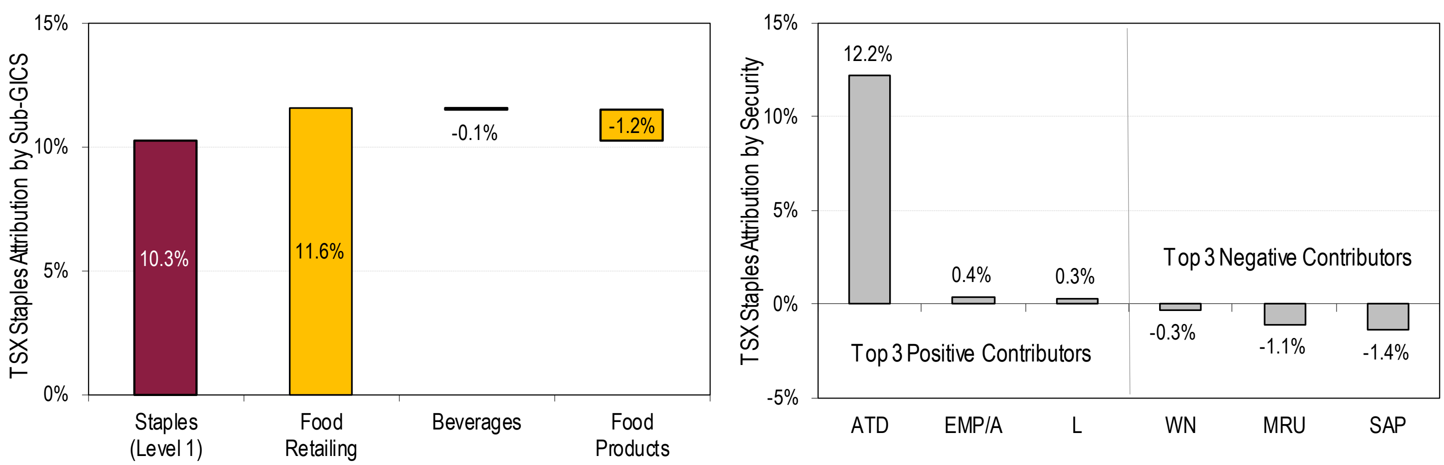
Exhibit 21: Total Return Performance – Consumer Staples, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
France	MSCI France Staples	18.7%	19.6%
Germany	MSCI German Staples	12.4%	13.2%
Canada	**S&P/TSX Staples**	**10.3%**	**9.9%**
Italy	MSCI Italy Staples	6.9%	7.7%
Japan	MSCI Japan Staples	9.9%	-2.2%
USA	S&P 500 Staples	-2.4%	-2.4%
UK	MSCI UK Staples	-7.7%	-4.0%
Australia	MSCI Australia Staples	-0.9%	-4.7%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Within the sector, Alimentation Couche-Tard drove the majority of the gains. We attribute the outperformance to various idiosyncratic factors, including the proposed acquisition of select assets from TotalEnergies in Europe, the sustainability and value of fuel earnings, discipline on cost management, and investor confidence behind ATD's new five-year strategic plan, *10 For The Win*. On the flip side, Saputo and Metro were negative contributors to the index. A deceleration in volumes and underlying volatility in U.S. and international dairy commodity markets translated into fluctuations in profitability for Saputo. In the case of Metro, the outlook for a decline in earnings growth due to dual-operating costs stemming from a ramp-up of new distribution centers has weighed on shares since reporting FQ4 earnings in mid-November.

Exhibit 22: Total Return – S&P/TSX Consumer Staples Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Another Year Of Uncertainty

Consumers continue to face material challenges, and we expect 2024 will be a year of restrained spending focused on household essentials. For our coverage, the implications range based on their target customer and business model, but we continue to see a market in which volume growth will be difficult, cost inflation is a challenge, and discretionary spend is tilted to experiences over goods.

For consumers, we expect 2024 to be a year of restrained spending; for operators, volume growth will be difficult and cost inflation is a challenge once again.

Staples Over Discretionary, Still, But Only For Now

Given the significant consumer uncertainty, we continue to favour staples over discretionary. However, as shown in the table in Exhibit 23, staples have outperformed discretionary for three years running as measured by each of index performance, relative avoidance of stocks with large declines, and the simple measure of number of stocks that are up for the year.

Exhibit 23: TSX Composite/Staples/Discretionary – Index Performance, 2021 - 2023 YTD

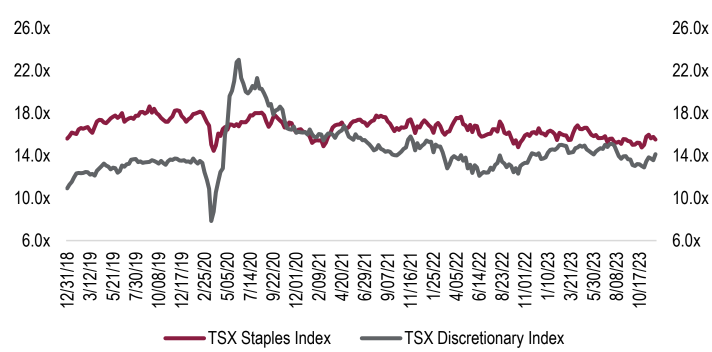
	2021	2022	2023 YTD	Cumulative Return (2021 to 2023 YTD)
TSX Composite Index	25.2%	-5.8%	8.4%	27.8%
TSX Staples Index	22.4%	10.1%	10.3%	48.5%
TSX Discretionary Index	18.4%	-6.0%	9.3%	21.6%
Staples Less Discretionary	3.9%	16.1%	1.0%	26.9%

Note: 2023 YTD index performance calculated through December 5, 2023. Source: FactSet and CIBC World Markets Inc.

Macro conditions clearly continue to favour defensiveness and pricing power, and this is the driving force of our staples call. But this has been the prevailing theme for a couple of years. And so while we are cautious on consumption in 2024, the market is forward looking and will price in brighter days before macro data fully reverses. The prospect of rate cuts is also a significant variable that could support money flow to growth and risk.

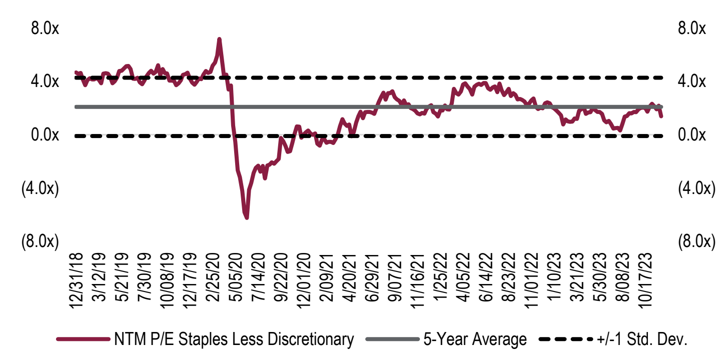
Interestingly, valuation does not favour discretionary, as shown in the line charts in Exhibits 24 and 25. In fact, the average multiple spread (on NTM P/E) of the Staples Index over Discretionary sits around the five-year average.

Exhibit 24: TSX Staples/Discretionary – NTM P/E Multiple, January 2019 - December 2023



Source: FactSet and CIBC World Markets Inc. Note: Weekly data

Exhibit 25: TSX Staples/Discretionary – NTM P/E Multiple Staples Less Discretionary, January 2019 - December 2023



Source: FactSet and CIBC World Markets Inc.

We conclude that the market will need to gain conviction that the next direction on earnings revisions is higher before it shifts significantly to discretionary. Though this seems premature today, we saw a recent example of how this could play out with GIL, when consensus EPS fell by ~10% from pre-Q2 report to post Q3, while the stock is up 33% in that time. ZZZ has shown a similar dynamic: consensus 2024E EPS have declined ~5% since ZZZ reported Q3 but the stock is up ~15%. Earnings forecasts have yet to be revised higher, but the shares are moving as the market gains comfort that further downward revisions are unlikely (for GIL in part due to Global Minimum Tax de-risking), restoring valuations nearer historical levels.

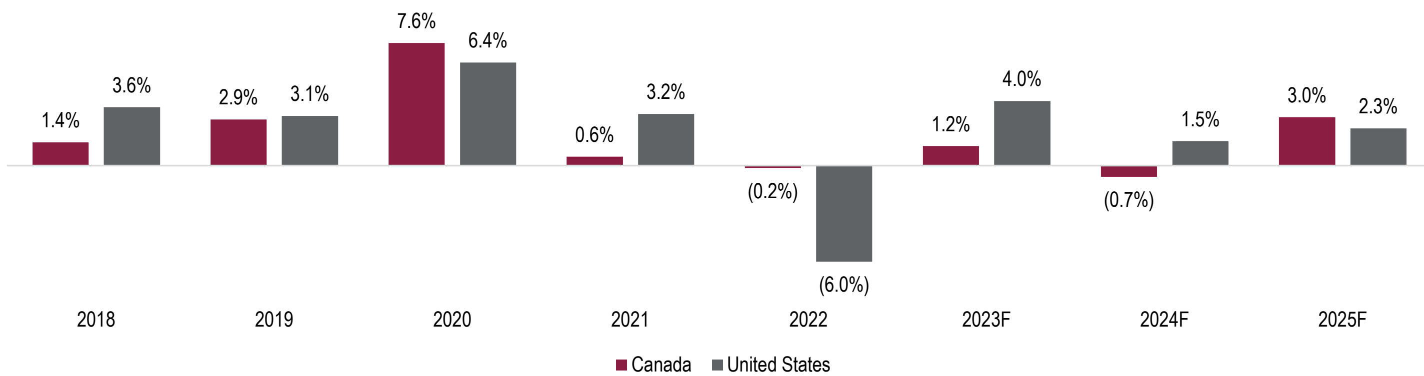
Though we are comfortable with our Staples call today given the myriad pressures on the consumer, we believe there likely comes a point in 2024 when the outlook will flip.

Net, though we are comfortable sticking to our Staples call today given the myriad pressures on the consumer, we are more open to Discretionary outperforming and believe there likely comes a point in 2024 when the outlook will flip. Among our large-cap stocks, current top picks for the year include Restaurant Brands and Loblaw. Among small- and mid-cap names, we prefer Pet Valu, MTY Food Group, Maple Leaf Foods and Primo Water.

Income-ing!

The bar chart in Exhibit 26 and table in Exhibit 27, courtesy of CIBC Economics, epitomize our worries for Canadian households in 2024. Real disposable income has not been robust since 2020, but 2024 is shaping up to be the worst in nearly a decade. In this context, it is difficult to be optimistic about spending, and we expect budgets to remain focused on essentials and value.

Exhibit 26: Canada And U.S. – Change In Real Disposable Income Y/Y, 2018 - 2025E



Note: 2023 to 2025 forecasts from CIBC Economics. Source: Statistics Canada, Bureau of Economic Analysis and CIBC World Markets Inc.

The last time we witnessed a similarly negative figure (that was not impacted by government stimulus) was in 2016, when Canadian real disposable incomes declined by almost 1%. It is notable that discretionary stocks outperformed staples that year (whereas in 2015 the reverse was true). It is also notable that multiples were mostly unchanged that year, after a drawdown of over two turns the year prior. In other words, the outperformance from Discretionary in a year with declining real disposable income was driven by earnings estimates.

We raise this point as it could suggest that expectations for a softer spending environment could already be somewhat in place, or at least in the near future. So while we are cautious on the consumer, a soft landing could be supportive of a more positive view by the time we are lapping the challenges of H2/23.

Exhibit 27: TSX Staples/Discretionary Index – Returns And Change In Real Disposable Income, 2015 - 2017

	2015	2016	2017
TSX Staples Index Return	12.4%	7.5%	7.8%
TSX Discretionary Index Return	-1.5%	10.7%	22.8%
Change in Real Disposable Income	3.4%	-0.6%	4.0%

Source: FactSet, Statistics Canada and CIBC World Markets Inc.

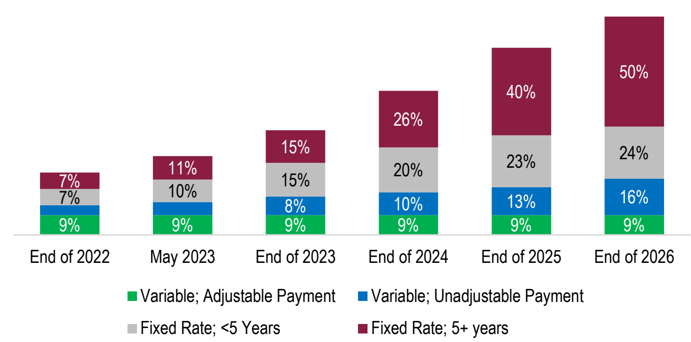
A Continued Crowding Out Of Discretionary Spending On Goods

The pressure on real disposable income is at the heart of the pressure on consumers, but there are two other important factors in which the Canadian consumer is caught in the cross-currents: an uptick in layoffs and rising monthly mortgage payments (for some).

First, the unemployment rate ticked up to 5.8% in November 2023 from 5.0% in December 2022. Part of this is an expanding employable base given a surge in immigration, but the job market is also softening. And layoffs are not only concentrated with white collar workers; in the goods producing sector, the unemployment rate rose to 4.6% in November from 3.7% in December.

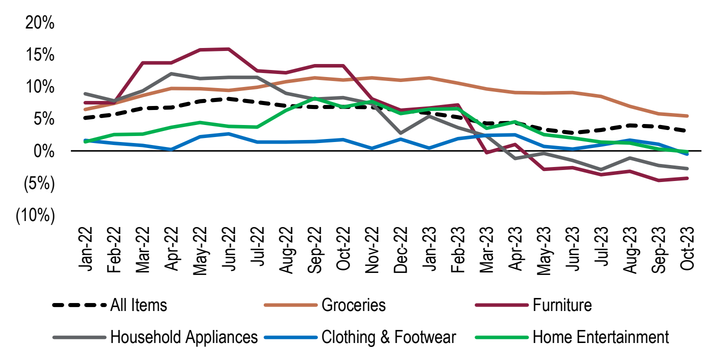
Second, as shown in the bar chart in Exhibit 28, ~18% of mortgages will be refinanced in 2024, likely at much higher rates. Assuming monetary policy remains restrictive, an increase in mortgage payments curtails the disposable income households have to make other purchases. While some higher-ticket discretionary categories are seeing deflation, as shown in the line chart in Exhibit 29, lower prices may not be enough to drive spend, particularly as a greater portion of household budgets are allocated towards necessities like food, housing and utilities.

Exhibit 28: Canada – Percent Of Mortgages Subject To Payment Increase, 2022 - 2026



Source: Bank of Canada and CIBC World Markets Inc.

Exhibit 29: Canada CPI – Y/Y Change For Select Categories, January 2022 - October 2023



Source: Statistics Canada and CIBC World Markets Inc.

Margin Preservation And Earnings Visibility Amid Slowing Sales

Top-line momentum is decelerating across most parts of consumers' wallets.

One reason we prefer staples is the higher level of visibility to earnings growth via the group's collective ability to hold EBITDA margins steady in 2024. As shown in the table in Exhibit 30, top-line momentum is decelerating across most parts of the consumer wallet as the pricing tailwind fades and volume growth remains challenged. Population growth is the primary tailwind, which also favours staples. Net, we expect a sluggish top line in 2024, and particularly in H1.

Exhibit 30: Consumer Coverage – Top-line Y/Y Growth, 2019 - 2024E

Sequential Acceleration	Sequential Deceleration	Top-line Measure	2019	2020	2021	2022	2023E	2024E
Food Retail		SSS	2.2%	10.7%	(1.0%)	3.1%	4.9%	2.5%
CPG Manufacturers		Revenue	7.7%	5.6%	7.5%	10.6%	5.5%	5.4%
Restaurants		SSS	0.7%	(11.2%)	12.9%	8.0%	6.8%	3.0%
Apparel		Revenue	4.6%	(13.1%)	34.2%	18.6%	1.9%	3.6%
General Merchandise Retailers And Categories		Organic Revenue	2.5%	7.2%	14.5%	5.6%	0.9%	1.2%

Note: Based on calendar year. Food retail includes Loblaw, Empire and Metro; CPG manufacturers include Maple Leaf, Saputo, Premium Brands, Primo and Jamieson Wellness; Restaurants include Restaurant Brands and MTY Food Group; Apparel includes Aritzia, Gildan, Mark's and SportChek; General merchandise retail and categories include Canadian Tire Retail, Dollarama, Pet Valu, Sleep Country, and Spin Master. Source: Company reports and CIBC World Markets Inc.

As such, cost-cutting efforts in order to protect profitability have grown in importance. Cost cutting is a catch-all term but these initiatives generally include process and efficiency work, layoffs, deferral of project spend and investments, and more cautious spend in areas such as advertising and marketing. Within our coverage, Couche-Tard, Canadian Tire, Loblaw, Empire, Aritzia, and Canada Goose have programs under way.

Historically, the success of these programs has been mixed, with some benefits dropping to the bottom line and others being consumed elsewhere. In today's operating environment, we expect companies to prioritize flow-through over reinvestment in order to protect EPS. In Exhibit 31, we qualitatively rank each company in our coverage universe on our level of conviction behind management's ability to control SG&A (on an organic basis).

Exhibit 31: Consumer Coverage – Assessment Of Companies' Ability To Control Opex Growth Y/Y, 2024E

Ticker	Opex Control	Commentary On Expenses
Consumer Staples		
ATD	High	Cost-savings initiatives under way (part of 10 For The Win)
EMP.A	High	Will incur restructuring costs in F2024, some labour pressures
GDI	Low	Minimum wage headwinds offset by pricing but will be incurred
GURU	Mixed	Marketing investments necessary for growth
JWEL	Low	Investment year for brand-building in China and the U.S.
L	High	Restructuring charges taken in 2023 to control costs in 2024
MFI	Mixed	Efficiency benefits somewhat offset by marketing & promo
MRU	Low	Dual-operating costs (capex projects); union contract renewals
NWC	Mixed	Less exposed to labour market volatilities
PBH	Mixed	Historically low opex leverage but automation investments help
PRMW	High	Europe divestiture to reduce costs and improve margins
SAP	Mixed	Dual-operating costs from projects offset by efficiencies

Ticker	Opex Control	Commentary On Expenses
Consumer Discretionary		
ATZ	Mixed	Material efficiency work under way; spending to reignite sales
CTC.A	High	6% reduction in full-time employees ($50MM savings)
DIV	Mixed	Fairly large % increases recently, though minimal in $
DOL	Low	Minimum wage headwinds flowing through P&L in C2024
DOO	Mixed	Prioritizing R&D and marketing; reduce discretionary spend
GIL	High	November 2 earnings call: "good visibility on our cost structure"
GOOS	Mixed	Efficiency program under way; DTC growth limits leverage
MTY	High	Lean cost structure historically, likely some synergies to come
PET	High	Deferring investments and "responsible cost management"
PLC	Low	Incurring elevated corporate investments through 2024
QSR	High	Modest SG&A increases expected after years of investments
SVV	Mixed	Labour pressures somewhat offset by flexible cost structure
TOY	Mixed	Some costs cut in 2023 already; limited in ability to reduce S&M
ZZZ	High	Highly variable cost structure and various levers in place

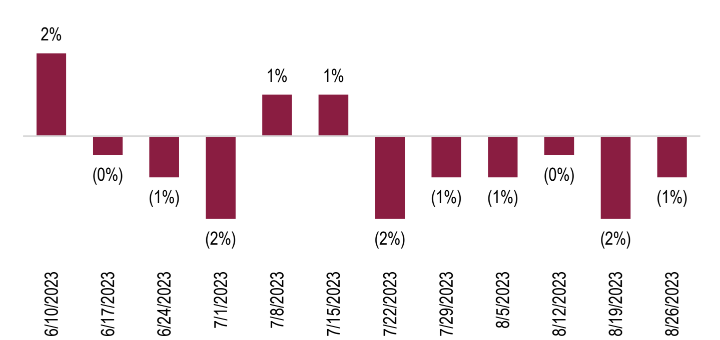
Source: Company reports and CIBC World Markets Inc.

Pressures Putting Greater Emphasis On Food Waste

Sales growth in the food industry has been noisy for several years, and in 2023 trade-down and value-seeking themes pressured sales dollars. But units have also been under pressure. The bar chart in Exhibit 32 shows total CPG unit volume for all channels across Canada, June to August 2023. As is evident, they were soundly negative, despite population growth.

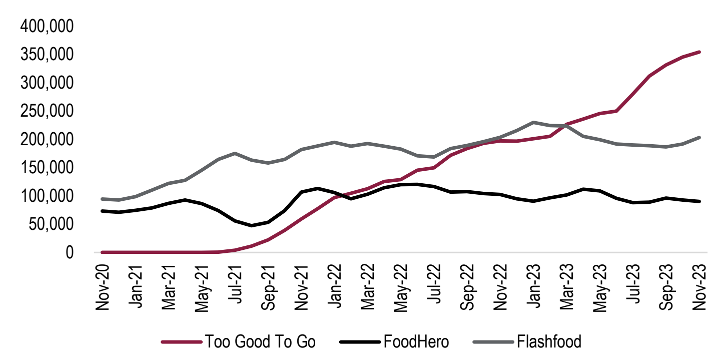
Food waste is a massive topic that affects all stakeholders in the food supply chain. Retailers and manufacturers have been focused on this for decades, and maximizing yield is a central element of their profitability. But consumers behave differently, and there are myriad factors responsible for the amount of food that ends up wasted inside the home. The line chart in Exhibit 33 shows the increase in the active user base for three apps aimed at reducing waste and diverting food from landfill. We expect this to be another factor clipping growth in 2024.

Exhibit 32: NielsenIQ – Percent Change In Unit Sales Y/Y, June 2023 - August 2023



Note: All channels Canada. Source: NielsenIQ and CIBC World Markets Inc.

Exhibit 33: SimilarWeb – Monthly Active Users Of Food Waste Apps, November 2020 - November 2023



Note: Three-month rolling average. Source: SimilarWeb and CIBC World Markets Inc.

S&P/TSX Energy — Marketweight

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2023 At A Glance

Despite some weakness at the beginning of the year, oil markets showed relative strength driven predominantly by resilient demand in the summer coupled with voluntary supply restrictions from Russia and Saudi Arabia. Fears of a recession have kept a lid on significant upside in oil pricing despite concerns of supply interruptions on the back of the re-emergence of conflict between Hamas and Israel coupled with the continued sanctions against Russia. With oil prices having shown strength through much of the year, Energy companies enjoyed robust free cash flow that improved balance sheet strength dramatically. Following strong pricing in 2022, natural gas production also increased meaningfully, and markets are in better balance, with the commodity trending in its historical range of US$2.50/Mcf to US$3.50/Mcf for most of 2023.

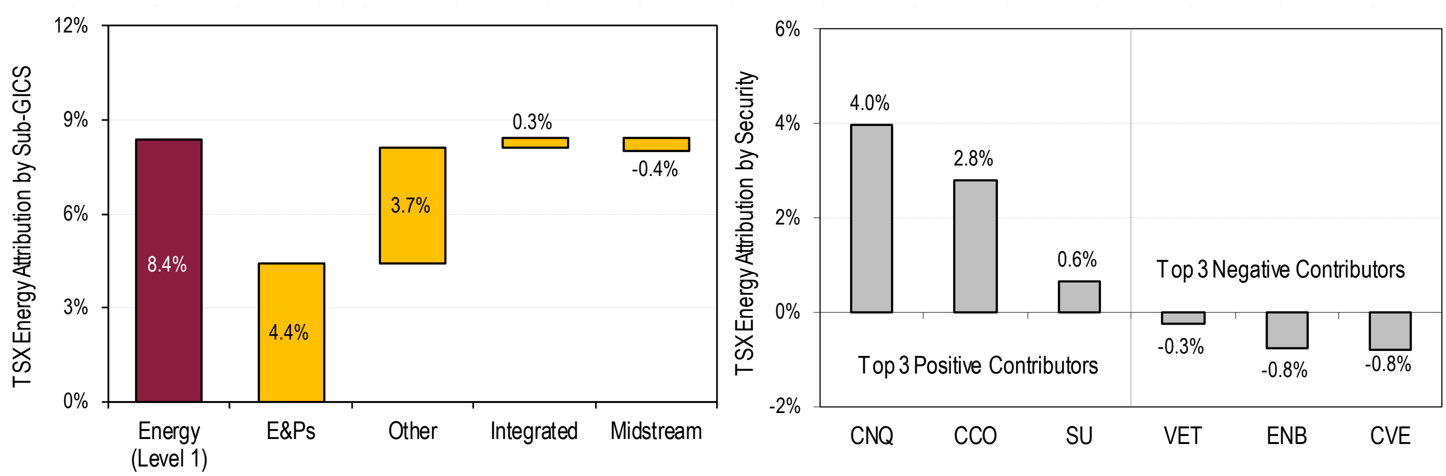
Exhibit 34: Total Return Performance – Energy, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Japan	MSCI Japan Energy	40.4%	25.0%
Italy	MSCI Italy Energy	16.9%	18.1%
UK	MSCI UK Energy	10.2%	15.0%
France	MSCI France Energy	10.0%	11.2%
Canada	**S&P/TSX Energy**	**8.4%**	**8.1%**
Russia	MSCI Russia Energy	0.0%	0.0%
USA	S&P 500 Energy	-3.0%	-3.0%
Australia	MSCI Australia Energy	-0.3%	-4.1%
Korea	MSCI Korea Energy	-7.8%	-11.5%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Energy stocks performed favourably this year: Given the weightings of CNQ, CCO and SU within the index, these stocks were large positive contributors to index returns. On an individual stock basis, the small- and mid-cap E&Ps performed well in 2023, although their impact on the index was more muted. Negative contributions to index performance were driven largely by CVE, ENB and VET.

Exhibit 35: Total Return – S&P/TSX Energy Attribution By Sub-Index And Major Security, 2023 YTD

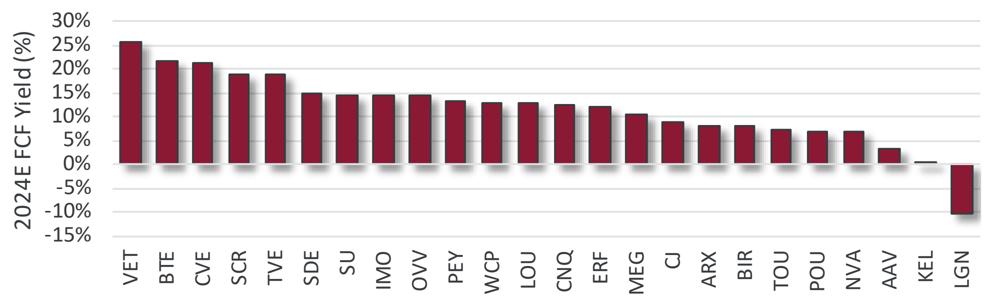


Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Disciplined Capital Allocation To Continue In 2024

Cash returns to shareholders will remain robust: With the strong commodity price and continued capital discipline, many companies have achieved net debt floors in 2023, or are building additional dry powder, which enable increased cash returns, and could spur further consolidation in the space. On recent strip, our estimates show large-cap E&Ps at a 2024E FCF yield of 13%, SMID-cap E&Ps at 11%, and Royalty companies at 10%.

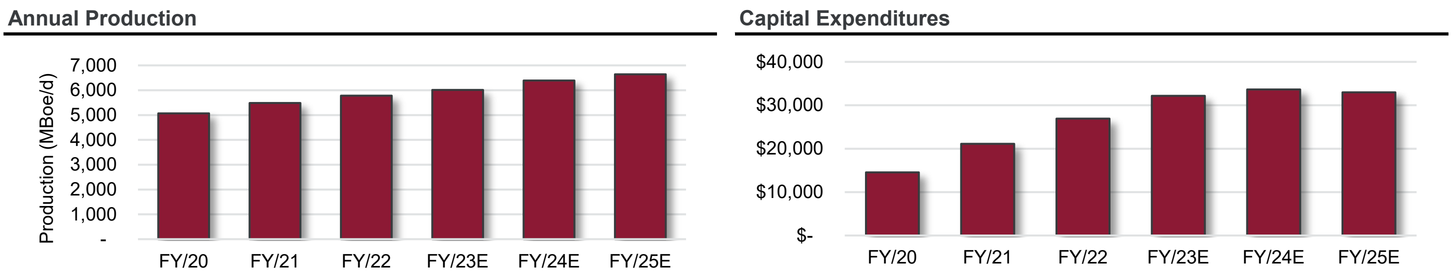
Exhibit 36: Energy – Free Cash Flow Yield (Strip), 2024E



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

Consolidation and growth are creeping back into budgets: Companies have reintroduced modest production growth (1% to 5%) while still returning a significant proportion of free cash flow to shareholders. On a Q1/24 to Q1/25 basis, we estimate the large-cap group will show production growth in 2024 of 3% and the SMID-cap group 7%. We forecast oil-weighted SMID-caps will grow by 5% and gas-weighted SMID-caps by 8%. We highlight KEL, LGN, NVA, and POU as having the highest production growth in 2024E. We expect also that 2024 will feature continued consolidation in the Western Canadian Sedimentary Basin (WCSB). We expect that the Montney, Clearwater, and Mannville Stack will be popular targets for consolidators.

Exhibit 37: Energy – Total Production And Capital Expenditures (CIBC Coverage), 2020 - 2025E



Source: Company reports and CIBC World Markets Inc.

Pipeline and midstream companies on different paths: Pipeline companies are managing through acquisitions or otherwise trying to reduce leverage. This has spurred some asset sales activity as a source of deleveraging or as part of asset rotation following tuck-in M&A. Midstream companies look to be on the precipice of new projects being sanctioned. Having largely turned the corner to being free cash flow positive, they have started to modestly increase returns to shareholders while also looking to conserve capital to be ready for potential new projects as egress out of the basin improves.

Line-of-sight To Additional Egress Out Of The Basin

Trans Mountain Expansion could be a positive catalyst to help re-rate the space: The WCS-WTI basis has widened to US$25/Bbl from US$13/Bbl in mid-2023 as physical egress and a re-introduction of the quality differential have driven a discount for heavy barrels vs. the light benchmark. We expect egress concerns to moderate into mid-2024 with the completion of the Trans Mountain Expansion Pipeline, increasing pipeline egress capacity by 590 MBbl/d and giving Western Canadian producers access to global pricing. Narrower heavy oil differentials could have a lower positive impact on companies with refining, including CVE, IMO and SU, or on those with blending exposure such as MEG and SCR.

AECO is likely to be weak in 2024, but this should reverse as LNG Canada ramps up: We expect 2024 is likely to feature final investment decisions (FID) for additional LNG projects, as highlighted in our recent report **A Rising Tide: Canada's LNG Opportunity.** Combined with the FID on the DOW ethylene cracker, there are a number of industry projects and catalysts that could also improve the growth outlook for midstreamers. Modifications to the Infrastructure Assessment Act following a Supreme Court of Canada decision finding it largely unconstitutional create some uncertainty for larger project development.

Energy Transition And Energy Security Remain Topical

Emissions are still a focus, but progress is being made: Canada's federal government has fallen short of crystalizing a path for producers to achieve a significant GHG emissions reduction by 2030. With carbon pricing uncertainty and a lack of carbon contracts for differences, we believe it remains difficult for companies to accelerate the development of these critical projects. Our report entitled **Canada's Carbon Capture Disadvantage** highlights several of our takeaways on Canadian carbon policy as outlined in the 2023 budget. We expect spending on decarbonization could ramp up in 2024.

Geopolitical risk has not shaken the market: Russia's invasion of Ukraine in 2022 led to significant shocks to the oil and products market, and the recent conflict between Israel and Hamas has added further risk to current global supply. We believe significant downside in oil prices could be buffered by a combination of the refilling of Strategic Petroleum Reserves (SPR), current OECD inventory levels for crude oil and refined products, and the potential willingness of OPEC+ to support the oil price (rather than market share).

Supply security adds to fundamental uranium strength: As we head into a replacement cycle for long-term uranium contracting for utilities, geopolitical risks highlighted by events that triggered a pivot from Russian fuel supply and Niger's coup this past year have escalated the urgency for utilities to secure supply commitments at longer tenures against a backdrop of limited uncommitted supply in the mid-term from large producers. This has created the strongest start to the uranium cycle, in our view, that we have seen historically, with 2023 being the strongest long-term contracting year in terms of volume since the Fukushima tragedy in 2011. Globally demand is increasing, with 28 nations recently pledging to triple nuclear generating capacity by 2050 from 2022 levels, including the U.S. We view current fundamentals as set up for a price squeeze, with benchmark long-term U_30_8 prices increasing about 5% in November, despite little volume transacted.

Top Picks For 2024

Given the commodity price volatility and continued concerns around a potential economic recession, we are focused on companies on the producer side that have the potential to show rate-of-change in investor perception (and free cash flow allocation), a strong balance sheet and low (breakeven) costs. Our top picks for 2024 include ARX, CVE and SU for large-cap E&Ps, KEL and LGN for small-cap E&Ps, PPL for midstreamers, and CCO for uranium exposure.

S&P/TSX Financials — Marketweight

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2023 At A Glance

There was a wide dispersion of returns for Financials in 2023. Canadian Financials underperformed the TSX Composite Index by roughly 170 bps (YTD) while the underperformance in the U.S. was more stark (over 1,400 bps). In both cases this was attributable primarily to weak returns among the banks. Financials in Europe, the U.K. and Japan performed significantly better.

Exhibit 38: Total Return Performance – Financials, Globally, 2023 YTD

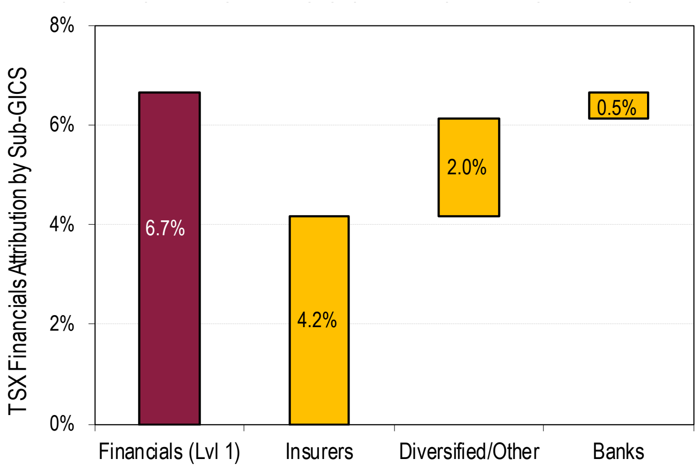
Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Italy	MSCI Italy Financials	44.5%	46.0%
Germany	MSCI German Financials	23.0%	24.3%
Japan	MSCI Japan Financials	33.3%	18.7%
UK	MSCI UK Financials	11.5%	16.4%
France	MSCI France Financials	11.6%	12.8%
Korea	MSCI Korea Financials	12.0%	7.5%
USA	S&P 500 Financials	6.6%	6.6%
Canada	**S&P/TSX Financials**	**6.7%**	**6.3%**
Australia	MSCI Australia Financials	7.7%	3.6%

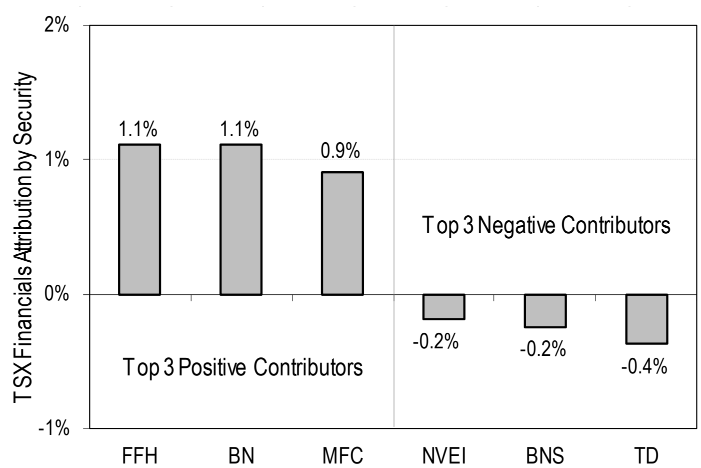
Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

The Canadian banks were a drag on the TSX Financial Index's performance for the second consecutive year. Headwinds included higher funding costs, slowing loan growth, high expense growth, mounting credit concerns and increasing capital requirements. The insurers performed significantly better than the banks for the second consecutive year. Diversified financials also chipped in a positive return, following a negative year in 2022.

Positive contributors to index performance included two insurers, FFH and MFC, and Brookfield Corp. as a diversified financial. The two biggest detractors from performance were banks – TD and BNS. NVEI was also a drag on index performance.

Exhibit 39: Total Return – S&P/TSX Financials Attribution By Sub-Index And Major Security, 2023 YTD





Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Moving To The Other Side Of The Interest Rate Cycle

The future path of interest rates matters a lot to relative positioning. CIBC Economics expects the Bank of Canada to cut rates by 150 bps before the end of 2024 and the Fed to cut rates by 50 bps. Those that have benefited from rate tightening, namely insurers, will likely lag, while those that have underperformed, namely banks, will likely lead. The timing of when that trade will work is a big question mark as the banks likely have a couple more quarters of soft earnings ahead. We generally think the banks will outperform the insurers once the rate cutting cycle starts.

Banks Should Gain As Interest Rates Fall

Banks have underperformed the Financials sub-index for two consecutive years. We think that streak will likely end in 2024, premised on the end to the rate tightening cycle and the beginning of a rate cutting cycle. That being said, we will need to see significant rate cuts from the Bank of Canada to alleviate concerns regarding 2025/2026 residential mortgage renewals. And that is exactly what CIBC Economics expects with 150 bps of rate cuts before year-end 2024 and further rate cuts in 2025. Rate cuts may have negative implications for net interest margins, but will be viewed as a positive for loan growth, fee income and credit losses. Simply put, more dovish monetary policy is better for the economic outlook and bank valuation multiples will typically respond well to an improving economic outlook.

Insurers May Have To Give Back Some Of The Relative Gains

2023 turned out to be a pretty good year for Canadian insurers with most delivering double-digit price returns. Insurers benefited from higher reinvestment rates on bond portfolios, which contributed to significant growth in investment income in some cases. In many cases there was also a fair amount of multiple expansion on P/BV. With yields already falling at the long end of the rate curve, and with relative multiple expansion, we are becoming less bullish on the insurance sector. Given a reversal in direction for interest rates we see an argument towards selling insurers to buy banks in 2024.

Diversified

As a generalization, the diversified financials sector is not as rate-sensitive as the banks or insurers. However, most names have some degree of interest rate sensitivity, and lower rates tend to be a tailwind (albeit to varying degrees). The equities that could be most positively impacted by declining policy rates and market yields would be the private equity names (e.g., BBU). It is no secret that private equity sponsors tend to use a high degree of financial leverage in the capital structure of portfolio companies, and returns are, therefore, highly sensitive to borrowing rates. Brookfield Asset Management (BAM) also benefits disproportionately from declining market yields as alternative asset managers compete (in a way) for investor capital with liquid credit markets. In this sense, declining yields tend to make alternative asset classes more attractive on a relative basis and, therefore, enhance BAM's trajectory of fee-bearing capital and fee-related earnings.

The Canadian Economy Is Landing

It is still too early to declare soft landing or hard landing for the Canadian economy but it is not too early to state that it is landing. Economic numbers point to a significant slowing in economic output and monetary policy has yet to have its full impact. We think the probability of risks is skewed to the downside based on current economic momentum. 2024 is expected to start on a challenging note.

Banks May Still Be Facing Peak Loan Losses

Loan losses are slowly trending higher and management guidance for F2024 implies that they will continue to trend higher, albeit modestly. Guidance also points to modest revenue growth (around mid-single digits), reflective of sluggish economic growth. We are forecasting F2024 revenue growth of 4.6%, on average, and a PCL ratio of 39 bps, on average, vs. an average of 29 bps in F2023.

We think there is a reasonable chance that economic assumptions, which go into the banks' credit models, become less favourable in early 2024. If that is the case then banks will need to provision for higher loan losses and we see that classic quarter of peak loan losses. Historically, this has signaled the optimal time to buy the banks. Given the state of the Canadian economy we think this playbook is still an appropriate one to use.

Insurers Less Sensitive To The Economy, But Carry More Multiple Risk

Insurers do not carry the same magnitude of credit risk as the banks, but do carry credit risk through corporate bond holdings, commercial mortgages and direct lending. There should be less earnings risk for the insurers from an economic downturn, but given the extent to which the insurers have outperformed the banks we do worry about more valuation multiple risk. The life insurers typically trade at a 12% discount to the banks, based on the five-year average, but are currently trading at a discount of only 3%. We think this valuation differential appropriately accounts for the difference in earnings risk.

Diversified

We would contend that all companies have some degree of direct or indirect exposure to the vitality and strength of the broader economy. As the path of the economy becomes more clear (i.e., a hard vs. soft landing scenario), we suspect that investor sentiment will be impacted most meaningfully for the consumer-sensitive names. In the diversified financials space, goeasy (GSY) and ECN Capital (ECN) stand out in this regard. GSY has delivered a string of strong quarterly results characterized by elevated loan growth and stable credit performance. However, investors continue to speculate on what a 'peak loss' scenario might look like if economic conditions deteriorate. If a soft landing scenario could be engineered and credit performance proved resilient, goeasy's shares could have significant upside. Similarly, ECN Capital is directly exposed to the health of the consumer (albeit on the U.S. side of the border). The company's earnings profile is highly volume-sensitive and tends to be driven by market activity in the manufactured housing and RV and marine space. A soft landing scenario (if that were to materialize) could stabilize volumes and help support a recovery.

The Growing Hand Of Governments And Regulators

We believe that the most important ESG theme applicable to financials today is the ‘S’ – Social. This includes relationships with governments, regulators, customers, employees and local communities. Why this is important, other than the simple answer that managing all stakeholder relationships is part of running a good business, is the financial feedback loop. The financial feedback loop took multiple forms in 2023—higher minimum capital requirements, implementation of an income surtax, unfavourable legal outcomes, opposition to proposed acquisitions, rules to govern how banks interact with mortgage customers under financial stress, and the list goes on. More is expected in 2024 and in the years to come. Banks are facing the greatest pressure, insurers are also impacted but far less so, and diversified financials are mostly unregulated but with certain pockets that may be exposed.

Banks Getting Hit On Multiple Fronts

We view regulatory capital and capital management as the singular most important theme for the banks over the next three years, if not longer. A number of factors are certain to play out in 2024—managing to higher minimum capital requirements, higher capital requirements for specific exposures (i.e., higher RWA density), taxation of Canadian sourced common dividends (i.e., TEB adjustment) and implementation of the Canadian Mortgage Charter (**link**). We have likely missed a few items and acknowledge that there is a long list of unknowns. We see three major implications: 1) ROE and EPS growth potential is moving lower over time; 2) those with lower capital ratios are more vulnerable and, therefore, might trade at wider valuation discounts than in the past; and, 3) valuation multiples for the group may not fully recover to historical levels.

Insurers Less Impacted, But Certainly Not Immune

The Canadian insurance companies have not faced the same increase to capital requirements as the banks. In fact, the change in accounting to IFRS 17 was a net capital benefit to the life insurers in 2023. As a result, the insurers have been more active with acquisitions and share repurchases. This doesn’t mean higher capital requirements aren’t coming in the future, but as far as 2024 is concerned we think that is unlikely.

Where insurers will be impacted in 2024 is with respect to the taxability of Canadian common dividends. This could result in some re-allocation of investment assets from common shares to preferred shares or other yielding assets. As such, we expect the impact to earnings to be marginal (low-single digits).

Personal auto insurance is a mandatory product and, therefore, has always been subject to varying degrees of government involvement. The Alberta government has announced rate caps for 2024 based on CPI and this has led to questions around potential spillover into other provinces. We think the risk is low as the industry is not earning excess margins and such measures in the past have not been shown to drive sustainable consumer benefits. We expect strong personal auto results in 2024 and advocate to ignore the political noise.

Diversified

The most meaningful action that the Canadian federal government took in 2023 impacting the diversified financials sector was a reduction to the interest rate cap from a 47% to 35% APR. This had negative implications for goeasy, which participates in the subprime consumer lending space. In general, we felt that a new cap of 35% was the most likely outcome and is generally consistent with what many jurisdictions consider the threshold or cut-off for what defines ‘high cost credit.’ The reduction in the rate cap has already been priced into GSY’s shares, but the government also left the door open to further reductions in the maximum allowable interest rate under the Criminal Code. We cannot speculate on the likelihood that the federal government enacts a further reduction to the maximum allowable interest rate, but this clearly stands out to us as the largest risk in the diversified financials space as it relates to government involvement and intervention in the sector.

S&P/TSX Health Care — Marketweight

2023 At A Glance

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As usual, the uniqueness of Canada's Health Care Index drove its divergent performance versus global benchmarks. Only seven members comprised the index at some point in 2023, and its current combined market cap of just ~$9B is split between pharmaceuticals (40%), health care facilities (a.k.a. seniors' housing, 40%) and cannabis (20%). As a result, outsized performance by one or a handful of names can paint a picture not necessarily representative of the group. Overall, Canada's Health Care Index returned +6.9% in local terms YTD, following total returns of -62% last year and -20% in 2021.

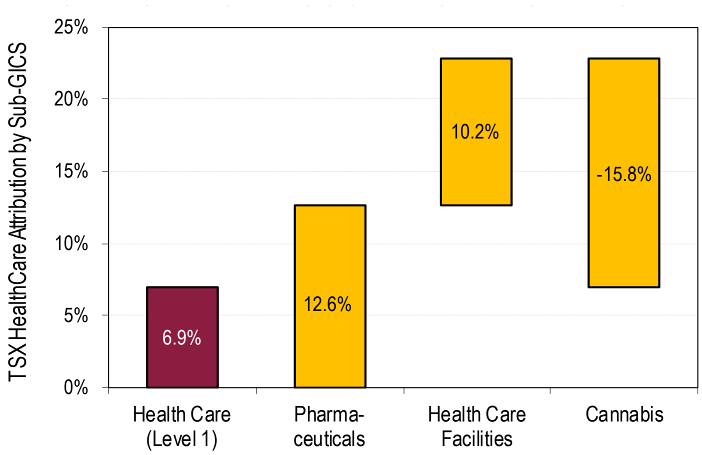
Exhibit 40: Total Return Performance – Health Care, Globally, 2023 YTD

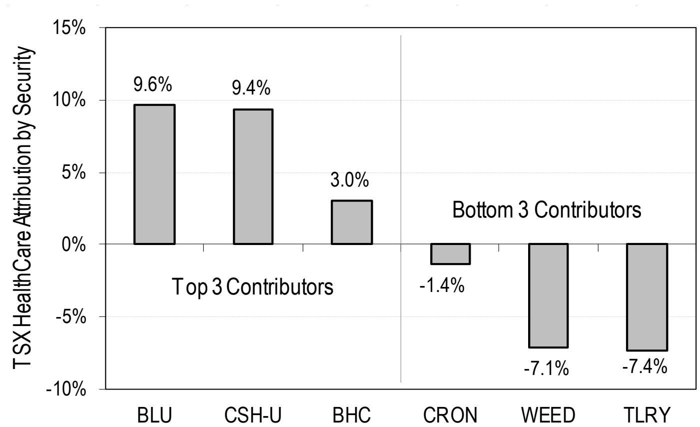
Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Canada	**S&P/TSX Health Care**	**6.9%**	**6.6%**
Switzerland	MSCI Switzerland Health Care	-1.8%	3.5%
France	MSCI France Health Care	-0.2%	0.5%
UK	MSCI UK Health Care	-4.5%	-0.5%
Italy	MSCI Italy Health Care	-1.5%	-0.7%
USA	S&P 500 Health Care	-1.7%	-1.7%
Korea	MSCI Korea Health Care	1.8%	-2.3%
Japan	MSCI Japan Health Care	5.5%	-6.1%
Germany	MSCI German Health Care	-13.8%	-13.1%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

In each of the last two years, cannabis names have been a primary negative driver of returns. 2023 saw the same result, as a lack of U.S. regulatory reform movement—the biggest factor in determining returns—led the sub-sector to contribute -16% to the overall index, with Canopy Growth and Tilray the two biggest laggards. Health Care facilities contributed +10%, almost entirely from Chartwell. The biggest source of positive attribution overall was Pharmaceuticals: Bellus Health was acquired by GSK in June at a >100% premium to its 30-day VWAP, and Bausch Health Companies also saw a meaningful positive return (+14%) after a sharp decline in 2022. Although not index constituents, we also highlight performances from DRI (+70%), WELL (+35%), and DNTL (-36%) in 2023.

Exhibit 41: Total Return – S&P/TSX Health Care Attribution By Sub-Index And Major Security, 2023 YTD



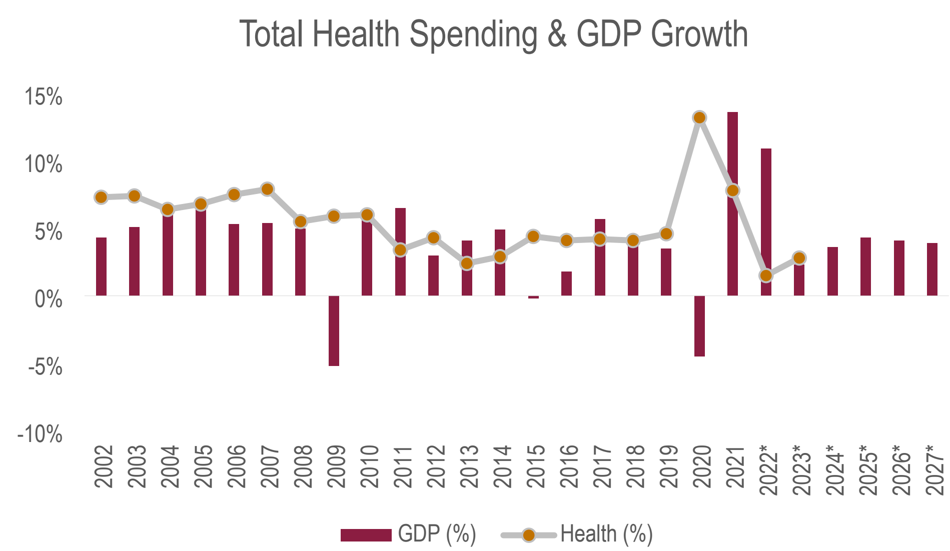


Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Healthcare Outlook: Accelerated Spending

Prior to the pandemic, Canadian healthcare spending typically moved in line with or slightly outpaced GDP growth, and forecasts from the Canadian Institute for Health Information (CIHI) indicate that dynamic played out again in 2023. Looking into 2024 and beyond, Canada may be in for a period of accelerated growth in healthcare spending, with the federal and provincial governments having agreed to a new 10-year funding agreement in February that will see the provinces and territories provided with $196B in additional funding over a 10-year period. The last time a 10-year health spending agreement was reached in the 2000s, growth in health spending averaged 6.8%, relative to the 4.0% growth rate in the 2010s. The bar chart in Exhibit 42 illustrates historical GDP growth compared to healthcare spending.

Exhibit 42: Canada – GDP And Healthcare Spending Growth, 2002 - 2027



*GDP forecast from Federal Budget 2023; Health growth forecast from CIHI.

Source: CIHI, Government of Canada and CIBC World Markets Inc.

CIHI expects healthcare spending in Canada to grow 2.8% in 2023, an acceleration from +1.5% in 2022 but lagging annual CPI readings in both years. With healthcare prices often locked into longer-term contracts, cost inflation is more likely to be felt on the expense side rather than the top line. That was the case at both of the healthcare services businesses under our coverage, with DNTL and WELL both seeing negative operating leverage as positive lifts to pricing were offset by wage inflation on the provider side. Looking into 2024, WELL's primary care and specialty care businesses in Canada are best positioned to benefit from increased spending, although the impact to overall growth will likely be modest given the diversity of the business and expected contribution from inorganic growth.

Healthcare equities traditionally score well on the 'S' factor of ESG metrics. DNTL and WELL support the health and wellbeing of Canadians, and both businesses will work alongside recent and upcoming government efforts to improve the oral, physical and mental health of Canadians. With DNTL and WELL both engaged in the consolidation of healthcare practices, a focus on profitability over patient outcomes and quality of care is a criticism that has occasionally been raised, although we see a net positive impact from their operations.

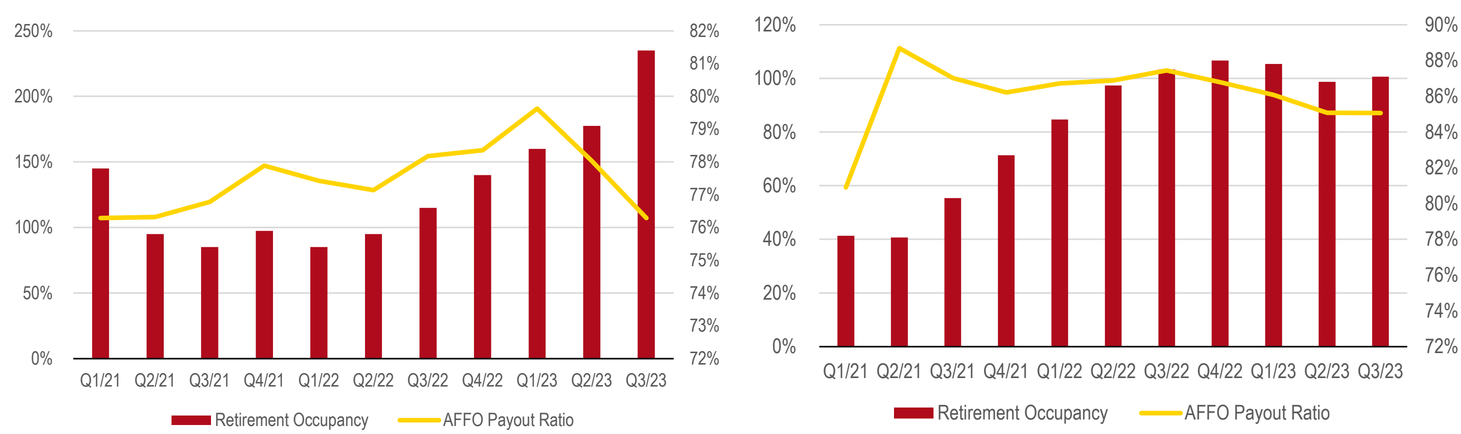
Seniors Housing: Recovery In Full Swing

The relative outperformance, when compared to the XRE, can largely be attributed to the delayed recovery from the ramifications of the pandemic. Through 2023 we have seen the seniors' asset class make a U-turn in occupancy levels, recovering considerably from pandemic lows, and in some cases reaching pre-pandemic levels. Demographics continue to provide favourable long-term demand drivers for both retirement residence and long-term care, and while the jury is still out on what 'stabilized' occupancy levels will ultimately be, we have seen positive improvements in favor of our long-term thesis. We continue to favour exposure to private-pay retirement residence over government-funded long-term care; we rate Chartwell Outperformer and Sienna Neutral.

Occupancy Improvements Driving Down Payout Ratios

While we have seen a positive trend through 2023, the catalyst for unlocking share value within the senior living asset class remains an increase in occupancy levels, in our view, and marketing and sales initiatives have begun to bear fruit (albeit at a slower-than-expected pace), producing improvements in personalized tours, sales closing ratios, leasing and permanent move-ins. Occupancy and leasing trends continue to far surpass those in 2022, and prudent cost management (i.e., a reduction in agency staffing) has helped marginally. The nature of the business and the associated fixed costs provide for a high correlation between occupancy increases and margin expansion. As such, as occupancy levels improve, all else static, payout ratios fall. During the pandemic, payout ratios rose as high as ~150% for Chartwell and ~110% for Sienna, and as of Q3/23 were ~107% and ~87%, respectively. We forecast a 2024E payout ratio of ~89% for CSH and ~85% for SIA, which we expect will gradually ease any investor concern regarding future distribution sustainability. We present each of CSH's and SIA's payout ratios and occupancy levels in the bar charts in Exhibit 43.

Exhibit 43: CSH (left) & SIA (right) – Retirement Occupancy Levels Vs. AFFO Payout Ratio, Q1/21 - Q3/23



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

ESG—Social Benefits

The core of the seniors housing business model—the wellness, safety and support of its tenants—makes it an attractive and easy-to-understand investment when measuring societal impact and sustainability. As the majority of commercial real estate investing revolves around the 'E,' seniors housing operators offer investors exposure to social aspects as well. This is accomplished through social outreach programs, improving the lives of tenants, and surrounding communities. As investors continue to emphasize the importance of ESG, both CSH and SIA are well positioned to capture institutional interest through sound practices.

Cannabis In 2024: Last Dance With Mary Jane?

The most important driver for cannabis stocks remains U.S. regulatory reform. Any display of positive change causes sharp, and increasingly short-lived, moves upward. 2023 was no exception, as a step towards changing the plant's classification was the industry's highlight.

We see 2024 as little different: the most likely positive catalyst is America's Food & Drug Administration (FDA) agrees to re-schedule cannabis within the Controlled Substances list, as recommended by Health & Human Services (HHS) in August. We consider this outcome likely, and it could occur just before the 2024 election. This may not, however, guarantee the cascade of events the industry hopes for, such as involvement from financial institutions, because of uncertainty of the interpretation of laws. The greater challenge for investors is to accurately time the catalyst, as demonstrated by the HHS announcement in 2023, shown in the table in Exhibit 44. We use sector ETFs MSOS (U.S.) and THCX (Canada) as proxies.

U.S. regulatory reform remains the most important catalyst for cannabis in 2024, but predicting timing is difficult and the duration of positive sector moves has shortened significantly.

Exhibit 44: North America Cannabis – Price Performance YTD, December 2023

	Jan. 1 – Aug. 29	Aug. 30 – Sept. 15	Sept. 16 – Today	YTD
MSOS	-31%	87%	-20%	4%
THCX	-33%	26%	-19%	-32%

Source: FactSet and CIBC World Markets Inc.

Next Year Could Represent Final Chance For Federal Legislation For Years

The situation above represents the sector's possible positive outcome. However, there also exists a real risk that industry sentiment could turn precipitously negative for two reasons. Both relate to a lack of legislative actions, not only in 2024, but possibly for years to come.

First, a litany of other items outrank cannabis on the legislative agenda: two wars, record deficits and just keeping the government running win priority over the latest legislative target, the SAFER Banking Act. Even if SAFER were approved (a <50% probability, in our view), this may not alleviate listing restrictions, nor reduce onerous income tax rates.

Second, the majority of the Republican party remains anti-cannabis. The spectre of a Trump White House surely presents another roadblock for this industry, and could mean federal reform is off the table until 2028. Moreover, if the DEA makes no decision on de-scheduling before the election, a Republican presidency would almost certainly end that possibility.

Meanwhile, a 2024 Democratic sweep would better position stocks, but we witnessed that outcome in 2020 (though with a House loss in 2022), and America is little closer to legalization. A consequence of some additional states legalizing is fewer consumers (and voters) may care about federal legalization. We believe operators must assume no regulatory reform benefit, placing more importance on execution, FCF generation, and capital allocation.

Profitability & Valuations Update: Improvements Noted

The table in Exhibit 45 includes aggregate sales, EBITDA and FCF for 2024E. We consistently include this data in annual outlooks; we observe that valuation now looks more reasonable.

Exhibit 45: North America Cannabis – Top Eight Companies, December 2023 ($MM)

	EV	Sales 2024E	EBITDA 2024E	EBITDA Margin	EV / Sales 2024E	EV / EBITDA 2024E	FCF 2024E	FCF Yield 2024E
Canada – Top 8	$4,898	$4,877	$193	4.0%	1.0x	25.4x	($59)	-0.9%
U.S. – Top 8	$16,343	$8,893	$2,369	26.6%	1.8x	6.9x	$600	4.7%

Source: Bloomberg, FactSet and CIBC World Markets Inc.

S&P/TSX Industrials — Overweight

2023 At A Glance

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2023 saw the S&P/TSX Industrial complex underperform its global peers, up 6.4% Y/Y vs. the S&P 500 Industrial Index up 11.4% Y/Y (USD terms). This result reflects the greater weighting the Canadian index has to transportation equities, which have suffered through a freight recession in 2023 and/or the impact of a more volatile fuel price environment.

Exhibit 46: Total Return Performance – Industrials, Globally, 2023 YTD

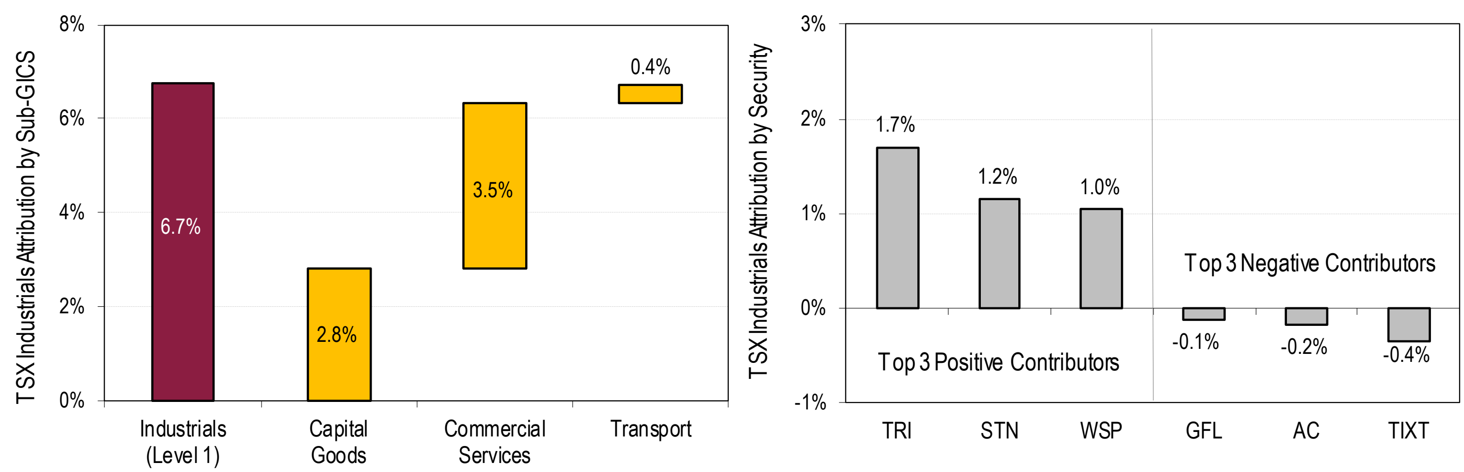
Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
UK	MSCI UK Industrials	25.1%	30.2%
France	MSCI France Industrials	23.3%	24.3%
Germany	MSCI German Industrials	21.6%	22.5%
Japan	MSCI Japan Industrials	29.7%	15.5%
USA	S&P 500 Industrials	11.4%	11.4%
Korea	MSCI Korea Industrials	13.2%	8.7%
Canada	**S&P/TSX Industrials**	**6.7%**	**6.4%**
Australia	MSCI Australia Industrials	7.2%	3.1%
Italy	MSCI Italy Industrials	-17.8%	-17.2%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Within the sector, the positive contributors were TRI, STN and WSP. TRI's performance was characteristically solid, reflecting its recurring revenue base, EBITDA margin expansion, and embrace of generative AI. WSP and STN have posted higher-than-historical levels of organic revenue growth and near-record backlog levels supported by ongoing tailwinds in infrastructure, energy transition and onshoring. Of note, ATRL was the best-performing stock in the sector this year, but did not make the list of the top three positive contributors to attribution due to its relatively smaller market cap.

The largest detractors were TIXT, AC, and GFL. AC saw a sharp reversal in its share price exiting the summer as jet fuel prices ran higher and given concerns over normalizing demand trends. TIXT has faced demand headwinds as one of its largest customers reduced volumes and sales cycles elongated.

Exhibit 47: Total Return – S&P/TSX Industrials Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Signs Of The Freight Recession Coming To An End

The current freight environment remains challenging, with expectations of a muted peak season exiting 2023. While the general tone from the North American freight companies is that the freight cycle has found a trough, the outlook on when the cycle will begin to turn remains uncertain. That being said, a number of optimistic data points suggest that underlying fundamentals are improving.

LMI Transportation Metrics Continue To Improve: The Logistics Managers' Index (LMI) released its October report and we continue to see an improvement in the transportation metrics. The Transportation Capacity Index registered 56.7, down 7.6 points M/M and the lowest point since April 2022. The future Transportation Capacity Index came in at 47.8, a 6.1 point M/M decline, and now indicates a slight contraction in Transportation Capacity looking out 12 months. The Transportation Prices Index was 44.4, a 0.9 point M/M increase versus September and now up five months in a row. The downward pressure on Transportation Prices is easing and the October reading was the highest it has been since September 2022. The future index for Transportation Prices sits at 65.0, continuing to indicate expectations of higher Transportation Prices in the next 12 months.

Air Cargo Demand Up Again In September: IATA released its September air cargo report. Global air cargo demand continued its Y/Y growth in September, with cargo tonne-kilometers (CTKs) increasing by 1.9% Y/Y. This is the second consecutive month of Y/Y growth (air cargo demand was up 0.7% Y/Y in August, the first annual increase since February 2022). While CTKs were down M/M, the IATA data does highlight that air cargo trends may have found a floor and are lapping easier Y/Y comps.

Rails Volumes Are Up ~10% From Summer Trends: While rail volumes have been choppy, they have exhibited an upward trend since week 28. On a rolling four-week average, Class 1 originating carloads are up ~10% during weeks 40-44 versus weeks 27-30.

The improving macro backdrop is supportive of freight equities, making TFII a top pick.

Outlook For Canadian Air Passenger Demand Remains Healthy

While Canadian airline passenger demand is exhibiting more normal seasonal travel patterns, and there are concerns about the health of the Canadian consumer, we continue to see a healthy outlook for the Canadian airline sector. We are not suggesting Canadian air travel is immune from a potential economic slowdown given air travel is generally a discretionary spend item for most consumers, but we would note that the Canadian airline cycle is in a different position today than is typically the case when the economy softens.

The key difference is that Canadian airline capacity continues to track below pre-pandemic levels despite healthy demand levels. For instance, using flight activity as a proxy for airline capacity, Canadian commercial flight activity is 84% recovered to 2019 levels versus over 100% when looking at U.S. commercial flight activity. Looking at air passenger traffic though, both the U.S. and Canada are back to, or above, 2019 levels. This highlights that there remains a structural supply/demand imbalance in Canada using 2019 as a baseline. Canada's current GDP, though, suggests demand should actually be ~5% higher than that in 2019 if we assume a pre-pandemic trend line, whereas underlying capacity is 5%-10% below pre-pandemic levels. This imbalance was reflected in AC's Q3 load factor, which came in at ~90% versus mid-80% pre-pandemic.

During previous recessions, the Canadian airline industry has typically entered the downturn with a more balanced supply/demand situation. That is not the case today, which provides the industry with some buffer if underlying demand trends do start to soften over the near to medium term.

Expect Outsized Margin Expansion From The Waste Sector

We expect the waste sector to continue to benefit from a strong pricing environment and declining inflation, resulting in outsized margin expansion in 2024E. We saw the start of this trend with Q3/23 earnings, when the waste names we track posted outsized margin expansion for the quarter. For example, the group's average pricing + fuel surcharge for the quarter was up 5.7% Y/Y while U.S. CPI was up 3.6% Y/Y. RSG also noted that open market pricing for the quarter was 10.4%. Recall that the waste names expected to see a step-function change in margin in the back half of the year as they work through pricing in the system and as cost pressures fall, driving a wider spread between pricing and CPI. We saw the business model working this quarter, with an average margin expansion of 103 bps Y/Y comparing to the average margin contraction of 67 bps in Q1/23 and an expansion of 57 bps in Q2/23.

The group continues to expect outsized margin expansion for Q4/23 and consensus is expecting an average of 181 bps of margin expansion. Consensus estimates 2024 EBITDA margins to be up 65 bps Y/Y, on average. For context, the waste sector typically targets 20 bps to 40 bps of annual margin expansion. Our top pick in the waste sector is WCN.

Engineering—Well Positioned For Global Infrastructure / Energy Transition Investment Cycle

Against the current uncertain macroeconomic backdrop, we continue to view the engineers (WSP, STN, ATRL) positively given their growing backlogs, high exposure to resilient transportation, environment/water (and/or nuclear) end-markets, strong balance sheet positions, and ability to protect/grow margins.

All three firms are sitting on record or near-record backlog levels, continue to hire organically to support the increased volume of work, and are entering 2024 in a position of strength. Between the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), over US$1.25T in funding has been budgeted across the transportation, energy, water resources, and broadband sectors for the next five to 10 years. While IIJA funds have been slow to come to market in 2023, the latest update is that ~US$400B of the IIJA plan funds have now been allocated, which should support backlog formation (and eventual revenue generation) through 2024 and beyond. WSP notes that its U.S. soft backlog (projects awarded but awaiting confirmation) is up ~50% Y/Y as at Q3/23, while STN estimates that US$45B of IIJA funding has now been allocated to its own client base.

Engineering—Easing Wage Inflation / Lower Turnover Supportive Of Margin Outlook

A consistent refrain from recent quarterly earnings results was that wage inflation is easing and employee turnover rates are improving. With wages being the biggest variable cost for engineering firms, these developments are positive for margins going into 2024. Longer term, WSP (2023 mid-point guidance of 17.6%; 2024 strategic plan target of 17.5%-18.5%, reaching 20%+ over time), STN (2023 mid-point guidance of ~16.5%; 2026 strategic plan target of 17%-18%, reaching 20% over time) and ATRL (2023E Engineering Services guidance of ~15%) foresee adjusted EBITDA margins expanding beyond 2023, driven by factors including improved utilization, greater use of delivery centres, and the employment of digital tools to improve productivity.

While we are constructive on the engineering industry overall for 2024 (including STN and WSP), ARTL is our top pick for 2024 given its strong growth prospects (nuclear and U.S. infrastructure) and valuation discount to peers (we expect this valuation gap to close as ATRL works down its LSTK backlog).

Much Better Outlook For Nuclear Services

We see several potential catalysts in the nuclear space that could benefit ATRL, ARE and BDT in both the near and long term (e.g., large nuclear and/or SMR new build opportunities, and refurbishment/life extension work). See Exhibits 8, 9 and 10 in our **Fall 2023 Engineering, Construction & Heavy Equipment Outlook** for latest developments in the nuclear space, the potential new nuclear capacity to be added in Ontario, and CANDU fleet refurbishment opportunities.

Heavy Equipment—Expect Equipment Sales Growth To Moderate, But Product Support To Remain Robust

Overall, we foresee equipment sales moderating in 2024E after a solid 2023. FTT's equipment backlog of $2.3B in Q3/23 was down 5% Q/Q and 7% Y/Y and TIH's equipment backlog of $1.2B in Q3/23 was down 9% Q/Q and 11% Y/Y. That being said, we don't believe that backlog today is the best measure of forward equipment sales given that backlog today is higher duration vs. the historical average (supply chain constraints) and given the lumpiness of order flow.

The outlook for the product support business is solid, with FTT and TIH continuing to add technicians to support the increased volume of work. Over the next 12 months, FTT expects product support growth to be at the top end of the range outlined at its Investor Day in September. FTT is a far different company today with a lower cost base and a >55%, and growing, parts/service mix (vs. 32% in 2008), which should reduce earnings volatility ahead and produce higher margins. TIH's product support mix is >40%.

Ag. Equipment—Positive For Grain Storage / Handling (More Muted For Tractors/Combines)

While ag. equipment heavyweights DE and CNH provided relatively muted 2024 outlooks for ag. equipment in their recent quarterly earnings releases, we see limited read-through for AFN. We would argue that farmer ROIC is much better for grain handling/storage equipment (low-hanging fruit, especially in places like India and Brazil). Further, AFN's consolidated order book/backlog is in good shape (up 3% Y/Y in Q3/23). We expect a strong Q4/23E and 2024E for AFN propelled by continued strong margins (on the back of recent operational excellence programs), further market share gains, and international organic growth (Brazil, India, EMEA). At just over 6x 2024E EV/EBITDA, AFN is trading at levels not seen since the Global Financial Crisis.

A Growing Focus On Sustainability

Canadian industrial companies continue to integrate ESG into their long-term strategies. The solid waste industry continues to progress towards its multi-year ESG goals and targets. The rails are four times more fuel efficient than trucks and CN and CP have each set aggressive targets to continue to reduce their carbon emissions. The six Canadian aviation/aerospace companies under our coverage—AC, BBD, CAE, CHR, CJT and TRZ—are all committed to achieving net-zero GHG emissions by 2050 (CAE became carbon neutral in 2020).

We consider the global transition to net zero as a meaningful revenue tailwind for the engineering/design sector. STN, WSP and ATRL have comprehensive environmental (STN/WSP provide ESG advisory services), water, and nuclear (in the case of ATRL) service offerings. WSP is ranked #4 and STN #5 in ENR's 2023 Top Environmental Firms rankings under the Engineering/Design sub-category.

S&P/TSX Information Technology — Marketweight

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2023 At A Glance

The S&P/TSX Technology Index posted a 66% return in USD, the best performance globally among Technology peers. It outperformed the second-place U.S. S&P 500 Technology Index by ~1,500 bps (in USD terms), as shown in the table in Exhibit 48.

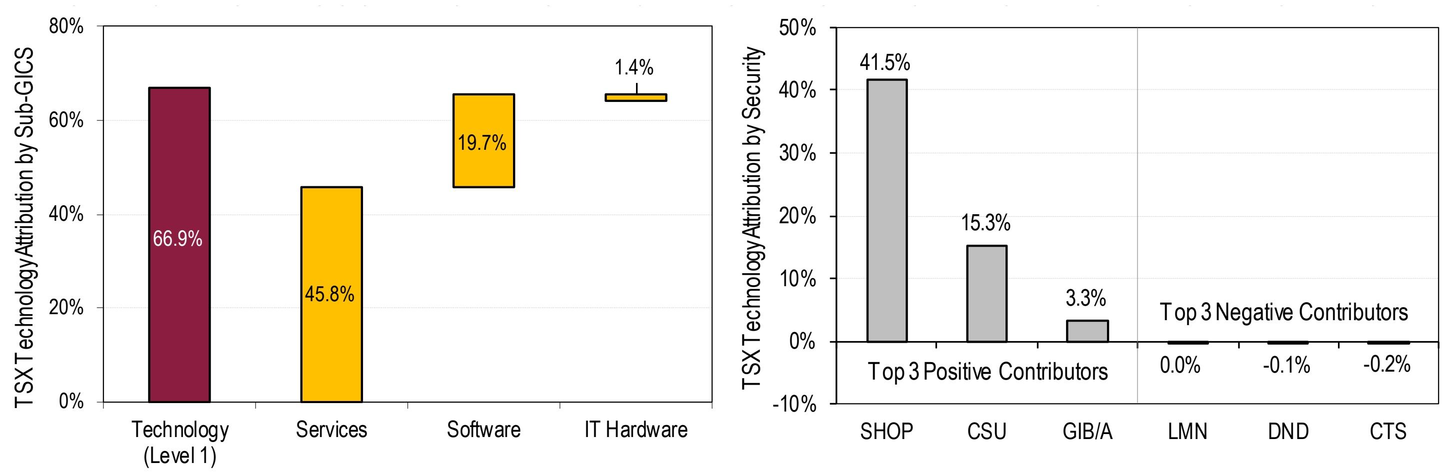
Exhibit 48: Total Return Performance – Information Technology, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	**GICS Level 1 Index**	**Local Terms**	**USD Terms**
Canada	**S&P/TSX Technology**	**66.9%**	**66.4%**
USA	S&P 500 Technology	51.5%	51.5%
Germany	MSCI German Technology	47.7%	48.9%
UK	MSCI UK Technology	30.5%	35.9%
France	MSCI France Technology	27.5%	28.5%
Japan	MSCI Japan Technology	37.9%	22.8%
Korea	MSCI Korea Technology	27.1%	22.1%
Australia	MSCI Australia Technology	11.7%	7.4%
China	MSCI China Technology	-9.6%	-9.8%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

The bar graphs in Exhibit 49 highlight the equities contributing most meaningfully to the Technology sector's total return in 2023. Of the 15 names that comprise the S&P/TSX Technology Index in 2023, 11 posted positive total returns YTD. The companies contributing the strongest total returns were Shopify, following the divestment of its logistics business and the company's sustained growth, and Constellation, which has benefited from a strong M&A market. Negative contributors this year included Converge, which has slowed M&A amid a tougher rate environment, and Dye & Durham, as the company's high leverage has left investors on the sidelines in the current high rate environment.

Exhibit 49: Total Return – S&P/TSX Information Technology Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Technology Markets Set To Move Higher In 2024

For investors considering a return to technology investing in 2024, the question at the top of many minds is whether 2023 signalled the first year of what is typically three years of post-bubble, double-digit annual returns. Recall that after the dot.com bubble burst and the Global Financial Crisis (GFC), the initial recovery spurts began in 2002 and 2008. With the post-pandemic correction now largely in the rear-view mirror, it appears that the boom/bust cycle is now repeating or, at the very least, rhyming with positive technology returns in 2023.

The past year could represent the first year of a three-year period of improving returns. The technology indices bottomed in October 2022 and have been recovering ever since. In 2023, the Dow Jones (+5%) and the tech indices are all higher, including the NASDAQ (+36%), the Bessemer Venture Partners NASDAQ Emerging Cloud Index or EMCLOUD (+22%), and the TSX Information Technology Index (+55%). It should be noted that, while positive, these indices were led by a select group of companies.

As the year progressed, concerns about FTX and the crypto collapse were replaced by the potential of a more resilient economy and the far-reaching promise of GEN-AI. Beyond that, high-performing companies delivered growth, profits and cash flow. While welcome, these positive trends confirmed that 2023 was a year of exploration as selective investors benefited from picking the right list of companies. In the U.S., the Magnificent Seven led the tech market higher. In Canada meanwhile, the best performers so far this year are Celestica (145%), Shopify (96%) and Constellation Software (52%).

As 2024 approaches, the technology sector is, in our view, set up for year two of a recovery during which very selective investors can start to broaden what they consider to be investable. Despite what is a wider range of options, we believe that investors will need to remain selective and focus on those disciplined, market-leader businesses that can simultaneously generate growth and cash flow, as recession fears remain a legitimate concern.

In that context, attractive sectors for investment next year include GEN-AI infrastructure, e-commerce, fintech and enterprise software. Within GEN-AI, we recommend Celestica, a global leader in developing and building data center components capable of supporting AI workloads. We also recommend Nuvei, a world-class fintech player, and Shopify, the global leader in enabling merchants to leverage e-commerce and Todd Coupland's top pick for the year. We continue to like Constellation, with the company executing on its plan to spend 100%+ of FCF on M&A. We regard Docebo and Kinaxis as attractive from a valuation perspective and expect continued 20%+ organic SaaS growth.

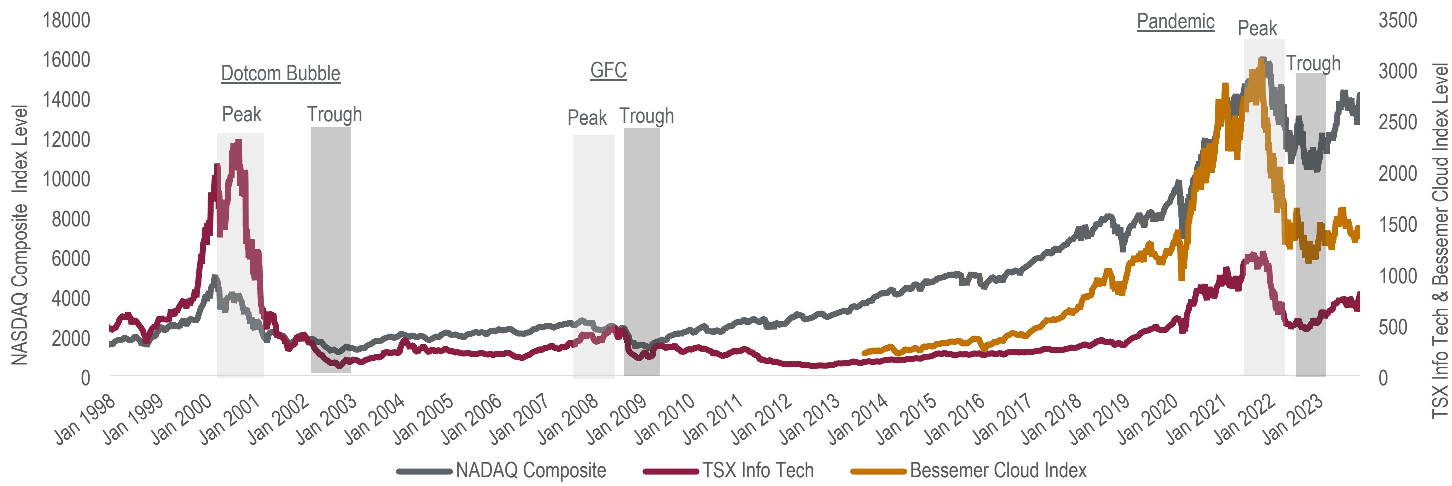
Armed with this set-up, let's gather some context from the 2021, 2008 and 2000 bubbles. The recoveries began in 2022, 2009 and 2002, with the following one- to three-year periods proving lucrative for the technology markets, with the NASDAQ nearly doubling in all cases. In Canada, the TSX Information Technology Index was up ~95%, on average, after each trough. The line chart in Exhibit 50 illustrates the major tech indices' performances since January 1998.

The 2000 technology bubble peaked in March 2001. The NASDAQ moved from a peak in March 2000 to bottoming two and a half years later in September 2002. The TSX Information Technology Index similarly fell in October 2002 from a peak in March 2000 with a heavy influence from Nortel. Following the bottom, the NASDAQ increased 72%, 72% and 88% one, two and three years later, respectively, while the TSX Information Technology Index followed a similar pattern (174%, 183%, 149%).

Turning to the GFC in 2008, the NASDAQ peaked in October 2007 before bottoming in March 2009, during which time the NASDAQ fell ~55%. While the technology sector didn't lead this crisis, it still suffered in tandem with the complete reset of the overall market. Interestingly, the NASDAQ took only one year to recover. Within three years of its bottom it had doubled and was back to its 2007 levels, after which it continued to climb. In contrast, the TSX Information Technology Index took longer to recover (until the end of 2014) due to its underlying constituent pool, which experienced minimal growth. It's well worth highlighting that out of this crisis emerged many of today's leading cloud companies, including Uber, Spotify and Shopify, all of which were founded between 2006 and 2009.

Finally, the pandemic-related technology cycle peaked in November and December 2021 before settling at a trough in October 2022. During this time the NASDAQ fell ~35% and both the BVP Cloud and TSX Info Tech indices fell ~65%. With the tech indices now up at least 20% this year, we believe that 2023 represented the start of the tech market's recovery.

Exhibit 50: NASDAQ, TSX Info Tech, BVP Indices – Time From Peaks To Troughs And Recovery, 1998 - 2023



Source: Bloomberg, Bessemer Venture Partners and CIBC World Markets Inc.

The M&A Environment

2023 was primarily a year of M&A integration for the companies within our coverage universe as CSU, TIXT, OTEX and NVEI integrated their largest respective acquisitions to date. The attractive M&A environment also led to increased leverage at several of the companies in our universe (including AIF, ISV, and DND), and we expect the year-ahead focus for these names will be deleveraging rather than additional M&A. Dye & Durham has initiated a strategic review to assess the sale of non-core assets to significantly expedite its leverage reduction plans, and Altus aims to deleverage to 2.0x-2.5x by 2025 after its acquisition of REVS in mid-November. VerticalScope is also focused on leverage reduction as it contends with reduced top-line growth and a heavy debt burden from its acquisitive streak in 2021.

Roughly half of our coverage universe carries a net cash balance heading into 2024, and with interest rates expected to stabilize and eventually lower over the next few years we foresee upside from continued M&A. We expect Constellation to remain active as it continues to allocate 100%+ of free cash flow to M&A. We also regard Docebo and CGI as well positioned for future M&A, and we expect Enghouse to be an active acquirer of SaaS companies as it seeks to offset organic growth declines.

From a defensive perspective, takeouts of some 2021 IPO companies are also a possibility as the macro environment stabilizes; we've seen some of this activity already in 2023. Dialogue Health was acquired by Sun Life in July, and Q4 was taken private by Sumeru Equity Partners in November. Within Stephanie Price's coverage, we see TELUS International as an attractive takeout candidate, while within Todd Coupland's coverage, Blackberry Cyber also represents a potential candidate.

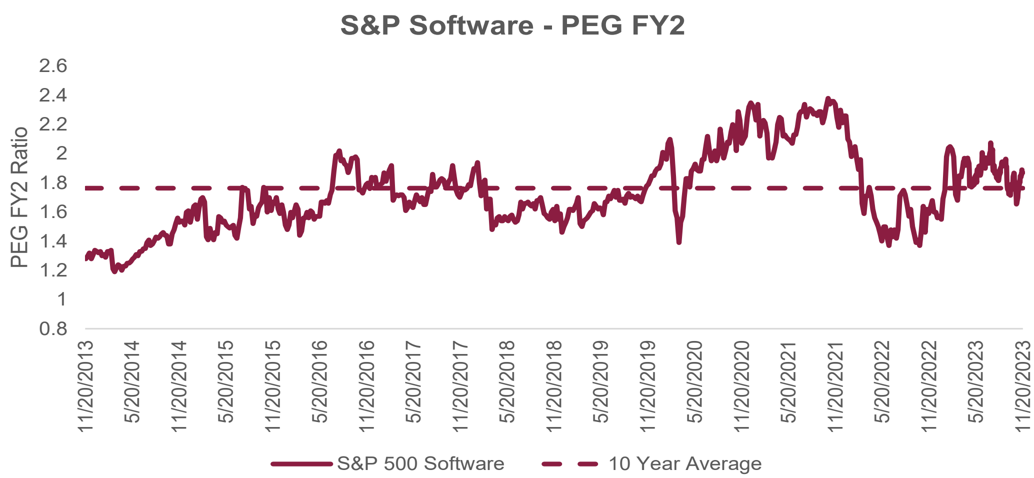
Balancing Growth And Profitability

In 2023 macro uncertainty led to elongated sales cycles in the enterprise and SMB markets as prospects tightened budgets and focused on cost control, resulting in many tech firms reassessing their approaches and prioritizing profitability. Looking to 2024, we expect the demand environment to begin to stabilize as inflation eases and interest rates hikes move further into the rear view. Cost-cutting initiatives implemented by many tech companies in 2023 should boost margins in 2024, and we expect 2023 will represent a margin trough for most firms. However, given the uncertainty of the last year, we anticipate a number of tech companies will take a balanced approach to growth and profitability in 2024, keeping investments on the lighter side while pursing revenue growth. Kinaxis is a good example of this approach as management aims to achieve a healthy Rule-of-40 that prioritizes growth while also aiming for EBITDA margins in the 16%-18% range.

Valuations Are Attractive

2023 turned out to be a strong year for technology stocks, with the S&P/TSX Software Index closing the year up 59%. Investors took a balanced approach in 2023, choosing a mix of defensive and higher-growth names (CLS, SHOP and CSU were our top performers in the year). For the year ahead, we expect growth stocks to be in play as the market is now pricing in rate cuts as soon as May 2024. The S&P Info Tech Index PEG ratio now sits above the 10-year average, as seen in the line graph in Exhibit 51, suggesting a recovery for the sector.

Exhibit 51: S&P Software Index – PEG (FY2) Vs. 10-year Average, 2013 - 2023



Source: Company reports and CIBC World Markets Inc.

Despite the tech sector's strong year, a number of names within our coverage universe look relatively attractive from a valuation perspective, trading below five-year averages (KXS, ENGH, OTEX, NVEI, THNC). Kinaxis stands out, trading at a ~3.5x EV/S discount to its five-year average. Other names we consider attractive from a valuation perspective include: DCBO (trading at a 1.0x EV/S discount to Rule-of-40 peers), TIXT (trading at a 1.2x EV/EBITDA discount to BPO peers), NVEI (trading at a ~3.2x multiple discount to payment peers) and THNC (trading at a ~1.2x discount to comparable BVP Index peers).

ESG Is Likely To Be In Focus

2023 has been crowned the 'Year of AI,' as the popularity of artificial intelligence soared on the back of the public release of Chat-GPT. As ever more companies integrate AI capabilities into their product offerings and internal use cases, we expect the impact of widespread use of AI tools will become a focal point for investors. Our **ESG note** takes a look at where AI use could threaten ESG ratings and where the technology offers an opportunity for improvement. Our findings suggest the environmental impact of the technology is likely to gain the most attention, but its potential benefit to cybersecurity and IT risks should not be ignored.

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2023 At A Glance

The old adage of “what goes up must come down” proved to be the case for the Materials sector. The commodity inflation trade lost steam in the latter part of 2022 and stalled for the first half of 2023 on concerns about the potential global slowdown impacting demand and margin erosion in the sector weighing on the underlying equities. Unsurprisingly, the Canadian S&P/TSX Materials Index underperformed many of its global peers as pressure on fertilizer prices and geopolitical issues impacted this industry disproportionality.

Exhibit 52: Total Return Performance – Materials, Globally, 2023 YTD

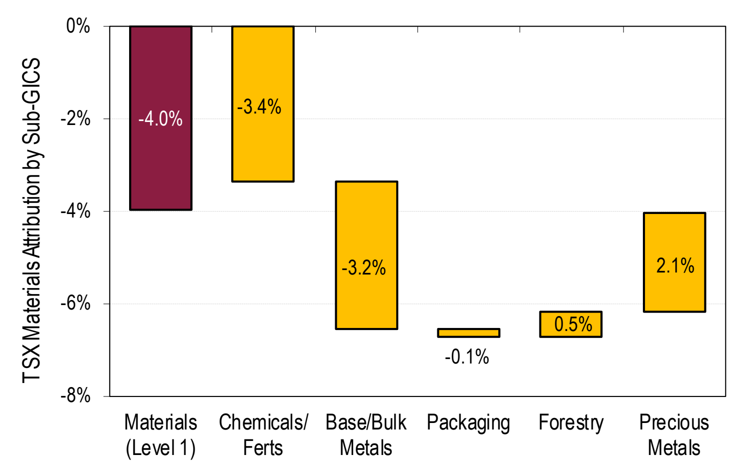
Total Return Performance		2023 YTD Total Return	
Country	**GICS Level 1 Index**	**Local Terms**	**USD Terms**
France	MSCI France Materials	27.5%	28.5%
Japan	MSCI Japan Materials	35.8%	21.0%
Germany	MSCI German Materials	9.8%	10.6%
Australia	MSCI Australia Materials	12.9%	8.6%
USA	S&P 500 Materials	6.1%	6.1%
Korea	MSCI Korea Materials	7.0%	2.8%
Canada	**S&P/TSX Materials**	**-4.0%**	**-4.3%**
UK	MSCI UK Materials	-12.5%	-8.9%
France	MSCI France Materials	27.5%	28.5%

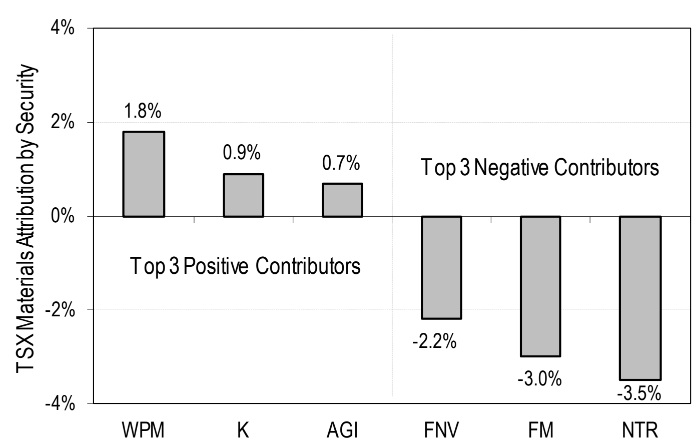
Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

While most of the commodities within the sector came under pressure through the year, input cost inflation proved sticky, eroding margins and leading to little to no free cash flow. However, the outlook for 2024 is improving as cost pressures have started to abate, and demand for fertilizers, gold, and copper should rally as interest rates are expected to drop throughout 2024.

Exhibit 53: Total Return – S&P/TSX Materials Attribution By Sub-Index And Major Security, 2023 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	Packaging	Polypropelene CNY/MT
2023 YTD Total Return	3.3%	10.9%	-13.5%	0.1%	17.8%	8.0%	-22.3%	-27.1%	-4.5%	-4.3%





Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

First Quantum, Franco-Nevada and Nutrien were the three biggest laggards during the year. First Quantum and Franco-Nevada were both impacted by geopolitical issues in Panama as local unrest and political wranglings halted First Quantum's largest operation, Cobre Panama. The dramatic drop in fertilizer prices during H1/23 weighed heavily on industry leader Nutrien.

Despite another Marketweight recommendation for 2024, there are some bright spots on the horizon and the potential for positive surprises within the Materials GIC.

Sun Shining Through The Clouds

Over the last several years, the market was flooded with a swath of cash, leading to a surge in demand for a variety of products. As 2023 progressed and governments pushed for financial restraints to tame inflation, demand began to show signs of slowing, more so in regions outside of the U.S. In the latter half of 2023, the market started pricing in the potential for rate cuts in 2024, as central bankers appear closer to the end of their anti-inflation battle. All of this bodes well for some commodities.

The combination of lower rates and a U.S. election cycle should lead to a pick-up in infrastructure spending projects. Copper remains a key input for global decarbonization, green economies, and renewable energy solutions. It is already a heavily consumed metal, and will likely become more so as the world transitions away from carbon-based infrastructure to electric vehicles, renewable energies, and net-zero targets.

Historically, gold has consistently been a beneficiary of geopolitical unrest/risk, and the past year has been no different, with strong central bank buying (China in particular) driving demand. In what can be viewed as a de-dollarization trade, that momentum should continue into the early part of 2024 as we approach a period of U.S. interest rate cuts, with our FICC Macro Team forecasting the USD to lose its lustre in H2/24. While we do forecast that real rates will continue to rise throughout the year ahead, which can be a headwind for gold, we would note that central banks' desire to diversify away from the USD and demand for a safety trade should help offset some of the real rate pressures in the near term. Silver will trade alongside gold, in addition to infrastructure demand as a key component of energy transition.

We are also cautiously optimistic for the agriculture/ag-inputs markets in 2024. Historically, there has been an inelastic relationship between agriculture and economic conditions, with grain demand/production growing consistently at 2%-2.5% per annum. Coupled with a higher-than-historical average U.S. farm income, ag-input demand should improve somewhat in 2024. Major producers are anticipating global industry potash shipments to improve, on average, by ~3Mt-6Mt or 4%-8% Y/Y in 2024.

Lumber demand is likely one of the outliers that may take a little longer to recover. We believe higher mortgage rates, weakness in European markets, and uncertain R&R demand may mean that a significant recovery is likely pushed out to 2025.

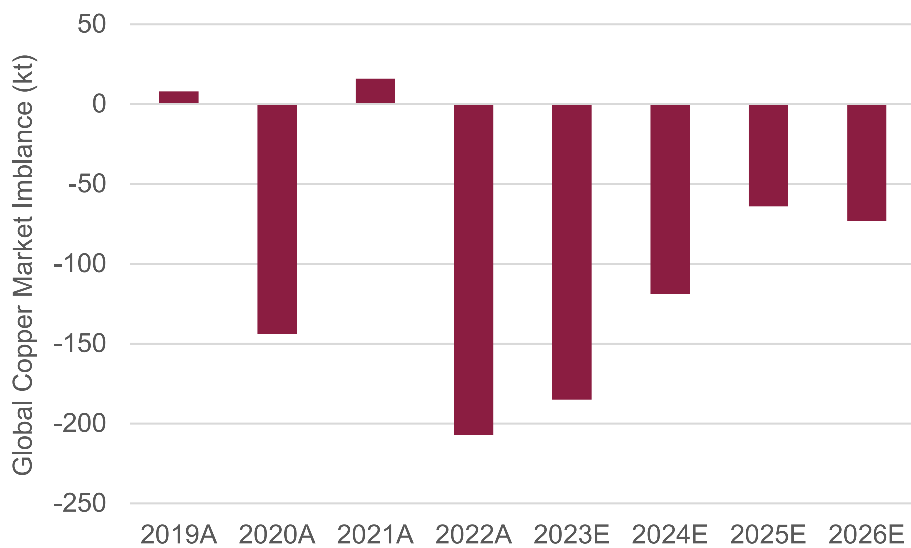
As for paper & packaging, while CCL's demand growth is largely tied to global GDP, above-market growth should continue in coming years supported by the company's exposure to RFID (growing double digits) and alignment with higher-growth customers (recent GLP-1 investments come to mind). For the other plastics names under coverage, market-share gains should fuel organic growth as end-market food & beverage demand has limited growth.

Security Of Supply Matters

Over the past several years, one theme to have emerged is the importance of security of supply. Geopolitical risks have continued to ratchet upwards, with increasing tensions between the U.S. and China, flare-ups from North Korea, an ongoing Russia-Ukraine war, and, more recently, a war between Israel and Hamas. We have also seen countries seek to increase direct stakes/royalties/taxes from major projects to help fund their massive post-COVID debt loads and improve in-country political support.

Copper supply has been the topic of a number of headlines recently. Most notably, in Panama, the unconstitutional ruling on Law 406 by Panama's Supreme Court resulted in the shutdown of Cobre Panama. On the same day, union workers at Las Bambas, a large copper mine in Peru, announced an indefinite strike. Between the two assets, we estimate that approximately 3% of global copper supply has gone offline. We expect geopolitical and social impacts on the copper supply to remain above long-term averages over the medium term, and supportive of copper fundamentals. This could potentially exacerbate the estimated deficit already included in our copper supply/demand forecast (illustrated in the bar chart in Exhibit 54), lending more support for copper pricing over the medium term.

Exhibit 54: CIBC Estimates – Copper Supply/Demand Imbalance, 2019 - 2026E



Source: CIBC World Markets Inc.

On the battery materials front, we expect the race to secure supply chains to remain a key focus. While China dominates the midstream and downstream of the supply chain, the picture is less rosy at the upstream level given the country's limited geological endowments and stringent foreign investment rule. China's supply-side challenges have led to a rapid increase in partnerships in/acquisition of assets in emerging markets, with the goal to bypass trade tariffs imposed on China and Chinese-owned companies. While we expect the lithium market to be in a surplus in 2024E given the slower-than-expected demand growth in EVs, we expect supply security to remain top of mind as China will likely continue to dominate and remain a key part of the overall supply chain.

On the agriculture side, Brazil continues to suffer from two weather extremes, with hot/dry conditions in Central and Northeastern Brazil and excessive wetness in the far south. As a result, soybean planting is proceeding at its slowest pace in 14 years, which, in turn, will negatively impact the upcoming safrinha corn planting. Brazil represents up to ~32% and ~56% of global corn and soybean exports, respectively, in the 2022/2023 marketing year, with safrinha corn comprising ~70% of its total corn production. For the U.S. farmer, Brazil's weather-related woes and corresponding production issues are positive for grain prices and the outlook for U.S. farm income. In fact, USDA has steadily increased its 2023 net farm income forecast to $151B, which is ~$10B higher than the prior August outlook for 2023 and 31% above the 20-year inflation-adjusted average. Also note that private forecasters are now expecting a slight Y/Y increase in corn prices in 2024.

On the lumber side, further near-term softness in lumber prices may accelerate permanent capacity removals in British Columbia, where the effects of the beetle mean another billion board feet of production will disappear over time. While the U.S. South has abundant fibre supply to support further investments in lumber capacity, labour challenges both at the mill and logger level and limited outlets for residuals (lumber by-products) will constrain production growth from the region.

Materials Top Picks

Within the mining sector, the precious metals trade will likely lead the metals packs for the first quarter of 2024, with top picks including Agnico Eagle and Wheaton Precious Metals. Both offer investors a larger-cap, multi-asset/jurisdiction exposure to the commodities. In the case of Agnico Eagle, we see growth drivers from exploration upside and the potential for margin expansion from disciplined cost management and upside in the gold bullion price. As for Wheaton Precious Metals, the company already has a segment-leading growth profile in an environment that is supportive of further external opportunities.

Copper should pick up momentum mid-year and even further into the back half of the year as we forecast a supply deficit to emerge and free cash flow to turn positive for the sector once again. Our top pick for copper leverage is Capstone Copper. Capstone is at a key inflection point; its large-scale Mantoverde copper concentrator is expected to produce first copper in early 2024, and it provides significant growth in production levels but also reduces the cost of production. We model 2024E consolidated production of 257kt copper at $2.17/lb cash costs, more than a 50% step-change from our 2023 estimates of 170kt at $2.58/lb.

For exposure to the improving fundamentals for ag/ferts, Nutrien is our preferred name. We expect mid-cycle EBITDA of $6.3B in 2024E, with more stable fertilizer pricing and retail demand vs. 2023. Retail results should be better than in 2023 given the impact to margins this year from high-cost inventory in H1/23 has been mitigated. The balance sheet is in good shape with net debt/EBITDA at 2x, and with a 2024E FCF yield of ~8.5% (before a dividend yielding ~4%), there is room for a resumption in meaningful share buyback activity. There is also a solid valuation argument to be made, with the stock trading at ~6.5x 2024E consensus EV/EBITDA vs. an historical average forward multiple closer to 8x.

While it may still be too early to play the lumber trade, we do note that valuations look attractive on longer-term metrics, with mid-cycle EV/EBITDA multiples two to three turns lower than historical averages and 55%-75% discounts to replacement. As well, SPF lumber prices have limited downside risk with current levels close to breakeven for BC Interior producers. If an investor is willing to be patient, West Fraser is our preferred name for exposure to lumber.

Lastly, our top pick in Paper & Packaging is CCL Industries. Customer destocking has now largely run its course, the company should return to more normalized levels of organic growth next year of 3.8% vs. a decline of 3.2% in 2023E, and we expect organic growth to accelerate to 5.1% in 2025E. As well, the company has a diversified global platform and leverage of only 1.4x.

S&P/TSX Real Estate — Underweight

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2023 At A Glance

2023 marks a slight improvement over the negative returns of 2022, but still features a relative underperformance by the sector the likes of which we haven't seen since the credit fears engendered by the Global Financial Crisis (GFC) and the ensuing 'golden era' of near-zero interest rates, which ultimately provided a strong secular tailwind for the space. In stark contrast, the rapid back-up in rates has proved to be much more of a headwind than perhaps initially expected. Globally, we note the underperformance of the Canadian market, which suggests to us that perhaps Canada has a larger propensity to view the REIT landscape as predominantly a yield vehicle with a higher sensitivity to underlying interest rate conditions.

While valuations have tested both pandemic and GFC lows (on a NAV basis), we believe the market may still be voicing a collective concern that against a backdrop of higher-for-longer interest rates such NAVs may perhaps be a lagging indicator of value.

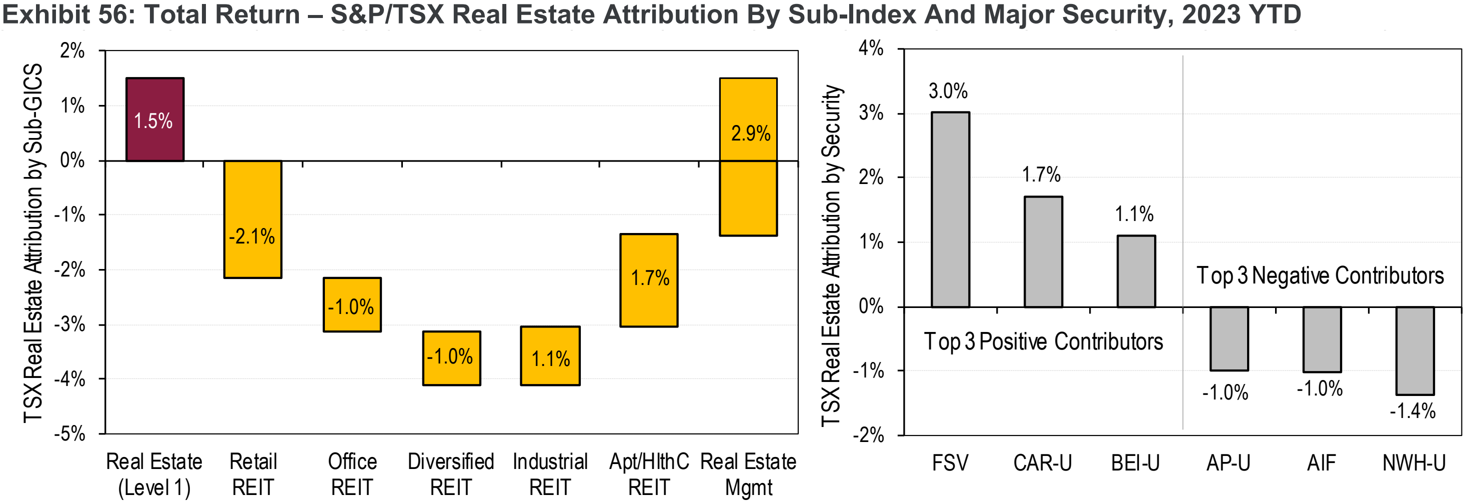
Exhibit 55: Total Return Performance – Real Estate, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Germany	MSCI German Real Estate	21.9%	23.0%
France	MSCI France Real Estate	17.6%	18.6%
UK	MSCI UK Real Estate	7.7%	12.3%
Japan	MSCI Japan Real Estate	23.0%	9.6%
Australia	MSCI Australia Real Estate	10.8%	6.6%
USA	S&P 500 Real Estate	5.5%	5.5%
Canada	**S&P/TSX Real Estate**	**1.5%**	**1.2%**

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

The bar chart on the right in Exhibit 56 highlights the equities that most meaningfully contributed to (or detracted from, as it may be) the Canadian Real Estate sector's total return performance in 2023. In a reversal of prior years' performance (once again), the majority of the negative returns emanated from the retail and office sectors as concerns over an arguably lackluster return-to-work environment and general economic concerns weighed on those sub-sectors, while the 'beds and sheds' theme returned to the fold as an outperformer.

Exhibit 56: Total Return – S&P/TSX Real Estate Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

2024: The Past Is Prologue To A Tale Of Two Cities

As we turn our sights to 2024 we believe the recent past may offer a glimpse of what's yet to come. While at no time in modern history has the caveat that "past performance is no guarantee of future results" seemed so apt, it's from that we must take our cue that 2024 may prove to be a tale of two markets—with the central theme of interest rates carrying the first half of the year, juxtaposed against the very real probability of an economic slowdown (recession) in the latter half.

Our first city, so to speak, is that in which the market all but knows that interest rates are heading south (and acts on it). It's the overarching narrative that was in play from October 2022 to February 2023 when market participants all but knew that central banks were poised to cut rates; these were "the best of times." The XRE posted an exceptionally strong performance during this period, when it was known that rates were going down, increasing by some ~24% relative to the TSX increasing by a paltry ~14%. However, no sooner had the run begun than the carpet was pulled from under the REIT sector, when in no uncertain terms it was made known that the rate hike cycle was far from over. We believe this set-up is eerily similar to the present: the REIT sector is largely oversold, it's a universally accepted 'fact' that interest rates are heading down, and the TSX is very near the levels prevailing in September 2022. This central view is one which we think is likely to predominate in the first half of 2024, and could possibly lead to a run-up in the REIT space to levels which suggest near NAV parity (a condition reminiscent of a longer-term equilibrium).

However, as Mr. Dickens would remind us, with the best of times, comes the worst of times. As we progress through the latter part of 2024, the reality of why rates need to be cut will begin to permeate the collective narrative. Of course, we can't summarily dismiss the possibility that the central banks will 'stick the landing,' like Nadia Comaneci (or Simone Biles), but history suggests that this, too, will likely be an overshoot given the latency effect of policy rate decisions. And that brings us to our second city (and not the funny one)—the city in which the reality of the overarching economic data is anything but positive (not catastrophic by any means, just a bit worse than maybe anticipated) and the market reacts to a potential recession. Perhaps one of the largest problems with this type of environment is that there is no good analogue with which to compare a relative performance measure. REITs in Canada are somewhat of a modern phenomenon and were born out of the early 1990s recession. Since then there have been only two recessionary periods from which to draw performance: the GFC and the COVID pandemic, hardly normal times in and of themselves. However, putting the uniqueness of those two periods aside (easier to say than do), it's not a stretch to envision a much weaker operating environment during a period of economic stress and, indeed, the REIT sector did react with an average drawdown of just over 30% during these periods. While we aren't simply suggesting that history will repeat itself exactly, we think it's reasonable (perhaps prudent) to expect some sort of valuation pressure to come with an economic slowdown, and more so with deeper recessionary pressures.

What we believe this portends for 2024 is more of a range-bound market, where alpha generation will come not just from individual security selection but also by taking a more active and tactical approach to investing. We continue to favour the more defensive types of REITs in this environment, leaning towards the apartments and industrial REITs, with a preference for the 'sponsored' retail REITs that have large staples-oriented tenants underpinning their cash flows. In the event that the fabled soft landing does transpire, then our expected front-half return profile could possibly hold, leading to a 20%+ year for the complex. However, if on the other hand a deeper recession were to prevail, then we see a path to an unprecedented third consecutive negative year for the REITs.

Retail – Time For A Defensive Posturing

While no-one can deny that retail real estate bore the brunt of the mandated COVID closures, we argue it's the sector that perhaps best came out of the pandemic, with a stronger tenant base and on a better footing than when it entered (that being said, it's also a sub-sector that, by and large, sits well below its 2019 levels). We believe the sentiment surrounding retail in 2024 is largely a function of consumers and their financial health. While our Strategy group has an Underweight rating on the Consumer Staples and Discretionary GICS as a relative call on their purely domestic exposure (i.e., Canada's consumer is likely to fare a little worse than the U.S. counterpart), a slowdown of any magnitude would render the staples-oriented retailers naturally more defensive (for example, we all have to eat, we just might not eat out as much). Our favoured way to gain exposure to a mix of defense and revitalization is Crombie REIT.

Office – Needs More Face Time

The demise of the 'traditional' office has been a prevalent headline for the better part of the past three years. While it's universally accepted that the office of the future will likely not resemble that of the past, what remains to be seen is what the ultimate space requirements and configurations of office space users will look like. Exacerbating the uncertainty around return-to-office is the sub-sector's heightened sensitivity to an economic slowdown/recession, which could provoke further erosion in fundamentals. Given the long-dated nature of office leases, this dynamic may take far longer to play out than is generally thought, and in doing so may effectively hang over the space, with a push/pull on sentiment contrasting the best assets with those deemed to be of lesser quality. Our favoured way to gain exposure to the office recovery is Allied Properties REIT.

Industrial – Back To The DC Future

2023 saw industrial REITs once again shine as their prior outperformance returned and private market demand for quality industrial properties remained relatively strong. While the positive tailwinds of exceptionally high lease renewal spreads, very tight leasing markets, and rapidly accelerating new construction costs have continued unabated, the back-up in interest rates has caused a modest reset in unit values, owing to the generally lower implied cap rates of the sub-sector, bringing them generally back to levels last seen pre-pandemic. Recent M&A activity in the space and a wall of capital sitting on the sidelines may keep the industrial REITs in the forefront in 2024. Our favoured way to gain exposure to the industrial REITs is Dream Industrial REIT.

Multi-family – It's Not Just A Supply-side Issue

The multi-family sub-sector is widely considered (and rightly so, in our opinion) to be one of the most defensive of the Real Estate asset classes; the operational performance of residential REITs pre- and post pandemic easily supports this notion. Defensiveness aside, we also believe apartment REITs can play both sides of the ball and win (much like the 1941 Chicago Bears, the last year the gridiron game was played both ways and a time that echoed the current explosive population growth). However, unlike the 1940s, Canada's housing supply today simply can't keep pace with the current population growth, thereby creating chronic demand/supply imbalances that will continue to put upward pressure on rental rates and valuations. The growing gap between in-place rents and current market rents continues to grow quickly, suggesting a long runway for internally generated growth, and while recent initiatives by all levels of government to fast track new development are very welcome, they simply won't be enough.

CMHC estimates that an additional 3.5MM housing units need to be built (on top of what is already forecast) just to meet the forecast demand through 2030, costing in excess of $2T. In short, and absent a material reduction in demand-driven factors, Canada needs significantly more tradespeople, more zoned and approved land, and a whole lot more money to return the housing market to an equilibrium, not something we envision happening over even an extended period of time. The problem (if we may be indulged to call it such) is reminiscent of Ernest Hemingway's The Sun Also Rises: "Gradually, then suddenly". While we see the set-up for all of the residential REITs as quite positive, our favoured way to gain domestic exposure is once again through Killam Apartment REIT, and south of the border we continue to favour U.S. single-family rental exposure through Tricon Residential Inc.

More Than Just Three Letters

Before we all knew what COVID was, the topic of ESG was making significant headway in the real estate space in Canada. We argue that those practices were largely in place for many but they were simply viewed as the 'right thing to do' and not something that was specifically formulaic, documented and verified per se. We believe 2023 marked a more vocalized return of both 'doing well' and 'doing good' from investors' and real estate operators' perspectives. We have seen a marked increase in ESG mandates by many investment managers, and what once was an arguably tangential element to the investment decision-making process has effectively become 'table stakes.'

A number of certifications/benchmarks have grown in prominence over the years. On 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 2023, 2,084 global real estate entities participated in GRESB (up 14.5% from 2022), with some of the highest growth coming from Canada, increasing by 36% and 21 entities. The total value of global real estate in the Benchmark now spans 75 countries and represents ~$7.2T in assets and is utilized by over 170 financial institutions with more than $51T (US$) under management.

We have seen a marked increase in the use of 'green bonds' in the real estate space. While it may be somewhat of a generalization, the pricing of such instruments continues to tighten, which we believe is a function of the growing investor demand for this type of investment. It's not hard to envision a dynamic—in the context of growing global investment mandates for green investments—whereby 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 as we move forward.

S&P/TSX Utilities — Overweight

2023 At A Glance

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The TSX Utilities sector has delivered a -4.3% total return on a constant-currency basis (priced in USD) YTD, lagging the European and Japanese utilities indices we track, which posted positive returns, as shown in the table in Exhibit 57. The Canadian Utilities outperformed their peers south of the border, with the S&P 500 Utilities Index providing a -8.8% total return YTD. Utilities in the U.S. have been the worst-performing sector YTD, given headwinds from higher bond yields pressuring valuations and questions on the ability to fund required investments.

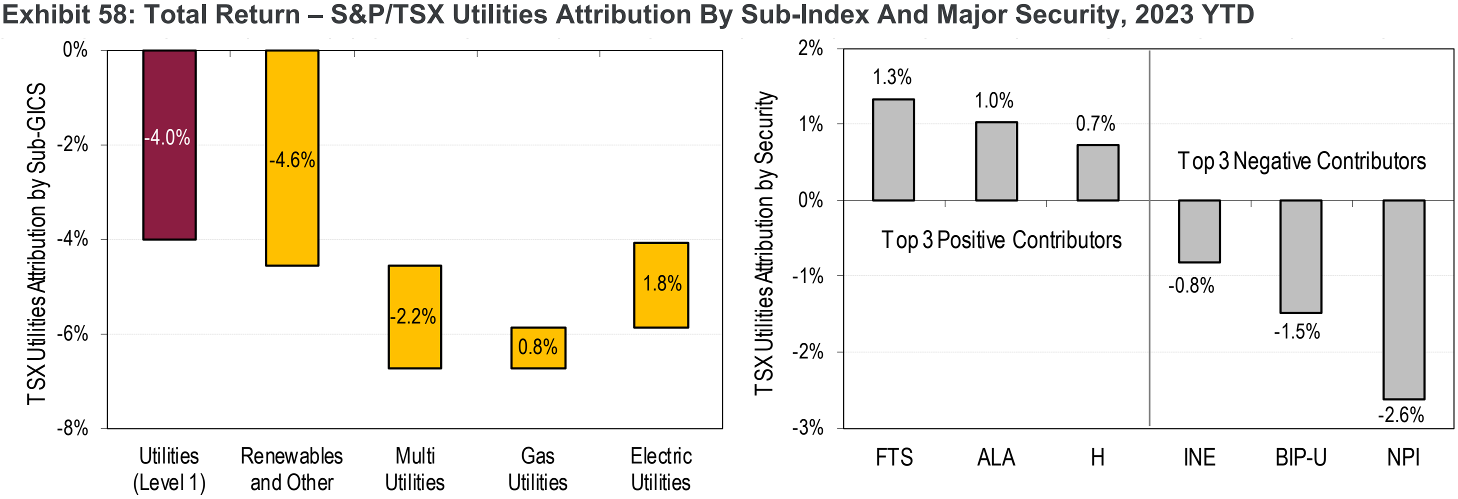
Exhibit 57: Total Return Performance – Utilities, Globally, 2023 YTD

Total Return Performance		2023 YTD Total Return	
Country	GICS Level 1 Index	Local Terms	USD Terms
Italy	MSCI Italy Utilities	30.6%	31.6%
France	MSCI France Utilities	27.7%	28.6%
Japan	MSCI Japan Utilities	41.9%	26.3%
UK	MSCI UK Utilities	13.5%	18.2%
Germany	MSCI German Utilities	15.1%	16.0%
Spain	MSCI Spain Utilities	12.3%	13.1%
Canada	**S&P/TSX Utilities**	**-4.0%**	**-4.3%**
Australia	MSCI Australia Utilities	-3.7%	-7.4%
USA	S&P 500 Utilities	-8.8%	-8.8%

Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

The weakness in the TSX Utilities Index has been driven primarily by the Renewables stocks. Notably, NPI and INE are among the top three negative contributors to the index returns, reflecting a multitude of factors including headwinds from higher bond yields (valuation and funding impacts), poor results due to below-normal weather conditions, and uncertainty on growth outlooks/returns. BIP-U is also an underperformer, driven by funding concerns in a higher interest rate environment and share flowback impacts following equity issued for a recent transaction. The larger-cap electric utilities such as FTS and H that provided steady results and a consistent strategy are among the leaders.

Exhibit 58: Total Return – S&P/TSX Utilities Attribution By Sub-Index And Major Security, 2023 YTD



Note: Exhibit priced as of December 5, 2023 close. Source: Bloomberg and CIBC World Markets Inc.

Rates & Market Tone Impact Utility Performance

In the last few years, regulated utility companies that offered stability, predictability and resilient balance sheets have outperformed as the sector navigated rising interest rates/bond yields. With bond yields and rates currently reaching a potential inflection point (rate hikes at or near the end, and forecasts for cuts/lower bond yields in 2024), it's important to take stock of how higher bond yields/rates impact utilities and what could happen if rates trend lower. The first derivative benefits would be on valuations, since utility sector valuations (relative/absolute P/E multiple, dividend yield spreads) are intimately tied to rates/yields. However, rates/yields also impact funding, credit metrics and EPS trends. Any strains on balance sheets from a higher cost of capital also loop back and impact perceived risk and relative trading multiples. Below we discuss current valuations, for both the broader sub-sector and individual companies, then discuss how lower rates and other factors might drive EPS upside.

Broader Valuations Seem Fair: On average, our coverage universe is trading at 15.5x on 2024 consensus EPS estimates, which matches the U.S. utility average albeit with a fairly wide dispersion (H and BIP at >20x and ACO.X and AQN at <12x). Further, based on a regression of utility relative P/E multiples (vs. S&P 500 P/E multiple) vs. the 10-year bond yield and a dividend discount model, we believe utility stocks are generally fairly valued given where bond yields are today. As such, we believe there's no real 'slack in the system' and a reduction in rates would argue for modestly higher relative trading multiples for utilities.

Exhibit 59: Regulated Utilities – View On Company Valuations & Potential For Higher EPS, Current

	Valuation						EPS					
Tickers	Current P/E Vs. 10-Yr Avg	P/E Spread To Peers (Current Vs. Historical)	Div Yld Spread (Current Vs. Historical)	Total Return To Target (%)	View On Valuation	Ability To Improve Rating	Interest Rate Decrease[1]	M&A[2]	New Organic Investments[2]	Regulatory Decisions[3]	Favorable FX & Other[4]	Upside EPS Potential
AQN	-6.8x	-4.9x	0.2%	20.1%	Discount Warranted	Asset Sales/ Deleveraging	✓		✓	✓		++
ALA	-6.2x	-4.4x	-3.0%	R	R	R	R	R	R	R	R	R
ACO.X	-3.3x	-1.4x	0.1%	32.8%	Undervalued	Clarity on Enpower & ↑ Rate Base CAGR			✓			+
BIP	-10.5x	-8.6x	-0.2%	53.9%	Undervalued	Capital Recycling Activity		✓			✓	+
CU	-2.9x	-1.0x	-0.1%	21.0%	Modest Discount	Clarity on Enpower & ↑ Rate Base CAGR			✓			-
EMA	-2.7x	-0.8x	-0.3%	18.3%	Modest Discount	Asset Sales/ Deleveraging	✓		✓	✓	✓	+
FTS	-0.7x	1.2x	-1.1%	9.7%	Fairly Valued	Unlikely to Improve Multiple			✓		✓	-
H	1.9x	4.1x	-2.1%	3.0%	Fairly Valued	Unlikely to Improve Multiple		✓	✓			+
Avg	**-3.9x**	**-2.0x**	**-0.8%**	**22.7%**								

Notes: 1) Reflects companies that would benefit most from a lowering of interest rates (i.e., more floating rate exposure); 2) Reflects the ability to fund or have a strong track record of investments/M&A that leads to incremental EPS; 3) Reflects those most likely to experience positive regulatory outcomes (i.e., favourable jurisdictions, low regulatory lag) and/or have a strong track record of overearning allowed ROEs; 4) Relates to factors not outlined above that could lead to higher EPS growth (e.g., FX and company-specific factors).

Source: Company reports and CIBC World Markets Inc.

Rate Trends & Consistency Key For Laggards To Recover: In the table in Exhibit 59, we analyze current valuation metrics for the regulated utility stocks. We look at current vs. historical P/Es, the current discount/premium vs. the historical spread with the peer group average, the dividend yield spread (vs. the 10-year bond yield), and the total return to our current targets. We believe ACO.X and BIP offer the most compelling value. AQN is cheap, but likely stays at a lower multiple until it sorts out its funding and balance sheet. BIP has never been cheap and we believe offers an excellent opportunity with more active share repurchase activity a potential catalyst. We believe EMA and CU are modestly discounted with the potential for some re-rating if these firms provide clarity on funding and deliver more consistent per share growth.

In the final columns, we assess factors that could enable companies to deliver higher EPS. Notably, companies with higher floating rate debt (particularly at the holdco level) could benefit from lower rates, while there are varying probabilities of positive impacts from higher growth (organic and acquisitions). We argue the likelihood of an uplift from positive regulatory decisions is low given the current regulatory schedule. Firms with higher recovery potential are those that could marry a higher multiple with higher EPS—ACO.X, AQN and EMA might offer the most upside on this front but in the case of AQN and EMA we believe investors are taking on more risk.

Signs Of Recovery In Renewables After A Challenging 2023

The renewable power sector experienced a very challenging 2023 (the Alberta-based IPPs also faced headwinds) that sent share prices materially lower (on average down 28% YTD). Undoubtedly, higher bond yields played a key role as they weighed on valuations (higher discount rate) and perceptions of growth (ability to finance; the spread between returns and current cost of capital), and were a drag on borrowing costs for some (plus created concerns on refinancing for others). That being said, bond yields alone were not the only factor in the perceived weaker outlook and lower share prices. We estimate stocks are now pricing in higher discount rates that go well beyond the rise in 10-year bond yields. We believe there is a higher risk premium built into these stocks and effectively zero value for prospective/unsecured growth. In the table in Exhibit 60, we itemize a number of headwinds that faced the renewables sub-sector in 2023, what we are watching/measuring to gauge a recovery, where we stand today and our level of confidence around a better 2024.

2023 Headwinds: Interest rates were a notable headwind, but cannot explain all the negative performance. Other headwinds were: 1) below-normal wind/solar in North America (weak hydro in some regions) that eroded near-term cash flows (pressured payout ratios and reduced funding capacity); 2) lower spot prices in most regions (lapped exceptionally high comparable results in 2022); 3) a tight supply chain and many negative headlines for suppliers (e.g., Siemens Gamesa reliability/financial issues; weaker backlogs for solar OEMs); 4) some continued pressure on costs (particularly acute in offshore wind); 5) a reset in growth targets given M&A and funding constraints; 6) weak fund flows—partly an output but associated weakness in tangential green sectors (EVs, residential solar) hurts the IPPs; and 7) weaker fundraising, capital formation and transaction multiples in the private markets.

Exhibit 60: Power – 2023 Headwinds & What's Needed For A Recovery In Renewable Stocks

2023 Headwinds	What We Watch To See A Recovery	Current Trends & 2024 Outlook
Higher interest rates/bond yields	10-year bond yields, central bank rates	Expect two to four rate cuts; 10yr in CAD/US expected to ↓ 0-10 bps from current levels
Poor weather/generation trends	El Niño probabilities; wind/hydro/solar trends	50%+ probability El Niño ends in Q2 & wind/solar back to normal in H2
Lower spot power prices	Forwards curves for key wholesale markets	Power forwards plateau—imply +10%-30% Y/Y in 2024 vs. -40%-60% Y/Y in 2023
Tight supply chain/neg headlines	Changes in estimates for wind/solar OEMs	OEMs still seeing negative revenue/EBITDA revisions for 2024
Project capex increases	Commodity, wind turbine, solar panel pricing	Solar panel costs down, labor inflation moderating but shipping, wind turbine & steel costs trending back up
Reset of growth targets	Company announcements	Seven of nine firms covered have adjusted/been able to maintain targets, leaving two pending updates; firms have raised return targets
Negative fund (ETF) flows	Fund flows on key ETFs (ICLN, TAN, QCLN)	Outflows peaked in Q2/23 and are moderating but still negative in Q4 (QTD)
Weak transaction multiples/lower infra fundraising	Deal vol/value and fundraising trends (Infralogic)	M&A volume/value down >20% Y/Y (still trending ↓; fundraising ↓ 85% in 2023 YTD but started to trend up in Q3/23

Source: Bloomberg, Infralogic, FactSet, NOAA, ERA5, Company reports and CIBC World Markets Inc.

Prospects For A Recovery In 2024: In short, we see signs of a bottom and believe the sector is adjusting to challenges and a potentially higher-for-longer interest rate environment. Indications are that we have likely peaked on rate hikes, and could see cuts and a modest further decline in bond yields. Further, weather forecasts and historical trends suggest the poor wind/solar/hydro conditions could abate by Q2/24 and power forwards imply a better outlook in 2024 vs. 2023 in most European and North American markets. While we are hopeful input costs and suppliers will see improvements in 2024 it is too early to make a call on those items. Further, fund outflows are moderating but still negative in recent months. Finally, conditions in the private infra-fund market show glimmers of improvement but it's too early to say private funds will be flush with cash to underpin and boost asset valuations.

How To Play The Renewables Recovery: We like names that have diversified operations/growth, better funding positions, consistent strategy, and have shown the ability to weather the storms (no self-inflicted damage). **BLX** sits at the top for us. Other preferred names with good risk/reward set-ups, in our view, are **BEP**, **NPI** and **CWEN**.

ESG Update

Over the last year, most companies have improved their ESG scores. Scores improved for 11 firms (NPI and EMA had the largest gains) vs. 13 firms last year, while six firms had modest deterioration (CWEN saw the largest decline) vs. only three firms showing weaker scores last year. We've seen more modest increases in 'E' scores, which could reflect challenges in pushing through decarbonization at a sustained/elevated pace. That being said, we still see opportunities to improve emissions intensity, particularly for some integrated electric utilities as well as CPX and TA. Further, we believe companies' emissions footprints and pace of improvements has had less impact on stock performance recently. The hype around ESG/sustainable investments has moderated as measured by relative valuations (e.g., pure-play renewables lost premium multiples) and fund flows. These trends coincide with a greater appreciation that the path forward on decarbonation might be more measured. For example, the market increasingly realizes gas-fired power plants are needed to integrate more renewables assets and help balance grid reliability and customer affordability. Overall, we see an opportunity to earn on decarbonization investments and risks are better known.

In the next few years we expect to see more standardized reporting and integration of compliance measures for better comparability and investment decision-making. On this front, power & utilities companies are generally better positioned than other industries, and some companies such as AY, CPX and TA already publish integrated annual reports. Further, we expect Scope 3 disclosures could also come into focus, putting more pressure on the sustainability of supply chain and construction activities, which could shift relative emissions rankings. We highlight progress on ESG initiatives in the table in Exhibit 61.

Exhibit 61: Power & Utilities – Progress On ESG Scores, Ranks, Targets, Reporting & Emissions, 2021 - 2023

	Score[1]			Industry Rank[1,2]				TCFD		Integrated	Emissions (Kt CO_2e)[3]		
		Year			Year			Reporting	Reports	Annual			
Company	Total	Ago	Chg	Curr	Ago	Chg	Targets/Disclosures	Alignment	Scope 3	Report	2022	2021	Chg
AY	13.5	13.1	0.4	3	3	0	70% lower emissions by 2035; net-zero by 2040	Full	Yes	Yes	2,093	2,032	3%
H	15.4	15.3	0.1	5	4	1	30% lower emissions by 2030, net-zero by 2050	Partial	No	No	312	323	(3%)
BEP	17.8	17.8	0.0	9	9	0	Net-zero by 2050	Full	Yes	No	187	187	0%
INE	18.2	19.1	(0.9)	11	10	1	Contribute to 15 of 17 UN sustainability goals; net-zero by 2050	Initiated	No	No	8	6	34%
AQN	21.3	23.1	(1.8)	20	20	0	75% renewable capacity for Power by end of 2023, net-zero by 2050	Full	Yes	No	2,632	2,380	11%
BLX	21.5	22.3	(0.8)	17	16	1	Carbon neutrality by 2050	Full	Yes	No	4	27	(85%)
NEP	25.2	25.1	0.1	26	23	3	Net-zero by 2025	Full	No	No	N/A	306	N/A
CU	25.3	25.6	(0.4)	26	25	1	30% lower emissions by 2030, net-zero by 2050	Full	Yes	No	828	796	4%
NPI	25.5	31.5	(6.0)	46	43	3	65% lower emissions by 2030; net zero by 2040	Full	Yes	No	1,313	1,212	8%
ACO.X	27.8	27.8	(0.0)	34	32	2	30% lower emissions by 2030, net-zero by 2050	Full	Yes	No	843	807	4%
FTS	27.8	27.1	0.7	31	30	1	50% lower emissions by 2030, 75% lower by 2035, net-zero by 2050	Full	Yes	No	8,927	9,900	(10%)
TA	29.0	31.2	(2.2)	44	42	2	75% lower emissions by 2026, net-zero by 2045	Full	No	Yes	10,300	12,500	(18%)
CWEN	30.9	15.9	15.0	6	6	0	95% carbon free electricity by 2035, net-zero by 2050	Partial	No	No	660	630	5%
ALA	31.3	31.0	0.3	45	41	4	40% and 30% emission reductions in Midstream and Utilities by 2030	Full	No	No	2,011	2,279	(12%)
CPX	31.8	34.6	(2.8)	56	53	3	65% lower emissions by 2030; net zero by 2045	Full	Yes	Yes	15,909	10,430	53%
SPB	32.1	34.1	(2.0)	53	51	2	No GHG Targets	Partial	No	No	82	66	24%
EMA	33.9	38.9	(5.0)	59	67	(8)	55% lower emissions by 2025, 80% lower by 2040; net-zero by 2050	Full	Yes	No	14,676	15,308	(4%)
BIP	40.9	41.9	(1.0)	31	51	(20)	42% lower emissions by 2035; net-zero by 2050	Full	No	No	3,500	2,900	21%

Notes: 1) The lower score the better; 2) Refers to industry percentiles; 3) Includes Scope 1 and Scope 2 scores only.

Source: Company reports, Sustainalytics and CIBC World Markets Inc.

2024 Technical Outlook — A Cycle Year

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The broader large-cap indices are entering 2024 with overbought conditions that are likely to mean-revert in Q1 and pose headwinds for momentum models. Our cycle roadmap for the TSX Index shows a higher volatility potential in Q1 with repetitive rolling peaks and troughs, followed by a flatter Q2-Q3 range, and improved recovery in late Q4—in aggregate, the cumulative average monthly return chart shows a higher low trend in its slope.

For the S&P 500 Index, we are looking for a much shallower momentum cycle following 2023 gains. The higher number of overbought stocks in the large-cap indices hints at a negative mean-reversion set-up in Q1—February is historically the second-weakest month of the year. This may not yet alter uptrend forces for the benchmark index, considering that breadth factors have improved since October 2023 lows. Our historical timeseries analysis shows a narrower positive reversal into late Q2 with negative momentum divergences that may peak the latest breadth expansion cycle for the year. A sharper drop in Q3, often associated with the U.S. Presidential election cycle, may mark the end of the current late-cycle price action before a better trough in Q4 may take hold. In our opinion, Q3-Q4 periods should offer technical challenges for the U.S. equites and broader risk assets, and also set the framework for establishing an important technical trough—2024 is a cycle year for U.S. equities.

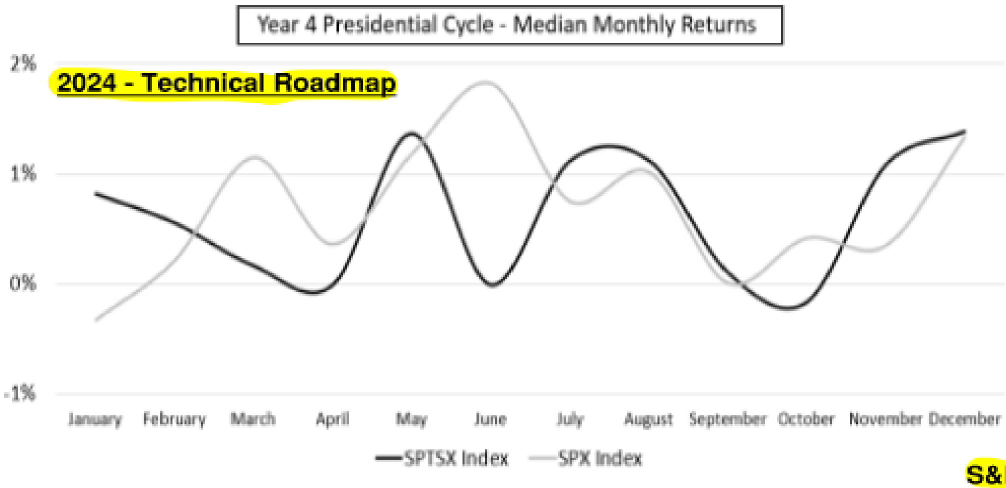
Our probability bands for both the TSX and SPX indices show that the median/average returns and the positive hit-ratios in Q1 and Q3 are notably on the weaker side. Additionally, we note that combining the momentum-adjusted monthly return timeseries and the U.S. Presidential cycle analysis shows equity market returns may be at best in single-digit terms, with challenging but also rewarding prospects, particularly at mean-reversion indicators extreme points—this supports the active-over-passive narrative along with stop-loss risk management in 2024.

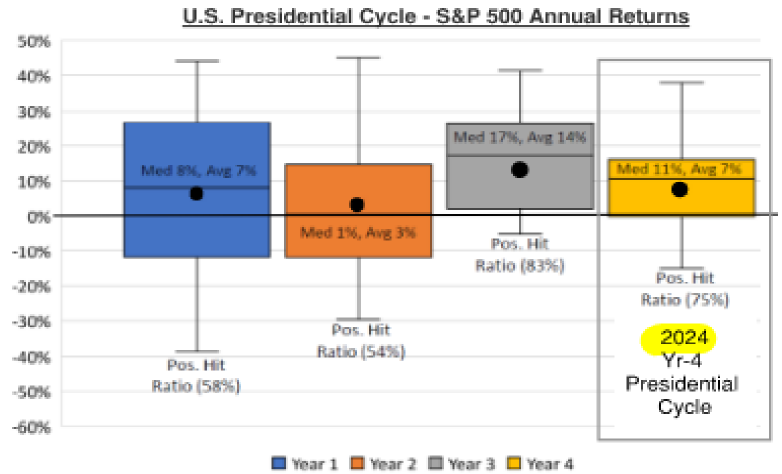
From a cross-asset and top-down perspective, the near- to medium-term technical mean-reversion indicators for the 10-Yr UST yield have been correcting since October, buoying risk appetites along the way into year-end. Those same mean-reversion indicators are already starting to look stretched and reaching oversold levels, prefiguring a counter-trend positive-reversal environment for yields. However, back-up attempts in yields are likely to be truncated (technical RSI-factor-divergences show peak yield). The confluence of our weekly and monthly technical indicators for the current late-cycle shows that 10-Yr UST yield is likely to stay range-bound in a lower-high format. In other words, the bond-market volatility (MOVE Index) is likely to begin to decline throughout 2024. And for that, it may be reasonable to suggest that a range-bound format and less volatility in bond yields may be the right support and recipe for equity indices uptrend forces.

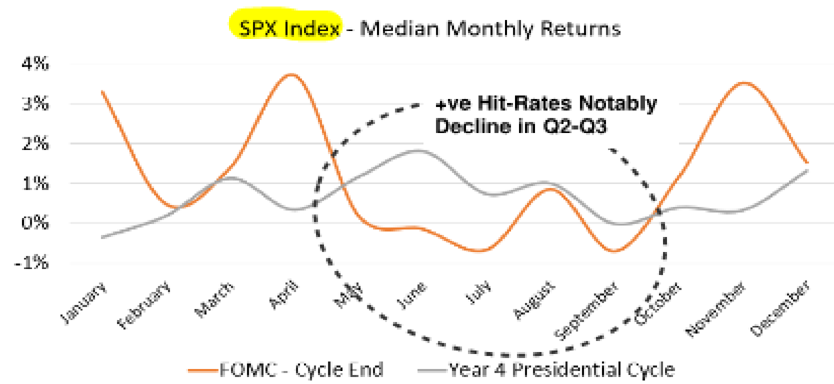
Our technical work on the 10-Yr UST yield aligns well with our FICC team colleagues, suggesting that the July 2023 FOMC rate hike has potentially concluded the current tightening cycle. If our yield-market assumptions are correct, historical data on SPX and TSX returns following final rate hikes in the U.S. show average yearly declines of -0.5% and -5.8%, respectively. Having said that, we strongly advocate that our data-observations are limited and would caution against conclusive or average forward return predictions.

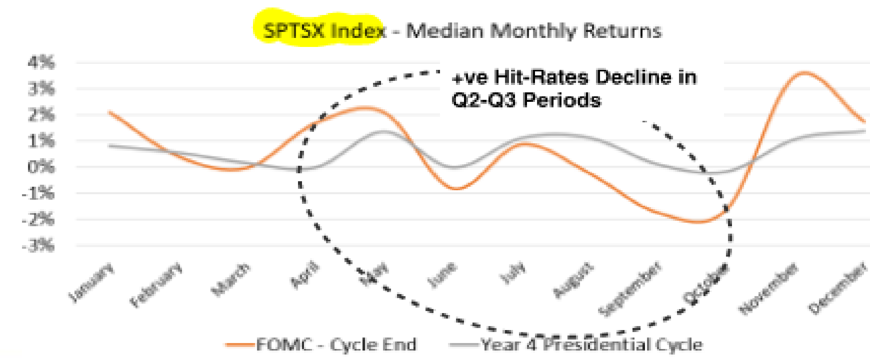
Our technical relative strength charts continue to support the higher-quality investment process in 2024. It is our technical opinion that the latest breadth-expansion from the October 2023 low is likely to fall short again at a lower high and trigger another contractionary cycle and raise a red flag. Additionally, we note that 2024 is a cycle year associated with the U.S. Presidential election that tends to bring about higher volatility and mark an important technical trough in Q3-Q4 periods, during which the next best risk/reward buy opportunity may develop.

Exhibit 62: Year 4 Presidential Cycle Technical Roadmap (top); SPX Index And SPTSX Index FOMC And Presidential Cycle Returns (bottom)









S&P 500 Index

Last Rate Hike	3 Months	6 months	9 months	12 months
8/9/1929	-16.4%	-21.1%	-13.8%	-26.6%
1/16/1953	-4.8%	-9.1%	-12.1%	-6.6%
8/23/1957	-14.3%	-13.0%	-9.3%	-1.5%
9/11/1959	-2.2%	-5.8%	-6.3%	-4.4%
12/6/1965	-0.4%	-6.0%	-15.8%	-12.2%
4/3/1969	-3.7%	-8.3%	-9.3%	-11.7%
4/25/1974	-8.5%	-32.4%	-27.0%	-11.3%
2/15/1980	-6.9%	6.6%	11.7%	13.5%
5/5/1981	-1.4%	-8.2%	-9.3%	-12.3%
2/24/1989	4.1%	16.3%	14.4%	10.6%
2/1/1995	9.4%	19.5%	23.6%	35.2%
5/16/2000	-1.5%	-1.6%	-6.0%	-14.0%
6/29/2006	2.7%	10.3%	10.8%	20.5%
12/19/2018	0.9%	-0.3%	6.0%	13.8%
7/26/2023 ?	-9.4%	-0.4%	?	?
Median	-1.9%	-5.9%	-7.8%	-5.5%
Positive Hit	29%	29%	36%	36%
Average	-3.1%	-3.8%	-3.0%	-0.5%

TSX Index

Last Rate Hike	3 Months	6 months	9 months	12 months
8/9/1929	17.0%	-15.7%	-15.1%	-27.4%
1/16/1953	0.0%	-4.2%	-5.2%	-4.0%
8/23/1957	-18.5%	-27.1%	-22.8%	-18.2%
9/11/1959	-9.6%	-11.5%	-16.0%	-17.5%
12/6/1965	3.3%	0.3%	-5.2%	-12.7%
4/3/1969	8.9%	-3.9%	-0.7%	-3.1%
4/25/1974	-17.8%	-26.7%	-32.3%	-19.8%
2/15/1980	-0.9%	13.7%	24.6%	25.1%
5/5/1981	1.2%	-19.3%	-16.2%	-31.9%
2/24/1989	5.6%	10.9%	16.3%	17.1%
2/1/1995	2.4%	7.4%	7.5%	11.9%
5/16/2000	7.7%	9.7%	-5.6%	-19.6%
6/29/2006	-3.1%	1.2%	6.8%	9.9%
12/19/2018	3.4%	10.3%	9.2%	9.7%
7/26/2023 ?	-8.2%	-2.2%	?	?
Median	1.8%	-1.8%	-5.2%	-8.4%
Positive Hit	64%	50%	36%	36%
Average	0.0%	-3.9%	-3.9%	-5.8%

2024 - Technical Roadmap

It is our technical view that the U.S. and the CDN broader benchmark indices are entering a cycle-year that have historical hit-rate challenges in Q2-Q3, with a potential for an important technical cycle trough in late Q3 or early Q4.

In aggregate, we believe both benchmark indices may be able to carry forward a positive sloping cumulative return trend that may be at best in high single digit terms.

The tables attached show the returns following the U.S. Fed's final rate-hike in previous tightening cycles.

Considering the limited number of historical observations, we would caution against conclusive or average forward return predictions - although, this is a good starting point.

Source: CIBC World Markets, CIBC Technical Research, Bloomberg, StockCharts, Investment Business Daily

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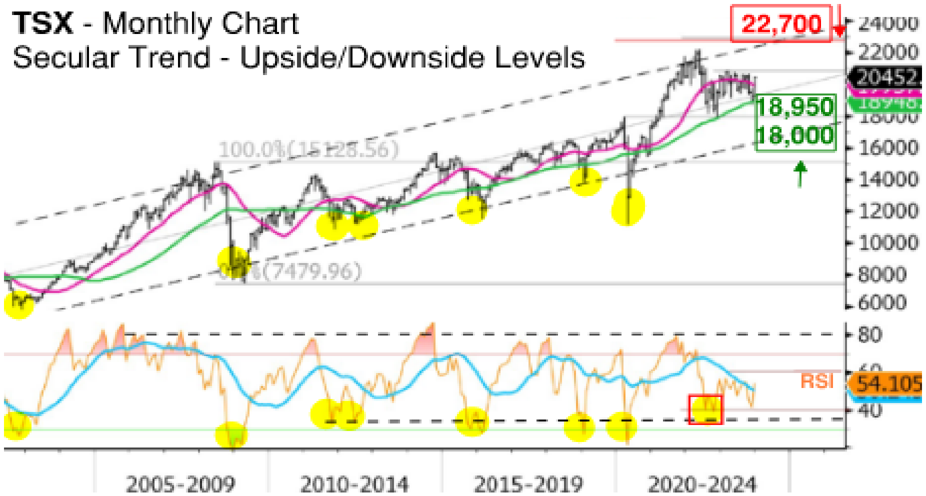
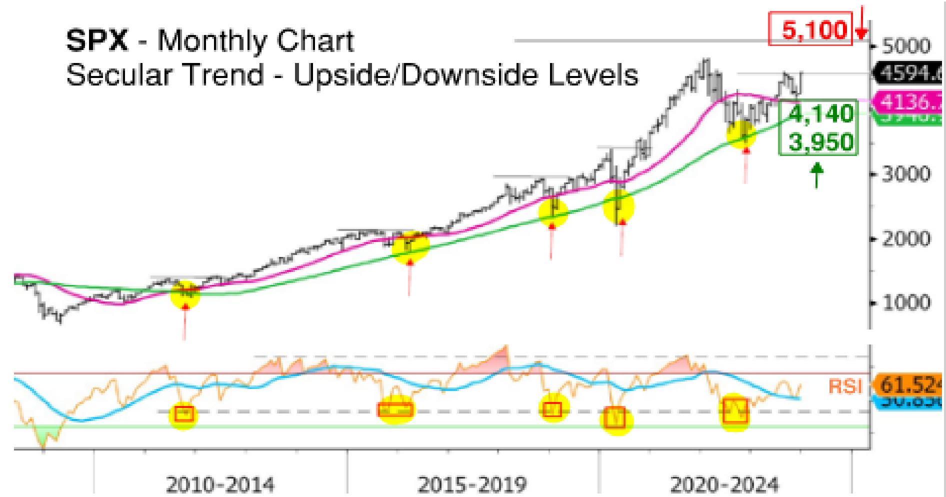
Exhibit 63: TSX And SPX Monthly Levels, 2005 - 2024 (top); Year 4 Presidential Cycle – SPX Index Conditional Forward Returns (bottom left); NYSE Stocks % Above 200-Day (bottom right)





U.S. Presidential Cycle
S&P 500 Yr 3 & 4 Returns

Year 3 Pre-Election		Year 4 Election Year	
Year	**%**	**Year**	**%**
2019	26.4%	2020	18.3%
2015	0.1%	2016	9.6%
2011	1.1%	2012	13.2%
2007	3.9%	2008	-45.5%
2003	24.2%	2004	8.9%
1999	18.8%	2000	-9.3%
1995	29.8%	1996	19.1%
1991	24.7%	1992	4.6%
1987	6.6%	1988	12.2%
1983	16.5%	1984	2.3%
1979	12.5%	1980	24.7%
1975	29.2%	1976	18.5%
1971	11.1%	1972	14.8%
1967	19.2%	1968	8.2%
1963	17.9%	1964	12.3%
1959	8.5%	1960	-2.2%
1955	24.3%	1956	3.6%
1951	15.9%	1952	11.8%
1947	0.5%	1948	1.3%
1943	19.0%	1944	13.3%
1939	-1.7%	1940	-12.3%
1935	36.4%	1936	25.8%
1931	-52.4%	1932	3.4%

Q4 > 5%

SPX Q1- Fwd Returns

Year	Q4 Return	January	February	March
2019	8.5%	-0.2%	-8.4%	-12.5%
2015	6.5%	-5.1%	-0.4%	6.6%
2011	11.2%	4.4%	4.1%	3.1%
2003	11.6%	1.7%	1.2%	-1.6%
1999	14.5%	-5.1%	-2.0%	9.7%
1995	5.4%	3.3%	0.7%	0.8%
1991	7.5%	-2.0%	1.0%	-2.2%
1975	7.5%	11.8%	-1.1%	3.1%
1959	5.3%	-7.1%	0.9%	-1.4%
	Median	-0.16%	0.69%	0.79%
	Pos. Hit	44%	56%	56%
	Average	0.19%	-0.46%	0.62%

Yr-3 > 15%

SPX Q1- Fwd Returns

Year	%	January	February	March
2019	26.4%	-0.2%	-8.4%	-12.5%
2003	24.2%	1.7%	1.2%	-1.6%
1999	18.8%	-5.1%	-2.0%	9.7%
1995	29.8%	3.3%	0.7%	0.8%
1991	24.7%	-2.0%	1.0%	-2.2%
1983	16.5%	-0.9%	-3.9%	1.3%
1975	29.2%	11.8%	-1.1%	3.1%
1967	19.2%	-4.4%	-3.1%	0.9%
1963	17.9%	2.7%	1.0%	1.5%
1955	24.3%	-3.6%	3.5%	6.9%
1951	15.9%	1.6%	-3.6%	4.8%
1943	19.0%	1.5%	-0.3%	1.7%
1935	36.4%	6.6%	2.0%	2.2%
	Median	1.54%	-0.25%	1.52%
	Pos. Hit	54%	46%	77%
	Average	1.00%	-1.01%	1.28%

Breadth Still On The Weaker Side

A longer-lasting weak breadth condition is often associated with late-cycle symptoms -- breadth has been at a lower high since late 2021.

Less than 60% of NYSE members are trading above their 200-d averages.

Source: CIBC World Markets, CIBC Technical Research, Bloomberg, StockCharts, Investment Business Daily

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
Restricted	R	CIBC World Markets is restricted (due to potential conflict of interest) from rating the stock.

Sector Ratings	Abbreviation	Description
Overweight	O	Sector is expected to outperform the broader market averages.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

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